

DYNAMIC CAPABILITIES OF THE PUBLIC SECTOR: TOWARDS A NEW SYNTHESIS**Rainer Kattel**

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Today, perhaps more than ever before, public organisations are caught between what seems to be a rock and a hard place: faced with tackling intractable or grand challenges, governments need to develop long-term solutions (no hackathon can solve climate change), yet some aspects of these challenges require an agile and dynamic response. The covid-19 pandemic has shown how important public sector capacities and capabilities are in terms of reacting to crises, and re-configuring existing policies and implementation practices. Prior to the pandemic, policy makers were increasingly turning their attention to challenge-driven innovation policies in order to tackle climate emergencies and other 'wicked' societal challenges. Such a 'normative turn' also assumes the existence of what can be called dynamic capabilities in the public sector. This paper offers a new synthesis of how to conceptualise dynamic capabilities in the public sector. The paper synthesises existing state capacity, public sector innovation capacity and dynamic capabilities literature.

The paper discusses the origins and constitutive elements of dynamic capabilities, and such capabilities could be assessed. The synthetic framework is tested through three case studies of influential organisations that have developed dynamic capabilities (the UK's Government Digital Service, the city of Barcelona and Sweden's Vinnova). The cases show that dynamic capabilities – understood as routines to renew existing organisational capabilities – coalesce around routines of sense-making, connecting and shaping. Importantly, the routines that dynamic capabilities target for renewal are closely related to the diminished state, and policy autonomy and legitimacy. Thus, as the case studies show, organisations with dynamic capabilities focus both on long-term capacity renewal (e.g. in the form of building a professional workforce or functioning public digital infrastructure), and on

installing and nurturing dynamic routines to ensure an agile response to, and active steering of, contextual events (e.g. developing public procurement capabilities for agile procurement or user-focused analytical tools for analysing the use of public services).

The paper concludes by arguing that we can see an emergence of new kind of public sector organisations that aim to be both dynamic and resilient by design. We can call these Neo-Weberian agencies. Such agencies are characterised by focusing on long-term societal goals as one of the core elements of policies (rather than the short-term goals of competitiveness and growth, prevalent in the 1990s and early 2000s). An epistemic turn accompanies this normative turn through the incorporation of new methods and analytical tools, such as strategic design, complexity economics, foresight, policy labs etc. The Neo-Weberian (innovation) agency purposefully build and nurture dynamic capabilities, and development management and assessment practices, to understand such capabilities better.