

# Collective Knowledge Formation as a Prerequisite for Managing Public Sector Effectiveness

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**Abstract:** Effectiveness is a central ambition in public governance, yet public organizations continue to struggle with how it should be defined, assessed, and managed. Prior research has identified key mechanisms through which public sector organizations attempt to render effectiveness manageable, including goal setting, policy-making, resource allocation, impact assessment, and knowledge management. However, while these mechanisms help explain organizational activities, less attention has been paid to how shared understanding of effectiveness emerges in complex, multi-actor public sector environments. This conceptual article contributes to knowledge management research by reframing public management mechanisms through the lens of collective knowledge formation. We conceptualize public sector effectiveness as a continuous knowledge process in which diverse actors, policymakers, managers, professionals, and other stakeholders, jointly construct what effectiveness means, determine what constitutes relevant and credible knowledge, and translate this understanding into coordinated action. Drawing on a knowledge formation perspective, the article develops a conceptual framework that explains how public management mechanisms operate as knowledge processes rather than merely as managerial procedures. We argue that public sector effectiveness cannot be managed without dialogical knowledge creation across multiple governance levels. Through collective knowledge formation, abstract policy goals are interpreted and transformed into shared understandings that guide organizational action. This shared knowledge provides the foundation for managing public sector effectiveness. By integrating public management mechanisms with concepts from knowledge management, the article foregrounds the epistemic foundations of managing public sector effectiveness.

**Keywords:** Knowledge management, Collective knowledge formation, Organizational learning, Public sector effectiveness, Public management

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## 1. Introduction

Public service systems across many countries face increasing financial pressures driven by demographic change, rising service demands, persistent inequalities, and fragmentation in service delivery. These tensions have elevated the pursuit of effectiveness to a central ambition in public governance (e.g. Bouckaert and Halligan, 2007). Despite continuous modernization efforts to improve performance and societal impact (e.g. Ongaro, 2019), public organizations struggle with defining, managing, and achieving effectiveness in practice. Limited resources, competing priorities between cost-effectiveness and public value, and long-term outcome horizons complicate the assessment of public sector effectiveness, thereby challenging the assumptions underlying evidence-based decision-making.

Earlier research highlights organizational capacities – such as knowledge, processes, and resources – as essential for enabling public organizations to respond to turbulence and achieve desired outcomes (e.g. Gerrish, 2016; Bekkers et al., 2011). While public management scholarship has identified a range of policy and governance factors explaining performance and outcomes (e.g. Bouckaert and Peters, 2002; Van Dooren, 2007; Polese et al., 2017), how and why something works, far less attention has been devoted to the epistemic processes through which shared understandings of effectiveness emerge in complex, multi-actor public service systems. Effectiveness in the public sector is not solely an outcome of policy implementation or organizational performance; it is also a socially constructed concept shaped by how policymakers, public managers, professionals, and stakeholders interpret goals, evidence, and performance.

This conceptual article addresses this gap by reframing public sector effectiveness through the lens of *collective knowledge formation* (Laihonen et al., 2023). We suggest that effectiveness cannot be managed only through policy instruments, measurement routines, or managerial procedures. It also requires epistemic processes that enable dialogical knowledge formation and shared sensemaking across public organizations and service systems. Accordingly, we ask: *What epistemic processes enable the management of effectiveness in public sector organizations?* By integrating perspectives from public management, knowledge management, knowledge formation, and organizational sensemaking, the article conceptualizes public sector effectiveness as a knowledge intensive, collaborative management process. This approach contributes to the literature by

highlighting the epistemic dimension of effectiveness and by proposing how knowledge integrating practices can support coordination, learning, and coherent action in complex public service environments.

