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## Dynamic Capacities of the State and the Role of Knowledge for its Development: Russian Federation

Liudmila Vedmetskaya

*Saint-Petersburg State University, Russia*  
*vedmetskaya@gmail.com*

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### **Abstract**

*In the situation of global competition for the resources and high social tensions government should elaborate special state capacities which will be dynamic and flexible and will help to develop social, economic and political institutions of the state. Some of these capacities can be called dynamic. This concept helps to find sustainable advantages of the state for being competitive. Dynamic capacities are unique, because they give the state benefits not only on the today-market, but also on the tomorrow-market. We will try to consider such capacities of the state which promote development of the state in the conditions of the contemporary world to optimize use of new types of material and non-material (especially knowledge and innovations) resources. There are several ways to evaluate the knowledge ability of the state. One of them is to use indicators (Science and Technology Capacity Index, Innovation Capacity Index, etc.). They are helpful to show the role of knowledge in the creating of dynamic capacities and national competitiveness of the states. The other way is to show the role of knowledge in economy and political governance through the role of knowledge networks for good governance and development of the state.*

Keywords: *dynamic capacities of the state, development of the state, knowledge, knowledge networks*

### **1. Introduction**

In the situation of outer and inner threats, politics changes. States should be more competitive, more flexible in the face of modern global changes. But at the same time in the conditions of high value of universal democratic principles (such as freedom, equality and rule of law, for example) they should build and develop abilities which would not contradict these ideas and principles, but would be successful and effective. In the world full of tough and global competition for the resources, regular economic crises and high social tensions government should develop itself and build new state capacities which will be dynamic and flexible and will help to develop social, economic and political institutions of the state.

The problematics of dynamic capacities has been actively developed since 1990s within the realm of the resource theory of strategic management (Katkalo, 2002). One of the authors of dynamic capacity concept is the strategic management expert D. Teece. For the first time the “dynamic

capacities (capabilities) concept” was used in 1994. By D. Teece dynamic capacities include “difficult-to-replicate introduced capabilities required to adapt to changing customer and technological opportunities” (Teece, 2009).

Such researchers as D. Teece, K. Pitelis, G. Pisano, E. Shuen (Teece, Pisano, Shuen, 1997), R. Nelson, S. Winter (Nelson, Winter, 1982), etc. developed the dynamic capacities concept and the modern resource concept of the organization, based on the bigger role of knowledge, sustainable competitive advantages and dynamic capacities. Among Russian researchers we can name professor of Graduate School of Management of St. Petersburg State University V. S. Katkalo (Katkalo, 2010), A. V. Buhvalov (Buhvalov, 2004); T. E. Andreeva, V. A. Chajka (they have entered concept "capacity to changes" within the realm of the concept of dynamic abilities of the organization) (Andreeva, Chajka, 2006).

For the last years this concept has been actively used in economic theories. Nowadays it also becomes claimed in political science for studying the strategic changes of various kinds of activity of the state. In particular, since 2007 the Department of political governance of St. Petersburg State University has been engaged in the research of the state capacities (Smorgunov, 2009). During this research work there was investigated the processes of “increasing of the political-administrative capacities’ level of the state for carrying out the purposes of public policy, the regulating functions in national economy and society”, for the increase in administrative decisions-making efficiency, and also for achievement of public values and interests (Smorgunov, 2008).

In the given work we understand *dynamic capacities* of the state as such abilities of the government which allow to react not simply to changes of environment and to adapt to new conditions, but also to promote development and modernization of political and economical system of public sphere. This concept helps to find sustainable advantages of the state which help it to develop. As we said, it is not only ability of system to adapt, resist successfully to risks, intensity and constant stress from changes of the environment. We can characterize *development* as consecutive positive change of qualitative conditions of political system in whole and its separate components (Concise Oxford Dictionary of Politics, 2009).

It is possible to point out a close interrelation of the concepts of dynamic capacities and state development. We can say that all countries have to revise their policy and capacities to develop themselves in the conditions of growing dynamics of changes in the world. Either way, the goal is to build the collective capacity to achieve public results and to pursue a shared vision of the future (Pearce, 2001).

Opportunity to build capacities leads to various consequences in the different countries, depending on level of complexity and innovative capacity of their political, administrative and economic systems, cultural traditions, the ideologies defining specificity of behavioural strategy of people in crisis situations, etc. We can research developed states (Germany, France, Great Britain, the USA, etc.) or developing states (Mexico, Turkey, China, Russia, etc.), and they will differ very much in the reaction to global threats, in decision-making process and development strategy (Vedmetskaya, 2011).

