

## Restructuring the State: the case of economic administration in Cyprus

The structure of the Cypriot state was determined by two main factors. The first was the model of British administration, which had been in place during the colonial period, and which formed the basis for the post-independence structures established in 1960. The second was the division between Greek and Turkish Cypriots in the island, which led to structures and rules intended to ensure the proper representation of minority views.

The resulting structure was as follows. First power was centred on the President, drawn from the Greek Cypriot community, and counterbalanced by a vice President drawn from among the Turkish Cypriots. A Parliament was elected on the basis of a system geared, once more, to ensure Turkish Cypriot representation, and the civil service was also required to contain at least 30% from the Turkish Cypriot community. The Ministers, however, came not from the Parliament but were appointed by the President, in the manner of the US constitutional system, while civil servants, including the Director Generals (or Permanent Secretaries in the British model) were appointed by an independent commission.

After the events of 1974, the Turkish Cypriots established independent separatist structures in the North of the island, but the constitutional framework in the South remained as it was, without Turkish Cypriots to fill the required posts and quotas. The nationality question has further influenced Cypriot political administration by giving a degree of consensual cohesion to the Greek community. While there are clear interests, small farmers, business, wage labour, a service class, and the church, and political expressions of those interests in parties (notably AKEL, the communist party on the left, and Ralli, the leading party of the right), the period since 1974 has been marked by political divisions being stronger on foreign policy, notably policy towards the Turks,

than on domestic policy. An urgently introduced welfare system (1975 and 1976), rapid economic growth, low unemployment, rising real wages, all underlay what can be called a post invasion consensus with respect to domestic affairs.

By the mid-1980's this domestic consensus became strained for the first time in a decade. The underlying reason was a slow down of economic growth, caused by a variety of factors: the decline in the Middle East markets for construction services and manufactured goods, as the result of falling oil prices and increased international competition; slower growth in domestic demand, in spite of the boost provided by tourism, and an ever tighter labour market, as both tourism and business services expanded at the expense of manufacturing. Industrialists began a campaign to de-index wages (wages had been indexed to the cost of living since the second world war), as they resisted wage demands, and in 1987 there were a wave of strikes, centred on the clothing industry. On top of this, the Government, for primarily political reasons, concluded an agreement to enter a Customs Union with the EEC in the Autumn of 1987, and since this entailed a progressive reduction of high rates of protection on final manufactured goods, it posed the question of what alternative strategy should be followed by manufacturing in the face of international competitive pressure.

This paper originates from the work of the UNIDO/UNDP team commissioned to undertake this strategic review of manufacturing policy. Their report argued for a re-orientation of industrial strategy from what it called 'proto-mass production', where emphasis was given to low quality, standardised goods, for the domestic and Middle East markets, to a 'flexible specialisation' strategy, which involved an upgrading of quality, increased design, flexible production systems, and a much greater degree of co-operation between the competitive producers. The prime responsibility for re-orientating Cypriot manufacturing was given to the industrialists, but it was equally clear that there needed to be a re-orientation of government economic policy and the structure of public economic administration as well. The UNIDO/UNDP Report (CIS) argued that alongside the development of consortia between industrialists, there was also a need to introduce a more flexible state.

What follows therefore, is a consideration of one branch of the Cypriot state - that which makes and administers industrial policy. My prime concern is the state as a productive structure, rather than its political and distributional roles. Improving the former may conflict with the latter, but in the present political context of Cyprus, this contradiction appears to be less sharp than in many other developing countries.