The remainder of the article proceeds as follows. Section 2 draws on theories of knowledge management and knowledge formation to explain the premises through which shared understanding of public sector effectiveness may emerge in multi-actor systems. Section 3 introduces established mechanisms for managing effectiveness and develops a framework linking managerial and institutional dimensions to the pursuit of desired outcomes. The article concludes by reframing these mechanisms through the lens of collective knowledge formation, discussing implications for research and practice and emphasizing the need for cross-boundary, dialogical knowledge processes in public sector organizations.

## **2. From Knowledge Management to Knowledge Formation in Public Sector Organizations**

In this study, knowledge management (KM) is approached from a strategic management perspective that views knowledge as a resource of organizational significance. KM draws on several disciplinary traditions (Jasimuddin, 2006), most notably the resource-based (Barney, 1991) and knowledge-based views of the firm (Grant, 1996; Spender, 1996). These perspectives have been criticized for their inward orientation and for lacking a clear definition of what constitutes resource value (Kraaijenbrink et al., 2010; Srivastava et al., 2001). Building on this critique, Spender (2014) argues that KM often privileges data over meaning, while Dumay (2020) notes that the field tends to focus on technically solvable problems. Recent work further suggests that KM's traditional emphasis on efficiency overlooks broader dimensions of performance, including the effectiveness of health services (Hujala and Laihonen, 2021).

Contemporary public sector KM research extends these critiques by stressing that knowledge relevant for governance and service improvement is not a static organizational resource but is formed through ongoing social processes (Laihonen et al., 2023). Public policy problems that are typically complex and value-laden require interpretive and dialogical knowledge work rather than purely instrumental, data-centric approaches. This has shifted attention toward how actors collectively interpret information, negotiate meanings, and construct shared understandings that guide action. Knowledge formation is thus a dynamic, interactional process in which information is contextualized and transformed into situated judgments. Rather than assuming that policy relevant knowledge is objective or self-evident, this approach underscores that its significance emerges through interpretation shaped by institutional, professional, and political contexts.

Public organizations operate at the intersection of multiple knowledge domains – legal, managerial, professional, and experiential – each with its own criteria for validity. Knowledge formation therefore unfolds through the reconciliation of these diverse epistemic traditions, often via cross-boundary dialogue, iterative sensemaking, and the creation of shared conceptual frameworks (cf. Weick, 1995; Maitlis, 2005). A growing body of research highlights the collective and multi-level nature of knowledge formation in governance. Studies of local government, for example, show how political leaders, strategic managers, and operational professionals engage in ongoing dialogical processes through which they develop shared interpretations of goals such as sustainability or socio-financial balance (Rajala and Laihonen, 2019; Sinervo and Laihonen, 2024). These processes do not merely integrate information across organizational units. They also enable actors to negotiate overarching values, clarify interdependencies, and understand how abstract objectives can be translated into feasible practices.

From this perspective, collective knowledge formation can be understood as a crucial absorptive capability (cf. Cohen and Levinthal, 1990) referring to a collective and institutional capability that enables organizations to recognize, interpret, and apply diverse forms of knowledge. In the public sector, this is shaped by staff competencies, organizational structures, and cross-sectoral processes. Seen in this way, collective knowledge formation describes how absorptive capacity is realized in practice through dialogical interpretation, shared sensemaking, and coordinated action across governance levels. Such epistemic work allows public organizations to navigate complexity, align perspectives, and coordinate action in pursuit of societally mandated goals, such as effectiveness (Laihonen et al., 2023). Knowledge formation is thus embedded in organizational routines, practices, and cultures, and therefore cannot be separated from the institutional contexts in which public organizations operate. Public sector knowledge processes include both formal elements such as indicators and evaluations and informal interpretive processes through which actors make sense of evidence and negotiate priorities.

Taken together, the knowledge formation perspective offers a foundation for understanding why managing effectiveness in public services cannot rely solely on technical measurement or managerial procedures.

Effectiveness is inherently an interpretive construct: its meaning varies across professions, governance levels, and policy domains. Knowledge formation explains how shared understandings of effectiveness emerge through socio-cognitive processes, how evidence acquires meaning within particular contexts, and how public actors translate this understanding into organizational practices that collectively facilitate effective public sector management.

