

ARTIFICIAL INTELLIGENCE AND PUBLIC SECTOR ORGANIZATIONAL PERFORMANCE: A SYSTEMATIC LITERATURE REVIEW

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Abstract

This study aims to systematically map the Scopus-indexed literature on artificial intelligence and organizational performance in the public sector and to identify the mechanisms that explain the relationship between AI and organizational performance. A systematic literature review approach based on the PRISMA guidelines was used to identify, select, and synthesize relevant articles. The thematic synthesis indicates that the relationship between AI and organizational performance can be understood through several interrelated themes, including AI-based organizational capabilities, good governance, public values and the governance of automated systems, human resources and leadership, as well as innovation and knowledge management. The results of the synthesis indicate that the benefits of AI on performance are not universal but depend on organizational capabilities, the quality of governance, and the readiness of data and systems. Empirical evidence also remains concentrated in specific national contexts, while evidence regarding the context of local government in Indonesia remains limited. Based on these findings, this study formulates theoretical propositions grounded in Dynamic Capability Theory, which positions organizational capabilities as a key mechanism and governance and institutional context as conditions that can influence the relationship between AI and performance. These findings provide direction for the development of empirical models of AI and organizational performance in the public sector, particularly in Indonesian local governments.

Keywords: Artificial Intelligence, Organizational Performance, Public Sector, Systematic Literature Review

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1. Introduction

Digital transformation is driving the public sector in various countries to use artificial intelligence (AI) to improve service quality and decision-making

(Kawtar & Khadija, 2025). AI encompasses machine learning, natural language processing, and large-scale data analysis, which enable organizations to automate routine tasks and generate insights for strategic planning (Kawtar & Khadija, 2025; Molin, 2024). The implementation of AI in government has shown promising results, for example, in predictive policing, fraud detection, and public service chatbots (Kawtar & Khadija, 2025). The COVID-19 pandemic has also accelerated digital transformation and reinforced the need for agile, technology-driven public administration (Kim, 2026; Porumbescu et al., 2025).

Various studies show that the adoption of AI improves operational efficiency, the quality of data-driven decision-making, and service innovation in public organizations (Alhosani & Alhashmi, 2024; Gao & Luna-Reyes, 2025). For example, Italy's National Social Security Institute (INPS) has successfully improved fraud detection and citizen engagement through AI integration, while also comprehensively transforming administrative processes (de Gennaro et al., 2025). However, AI adoption in the public sector faces structural challenges, such as resistance to change, rigid bureaucracy, a slow-moving organizational culture, ethical issues, data privacy concerns, regulatory uncertainty, limited technical skills, and inadequate data infrastructure (Alhosani & Alhashmi, 2024; Mahula & Cromptvoets, 2025; Mahusin et al., 2025). A lack of strategic direction and strong governance are the main causes of failed AI implementation in government agencies, while cross-domain learning and ecosystem growth actually help organizations reap the benefits of AI investments (Molin, 2024).

The adoption of AI in the public sector is not uniform across all countries, making it important to examine the specific context of Indonesia. An OECD survey of Southeast Asia shows that, of the eight countries surveyed, only Indonesia and Singapore reported active use of AI in government, with its use in Indonesia still in the early stages and limited to the design and delivery of services (OECD, 2025).

Although research on AI in the public sector continues to grow, the existing literature remains fragmented and has several gaps. First, existing systematic reviews tend to focus more on drivers of adoption, governance implications, or general benefits and challenges, without specifically examining organizational performance as an outcome variable. Some studies use the Antecedent-Decision-Outcome (ADO) framework to map the drivers and outcomes of AI adoption (Henk & Henk, 2025), while others provide an

overview of the benefits and challenges of AI implementation (Tveita & Hustad, 2025; Yfantis & Ntalianis, 2020). There are also studies that identify the drivers of AI adoption and diffusion but focus only on adoption itself, not on performance (Madan & Ashok, 2023). Other studies emphasize governance implications rather than performance mechanisms (Zuiderwijk et al., 2021). No previous review has specifically made organizational performance the primary focus or formulated testable theoretical propositions based on existing evidence.

Second, existing empirical studies are geographically concentrated. Although quantitative evidence is beginning to emerge, particularly from Morocco (Ifiss & Saffaj, 2026; Saida, 2025) and Vietnam (Dziundziuk & Dziundziuk, 2026; Thanh & Cong, 2026), the context of local government in Indonesia remains severely underrepresented. Research in Indonesia tends to use machine learning only as a predictive validation technique alongside PLS-SEM to examine leadership and employee empowerment (Imam et al., 2025), without directly testing the relationship between AI adoption and organizational performance. This geographic concentration points to a significant empirical gap, particularly for countries undergoing rapid digitalization such as Indonesia, where bureaucratic characteristics, digital capacity, and human resource readiness vary greatly across regions.

Third, the mechanisms linking AI adoption and organizational performance have not been extensively tested in public sector organizations. Although research in the private sector indicates that digital transformation acts as a mediator between AI implementation and overall organizational performance (Kumar et al., 2026), similar mechanisms remain rarely studied in government settings. Quantitative research on AI in the public sector has so far focused primarily on outcomes at the individual level, such as predicting civil servants' vulnerability to corruption, rather than on organizational performance. This limits our theoretical understanding of how AI can improve public service delivery, accountability, and citizen satisfaction.