### Functional fragmentation

The present organisational structure of the state is shown in Figure 1. The primary Ministry is that responsible for Commerce and Industry, the MCI. Its responsibilities are reflected in its structure, shown in Figure 2. We can distinguish the following functions:

- i) protection and trade policy; it is responsible for general trade policy, and the day to day operation of a range of controls, in conjunction with the Central Bank, and the Customs service, including the issuing of permits for importing new machinery, for foreign investment, and for changing particular rates of protection.
- ii) promoting standardisation to further integration (and competitiveness) in overseas markets. This includes metrication, and ensuring standards of produce for foreign markets, for example in food processing.
- iii) providing basic infrastructure for industry, most notably through the industrial estates programme, and the operation of the electricity authority.
- iv) providing common services for industry, including investment guarantees, industrial advice (through the Extension service), training, and common sales facilities (notably for the handicraft sector). The most important of these are conducted on a sectoral basis - energy, handicrafts, the CTO for tourism, extension work on a

sectoral basis, and Cypromode - an export fair for the clothing and footwear industries.

- v) the running of state enterprises, such as the Pancyprian Bakery, and the Cyprus Forest Industries.
- vi) competition and consumer protection policy - still in its early stages of development.

These are functions commonly found in Ministries of Industry and Commerce. What should be noted, however, are the functions which are not there as much as those which are. The main sources of public capital for industry come either through the incentive schemes, operated through the Ministry of Finance, or through the Cyprus Development Bank, an independent public company controlled by a Board on which the MCI has a single seat. The main public policy on and forms of intervention in the labour market are the responsibility of the Ministry of Labour, to whom the three main educational and training institutions report (the CPC, the HTI, and the ITA). Strategic planning - which is virtually absent in the MCI - falls in part to the Planning Bureau, under the Ministry of Finance, though the Planning Bureau see their function primarily as co-ordinating the work of individual Ministries to form a consistent National Plan. Even the newly established Export Promotions Organisation is independent of the Ministry, and is due to receive its finance directly from the Ministry of Finance.

The first question raised then for the Cypriot administration - as for all functionally divided organisations - is how to develop horizontal relations between the divisions, for areas such as industry which cuts across the functions. In the Cypriot case formal horizontal relations take the following form:

- a) representation of the MCI on joint boards.
- b) discussion at meetings of Director Generals, and, at Ministerial level, of the Council of Ministers.
- c) inter-Ministerial Committees

- d) participation in a routinised chain of consideration, for example in the granting of machinery import permits.

The problem with such a system is first that much of it goes through the top of the hierarchy, contributing to overloading; secondly, the mechanisms for reaching consensus are weak: hence Ministries may block each other, but at the civil service level at least, there is no one Ministry responsible for the resolution of conflict. There is no head of the Civil Service, rather Director Generals take it in turns to chair the DG meetings. The Cabinet, and ultimately the President can give an overall ruling, but there are limits to the extent to which that can be used as the main means of resolving inter-Ministerial conflicts.

The result is that there is an inbuilt bias against innovations that cross ministerial boundaries, and in favour of delay. There is also a tendency towards baronialism and rivalry between the Ministries, and between them and some of the independent bodies.

#### A Weberian state

So much for the functional organisation of industrial policy. We turn now to its administration. The Cypriot central government corresponds closely to the model of modern officialdom outlined by Max Weber. It has the following features:

- i) there are clear divisions of functions, laid down by rules, designed to encourage specialisation and avoid duplication. The division of labour within the MCI is shown in Figure 3. What should be noted here is that there is only one person junior to the Director Industry outside this clearly laid out functional division of labour, and that it is a relatively new recruit who operates effectively as the Director's PA.

ii) these functions are performed by officials working to job descriptions, and distinguished by the fact that they are:

- educationally qualified
- legally required to hold no other paid work, that is to say their official functions are primary.
- appointed, not elected, by a panel which is required to be politically independent, and judged solely in terms of qualifications and suitability for the given post.
- appointed for life, and in exchange for a fixed salary and pension are required to see their office holding as a vocation involving duties, rather than the exchange of services for an equivalent as in private labour market contracts.
- paid a salary with respect to status rather than work done, and promoted according to formal procedures and independent assessment, in the same manner as their initial appointment.

iii) the functions, and those performing them, are organised into a vertical hierarchy, characterised by levels of graded authority, what Weber calls a 'monocratic structure', in which it is possible for the governed to appeal from a lower to a higher authority.