### 3. Mechanisms for Managing Public Sector Effectiveness

In the public sector, effectiveness refers to an organization's ability to achieve its socially mandated goals (see Cameron, 2015; Etzioni, 1964), respond to citizens' needs, and generate public value in collaboration with other actors. Because public organizations aim to benefit society at large (Kroeger and Weber, 2014), effectiveness is closely tied to performance – how well an organization fulfils its expected and legitimized role. Unlike private sector organizations, where effectiveness is often linked to profitability and efficiency, public organizations pursue multiple and sometimes conflicting policy goals, such as equity, societal wellbeing, and cost-efficiency. As a result, interpretations of effectiveness vary across organizational, institutional, and political contexts. Effective action is shaped by managerial judgments, political administrative expectations, and societal values, and achieving desired outcomes typically requires coordinated efforts among multiple actors.

Effectiveness is thus a multidimensional concept reflecting how well public organizations fulfil their social purposes within institutional, financial, and political constraints. It can be assessed through cost effectiveness, service quality, equity, customer responsiveness, or long-term sustainability. Yet effectiveness is difficult to specify and measure. Public services often produce outcomes only in the long term, requiring sustained coordination across organizational and sectoral boundaries. Moreover, public organizations operate in politically uncertain environments and under resource constraints, where the meaning of public value is contested among citizens as voters, taxpayers, service users, and funders. Consequently, effectiveness is not merely the measurable impact of interventions but a negotiated and continually evolving understanding of what constitutes valuable societal change. Acknowledging this complexity provides the foundation for examining the mechanisms through which public sector effectiveness can be managed in practice.

Management mechanisms can be understood as forms of agency, resources, and reasoning that explain how change occurs in a particular context and in actors' behavior. This interpretation aligns with a realist approach, which seeks to uncover what works, for whom, in what circumstances and why (Pawson, 2013). Analyzing institutional change thus requires tracing how policy intentions are translated into practice, including situational and transformational processes (see Ylikoski, 2017). A persistent challenge is translating high-level policy goals into practice (Ingrams et al., 2020), as neither policy steering nor managerial procedures guarantee results without practitioners' interpretive work and sensemaking. For this reason, behavioral change at the micro-level is central for translating macro-level policy goals into effective action (Coleman, 1990).

Management mechanisms thus trigger or hinder institutional change and make visible the dynamics of public sector reforms (Barzelay and Gallego, 2006; Barzelay and Jacobsen, 2009; Ongaro, 2019). Achieving system-level transformation requires examining families of mechanisms rather than single interventions (Best et al., 2012), as these mechanisms operate within social structures, administrative routines, organizational culture, and everyday practices (Shaw et al., 2018). Conceptually, such social mechanisms are analytical constructs of theories of change (Hedström and Swedberg, 1998) that inform the design and implementation of effective public policies (Capano and Howlett, 2021).

Synthesizing prior public management research (e.g. Laihonen et al., 2024; Kork et al., 2025), we identify four management mechanisms through which public organizations are managed to achieve public sector effectiveness. First, public policy guides public sector effectiveness by translating societal priorities into policy goals, which are further converted into strategic directions for public organizations. National policy programs, legislative mandates, and medium-term expenditure frameworks exemplify how political objectives, such as improving equity or strengthening preventive services, shape the overarching aims of service systems. These *policy mechanisms* define the strategic intent within which public organizations operate (e.g. Capano and Howlett, 2021; Kokko and Kork, 2021).

Second, public sector effectiveness is also a question of resource and capacity allocation. Goal achievement depends fundamentally on budgeting and prioritization: budgetary decisions, workforce planning, and investments in service capabilities (Sinervo et al., 2025). These *resource allocation mechanisms* determine how public organizations align financial, human, and operational resources with policy goals (e.g. Sinervo and Laihonen, 2024). For example, local authorities may redirect funding toward integrated care pathways or invest

in digital tools that enable earlier intervention, thereby strengthening the system's capacity to achieve intended outcomes.