This study aims to address these gaps through a systematic literature review that specifically focuses on organizational performance as an outcome variable, in contrast to previous reviews that placed greater emphasis on adoption or governance (Madan & Ashok, 2023; Zuiderwijk et al., 2021). The novelty of this review lies in three aspects. First, this review maps and organizes the literature on AI and public sector organizational performance into

five thematic groups: AI-based organizational capabilities, good governance, public value and automated system governance, human resources and leadership, and innovation and knowledge management factors. Second, by applying dynamic capabilities theory and synthesizing patterns from various studies, this review formulates three testable theoretical propositions for future empirical research. These propositions expand the existing theoretical framework by explaining the mediating and moderating mechanisms in the relationship between AI and performance in the public sector. Third, this review identifies the underrepresentation of the local government context in Indonesia as a concrete direction for future quantitative testing. This focus is relevant given that AI adoption in Indonesia is still in its early stages but continues to grow (OECD, 2025).

Theoretically, this study reinforces the theory of dynamic capabilities as a framework for explaining the relationship between AI implementation and public sector organizational performance, while also expanding it by accounting for mediating mechanisms (organizational capabilities) and moderating (governance, institutional context). In practical terms, these findings provide guidance for policymakers and public managers on the organizational conditions, governance, and human resources required for AI to improve performance, rather than simply relying on the assumption that the adoption of automated technology guarantees improvement.

Artificial Intelligence and Public Sector Organizational Performance

Artificial intelligence (AI) is a system capable of performing tasks that typically require human intelligence, such as machine learning, natural language processing, and large-scale data analysis (Kawtar & Khadija, 2025). In public sector organizations, organizational performance refers to the ability of government agencies to achieve their objectives efficiently, effectively, and accountably, as reflected in the quality of services, the accuracy of decision-making, and citizen satisfaction. Unlike the profit-oriented private sector, public sector performance places greater emphasis on the creation of public value and accountability in the use of state resources.

The Theory of Dynamic Capabilities and Public Value

The dynamic capabilities theory serves as the primary foundation for research on the relationship between AI and organizational performance. This

theory emphasizes that organizational performance excellence stems not only from the possession of technological resources but also from the organization's ability to integrate, build upon, and adapt those resources to changes in the environment (Mikalef et al., 2023; Tjahjadi et al., 2026). Within this framework, AI is not a direct determinant of performance but rather a driver whose value is realized when organizations are able to transform core activities such as decision-making, coordination, and service delivery. Furthermore, the public value framework is also important for assessing how AI affects not only efficiency but also democratic values such as accountability and fairness in governance (Selten & Meijer, 2021; Zuiderwijk et al., 2021).

Development of Research Propositions

Based on this theoretical framework, this study formulates three theoretical propositions to serve as the basis for future empirical research.

P₁: AI capabilities and adoption positively influence public sector organizational performance through the transformation of core activities, particularly decision-making and service delivery.

The dynamic capabilities theory states that AI does not automatically impact performance, but rather through an organization's ability to integrate technology into its core activities (Mikalef et al., 2023; Tjahjadi et al., 2026). A public organization's AI capabilities shape performance by changing how decisions are made and services are delivered, not merely by possessing AI technology (Mikalef et al., 2023). These capabilities are also shaped by external environmental conditions and the organization's internal capacities (Phan et al., 2026). In Vietnamese public organizations, AI-based digital transformation capabilities have been shown to drive operational changes that ultimately influence performance (Thanh & Cong, 2026).

P₂: Good governance principles, particularly transparency and accountability, strengthen the relationship between AI utilization and public sector organizational performance.

The public governance literature views transparency and accountability as oversight mechanisms that ensure the use of technology aligns with the public mandate (Ifiss & Saffaj, 2026). In Moroccan public institutions, transparency and accountability are linked to service effectiveness and progress toward the Sustainable Development Goals (Ifiss & Saffaj, 2026). Using random

forest and support vector machine models, these governance pillars have also been shown to shape institutional effectiveness and user satisfaction (Saida, 2025).

P₃: The relationship between AI adoption and public sector organizational performance is conditioned by institutional context and systemic risks, including technical reliability and data governance quality.

From a public value perspective, institutional and systemic risks are limiting factors for AI effectiveness (Selten & Meijer, 2021; Zuiderwijk et al., 2021). Although AI enhances effectiveness, its implementation raises concerns about accountability and fairness (Selten & Meijer, 2021). The performance of local governments using AI also depends on system reliability and the quality of data management (Ogunrinde & De-Pablos-Heredero, 2026). Using the CatBoost model on more than 90,000 European Union expenditure records, it was shown that performance improvements depend on data governance and external validation (Verna et al., 2026).

2. Research Method

This study employs a systematic literature review (SLR) approach to identify, select, and synthesize studies examining the relationship between artificial intelligence (AI) and organizational performance in the public sector. The reporting process for this systematic review follows the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) 2020 guidelines (Page et al., 2021). In accordance with PRISMA 2020, the flowchart illustrating the process of identifying, screening, assessing eligibility, and including articles is presented in Figure 1.