It is obvious that the developing states also considerably differ from each other in the level of modernization of the economic sphere, development of the social sphere, management efficiency and so forth. When I say “developing countries”, I mean countries that have achieved more industrialized, city economy, so-called “upper-middle-income economies” (in treatment of the World Bank<sup>1</sup>). Also high or very high rates of the Human Development Index are typical for these countries (from 0,9 to 0,7) (Human Development Report, 2011). By the example of developing political systems the processes of capacity-building (especially, building of dynamic capacities) and of searching the ways of the state development become apparent brightly and dynamically. For these countries a question of being competitive is a vital question for their economics and political-administrative system.

## **2. Dynamic Capacities of the State in the Realm of Knowledge**

Another factor of global changes of our contemporary world is abnormal development of the modern socio-political systems and, above all, their transitions to the age of information and knowledge society. It is difficult to disagree with the fact that the special part in this situation should be assigned to non-material resources, namely knowledge, science, new discoveries, ways of communication, the way of management of education. In public spheres where the role of knowledge is high, possibility of development is also very high. Extent of development of the modern state substantially depends on ability to make new knowledge, to raise a role of education and scientific activity in society, to modernize the public sphere.

State builds many capacities for normal existence and development. I would like to consider such capacities of the state which promote development of the country in the conditions of the contemporary world, to optimize use of new types of material and non-material (especially knowledge) resources. We can also call them strategic capacities, as they should be built for a long-time complex development of the state. As A. Farazmand, a professor of public administration at Florida Atlantic University, pointed out, “advanced countries constantly strive to develop in rural and urban life, in science and technology, and in education and other programs that help upgrade their capacity to manage their governance and administrative systems. In developing countries, similarly, various approaches and strategies must be employed to accelerate the “development” process by upgrading existing capacities and acquiring new ones in science and technology, human resources, and organizational leadership for “managing development”, as well as enhancing “development governance” (Farazmand, 2009).

The role of scientific knowledge, innovations and intangible resources, including human resources has increased significantly in the modern world. The ability to obtain and apply new forms of knowledge by subjects of economic, social, cultural and political processes is the only way to develop modern state, to build “good governance”. In general, in public sector where the role of knowledge is high, the possibility of development is also high. Developing states, as well as developed states need knowledge and higher role of education in modernization of the public sphere. Innovation policy can be a key component of development strategy in the XXI century.

The new knowledge under certain circumstances forms unique abilities of the state which help not only to overcome crisis in economical, political and social sphere, but also to find the place of the state on the international economic and political arenas. The appropriate examples of wise usage of knowledge by governance are: 1). When the Finnish economy was under the threat of

collapse in 1990s the government of Finland trebled the budget for scientific researches that promoted strengthening of a position of the Nokia company largest in this state in the world market and to a state exit from crisis. 2). The Irish government during the same period of time lowered a tax rate for the corporations which are engaged in scientific researches, to 10% per year. Differently, the states showed innovative courage and determination at adoption of political and administrative decisions, and also national mobilization was carried out. These governments declared the purpose formation of economy of knowledge and achievement of innovative development. They involved interested persons in the process of development of new branches of production and applied the principles of management which are usually associated only with activity of private sphere (Liounis, 2010).

Thus, it is possible to make a conclusion that these states have built strategic capacities that helped them to overcome crisis. Some of these countries have already given high priority to research and development in information and communication technologies, and produce dynamic capabilities. Firstly, they dramatically increased the quantity and quality of knowledge, spreading it in their societies. Secondly, they have increased the volume and variety of services. Thirdly, they followed a systematic, long-term strategy for the knowledge economy which had its own distinctive features (Ibidem, 2010).

In spite of the fact that it is very hard to value the role of knowledge in the political governance and state's development in terms of quantity, there are some ways to count up capacities of the state in the realm of knowledge. For this purpose researchers select indicators and create indexes on their basis: Innovation Capacity Index, Technology Achievement Index, etc. For example, for a research of a level of the state development in the realm of knowledge and innovations professor Francisco Sagasti examined more than 80 countries and created an author's Science and Technology (S&T) Capacity Index (Sagasti, 2004). This index is an evident demonstration of the importance of knowledge in development of the state and increase of efficiency of its governance. The index allows to range the states according to their abilities in the field of science and technology and to group them in four rather homogeneous sets.

The researcher characterizes these groups of the countries in that way (Ibidem, 2004):

Type I (Japan, the USA, France, Germany, etc. – 22 countries). These states are well developed; they have strong scientific and technological capacities, perspective researches and innovative development that allows renewing continuously a stock of knowledge and the production equipment. The national system of the innovations works effectively; the governmental policy supports the production, acquisition and use of knowledge. Communications of these states in the field of science and technology are very strong, and they are world leaders on production and export of intellectual goods.