Third, evaluation and measurement functions are key tools for monitoring and assessing public sector effectiveness (Van Dooren, 2007; Rajala and Laihonen, 2019; Vikstedt et al., 2025). Systematic audits, impact evaluations, and national indicators generate evidence about whether services enhance citizen wellbeing or reduce inequalities (e.g. Uusikylä, 2019). These *performance management mechanisms* also provide the empirical grounding for public accountability and organizational learning – for instance, by tracking long-term rehabilitation outcomes or monitoring population level health trends to inform service management.

Finally, managing public sector effectiveness requires robust data and information infrastructures (Hujala and Laihonen, 2021; Laihonen and Kokko, 2023). These *decision-making mechanisms* highlight the importance of evidence-informed policymaking and data-driven management in achieving desired outcomes. They illustrate how performance data, evaluation reports, and learning dialogues inform organizational choices at strategic, tactical, and operational levels. Examples include leadership teams using comparative performance indicators to redesign service portfolios, or multidisciplinary teams employing outcome data to refine care pathways.

#### 4. Results and Discussion

This article outlines how public sector effectiveness can be managed in complex, multi-actor governance environments by reinterpreting established public management mechanisms through the lens of knowledge formation. The analysis shows that effectiveness is not solely the product of managerial routines or performance measurement systems but emerges through epistemic processes in which actors jointly construct what effectiveness means, how it should be assessed, and what knowledge should guide coordinated action.

The four management mechanisms identified constitute key arenas through which absorptive capacity is enacted in public sector organizations: policy implementation, resource allocation, performance management and decision-making. These arenas depend on collective interpretation, negotiation of priorities and integration of diverse forms of evidence across actors. Through these processes, knowledge is recognized, translated, and applied in ways that link knowledge formation with organizational and system-level effectiveness.

Together, these four mechanisms provide an integrated view of how public sector effectiveness is managed across institutional and organizational contexts (Table 1). At the same time, they highlight the arenas through which collective knowledge is formed, validated, and translated into coordinated action oriented toward shared societal goals.

**Table 1: Mechanisms for managing public sector effectiveness**

| Management mechanisms                    | Policy mechanisms                                                                               | Resource allocation mechanisms                                                           | Performance management mechanisms                                                                                | Decision-making mechanisms                                                                                   |
|------------------------------------------|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| <b>Framing of managing effectiveness</b> | Steering of public policy through political processes that define policy goal and effectiveness | Securing, allocating, and aligning financial and human resources to achieve agreed goals | Producing evidence on outcomes to validate the social impacts                                                    | Developing and synthesizing a knowledge base that supports evidence-informed policy and effective management |
| <b>Key actors</b>                        | Ministries; national, regional and local policymakers                                           | Organizational leaders in dialogue with central finance/treasury and ownership bodies    | Ministries and public managers; audit and evaluation agencies                                                    | Public managers and leaders at strategic, tactical, and operational levels                                   |
| <b>Steering and management tools</b>     | Legislation; policy programs; budget frameworks; medium-term expenditure ceilings               | Organizational budgets; investment plans; workforce and capability planning              | Ministerial reviews; organizational evaluation and audit reports; national indicator systems and outcome metrics | Organizational data and information systems; performance dialogues and cross-actor learning forums           |

| Management mechanisms                                                                      | Policy mechanisms                                             | Resource allocation mechanisms                             | Performance management mechanisms                                    | Decision-making mechanisms                                          |
|--------------------------------------------------------------------------------------------|---------------------------------------------------------------|------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------------------------|
| <b>EPISTEMIC FUNCTION</b><br>enabling collective knowledge formation (absorptive capacity) | <i>Construction and stabilization of shared policy frames</i> | <i>Negotiation and deliberation of resource allocation</i> | <i>Production of interpretive accounts of performance and impact</i> | <i>Synthesis of knowledge to enable coordinated decision-making</i> |