Weber stresses the progressive character of such a structure when compared to earlier feudal, patrimonial and plutocratic forms. "It puts paid professional labour in place of the historically inherited avocational administration by notables". Offices are no longer positions to be exploited for rents. They are posts whose task is to carry out rules in an impersonal way. Impersonality is a key idea for Weber, for he sees a well functioning bureaucracy as a machine, with its files, its rules, its independence of any particular person,

and thus its continuity. Its concern is always with abstract rules, or precedents applied to particular cases, in contrast to earlier personalised systems where decisions are made on a case by case basis, to grant a privilege or bestow a favour. There is therefore a new equality in its recruitment. "The march of bureaucracy" writes Weber, "has destroyed structures of domination which had no rational character".

The first striking fact about the Cypriot bureaucracy is the length to which its procedures go to ensure the equal and rational character of its appointment and promotions systems. There is a requirement that for every public post, all qualified candidates should be interviewed. The practical implications of this abstract rule are formidable. For example, one of the parastatal institutions (governed by the civil service labour code) advertised four posts. There were more than 400 applications, of which more than 100 were unequivocally qualified. The three senior officials in this institution thus had to spend nearly three weeks interviewing these 100 candidates. Disappointed candidates, whether new entrants or candidates for promotion can challenge the decision of a panel in Court: for the last 18 months, for example, two senior officers in one ministry has been engaged in such a court case, at their expense and in the ministry's time. Such cases we understand are common.

Secondly, these procedures lead to a heavy emphasis on obtaining qualifications. Cyprus, like many third world countries, suffers from a 'diploma disease'. With no university in Cyprus, higher education is sought abroad, largely paid for by parents. One official we spoke to was paying \$20,000 per annum to have two of his children educated in the USA. Given that for many posts a higher degree is required, an investment of \$50,000 per student is common for those wishing their children to enter the professional ranks of the civil service. The result is a highly qualified cadre of officials - many officials in the MCI had PhD's - but without extensive public funding of higher education, this went along with a recruitment from the children of the wealthy.

Thirdly, once appointed, the civil servant faces a specific pattern of incentives and disincentives. On the one hand, he or she can only

be dismissed for grave misconduct. Barring this, therefore, the office holder has a job for life, like a Church of England parson appointed to a living. In this sense, a post in the civil service does have parallels to rent yielding public offices, though in this case the rent takes the form of a salary plus pension. The incentive to fill the office productively is weak. On the one hand the condition for promotion tends to be formal - based on qualifications and range of experience - rather than on personally assessed levels of achievement. On the other, the small size of the civil service, and the narrowness of the occupational pyramids, limit the chance for promotion, particularly at senior level. For people in the middle grades, there may be little hope if those above them are of a similar age. It is these people - in their late 30's and 40's, who experience the civil service as a prison, since were they to leave they would lose substantial pension rights.

Some civil servants have left. Others take second jobs, in spite of the legal prohibition. A substantial number work at a low level of productivity - more than 90% of the MCI according to one estimate by a senior civil servant. Both those inside the Ministry, and those receiving its services have a common experience of an organisation whose structure strangles those who work within it.

The first explanation for such an organisation, therefore, is the nature of the wage relation. When a job offers lifetime security, and a higher wage than exists in the private labour market, then the incentive is to obtain office and hold it down at least personal cost.

There is another factor which acts as a disincentive - namely the hierarchical principle. The right of a citizen to challenge the decision of an official gives rise to a continuous chain of appeals - passing from the desk officer up to the Director of Industry, to the Director General, and commonly to the Minister. Not only does this take a lot of time - it also means that an official deals with decisions in such a way as to minimise risk of allegations of misconduct in the event of an appeal to a higher authority. Whereas private sector decisions are taken under the shadow of the discipline in the market - a discipline which penalises the failure to act as



much as the wrong action - bureaucratic decisions are taken under the shadow of the discipline of administrative or legal censure. The latter discipline places procedure at a premium over time (unless time limits are introduced as an aspect of procedure), and safety at a premium over risk.

