

Chapter 4

The Effect of Operational Capabilities, Absorptive Capacity, and Management Processes on Market Performance

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ABSTRACT

This work aims to contribute to both the operations and management accounting literature by examining which dimensions of operational capabilities, absorptive capacity (AC), and management control best explain the variability of market performance. To investigate this phenomenon, we employed a quantitative methodology using a survey instrument to collect data. The sample comprised 63 companies from Brazil's auto parts and food industries. We used structural equation

DOI: 10.4018/979-8-3693-5777-4.ch004

modeling (SEM) with Smart-PLS to analyze these constructs. The results show that operational capabilities influence performance, and realized absorptive capacity (RAC) indirectly impacts performance through cost control. Cost control also directly impacts customer satisfaction rather than business performance due to the value appropriated by powerful customers. A limitation of the study is that not all dimensions of operational capabilities, AC, and management control are covered, and not all forms of performance evaluation are included.

1. INTRODUCTION

The literature has discussed these relationships partially, but there is still controversy when the construct is performance. One reason is the multidimensionality of the performance construct, which must be seen from different perspectives (Kafetzopoulos & Gotzamani, 2014). In addition, the relationship between operational capabilities and performance (Adem & Virdi, 2024; Dultra-de-Lima & Brito, 2023; Flynn et al., 2010; Henri, 2006; Schroeder et al., 2002; Swink et al., 2005; Wu et al., 2010; Yang, 2013), absorptive capacity (AC) and performance (Brown, 1997; Cohen & Levinthal, 1990; Fosfuri & Tribo, 2008; Jansen et al., 2005; Zahra & George, 2002), and management control and performance (Chenhall, 2003; Govindarajan & Gupta, 1985; Marginson, 2002; Nisiyama et al., 2016) need further research to better explain these relationships. This view is supported by Swink et al. (2005), who understand that the relationships between capabilities, operational practices, and performance need to be better solved in the literature.

The controversy arises when some scholars believe that operational capabilities improve performance (Flynn et al., 2010; Henri, 2006; Sahoo, 2021; Schroeder et al., 2002; Swink et al., 2005; Wu et al., 2010; Yang, 2013). In contrast, other researchers argue that the performance improvement is due to the AC (Brown, 1997; Cohen & Levinthal, 1990; Fosfuri & Tribo, 2008; Jansen et al., 2005; Zahra & George, 2002). Therefore, there is space to analyze these relationships better in the face of these divergences. Consistent with this view, Schroeder et al. (2002) prefer to credit the impact on manufacturing performance due to increased operational capabilities when incorporating external and internal learning. In this sense, investigating how performance can be improved is still an open issue in the literature of both operations (Swink et al., 2005) and management accounting (Van Veen-Dirks, 2005).

In this work, the performance will be evaluated from the market performance perspective, which consists of a set of commercial dimensions such as return on investment (ROI), profitability, sales, market share, and customer satisfaction, among others (Tatikonda & Montoya-Weiss, 2001; Thieme et al., 2003). These dimensions

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