The literature search was conducted using the Scopus database. The search aimed to identify scientific articles discussing artificial intelligence and organizational performance in the context of the public sector. In the initial search phase, no restrictions were applied regarding the year of publication. After the screening process, the articles that met the criteria had publication years ranging from 2021 to 2026. The search strategy focused on the title, abstract, and keywords of the articles (title-abstract-keyword), using the following combination of keywords: [("artificial intelligence" OR "machine learning" OR "AI adoption" OR "AI implementation") AND ("organizational performance" OR "government performance" OR "public sector performance")]

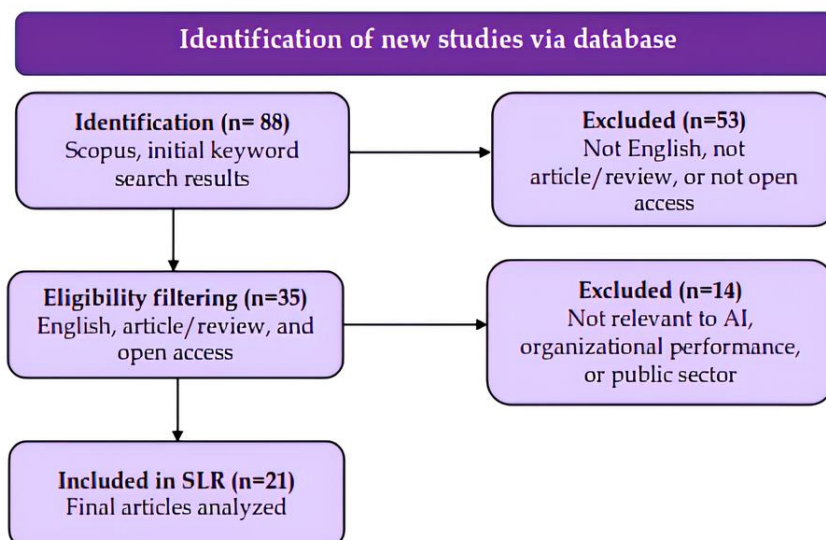
AND ("public sector" OR "government" OR "public administration" OR "public organization").

These keywords were designed to cover the three main concepts of the study: AI, organizational performance, and the public sector. The terms "artificial intelligence" and "machine learning" were used interchangeably to capture the variety of terms used in the literature regarding the use of AI in organizations. In addition, several terms related to organizational performance and the public sector were also used to identify articles relevant to the study's focus.

An initial search of the Scopus database yielded 88 articles. Next, the articles were filtered based on publication language, document type, and open access availability. Articles not written in English, not falling under the specified document types, or not available via open access were excluded from the selection process. After applying these filters, 35 articles remained to proceed to the eligibility assessment stage, as shown in Figure 1.

During the eligibility assessment phase, articles were reviewed based on their alignment with the research focus. Articles were excluded if they did not address AI or machine learning as the research focus, did not use public sector or government organizations as the research context, or did not examine performance at the organizational level. Based on this assessment, 14 articles were excluded because they were not relevant to AI, organizational performance, or the public sector context. Consequently, 21 articles met the criteria and were included in the analysis. The selection process was conducted by one researcher and reviewed by another. To ensure consistency in decision-making, the selection process adhered to pre-established inclusion and exclusion criteria. Articles that raised doubts regarding their suitability were thoroughly reviewed before a final decision was made. Data from the 21 selected articles were then systematically extracted, including author names, year of publication, article titles, publication sources, research methods, research contexts, forms or applications of AI, dimensions of organizational performance studied, and key findings regarding the relationship between AI and public sector organizational performance.

Figure 1. Flow Diagram of The Systematic Review



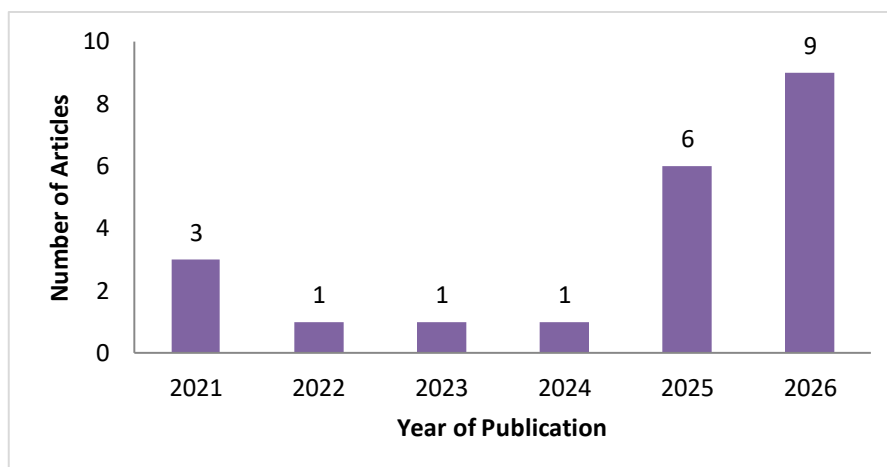
Source: Authors' own work, 2026

3. Result and Discussion

Article Characteristics

Of the 21 articles analyzed, the distribution of publication years showed a significant upward trend. In 2021, there were 3 articles, which then decreased to 1 article per year during the 2022–2024 period. A sharp increase occurred in 2025 with 6 articles and peaked in 2026 with 9 articles. Thus, more than 71% of the articles (15 out of 21) were published during the 2025–2026 period.

