**Organizational Dynamics and Innovation Capabilities**

**– a theoretical framework for comparison between public and private workplaces in Denmark**

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**1. Introduction**

The importance of value creation through work and the organizational conditions framing work processes have gathered increasing interest as more and more activities are included in the formal economic systems and the way work is organized has literally developed into a continuous process of change. New routines and procedures in work processes, which often involve wider responsibilities and influence for employees as well as multiple relations and instant adaptations, emerge with increasing intensity (Huws, 2006).

In addition to the wave of organizational developments with increasing demands to capabilities of organizational action, the employees are further expected to be able to use their collective creativity (OECD, 2010). New products and services become more and more important as productivity drivers in the value creation process. At the same time the technological possibilities of controlling the work process and the individual employee’s contribution has intensified fundamentally.

No doubt a central driver in the continuous change process of organizing and controlling work is globalization. Globalization understood as free movement between nations of goods and services, labor and capital, has meant increasing competition on prizes as well as on quality and innovations. This has to be anticipated by internal organizational dynamics and management of resources which demands capabilities for change and learning practices. The public sector organizations are in a similar situation and they have gradually incorporated ideas of management and organization practices from the private sector (Christensen et al., 2004, Teece, 2007).

In spite of the increasing incidences of organizational change and new management principles incorporated in many Danish private and public work organizations there are serious problems of establishing dynamic relations between innovation, growth and employment (Economic Counsel, 2010).

The aim of this report is to present a theoretical framework for investigating on what work organizational conditions a dynamic helix of innovations, growth and employment can be found. Focus will be set on dimensions and relations inside the work organizations in order to identify dynamic drivers and innovative capabilities. In this way the anatomy of organizational dimensions and relations promoting dynamic value creation are expected to be identified and can be compared between the private and public sector.

**2. Foundation of the theoretical framework**

Comparing private and public workplaces in order to identify organizational aspects related to dynamic value creation demands guidelines of theoretical knowledge and empirical data deliberately collected using valid and reliable indicators. Much of the theoretical knowledge and many of the indicators applied in this framework are developed in the Meadow project <http://www.meadow-project.eu/>. The theoretical framework, however, goes further than Meadow in identifying the more specific dimensions at descending levels which can be expected to relate to dynamic value creation in the workplace. The first two levels consider organization and coordination from the angle of management and the following five levels consider work innovations and involvement, team relations and responsibilities, control and commitment, competence, creativity and wellbeing from the angle of employees.

**3.1 Organizational dynamics and knowledge relations**

In the resource based view of the firm enduring competitive advantages cannot be based on standard input resources such as machines or other capital goods as well as formal qualifications accessible on the market. Firms have to be carefully concerned about their own specific organizational strengths and unique human resources in a proactive development perspective to sustain competitive advantages (Peteraf, 1993).

Considering the increased competition and economic turbulence this resource based view has been complemented by the concept of dynamic capabilities (Nielsen et al., 2011). Dynamic capabilities mean that organizations have capacity to renew and develop their intangible resources almost continuously to meet the challenges of a volatile context (Teece et al., 1997; Johnson et al., 2009). The theoretical merge of the two perspectives mean that organizational dynamics become a suitable synthetic concept to bring in use when analyzing the ability of meeting the challenges of globalization and economic turmoil.

Organizational dynamics can be defined as the capacity to continuously strengthen and renew the organization by mobilizing and enhancing the resources embedded in its structures, processes, routines and competences. This again demands capacity to mobilize all levels in the organization including individual skills, group competences and organizational capabilities (Som and Kirner, 2007). At the organizational level it is important to consider the concept of organizational innovation. This implicates attention on useful knowledge and further on the importance of learning. Continuous learning related to development of processes and routines is the backbone of organizational innovation (Lam, 2010) and as such related to organizational dynamics.

**3.2 Resource management**

Using organizational dynamics to achieve competitive advantages require specific management techniques, understood as models of organized decision making used by the management to coordinate the actions to be taken (Meadow, 2010). In line with the upcoming of new organization forms, management techniques appropriate to handle coordination and control in the new organizational settings have recurrently emerged.

One of the important dilemmas in new organization forms and models of management is the process orientation and empowerment of employees versus the control function and use of ICT in the control of performance. This dilemma increases cross pressure between employee involvement and discretion versus management control of production pace and results (Hvid, 2009). An important part of the theories of Human Resource Management, the so called hard models, emphasizes strategic orientation towards employee performance (Storey, 1992). The soft models put emphasize on allocation and qualification of the human resources.

**3.3 Work innovations and involvement**

Organizational dynamics and resource management techniques are expected to frame and have behavioral implications for how work is carried out in the organization. From the employee perspective the organizational and management concepts in their practice should support and give guidance both to the routines of daily work and for incidences of change in work. This expected link between levels inside the organization is, however, not self-evident. One of the important contributions of the theoretical perspective of new-institutionalism has been to set attention on the phenomenon of behavioral de-coupling of new organizational and management initiatives at the level of employees (Røvik, 1998). The analytical approach used in this study will be ideal for empirical testing of de-coupling between various levels in the organization.

At this first employee level it is important to consider the implications of resource management techniques as frame of work conditions and behavior. Even though the employees have achieved higher autonomy in the work processes the performance targets may have further consequences related to employees’ mental surplus for work innovations and change. Organizational dynamics are fundamentally dependent on employee’s proactive cooperation in configuring new routines in relation to developments in the external context. This means that organizational dynamics dependents on learning and knowledge creation (Nielsen et al., 2012).

Work innovations are important indicators of organizational dynamics when these incidences are related to active employee - management cooperation behavior. Fundamentally such employee behavior can either be individual and direct oriented as part of work roles in the organization or it can be collective and indirect as part of the workplace industrial relation system. The role and practices of these cooperation forms on organizational innovation has never been compared between public and private workplaces in Denmark.