The hierarchical principle also leads to an overloading at the top of the pyramid. I discussed this problem with the Director General of the MCI. Together we went through his in-tray - a foot high on the basis of one days incoming mail. The items included complaints, requests - often on trivial matters - forms for signature, agendas and paper for the many public bodies on which he sat, together with major strategic issues like the Customs Union and its impact on Cypriot industry. Not only did he represent the MCI externally - within the Government, on Boards, in public, notably with respect to industrialists and the trade unions - he also controlled the external relations of his Ministry staff. All external letters were open to his inspection - where they did not require his signature - a system which allowed him to monitor staff attendance and performance. The result, however, was a working day which stretched from 7.30 in the morning until late in the evening (the DG, and the Director of Industry regularly did a double shift within the Ministry), and in which strategic concerns were necessarily swamped by the mass of detail.

A final contributor to the lack of effectiveness in the Ministry's administration was the strict division of tasks, and the principles of the division. The clear division of duties, meant that it was difficult to put together a work team on new requirements. Many of the immediate, new tasks fell on the single person acting as PA to the Director Industry. It was he who did much of the work on the Customs Union, who prepared speeches for the Minister, who drafted broad policy papers. The remainder of the organisation was strikingly inflexible in the face of new demands, or a run down in past ones.

The question arises as to whether what I have called a Weberian structure necessarily gives rise to the above results? For example, measures of performance could be introduced and linked to particular

incentives - if not promotion, then further training, trips overseas, greater responsibility and so on. I suspect the strict division of jobs could be made more flexible, and that there could be a greater measure of decentralisation from the Director General down the line. We need to compare the operation of the MCI with other Ministries and institutions operating within the same public code.

On the basis of our experience of other Ministries and public bodies, the issues of inflexibility, overcentralisation, lack of internal drive, and of innovative capacity, are endemic to these structures. It is not that there are not creative, and committed officers. It is that they are productive in spite of rather than because of the organisation.

For the Weberian model necessarily gives rise to some of these tendencies. If a Ministry is to be responsible to a public for its conduct, then this responsibility is taken by the political and administrative heads of the organisation - the principle of Ministerial responsibility in UK government. This will encourage those with final responsibility to centralise authority into their hands. Second, if the organisation is to be run like a machine, with abstract rules, and clearly defined tasks, it will necessarily tend to inflexibility and routinisation. Indeed we can see Weber's model as a model for routine, or, put another way, for the mass production of administration.

What Weber's model requires is a set of rules that can be applied to particular cases. If new problems arise then new general rules are required. It is usually difficult to regularly modify rules in the light of particular cases. If generals are said to be always fighting the last war, administrators are administering the last peace, because they work within a rule book and a division of tasks developed for a previous era. Weber's image of a machine underlies the point - though we should note that his machine is the mass production machine - specially designed for a particularly standardised output, in contrast to the flexible, all purpose machinery of the current period. For this reason a Weberian bureaucracy will have an inbuilt tendency to routinise its tasks. It

is the adequate institutional form for routine tasks, and thus attempts to shape all its tasks accordingly.

With respect to the MCI two points arise out of this. First, it is routine tasks which are now most open to automation. A recent study by consultants on the computerisation of public administration, identified a number of routine functions within the Ministry which could be economically computerised.

Secondly, many of the MCI's responsibilities are not routine, and thus quite inappropriate for this form of organisation. Take the question of strategy for example. On a number of occasions attempts have been made to provide a strategic capacity within the Ministry. The Research and Development Unit is one example of this. But on each occasion the extra staff provided by the Government, have quickly been drawn away into routine functions. Thus the Research and Development Unit now does little research, and even less development. Rather, it is responsible for the processing of applications for import licenses, foreign investment, loan guarantees, and the assessment of new industries. As a result the Ministry responds to the need for strategic research, by not doing it, or by engaging foreign consultants supplied by overseas aid.