This trend indicates that the topics of artificial intelligence and public sector organizational performance are rapidly evolving fields of research. This is consistent with previous research findings stating that research on AI adoption in the public sector is still in its early stages (Henk & Henk, 2025; Yfantis & Ntalianis, 2020). The concentration of publications over the past two years reflects strong research momentum, driven by the accelerated adoption of AI technology across various government agencies in the wake of the COVID-19 pandemic (Kim, 2026; Porumbescu et al., 2025).

Figure 2. Distribution of Articles by Publication Year


Source: Compiled by the authors, 2026

Distribution of Journal Publications

Table 1. Distribution of Journal Publications

Journal Name	Number of Articles
Government Information Quarterly	2
International Entrepreneurship and Management Journal	1
Transforming Government: People, Process, and Policy	1
Croatian and Comparative Public Administration	1
International Journal of Sustainable Construction Engineering and Technology	1
Journal of Innovation and Knowledge	1
Knowledge and Performance Management	1
Future Internet	1
International Review of Management and Marketing	1
Journal of Applied Engineering and Technological Science	1
Social Sciences and Humanities Open	1
Economies	1
European Journal of Sustainable Development Research	1
Environment and Social Psychology	1
Administrative Sciences	1
International Journal of Public Administration in the Digital Age	1
Systems	1
Humanities and Social Sciences Communications	1
Quality and Quantity	1
Sustainability (Switzerland)	1

Source: Compiled by the authors, 2026

Publications on AI and public sector organizational performance are scattered across various multidisciplinary journals, ranging from those in the

fields of public administration, management, and innovation to technical journals. This dispersion confirms that the topic of AI and public sector performance is still in the early stages of academic development and does not yet have a dominant reference journal.

Research Methods and Geographic Distribution

The majority of studies (15 out of 21 articles, or 71.4%) used a quantitative approach, either in the form of surveys analyzed using PLS-SEM or machine learning-based modeling. Five articles (23.8%) were literature reviews or conceptual studies, while only one article (4.8%) was purely qualitative.

Table 2. Classification of Research Methods

Type of Method	Number of Articles	Percentage
Quantitative (surveys, PLS-SEM, machine learning models)	15	71.4%
Literature review / conceptual (SLR, research agenda)	5	23.8%
Qualitative (sentiment analysis, other qualitative studies)	1	4.8%
Total	21	100%

Source: Compiled by the authors, 2026

Table 3. Geographic Distribution of Studies

Country/Region	Number of Studies	Related Articles
Morocco	3	Ifiss (2026), Ifiss & Saffaj (2026), Saida (2025)
Vietnam	2	Phan et al. (2026), Thanh & Cong (2026)
Europe	4	Mikalef et al. (2023), Ogunrinde & De-Pablos-Heredero (2026), Selten & Meijer (2021), Verna et al. (2026)
Indonesia	1	Imam et al. (2025)
Philippines	1	Cusipag et al. (2025)
United States	1	Kang et al. (2021)
Cross-border (global)	2	Maake & Schultz (2025), Zuiderwijk et al. (2021)
Not specified	7	Bijalwan et al. (2024), Giotopoulos et al. (2025), Mahmoud et al. (2025), Modarelli et al. (2026), Riyadi et al. (2026), Santos et al. (2026), Sharif Ismail & Muhammad (2022)

Source: Compiled by the authors, 2026

The “Not specified” category in Table 3 includes seven articles that do not explicitly state a geographic location in their title, abstract, or research methodology. This finding confirms the geographical gap identified in the Introduction. Of the 21 articles analyzed, only one explicitly examined the context of local government in Indonesia (Imam et al., 2025). This gap indicates

that the context of local government in Indonesia remains largely underrepresented in the existing literature, thereby reinforcing the urgency of empirical research in Indonesia given the diversity of bureaucratic characteristics, digital capacity, and human resource readiness across regions.

Thematic Synthesis

Based on a thematic analysis of 21 articles, five main thematic groups were identified that represent the research focus on AI and organizational performance in the public sector.

Table 4. Summary of Thematic Synthesis

Theme	Number of Articles	Related Articles
AI-Based Organizational Capabilities	4	Mikalef et al. (2023), Ogunrinde & De-Pablos-Heredero (2026), Phan et al. (2026), Thanh & Cong (2026)
Good Governance	3	Ifiss (2026), Ifiss & Saffaj (2026), Saida (2025)
Public Value and Governance of Automated Systems	4	Ogunrinde & De-Pablos-Heredero (2026), Selten & Meijer (2021), Verna et al. (2026), Zuiderwijk et al. (2021)
Human Resources and Leadership	6	Bijalwan et al. (2024), Cusipag et al. (2025), Giotopoulos et al. (2025), Imam et al. (2025), Kang et al. (2021), Riyadi et al. (2026)
Innovation and Knowledge Management	4	Mahmoud et al. (2025), Modarelli et al. (2026), Santos et al. (2026), Sharif Ismail & Muhammad (2022)

Source: Compiled by the authors, 2026

Theme 1: AI-Based Organizational Capabilities

The first theme identifies AI as an organizational capability. This finding reflects the perspective of dynamic capability theory, which states that AI does not automatically improve organizational performance, but rather does so through the organization's ability to integrate and leverage the technology to support its core activities.