Type II (Russia, Spain, China, Portugal, etc. – 24 countries). These states build the quite good internal scientific and technological capacities which have been usually concentrated on dynamically developing sectors of their economic systems. Even thus that the majority of them has a sufficient number of human resources, they are not able to provide research in the field of science and technology for import, to increase management efficiency and productions of knowledge. They actively are engaged in scientific and technological

exchanges with other countries and usually concentrate on how to exploit a stock of the knowledge made by the countries Type I.

Type III (Bulgaria, Turkey, Vietnam, Lithuania, etc. – 24 countries). These countries are still at early stages of establishment of modern production systems. They possess quite limited stock of highly qualified specialists in the field of science and technology, human resources and scientific researches, low level of technological and innovative development. These countries have administrative and financial difficulties, and their communications with external sources of knowledge and also studying of new technologies are weak and sporadic.

Type IV (Benin, Libya, Ecuador, Madagascar, etc. – only 14 countries). These states have no essential scientific researches, technological development or innovative capacities, and also possess very limited human resources. Besides production of natural resources or granting limited number of scientists, they use traditional knowledge and technologies that leads to a low performance level, to an inefficiency of development of economic and social spheres. Communications with world scientific and technological community of the states are extremely limited or are absent at all.

Summing up the research, F. Sagasti makes a conclusion that the state during an era of information society has only two ways: to join the first group of the countries or to lower the index by investing the industry and production of material resources with the use of out-dated knowledge and technologies (Ibidem, 2004). Thus, this classification and research help us to understand why knowledge is capable to become the unique characteristic of the state. But it is only one example of making index in this sphere. So we can say that we should not ignore the fact that innovation and knowledge are perhaps the most significant force of competitiveness of states and their economic growth and development in the world after the economic crisis.

As for Russia, it has a good chance and resources for further development and hit in the first group of the countries with the help of human resources and high quality of secondary and higher education. Russia has enough resources to take the path of development, based on knowledge. It has human resources, great potential of the innovation sphere and a well-developed material and technical base of the national innovation system.

At the same time problems with the development of the institutional environment are a big obstacle for Russia's progress towards a knowledge economy: the low efficiency of state management, regulation of the economy, poor business venture, administrative barriers. According to estimates of the experts from the World Economic Forum, the main competitive advantages of Russia are not as innovative as they could be; they are: advantages in the field of natural resources, in the field of the sizes and growth of domestic market and in the field of good education of the population. In 2011 the Russian Federation took the 63rd place among 139 countries in a rating of the Global Competitiveness Index, having big problems with institutional reforms (The Russia Competitiveness Report, 2011).

### 3. Knowledge Networks in Public Administration and Development of the State.

We can hardly deny the fact that the sphere of public administration is experiencing the threats of the modern world in the most concentrated form. Challenges of both endogenous and exogenous origins threaten the governance of political and administrative systems of today, so government has to change its preferences and are called upon to play a more dynamic, more complex, and less certain role (Contemporary Theory of Public Administration, 2009).

Another point we already mentioned is abnormal development of the modern socio-political systems and, above all, their transitions to the age of information and knowledge society. As professor L. V. Smorgunov notes, “Production of knowledge becomes productive in direct and indirect meanings. In such situation governance as organizational creativity gains new features and starts, on the one hand, itself reacting to changes and reconstructing, on the other hand it becomes a part of intellectual production, creation and development of knowledge”. Many areas of activity of the state have to change: reforms, information and communication supply of administrative activity, personnel policy concerning civil servants, anti-corruption policy, public sphere development, creating new principles of governing, etc. (Smorgunov, 2009a).

However state development in many ways depends on ability not only to make knowledge in various areas of activity of society, but also to use it (to involve experts in system of public administration, to develop new strategy, to prepare actual, viable administrative reforms and so on) for timely reaction to complication of horizontal and vertical communications in social and political spheres. In the conditions of instability of the global political and economic systems there is a question of building of strategic capacities with the help of highly skilled managers and experts of the state. One of the effective ways of knowledge production and its usage in economy and political governance is development of knowledge networks.

*Knowledge networks* can be characterized as the social networks created by producers and consumers of knowledge which help to create and extend knowledge among people, groups and organizations and also between hierarchical levels regardless of their geographical location relatively each other. Knowledge networks are very important when we have a vast territory and short of time. They includes a great number of people united with the purpose of an exchange of knowledge for creation of qualitatively new knowledge, the relations and communications between them, resources which are necessary for accumulation, and use of knowledge. Such social network is supported and transformed with the help of information and communication technologies (Putting Knowledge Networks into Action, 2005). Knowledge networks are characterized by high level of interdependence, intensive communication and effective feedback (Sapir, 2007).

In the public sphere knowledge networks are based on the possibilities of the e-government and electronic democracy. The idea of the e-government starts developing in the late 1990s under the influence of the increased interest to a problem of public management in the conditions of forming society of knowledge. Society of knowledge is impossible without innovations and qualitatively another approaches to the problem of public management. Thus, a new concept of high-quality management (good governance) becomes urgent and topical. It includes important aspects as management of knowledge and the related opportunities of the electronic government.