Parallel to this, the overall lack of flexibility means that new tasks almost always lead to demands for more staff rather than a re-allocation of existing staff. Just as there is a tendency for cities to expand because of the difficulty of internal restructuring, so the same is true of a Weberian organisation. The latter finds it easier to start up new units than to close old ones down.

These problems are widely recognised. The civil service find themselves under continued attack; in part this is because of the privileged terms of the public labour contract; in part - at the MCI - for distributional reasons (the state will not support this subsidy, or suspend that regulation). But at the heart of the industry/state relation is an appreciation that the civil service is an organisation with a low level of performance. Industrialists point to the fact that the Ministry hours (from 7.00 to 2.00) only partially overlap with those of industry, and overlap for only two

hours with normal working hours in the UK. The Extension service workers are largely confined to their offices, and all quite quickly fall behind in the latest development of the industry, and suffer therefore as advisers. They do not for example travel to overseas fairs like the industrialists; they do not attend upgrading courses; they are tied, in their words, to the processing of applications, and routine functions.

The argument of the CIS was for the state to play a non routine role with respect to industry. For it to do so, means not merely a redefinition of function, but a restructuring of the state. What is required is an alternative model to the traditional Weberian one. In the Weberian model, there was an apparent contradiction between the commitment to openness and equality and effectiveness. Many of the problems of the Cypriot state can be traced to the particular character of the wage relation. This raises the question of whether a more creative and flexible state is necessarily one in which labour is less secure, and which is less subject to democratic control. It is to these questions that the second half of the paper is devoted.

#### The state and the CIS

The main functions of the state under the CIS are outlined in Figure 4. They include the following:

- detailing and extending sectoral strategy, and its implementation across government departments.
- operating a revised incentive scheme, with a range of funds as shown in Figure 5.
- initiating a design complex and the stimulation of a design culture within Cyprus.
- establishing a network of technology and resource centres, providing services to enterprises on a sectoral basis.
- extending development banking.

- providing services and other forms of support to improve production quality, productivity and other aspects of management.
- producing a labour plan, and associated measures to improve training, working conditions, the scheduling of working time, and support services for women in or wishing to return to paid work.
- developing industrial districts, through the use of land use planning powers, and the industrial estates programme.
- encouraging closer relations between manufacturers and overseas purchasers on the one hand, and between manufacturers and input/raw material and capital equipment suppliers on the other, and those currently undertaken by the MCI.

These tasks can be distinguished as:

- a) strategic; the development of a strategy which can command support within government, and with the direct producers (and users).
- b) co-ordination of different parts of the government around the strategy.
- c) the operation of day to day incentive schemes and controls.
- d) drawing up and introducing standards (including metrication).
- e) providing day to day support services to enterprises (advice, technological information, market information, management consultancy and so on).
- f) establishing and operating particular projects - such as the Design Complex, industrial estates, or, say, enterprises producing key inputs.

In considering how these may most effectively be undertaken, we need to consider the following:

- institutional structures - which institutions are most effective in each case.
- the wage relations, and forms of incentive and accountability.
- organisational structures, within any one institution.

We will deal with each in turn.

### Institutional structures

The tendency for economic consultants, when they have identified a required course of action, is to propose a new institution. This has certainly been the case in Cyprus. Sometimes the work has been allocated to the Ministries. In the case of the MCI it took direct responsibility for the Industrial Estates, the handicraft service and the extension service. Sometimes, the new institutions are distinct organisations, reporting to a Ministry, like the Cyprus Productivity Centre, the Higher Technical Institute, or the Cyprus Tourist Organisation. Sometimes, they are responsible to an independent Board, on which one or more ministries have representatives. The Cyprus Development Bank, the Industrial Training Authority, and the Export Promotions Organisation are examples of this category. There have been pressures for further quasi public institutions - notably for an organisation specifically devoted to technology. But at the same time, we met with a view that there were too many institutions, and that any new tasks should be undertaken by restructuring existing ones.

More rarely the institutions could be controlled by the voluntary or private sectors, relating to the government solely through a funding contract. This is common in the arts and educational fields, but in industry not so. There is no grant funding in the MCI's budget.