Research on public organizations in Europe shows that a public organization's ability to leverage AI influences performance through changes in activities such as decision-making and service delivery, rather than simply through the possession of AI technology itself (Mikalef et al., 2023). Similar findings have emerged in developing countries, where AI capabilities within public organizations are influenced by the interaction between external environmental conditions and the organization's internal capacity (Phan et al., 2026). Research in Vietnam also indicates that AI-driven digital transformation

capabilities trigger changes in how organizations operate, which ultimately impact performance (Thanh & Cong, 2026). Studies on AI adoption in local governments further underscore this aspect of capability, noting that system reliability and data management quality are components of organizational capacity that determine whether AI can truly be integrated into core activities (Ogunrinde & De-Pablos-Heredero, 2026).

Theme 2: Good Governance

The second theme highlights the importance of applying the principles of good governance to improve public sector performance. Research in Morocco found that transparency and accountability are closely linked to the effectiveness and quality of public services in government agencies (Ifiss & Saffaj, 2026). Using an ensemble machine learning approach, the study also demonstrated a relationship between the 17 Sustainable Development Goals (SDGs) and public sector performance. Another study, which utilized random forest and support vector machine models, concluded that the pillars of governance influence institutional effectiveness and service user satisfaction (Saida, 2025). A third study from Morocco confirms that transparency and accountability, as key pillars of governance, are directly correlated with substantial improvements in the efficiency and quality of public services (Ifiss, 2026).

Theme 3: Public Values and the Governance of Automated Systems

The third theme explores the risks and governance of automated systems from the perspective of public values. AI-based systems are generally expected to improve organizational performance in terms of effectiveness, but their impact on democratic values such as accountability and justice still requires further attention (Selten & Meijer, 2021). A systematic review of the implications of AI for public governance also confirms that risks to democratic values must be weighed alongside the potential for increased effectiveness offered by AI (Zuiderwijk et al., 2021). Another study found that organizational performance in local governments implementing AI is increasingly dependent on system reliability and the quality of data management (Ogunrinde & De-Pablos-Heredero, 2026). Empirical evidence derived from the development of a machine learning model based on more than 90,000 European Union expenditure documents indicates that the effectiveness of AI in the public sector

does not occur automatically and is heavily influenced by the institutional context (Verna et al., 2026).

Theme 4: Human Resources and Leadership

In contrast to the previous three themes, which emphasized systems and governance, a number of articles focused on the human resources dimension of AI implementation in the public sector. A study in Indonesia that integrated PLS-SEM with the Support Vector Machine, and k-Nearest Neighbors methods found that strategic leadership, organizational learning, and employee empowerment have an indirect impact on public sector performance through organizational commitment and job satisfaction as mediating variables (Imam et al., 2025). Another study developed a decision tree classification model for employees at a government information management agency, revealing that the quality of interpersonal communication, employee participation in decision-making, and strategic alignment are the most important predictors of organizational performance (Riyadi et al., 2026).

Theme 5: Innovation and Knowledge Management

The final group of articles discusses organizational factors that drive AI-based performance. One study developed a PLS-SEM model that maps 21 AI-related innovation factors into four broad groups that influence organizational performance (Sharif Ismail & Muhammad, 2022). Another study found that knowledge management practices supported by intelligent technologies contribute to the performance of government-owned pharmaceutical organizations (Mahmoud et al., 2025). Yet another study demonstrates how AI can transform the way organizations measure and manage performance to support decision-making (Modarelli et al., 2026).

Mapping Predictors and Consequences

Table 5. Mapping of Predictor Factors for AI Adoption and Public Sector Organizational Performance

Dimensions of Predictor Factors	Specific Factors	Supporting Articles
Organizational Capabilities	AI capabilities, digital transformation capabilities, internal capacity	Mikalef et al. (2023), Phan et al. (2026), Thanh & Cong (2026)
Governance	Transparency, accountability, leadership, innovation, ethics, sustainable development	Ifiss (2026), Ifiss & Saffaj (2026), Saida (2025)

Dimensions of Predictor Factors	Specific Factors	Supporting Articles
Human Resources	Strategic leadership, organizational learning, employee empowerment, organizational commitment, job satisfaction	Cusipag et al. (2025), Imam et al. (2025), Kang et al. (2021), Riyadi et al. (2026)
Knowledge Management	Knowledge management practices, smart technologies	Mahmoud et al. (2025)
Innovation	AI-related innovation factors (organizational structure, individual expertise, process innovation)	Sharif Ismail & Muhammad (2022)
Institutional Context	Government support, public expectations, regulatory clarity, public incentives	Phan et al. (2026)
Organizational Readiness	Digital maturity, workforce capabilities, governance quality, institutional coordination	Ogunrinde & De-Pablos-Heredero (2026)

Source: Compiled by the authors, 2026

Table 6. Mapping the Impact of AI Implementation on Public Sector Organizational Performance