Public management research has paid relatively limited attention to the collective sensemaking processes related to public sector effectiveness or to how actors construct shared understandings of what constitutes effective action in public organizations. Yet it is precisely these epistemic processes that are essential for enabling such shared interpretations to develop. This kind of behavioral or social mechanisms shape how actors across governance levels interpret policy goals, negotiate their meaning, and translate them into shared practices. Such epistemic functions become visible in cross-boundary learning forums, professional dialogues, and participatory arenas where policymakers, managers, professionals, and stakeholders deliberate what constitutes effective action, societal impact, and public value. These epistemic processes align with KM literature on collective knowledge formation and sensemaking, particularly when policy goals are abstract or contested—for instance, when “improving citizen wellbeing” must be interpreted across diverse service domains.

We argue that the formation of shared, actionable knowledge about public sector effectiveness necessitates that each mechanism functions as an epistemic process: policies are interpreted into collective frames; resource allocations are jointly negotiated; evaluations generate interpretive material for understanding performance; and cross-actor interaction enables the synthesis of knowledge through learning and dialogue. Through these epistemic processes, fragmented information is transformed into more coherent collective action. The following sections advance this argument by elaborating the epistemic dimension of public sector effectiveness and positioning it as an extension of KM research.

#### 4.1 Contribution to Knowledge Management: An Epistemic Dimension of Public Sector Effectiveness

This article contributes to ongoing debates in public sector KM by advancing an explicitly epistemic understanding of how knowledge is generated, interpreted, and utilized in public management. Recent KM scholarship emphasizes that knowledge formation in public administration is not a technical process centered on data optimization, analytical tools, or intra-organizational repositories. Rather, it is a social and relational process through which information is collected, interpreted, shared, and made meaningful across institutional and professional boundaries. This perspective highlights the importance of context, values, and interaction in shaping the knowledge base of public decision-making.

Reinterpreting the four mechanisms of public sector effectiveness through their epistemic functions confirms and extends this argument concerning collective knowledge formation. Each mechanism, policy steering, resource allocation, performance management, and evidence-informed decision-making, illustrates the epistemic dimension that structures problem definitions, prioritization, and legitimacy of evidence. Measurement systems, evaluation reports, and performance indicators provide empirical inputs, but they become actionable only when interpreted in practice through multi-level dialogue, professional judgement, or political negotiations.

Our conceptual analysis reinforces the view that KM in the public sector must attend to sensemaking dynamics, institutional context, and the interplay of diverse knowledge domains. In complex service systems, effectiveness is not simply measured or monitored; it is collectively constructed through interpretive practices that enable actors to translate abstract goals into shared meanings and coordinated action. This epistemic dimension extends KM research by showing that management mechanisms serve not only managerial functions but also functions as infrastructures for collective knowledge formation.

#### 4.2 Mechanisms as Knowledge Processes: Towards Epistemic Infrastructures

A key theoretical contribution of this article is the insight that the four mechanisms of public sector effectiveness form a set of knowledge processes that together constitute the epistemic infrastructure of a public service system. Policy mechanisms provide the initial interpretive frames through which problems and priorities are defined; resource allocation mechanisms translate these frames into organizational commitments and capability choices; performance management mechanisms generate interpretive material and empirical grounding; and

decision-making mechanisms perform the work of knowledge translation by integrating diverse forms of information into managerial and professional judgement. Together, these mechanisms function as processes of knowledge formation that create shared interpretations and support aligned action across institutional levels. This understanding resonates with research showing that cross-boundary dialogue, shared knowledge bases, and integrative leadership practices are central enablers of collective knowledge formation in multi-actor governance environments (Emerson et al., 2012; Laihonen and Kokko, 2023; Parkkinen, 2025).