The CIS did propose a number of new tasks to be undertaken, notably in the fields of strategic planning, design, technology, and common

industrial services. What principles should guide decisions on the division of labour, in terms of current and proposed functions?

First, where the task is to provide a support service, this should be tailored to the needs of those receiving the service, it should usually be under their control, and with some measure of funding by them. By tailored to needs we mean that the requirements of the serviced rather than the institutional structures of the server should be paramount. For example, in the industry field this means that an industrial advice service should at least work common hours to the industrialists they are advising. We have therefore suggested that the functions of technology advice and common services (for instance the sharing of computer aided design equipment) should be undertaken by centres either wholly or partially controlled by the industrialists. The same is true of the market intelligence resource centres.

Secondly, where the function is the allocation of funds or services where there might be a conflict of interest between the individual receiving enterprises and any independent body, then it is still important that the fund and service providers have a day to day knowledge of the industry. This may be achieved by the circulation of staff between the donor agencies and industry, by frequent visits, and by a measure of responsibility by the provider for the success of the recipient. None of these functions can be effectively carried out by officials at a head office - whether the head office is private, or a public Ministry. The task of a head office is to allocate tranches of funds to what we might call a coal face funder, and to judge the performance of the funding agent. For this reason we have proposed that the public funds for industrial restructuring be administered not by the Ministry, but by specialist agencies with hands on knowledge and understanding of the field of recipients. Where this agency function is not being satisfactorily carried out, the MCI should shift it to another body which is more effective.

This principle of decentralisation holds for other productive activities - whether it be training provision, productivity programmes, or export promotion. The central state should exercise its responsibility through a) approval of the structure of control,

ensuring that governing boards represent the proper range of interests, b) the broad terms of conduct of the organisation, c) powers of information, inspection and reporting by independent assessors; and d) finance.

What is imperative for any programme of public decentralisation is the existence of an independent public auditor, such as the Audit Commission in the UK. The Audit Commission has played a useful role in local government in the UK by a close examination of services, and comparisons between them. It has overemphasised the financial aspect of the audit, at the expense of services and need, but this could be rectified by a change in its terms of reference, and strengthening its non financial personnel. For Cyprus, an Audit Commission would need to be established with the same professional ethos as legal judges; they would need the rights of full access; the rights of reporting at the cabinet level; and could be asked to approve the annual report of a quasi public body in the same way as financial auditors approve the accounts. They should also themselves be subject to audit, and replacement where necessary.

A further principle that should be applied in any such system of decentralisation is that of pluralism. There is a danger that an Audit Commission might seek to impose a particular view of how a service should be undertaken, and unreasonably discourage alternative experiments. Thus experimentation should be one of the criteria against which quasi publics should be judged, and where relevant, more than one provider should exist to encourage this pluralism. A Weberian model would criticise such a proposal as duplication, arguing that a single organisation could have greater specialisation, and therefore efficiency, than two smaller ones. But it would also run the danger of being less innovative, and the general principle that two organisations, like two hands, are better than one, holds as much for the public sphere as for the private one.

Where the difference between public and private pluralism lies is in the nature and consequences of competition. The market provides a precise quantitative measure of performance, and the competition is centred on that. This has had damaging consequences in the private sphere - quite apart from considering it for the public one. The CIS



for example argues strongly against a strategy of private competition which treats the competitor as enemy, and the weapon as price cutting. Instead, it encourages co-operation between competitors, with the foundation of successful performance seen to lie in innovation and creative management, rather than the short term weapons of the price system. Such co-operation has been shown by the 13 Limmassol furniture firms in the A-Z furniture retailing consortia, who have devised systems of helping each other on costs and other technical advice. Instead of a less efficient producer being made bankrupt, and its assets and order book taken over by the more efficient, this retailing consortia has found ways of improving the productivity of the less efficient directly, on the basis of what amounts to free internal consultancy.