Impact Dimensions	Performance Indicators	Supporting Articles
Operational Efficiency	Workflow automation, cost reduction, increased productivity	Bijalwan et al. (2024), Giotopoulos et al. (2025), Mikalef et al. (2023), Thanh & Cong (2026)
Decision-Making Quality	Generating new insights, data-driven decision-making	Mikalef et al. (2023), Thanh & Cong (2026), Verna et al. (2026)
Service Effectiveness	Quality of public services, user satisfaction, institutional effectiveness	Ifiss (2026), Ifiss & Saffaj (2026), Saida (2025)
Service Innovation	Process innovation, service innovation	Mahmoud et al. (2025), Sharif Ismail & Muhammad (2022)
Public Values	Accountability, fairness, transparency	Selten & Meijer (2021), Zuiderwijk et al. (2021)
Organizational Resilience	System reliability, resilience to systemic risks	Ogunrinde & De-Pablos-Heredero (2026)
Human Resource Performance	Worker productivity, workload management, employee satisfaction	Bijalwan et al. (2024), Cusipag et al. (2025), Giotopoulos et al. (2025), Kang et al. (2021), Riyadi et al. (2026)

Source: Compiled by the authors, 2026

Discussion

Based on the thematic synthesis presented above, this section discusses the three theoretical propositions formulated in the introduction. These propositions expand the existing theoretical framework by explaining the mediating and moderating mechanisms in the relationship between AI and performance in the public sector. Each proposition is examined by synthesizing evidence from the analyzed articles and identifying patterns that support or moderate the relationships among variables.

Discussion of the Propositions

Table 7. Empirical Support for Theoretical Propositions

Proposition	Theoretical Basis	Supporting Articles	Key Evidence	Empirical Patterns / Notes
P ₁ : AI capabilities and adoption positively influence public sector organizational performance through the transformation of core activities, particularly decision-making and service delivery.	Dynamic Capabilities (Teece et al., 1997)	Mikalef et al. (2023), Phan et al. (2026), Thanh & Cong (2026), Verna et al. (2026).	AI capabilities drive performance through process automation, the development of cognitive insights, and cognitive engagement (Mikalef et al., 2023). AI capabilities contribute to organizational creativity and performance (Phan et al., 2026). AI drives workflow automation and new insights that lead to improved performance (Thanh & Cong, 2026). Machine learning predicts performance through the quality of communication and participatory decision-making (Riyadi et al., 2026).	Evidence from Europe, Southeast Asia, North America, Africa, and the Middle East. The contribution of artificial intelligence (AI) to performance depends on an organization's capabilities and readiness, not just on its ownership of the technology.
P ₂ : Good governance principles, particularly transparency and accountability, strengthen the	Good Governance or New Public Governance (Osborne, 2006)	Ifiss (2026), Ifiss & Saffaj, (2026), Saida (2025)	Transparency and accountability are correlated with improved efficiency and quality of public services (Ifiss & Saffaj, 2026). The synergy between AI and good	Empirical evidence is still concentrated in North Africa, so generalizations about Southeast Asia require further testing.

Proposition	Theoretical Basis	Supporting Articles	Key Evidence	Empirical Patterns / Notes
relationship between AI utilization and public sector organizational performance.			governance optimizes public sector performance (Saida, 2025). The SDGs (SDG 7, 8, 11) serve as predictors of public organization performance (Ifiss & Saffaj, 2026)	
P ₃ : The relationship between AI adoption and public sector organizational performance is conditioned by institutional context and systemic risks, including technical reliability and data governance quality.	Public Value (Moore, 1995)	Ogunrinde & De-Pablos-Heredero (2026), Selten & Meijer (2021), Verna et al. (2026), and Zuiderwijk et al. (2021)	Machine Learning improves effectiveness but raises issues of accountability and fairness (Selten & Meijer, 2021). The effectiveness of AI depends on system reliability, data quality, and model validation (Verna et al., 2026). Local government performance is determined by system reliability and the quality of data management (Ogunrinde & De-Pablos-Heredero, 2026). AI capacity is influenced by the external environment and the organization's internal capacity (Phan et al., 2026).	Supported by conceptual studies, systematic reviews, quantitative studies, and machine learning. The benefits of AI are conditional on the quality of implementation, data governance, institutional readiness, and systemic risk management.

Source: Compiled by the authors, 2026

Proposition 1 (P₁): The Impact of AI Capabilities and Adoption on Organizational Performance through Changes in Core Activities

The first proposition states that AI capabilities and adoption positively influence public sector organizational performance through the transformation of core activities, particularly decision-making and service deliver. The findings from all four articles consistently support this proposition (Mikalef et al., 2023; Phan et al., 2026; Riyadi et al., 2026; Thanh & Cong, 2026).

Research in European public organizations shows that AI capabilities drive change in three key activities: process automation, cognitive insight generation, and cognitive engagement. The first two activities (process automation and insight generation) have been shown to improve organizational performance (Mikalef et al., 2023). In Vietnam, a study replicated these findings with nearly identical results (Thanh & Cong, 2026). Another study expanded on these findings by demonstrating that AI capabilities do not emerge in a vacuum but are influenced by the external environmental context and the organization's internal capacity (Phan et al., 2026). Riyadi et al. (2026) further confirm that machine learning approaches can identify patterns of nonlinear relationships in public sector performance predictions, reinforcing the importance of an organization's ability to translate AI adoption into performance outcomes.

Proposition 2 (P₂): Good Governance as a Moderator of the Relationship Between AI and Performance

The second proposition states that good governance principles, particularly transparency and accountability, strengthen the relationship between AI utilization and public sector organizational performance. Three articles from Morocco support this proposition conceptually (Ifiss, 2026; Ifiss & Saffaj, 2026; Saida, 2025). A study using ensemble machine learning methods on a panel of 300 Moroccan government entities showed that transparency and accountability are the governance pillars that most influence service effectiveness (Ifiss & Saffaj, 2026). Another study reinforces these findings using random forest and support vector machine models, which indicate that transparency and accountability emerge as the primary determinants of performance (Saida, 2025). A third study confirms that transparency and accountability are directly correlated with significant improvements in the efficiency and quality of public services (Ifiss, 2026).

