

# Chapter 7

## Developing Organizational Renewal Capability in the Municipal (City) Organization

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### ABSTRACT

*The objective of this chapter is to increase understanding and management of knowledge management in public sector organizations. In this chapter the knowledge management-based assessment and development process of organizational renewal capability is presented, and it is demonstrated in one large municipal (city) organization. The chapter thereby contributes to the discussion of the importance of organizational renewal capability and knowledge management for public organization renewal and for the performance excellence of public sector organizations in general. The development process of organizational renewal capability provides an approach and methods on how organizations can identify the current state of their renewal enabling factors and the related knowledge processes in order to initiate sustained renewal. Thereby, they can learn to utilize and manage their key knowledge processes by viewing their organization as a developing knowledge system.*

### INTRODUCTION

In an unpredictable economy not only the private sector companies, but also the public sector are facing pressures for change. It is also known that knowledge, knowledge management practices, and competencies are the key competitive advantages also for public organizations (Andrienssen, 2004;

Bonfour & Edvinsson, 2005; Edvinsson & Malone, 1997). To operate sustainably, public organizations also have to develop their capabilities in congruence with the changing environment. In other words, they have to understand their organization as a continuously developing knowledge system and learn to manage their knowledge, knowledge networks, and to renew themselves for sustained continuity. In this respect, the consciousness and understanding about knowledge management and its importance in building sustained and competi-

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tive public organizations need to be highlighted, but there are a few approaches how to achieve that in practice.

The competitive business characteristics, like competitive advantage, strategic flexibility, innovativeness, dynamic capabilities, and continuous organizational renewal traditionally have not been dominating goals in public organizations operating on public funding. Recently, public organizations have started to adopt management principles, operation logics (NPM), and innovation models from the private sector, the suitability of which for the public context has also been discussed, because these methods lack understanding of the public sector specialties (Christensen & Laegreid, 2001; Osborne & Brown, 2010; Charih and Roulliard, 2007; Pablo et al., 2009; Savoie, 1999; Ferlie et al., 2003). For example, dynamic capabilities (Pablo et al., 2007, Salge and Vera 2011; Piening, 2012) and performance improvement through learning and innovation (Normann 2007; Kinder, 2012) are proposed as success factors for the public organization; however, there is still a lack of studies dealing with the processes of innovation, organizational change, and renewal in the context of public organizations (Piening, 2012). There is no agreement on what kind of capabilities public organizations need, what capabilities they currently maintain, and how they could develop their capabilities and establish new ones, while aiming to become a sustained and competitive public organization. Therefore, novel and holistic approaches to building and developing sustainability and continuously renewing public organizations are required.

The objective of this chapter is to present an assessment and a development process of organizational renewal capability (Kianto, 2008) as a solution to increase the understanding and management of knowledge management in public sector organizations. Organizational renewal capability is an organizational level capability of an organization to continuously renew itself

(Kianto, 2008). It enables both incremental and radical change, flexibility to face unpredictable changes in the environment, as well as efficiency. The model of organizational renewal capability covers the key organizational areas in achieving sustained competitive advantage, and it thereby extends understanding, consciousness, and discussion about these key areas also in public organizations. A long-term development process in a large municipal organization shows, how the knowledge management based approach of organizational renewal capability can be used to improve organizational capabilities for renewal in public organizations. More specifically, the chapter illustrates how such a research and knowledge management based development process extends understanding on the evaluation, development, and management of knowledge management to improve continuous learning, innovation, and performance excellence in public sector organizations. This chapter thereby contributes to the discussion of the importance of knowledge management for the management of public organization renewal.

The chapter is organized as follows: First, the background section reviews the public sector specialties, challenges, and needs from the point of view of knowledge management and organizational renewal from the literature. Second, the focus is on the theory and model of organizational renewal capability and discussion about its development. Third, the assessment and development process of organizational renewal capability is presented in one municipal (city) organization. The process itself is the main focus and it is therefore presented step by step in an event driven order. Fourth, solutions and recommendations for the management of public organizations are offered to increasing the management of knowledge management and sustained continuity of public organizations. Finally, the future directions of knowledge management research in public organizations are viewed and conclusions presented.

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