In the public sector, it is this concept of co-operation between independent bodies which should be encouraged. The more successful could be used to provide advice and personnel to the less successful. The initiatives of one could be expected to stimulate ideas in another.

What does all this leave for the Ministry itself? Its role should be defined as:

- i) strategic.
- ii) ensuring co-ordination between other parts of the government around the strategy.
- iii) securing general finance, allocating to the front line allocators, and assessing their performance, directly and through the results of the Audit Commission's work.
- iv) stimulating short term initiatives, which might later be directed to one of the independent institutions.

At the moment, the Ministry has little if any strategic capacity. The CIS argues that there is no one institution which adequately provides that at the moment, and that there is a need for a Strategic Planning Council with a support unit to that end. In considering the

MCI's role in this, we should note that strategic planning consists of two principle elements: the devising of the strategy, and the building of a consensus amongst those involved in its implementation. The two are often distinguished as practices and conducted as a single process, with time being spent on resolving difficulties and conflicts, and drawing on the knowledge and perspectives of all those involved in the particular production processes, rather than separating the head of strategy, from the hand of implementation.

The work of strategic planning itself is a skilled practice. It also requires detailed knowledge of the industry. Our view therefore is that in order to establish successful strategic planning in Cyprus, there needs to be:

- i) a work based training programme for both civil servants, officers from the quasi publics from the banks, and from both sides of industry.
- ii) means for bringing together work teams composed of people with direct knowledge of any industry under study, as well as those with knowledge of (and trusted by) the government sector.
- iii) a multipartite consultative body, which would include industrialists, trade unions, users, bankers and the government, to whom any support unit would work. The latter body we have called the Strategic Planning Council. It would report to the Council of Ministers and to the relevant institutions of its participating voluntary and private interests. For its proposals would not be confined to those which would be carried out by the government: it would make proposals too for action by the non-governmental interests.

We propose as a support unit one not staffed by permanent officials, but rather a small core staff, and a series of ad hoc working groups comprising people drawn from the industries concerned, from the quasi publics, and strengthened where appropriate by overseas consultants and visitors. The question is where this should be located. It

could be in the MCI. Whether or not it should be - given that it will be dealing with matters outside the direct authority of the MCI (e.g. labour) will depend on the extent to which the MCI can transform itself with respect to the problems raised by the wage relation, and by the Weberian organisational structure.

The overall model for institutional restructuring should, however, be clear. The principles are strategic development, consensus building, and monitoring by the central Ministries, with direct production and service/funding provision undertaken by autonomous bodies, on a pluralist basis, subject to public auditing, and control by those serviced as well as by those representing the public interest.

#### Organisational Structure

Currently, the structure of the Ministry is characterised by a strong vertical hierarchy and weak horizontal links with other Ministries, a rigid division of function, and functions defined as generic tasks. The results are a lack of co-ordinated initiative across government departments, inflexibility with respect to new problems, and a lack of detailed industrial knowledge.

Of these it is the rigid division of function which needs to be addressed first. If the Ministry's institutional function is redefined as strategic, co-coordinating, animating, and monitoring, with routine functions decentralised away from the day to day control of Minister and civil service, then the organisational structure should be such as to allow the creative response to new problems, the encouragement of initiative, and a spirit of entrepreneurship on behalf of those making and implementating strategy. This would require a change of ethos and a change of hours. It would imply more open job descriptions, and the formation and dissolving of project teams (across the Ministry and between other Government departments). It would require both greater decentralisation of responsibility on a day to day basis from the Director General at the same time as tighter review procedures. The diplomatic function would be spread more widely between the Ministry staff - something that would demand both training and means of maintaining team cohesion.

The principle of project teams should also extend across Ministries - beyond the existing interdepartmental committees, to forms similar to those used by private consultancies, with teams established under a project leader, working together for the duration of the task. This would require a much stronger structure of co-ordination at the level of the Director Generals. At the moment project teams of this kind are difficult to form, because officials have continuing routine duties for which they are not easily covered. This is a further reason for decentralising routine tasks on to specialised units, allowing a much larger project team capacity to exist within and between Ministries.