Proposition 3 (P₃): Institutional Context and Systemic Risk as Barriers to AI Effectiveness

The third proposition states that the relationship between AI adoption and public sector organizational performance is conditioned by institutional context and systemic risks, including technical reliability and data governance quality. Four studies support this proposition by highlighting various dimensions of risk (Ogunrinde & De-Pablos-Heredero, 2026; Selten & Meijer, 2021; Verna et al., 2026; Zuiderwijk et al., 2021). Research evaluating algorithms from a public value perspective shows that the effectiveness of AI cannot be

separated from the accompanying public value trade-offs (Selten & Meijer, 2021). Other research indicates that AI-related productivity is significantly influenced by organizational readiness, including digital maturity and the quality of governance (Ogunrinde & De-Pablos-Heredero, 2026). The most concrete empirical evidence, derived from the development of a machine learning framework to verify European Union expenditures, shows that the benefits of AI depend on data governance and external validation processes (Verna et al., 2026).

Cross-Thematic Synthesis and Diverse Findings

Although all three propositions are supported by evidence within their respective thematic clusters, a cross-thematic comparison reveals that the impact of AI on organizations is not uniform across different contexts. This variation may partly reflect differences in organizational conditions and methodological approaches, rather than a fundamental disagreement regarding the value of AI. Studies focusing on organizational capabilities and human resources (P1) generally indicate that AI can contribute more directly to performance when organizations possess the capabilities necessary to effectively implement and leverage the technology (Mikalef et al., 2023; Thanh & Cong, 2026). Conversely, studies addressing governance (P2) emphasize that AI-related outcomes are closely tied to pre-existing institutional conditions. Studies in Morocco (Ifiss, 2026; Ifiss & Saffaj, 2026; Saida, 2025), for example, consistently identify governance dimensions as a stronger determinant of performance than AI capabilities alone. This distinction suggests that the impact of AI on performance may depend on organizational and institutional readiness. In contexts with relatively mature governance and organizational capabilities, AI can serve as an enhancer of existing capacities, whereas in contexts characterized by weaker systemic resilience or inadequate data governance, AI may expose existing organizational weaknesses and limit the realization of expected benefits (Ogunrinde & De-Pablos-Heredero, 2026; Verna et al., 2026).

Other differences arise in the mechanisms emphasized by different methodological approaches. Studies using PLS-SEM, such as those by Imam et al. (2025) and Sharif Ismail & Muhammad (2022), tend to examine psychological, behavioral, and leadership-related mechanisms, whereas studies applying ensemble machine learning approaches, such as Saida (2025) and Verna et al. (2026), place greater emphasis on structural conditions and data

quality. These methodological differences may partly explain the variation in the pathways through which AI is associated with organizational outcomes. Overall, cross-thematic evidence suggests that the three propositions should be interpreted as complementary and context-dependent explanations, rather than as independent explanations of AI-related performance outcomes. Therefore, future empirical research should examine governance, organizational capabilities, and institutional readiness within an integrated model, including their potential moderating roles in the relationship between AI adoption and organizational performance.

Applying Dynamic Capabilities Theory to Future Empirical Research

Dynamic Capabilities Theory (DCT) provides a useful theoretical framework for understanding why the adoption of AI does not always directly lead to improved organizational performance. The main argument of this review is that AI creates value through the organizational capabilities developed to identify, implement, and continuously adapt AI-supported applications, rather than solely through the possession of technology. However, the studies reviewed rarely translate this theoretical argument into an explicit measurement model. Future quantitative research can address this gap by operationalizing AI-related dynamic capabilities through the dimensions of “sensing,” “seizing,” and “reconfiguring” proposed by Teece et al. (1997). The “sensing” dimension can describe an organization’s ability to identify relevant AI opportunities and changes in its operational environment; “seizing” can reflect the ability to allocate resources, redesign processes, and implement AI initiatives; while “reconfiguring” can describe the ability to institutionalize AI-enabled changes and continuously readjust organizational processes.

These dimensions can be explored as separate mediating mechanisms between AI adoption and organizational performance. This approach aligns with the capability-based logic applied to the AI context by Mikalef et al. (2023), while expanding the analysis by explicitly linking AI capability development to the micro-foundations of Dynamic Configuration Theory (DCT). The governance variables identified in P2 and the institutional or systemic risk factors identified in P3 can be included as moderators that influence the strength of the relationship between capabilities and performance. Such a framework would enable future research to test moderated mediation models using PLS-SEM or covariance-based SEM. In the context of Indonesian local governments, this approach could provide a more precise empirical explanation

of how AI adoption impacts performance under varying levels of governance quality, organizational capabilities, and institutional readiness.