Understanding public sector effectiveness as an epistemic infrastructure also clarifies why reforms relying primarily on technical metrics or performance regimes often fall short (Seabra and Pettigrew, 2026). The core challenge is not merely producing more or better data but cultivating institutional settings in which data can be interpreted, contested, and integrated into shared understandings that guide coordinated behavior. Effectiveness emerges not from measurement alone but from the social and epistemic work required to transform fragmented information into coherent action.

This broadened epistemic dimension offers a more realistic and institutionally sensitive account of public sector effectiveness. It shows that effective management in public organizations is not only a matter of managerial procedures but also depends on infrastructures that enable knowledge to flow, be validated, and become actionable across governance levels.

### **4.3 Implications for Public Sector Development**

The synthesis suggests that public sector effectiveness requires an epistemological turn—a shift from understanding knowledge as a static, objective input toward seeing it as socially produced, context-dependent, and value-laden. This perspective foregrounds core questions for governance design: What counts as knowledge? Whose knowledge is recognized as legitimate? How are competing interpretations reconciled? Addressing these questions is essential for building effective governance systems capable of learning and improvement in environments characterized by ambiguity, contestation, and interdependence. This aligns with the growing recognition that sustainable public administration and its complex goals such as societal wellbeing, ecological sustainability, or socio-financial balance depend on collective knowledge formation across policy, managerial, and professional domains (Laihonen et al., 2023).

The epistemic function of management mechanisms highlights the need for epistemic infrastructures that enable public service systems to make sense of complex realities and coordinate action despite uncertainty. Such infrastructures include cross-level learning forums where actors interrogate assumptions and co-interpret performance evidence and create shared conceptual vocabularies of effectiveness. They also require deliberative spaces that facilitate the negotiation of values and leadership that integrates heterogeneous knowledge sources into decision-making. These institutional arrangements strengthen the system's capacity for reflexivity, sensemaking, and adaptation—capabilities essential for navigating complexity and sustaining coordinated action in multi-actor governance settings.

## **5. Conclusion**

This article advances understanding of public service effectiveness by conceptualizing its management as a knowledge formation process. By integrating established public management mechanisms with contemporary perspectives on knowledge formation, we show that effectiveness becomes actionable only when actors engage in collective interpretation, negotiate priorities, and construct shared understandings. The four mechanisms often treated as managerial tools are, in fact, epistemic processes that provide the scaffolding through which actors make sense of goals, evidence, and performance in complex governance settings.

The contribution of the article is twofold. Conceptually, we connect public management and KM literatures by showing that public sector effectiveness depends on social and cognitive processes of meaning-making rather than technical performance systems alone. Epistemologically, we foreground the role of knowledge formation in shaping what public organizations perceive as problems, how they assess their actions, and how they pursue societal impact.

Several limitations should be acknowledged. First, the analysis is conceptual and does not include empirical validation. Second, the framework is intentionally general and may not capture sector-specific variations in knowledge processes. Third, although the desirability of inclusive and dialogical knowledge formation is assumed, we do not fully address power asymmetries or conflicts that may distort these processes.

Future studies could extend this work in several ways: (1) empirical analyses of epistemic functions of the four management mechanisms in specific services, policy domains, or governance levels; (2) research on legitimacy

of evidence, examining how different knowledge forms (professional, managerial, political, citizen) gain or lose authority in defining public sector effectiveness; (3) design-oriented research on epistemic infrastructures including forums, management routines or tools that support cross-boundary knowledge formation; (4) longitudinal studies of how shared interpretations of effectiveness evolve with new evidence or political cycles; and (5) socio-technical analyses of how digitalization and AI reshape knowledge formation, including how algorithmic systems influence interpretation and decision-making. Together, these avenues can deepen understanding of how knowledge is formed in public governance and how public service systems can better harness collective knowledge for meaningful and sustainable societal impact.

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**AI Declaration:** Microsoft 365 Copilot was used to improve language quality and clarity, including grammar and spelling checks and minor rephrasing of text.

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