Investigating specifics of political governance, it is possible to speak about the formal and informal knowledge networks which are forming in system of public administration (an exchange of knowledge between various departments of state agencies), and mainly out of it (expert and analytical work of professionals in certain fields of knowledge). In this work we will look at knowledge network as an example of knowledge creation within political governance by the example of formal networks. This knowledge network includes external experts (economists, political scientists, lawyers, the staff of the research centres, etc.), bringing the unique knowledge and experience in analytics and the solution of the problems facing institutes of the government.

We can see it by the example of Russia. The “Strategy 2020 Project” is an intellectual project in the system of public administration (Official Site “Strategy 2020”). It was started at the beginning of 2011 and was directed on making recommendations about the solution of social and economic strategic issues. This project united a great number of experts (including foreign experts), representatives of the research centres, higher education institutions, NGOs and the government.

21 expert groups were created on the basis of the Russian Presidential Academy of National Economy and Public Administration and National research university “The Higher School of Economy” in 2011. They were engaged into making the recommendations for the Russian government. The purpose of the project was to create the final document including recommendations about several directions of social and economic policy of Russia till March 2012. Also active visitors of the site were offered to act as experts: to bring the remarks and offers in work expert groups in an interactive way.

On March 13, 2012 the final document “The Final Report on Results of Expert Work on Actual Problems of Social and Economic Strategy of Russia for the Period till 2020” was finished (more than 800 pages). It includes recommendations on a wide spectrum of problems in the field of social and economic development and innovative activity in the processes of political governance.

In this way we can see how the knowledge network with the help of experts and researchers creates an up-to-date strategy of the state development. This document can be a good base for the capacity-building of the whole society. Remarkable feature of the work of knowledge networks is that they create qualitatively new knowledge (in this case – on the extremely wide spectrum of questions) which can be used by government institutes during capacity-building new strategy creating. Therefore it is necessary to understand that the total report is not the only result of activity of the project.

However we should point out that it is required not only to create qualitatively new knowledge, but also to use it during the work of public authorities to make the results of knowledge networks notable in public and administrative spheres. That means that participants of a network have to pass from the stage of knowledge accumulation (“need to know”) to a stage of usage and distribution of this knowledge (“need to share”) (Dawes, Cresswell, Pardo, 2009). Then knowledge networks become the most important element of the process of capacity-building of the state.

But here can be hidden a problem, and in Russia we can see it. New knowledge is formed for the purpose of its use for development of different spheres of the society’s life, but state bodies have

the right to choose to introduce the new knowledge in their work or not. For example, recommendations and brilliant analytical materials of experts of the knowledge network “Strategy-2020” was not used for adoption of any laws, concepts or resolutions by parliament or the government of the Russian Federation. Thus, the work done by participants of a knowledge network can be characterized as ineffective. However it does not mean that this knowledge cannot be used later.

It is necessary to add that the analysed knowledge network is not unique for Russia. Similar networks arise for carrying out analytical and consulting work in the questions connected with the state development. Knowledge networks can be useful during decision-making in the realm of, for example, anti-corruption policy of the state, personnel policy or the ethical code of civil servants. The work of such networks can promote not only production and use of new knowledge and innovations for the solution of specific issues, but they also make a contribution to the general process of building of new capacities and state development.

#### **4. Conclusions**

In this paper we showed the potential of dynamic capacity concept for the political science and public administration. This concept is useful for the research of the capacity building for the development of the state. In the world full of tough and global competition for the resources, regular economic crises and high social tensions government should develop itself and build new state capacities which will be dynamic and flexible and will help to develop social, economic and political institutions of the state. Dynamic capacities are called to help states to be more competitive and successful on the international arena.

There are many capacities of the state in different realms, but I used the capacities of the state in the realm of knowledge as an example of fruitful capacity-building in the name of the state development, as the development of the modern state substantially depends on ability to make new knowledge, to raise a role of education and scientific activity in society. In the realm of knowledge and innovations capacity-building can be the only one solution for the modern states to be competitive in the contemporary world. In this way knowledge networks were shown as a useful method of using knowledge in public policy and political administration for the creation of the society's development strategy.

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## Notes

<sup>i</sup> Economies are divided according to 2010 GNI per capita, calculated using the World Bank Atlas method. The groups are: low income, \$1,005 or less; lower middle income, \$1,006 - \$3,975; upper middle income, \$3,976 - \$12,275; and high income, \$12,276 or more. This information you can find on the site of the World Bank: Country and Lending Groups // <http://data.worldbank.org/about/country-classifications/country-and-lending-groups#IBRD>