Future Research Agenda

Table 8. Future Research Agenda Based on Literature Gaps

Dimension	Specific Recommendations	Suggested Context	Reference Articles
Methodology	Using a longitudinal study to examine changes in AI adoption and its impact on performance over time	Public organizations in developing countries	Mikalef et al. (2023), Thanh & Cong (2026)
	Combining quantitative and qualitative methods to gain a deeper understanding of the AI implementation process	Local governments	Imam et al. (2025), Riyadi et al. (2026)
	Using objective performance indicators (service statistics, processing time, citizen satisfaction)	Public organizations	Mikalef et al. (2023), Phan et al. (2026)
Geographic	Testing propositions in the context of Indonesian local government with a diverse sample	Indonesia (local government)	Ifiss (2026), Ifiss & Saffaj (2026), Phan et al. (2026), Saida (2025), Thanh & Cong (2026)
	Conduct a cross-country comparative study to test the generalizability of findings from Morocco and Vietnam	Across developing countries	Ifiss & Saffaj (2026), Phan et al. (2026), Thanh & Cong (2026)
Organizational Capabilities	Examining how organizations develop AI capabilities within diverse bureaucratic contexts	Local governments	Mikalef et al. (2023), Phan et al. (2026)
	Identifying the factors that mediate the relationship between AI capabilities and organizational performance	Public sector	Mikalef et al. (2023), Thanh & Cong (2026)
Governance and Institutional Framework	Examining the moderating role of governance (transparency, accountability) in the relationship between AI and performance in contexts outside Morocco	Indonesia and other developing countries	Ifiss (2026), Ifiss & Saffaj (2026), Saida (2025)
	Examining institutional readiness (digital maturity, data governance) as a prerequisite for effective AI adoption	Local governments	Ogunrinde & De-Pablos-Heredero (2026), Verna et al. (2026)

Dimension	Specific Recommendations	Suggested Context	Reference Articles
Public Values and Risk	Analyzing the trade-off between AI effectiveness and democratic values (accountability, fairness, transparency)	Public sector	Selten & Meijer (2021), Zuiderwijk et al. (2021)
	Examining systemic risks and data governance in the implementation of AI in the public sector	Local governments	Ogunrinde & De-Pablos-Heredero (2026), Verna et al. (2026)
Human Resources and Leadership	Examining the role of strategic leadership and human resource readiness in supporting AI adoption	Indonesian Public Organizations	Imam et al. (2025), Riyadi et al. (2026)
	Identifying the skills and competencies needed by civil servants to manage AI	Local governments	Imam et al. (2025), Kang et al. (2021)

Source: Compiled by the authors, 2026

Practical Implications

In addition to its theoretical contributions, this review offers several practical implications for public managers and policymakers considering the implementation of AI. First, the development of organizational capabilities must occur in tandem with, and in some cases precede, large-scale AI investments. Public institutions must strengthen their employees' ability to identify relevant AI applications and develop process-reengineering capabilities before moving toward more advanced forms of automation. This phased approach aligns with evidence showing that AI-related performance improvements depend on the organizational capabilities necessary to effectively implement and integrate AI (Mikalef et al., 2023; Phan et al., 2026; Thanh & Cong, 2026).

Second, governance readiness must be treated as a key prerequisite for effective AI implementation, rather than as a separate policy issue. Institutions with weaknesses in transparency, accountability, and institutional coordination must strengthen these mechanisms alongside AI implementation, particularly since the quality of governance has been identified as a strong determinant of service effectiveness in studies conducted in Morocco (Ifiss, 2026; Ifiss & Saffaj, 2026; Saida, 2025). Third, institutions must establish appropriate safeguards for data governance and system reliability before expanding the deployment of AI. Data validation procedures, monitoring mechanisms, and periodic model evaluations can help address the data quality and reliability issues identified in

the reviewed literature (Ogunrinde & De-Pablos-Heredero, 2026; Verna et al., 2026).

For local governments in Indonesia, these implications are particularly relevant given the variations in bureaucratic capacity, governance quality, and digital readiness across different regions. Rather than adopting a one-size-fits-all approach to AI adoption, local governments can adopt a phased and diagnostic strategy. An initial assessment of organizational capabilities, governance readiness, and data system readiness, using the dimensions identified in this review, can serve as the basis for decision-making regarding the appropriate scope, sequence, and pace of AI implementation. Such an approach will allow AI adoption strategies to align with existing institutional capacities while reducing the risk of deploying advanced technologies before the organizational conditions necessary to support them are in place.

4. Conclusion

This study concludes that AI capabilities, good governance, and institutional readiness are key factors in enhancing the effectiveness of AI adoption and the performance of public sector organizations. A synthesis of 21 articles shows that the benefits of AI on performance are related to an organization's ability to integrate the technology into core activities, such as decision-making and service delivery. Good governance, particularly transparency and accountability, as well as institutional conditions and the quality of data governance also determine the effectiveness of AI utilization. These findings reinforce the relevance of the dynamic capabilities and public value perspectives in understanding how AI can benefit public sector organizations. Practically, this study demonstrates that performance improvement through AI depends not only on technology adoption but also on strengthening organizational capabilities, governance, and institutional readiness. A limitation of this study is that the articles were drawn exclusively from the Scopus database. Future research is recommended to empirically test the propositions generated in the context of Indonesian local governments with a more diverse sample, using a longitudinal approach to capture the dynamics of AI adoption, and combining quantitative and qualitative methods to gain a deeper understanding of AI implementation. Cross-national comparative research could also be conducted to test the generalizability of the findings and

identify contextual factors that influence the effectiveness of AI adoption in the public sector.

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