**3.4 Team relations and responsibilities**

The work group has important traditions in organizational theory. The Human Relation perspective is founded in the 1930ties on studies of groups and change of norms in groups of importance for productivity. Later in the 60ties and 70ties the Tavistock tradition and the Scandinavian research on self-governed teams renewed the understanding of work group potentials for productivity with still more extensive perspectives (Voxted, 2005).

Recently theories on learning in organizations have once again placed the work group central in understanding the structures and processes of learning. In theories of the learning organization the work group has a central role as epistemological link between the individual level and the organizational level. Theories on organizational learning stress the importance of learning situated in groups – so called communities of practice (Lave and Wenger, 1991). Cross functional communication, social interaction and decision latitude are central for generating new useful knowledge and innovations (Lam, 2010). The resent theories imply that not only the influence of formal relations is important to study. Also the informal side of relations and norms are important in order to understand the potentials of the often ambiguous roles in self-governed teams (Visholm, 2005).

**3.5 Control and commitment**

Job control and decision latitude are important drivers of employees’ motivation and of relevance for their well-being. In the dynamic organizational context it is, however, not sufficient to examine the actual level of job control and decision latitude. The control concept must cover the dynamic dimension, that is to say decisions related to the processes of change. Extending decision latitude, influence and authority of the employees into traditional management prerogatives however removes a structural fence for job demands. In addition structural aspects such as task registration by ICT systems and performance based wage systems may deliver further demand pressure on the employee.

Parallel to this dilemma the concept of commitment has gained increasing interest and importance. Commitment is not directly related to job content but rather to employee identity, loyalty, value sharing and affective relations. The affective relations can be oriented towards the workplace, the leadership, the profession or the trade union (Naurbjerg, 2001, Holt Larsen, 2006). The balance of commitment is thus as relevant to investigate as the balance between control and demands in the dynamic organizational environment.

**3.6 Competence and creativity**

Although dynamic and innovative capabilities are organizational concepts, their operational efficiency depends on the qualifications, learning abilities and innovative competences of the employees. The key position of human resources in organizational dynamics implies that the qualities of operational employee skills are important to consider. Formal qualification of the employee is related to the individual employee and as such independent of job content. Formal qualifications are, however, considered important for knowledge absorption in the organization and not least for productivity and innovation (Junge, 2010). It has not yet been investigated how formal qualifications are related to more informal work experiences and to situated learning, competence development and creativity in the job situation across various sectors.

An often omitted perspective is the skill match between employee and job assignments, which may be biased in such the way that the employee has excess skills compared to the actual job requirement. Such a situation means that the organization have potential excesses of resources that is does not utilize effectively. A more common but definitely relevant perspective is that the employees have to learn continuously in order to develop necessary competences required by increasing skill demands in the job. Competence as concept has to do with skill utilization in specific job situations. It concerns the employee’s ability to act situated and skillful (Elström, 1992). In this line competence development will be defined as continuous development of experiences, skills, influence, possibilities and responsibilities, related to the job situation, assignments and context of the employee (Nielsen, 2006). Appropriate competence development related to changing job assignments is considered a necessary requirement of organizational dynamics.

The expected close relation between employee’s competence development and dynamic capabilities of the organization imply that it is important to observe incidences of creativity in the job situation. Work assignments demanding complex thinking and problem solving behavior are important for situated learning and further for the propensity to develop new solutions and proposals for product or service innovation. The concepts of competence and creativity are thus at the core of understanding the micro mechanisms expected to promote dynamic value creation.

**3.7 Wellbeing and security**

Employee’s qualities and potentials for creativity and innovation in value creation are central in the dynamic work organization. Even though enhanced involvement and empowerment are in line with classic theory of job enrichment (Hackman and Oldham, 1980), the environment of change, learning and flexibility may represent serious challenges for the individual employee (Sennett, 1998). The wellbeing, feeling of security and the job satisfaction are in such context expected to be important for realization of employee’s creativity and innovative competences in the work relations. Besides being an aim of the work environment in itself, the level of wellbeing, security and satisfaction are thus expected to influence the dynamic value creation.

The concepts of wellbeing, security and satisfaction relate directly to the individual employees subjective feelings towards the job and indirectly to the mental surplus in the work situation. The focus of subjective employee evaluation of wellbeing is thus related to the work situation.

**4. Dynamic value creation**

In a global context of instability, growing competition and transformation pressure, organizations have to strengthen their adaptability as well as their capacity to handle the external conditions proactively. This implies utilizing knowledge and creativity within a new generation of work organizational framework, which appears almost an antithesis of traditional Fordist organization.

The growth measures of productivity and turnover have to be supplemented by more dynamic related indicators. Realized product- or service innovation would be such a dynamic related indicator. Product- and service innovation has become the strategic way to handle the threats and opportunities of increasing competition and volatile environment offensively. Such innovations may create new markets and derived demands. This means that product- or service innovation, if successful at the market, support derived labor demand and employment growth at organizational level. The three indicators - growth, innovation and employment – may in this way burst each other in a positive helix relations and thus constitute the dynamic value creation defined in the introduction.

**5. Conclusion and policy relevance**

In search of explanations on productivity slowdowns and challenges of establishing dynamic relations between innovation, growth and employment it is of obvious importance to complement the official macro perspectives on productivity with micro analysis of work relations inside the new generations of organizations in order empirically to identify management techniques and employee practices explaining dynamic relations in the value creation of the private and the public sector. The empirical analysis is made possible by data from the Danish Meadow survey administrated by Denmark’s Statistics in 2012.

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