More flexible job descriptions and organisational structures do not do away with the need for specialisation. The question is what kind of specialisation it should be. Currently there is what we have called generic specialisation: the MCI is divided by type of intervention (protection, standardisation, control of machinery imports) rather than by the structure of the economy in which they are intervening. There are considerable drawbacks in this system. It means that one firm (let alone one industry) may be processed by a series of different officers, each dealing with one problem. Sometimes, there are a series of officers dealing with the same problem - for example processing of exchange control requests - and it only needs one of the chain to be away for the processing of the application to be delayed. There is a strong case for restructuring the specialisation to run according to the structure of the industrial economy - that is by sectors. One official would then be responsible for assessing the applications for exchange control permissions, protection requests, drawing up standards, and providing extension service type advice to all firms in a single sector. This pattern of specialisation would allow a much deeper knowledge of industries and particular firms to be built up than is currently possible. It would apply also to a new style strategic ministry, where sectoral knowledge is a key to strategy formation. Figure 4 shows one possible restructuring of the MCI of its existing functions along these lines.

### The wage relation

Many of the current problems with public administration - notably its lack of initiative, its lack of knowledge of industrial issues, its tendency to routinisation, its slow response time - have been linked to the quality of the officials and their terms of employment. The argument for new bodies - like the ITA and the EPO - to be independent of the government has been centred on the need for more flexible terms and conditions of employment. This indeed has been one of the points made in the arguments for privatisation in many countries, though often the prime concern is with the discipline of labour rather than its more flexible deployment.

Certainly, many of the earlier proposals for restructuring would require much greater labour flexibility than currently exists, in terms of jobs, responsibilities, and lines of authority. It would indicate a move from Fordist forms of payment by the job, to the more craft oriented payment by the person. In terms of selection, promotion, and job management it would signal a move away from depersonalised rule based management, to one where personal judgement played a more explicit role. This has all the dangers identified by Weber: favouritism, patronage, corruption, discrimination. For all these reasons any new model of employment might run directly contrary to the interests of public sector labour.

Privatisation experience in many countries confirms this danger. Building on rigidities and malfunctioning similar to those met with in Cyprus, there has been a move to impose private sector conditions - not only those outlined above, but also in most cases a lowering of wages and related benefits, and the threat of redundancy.

One of the major questions for public administration is whether increased effectiveness in the public sector can be achieved without worsening the conditions of labour. Is it a zero sum game? The question has been posed in the Soviet Union with the perestroika reforms, as much as it has been for example in European local government.

My own view is that the two can be separated. What is central is preserving the security of employment. But such a guarantee, should be matched by an agreement by the trade unions to accept the need for flexibility within the public sector. The reasons are two fold. First, there is substantial job dissatisfaction and frustration within the public sector. I referred earlier to those who had talked of the 'prison' of public sector employment, and some civil servants have left in spite of considerable costs in security and wages because of this. The promise of a more effective public service, and more rewarding work, should be considered as a benefit rather than a cost. Secondly, if the public sector remains as it is, there will be continual pressure for its dismantling. The world wide trend to privatisation in developed, developing and even post revolutionary countries are all evidence of that. This means that public sector unions have an interest in an effective public sector as long as it is one which is based on job security, proper wages, and what has been called 'human centred' work processes.

Changing the terms of the current labour contract along these lines would by itself be insufficient. For the dangers against which Weber warned would undoubtedly exist - and indeed are evident in the present system in spite of the checks and balances. What has to be emphasised against Weber in this case is that there is no necessary equivalence of personalised selection and promotions procedures and patronage, favouritism and corruption. Put another way, these dangers need not be met only by a system of formal rules. For example, judges are called judges because they have to exercise judgement on the basis of laws. That is to say there are agreed general codes and rules which a judge then applies to particular cases. So that he or she should do so without favouritism or corruption, there has developed in modern capitalism an informal culture built up to act as a social restraint on the judiciary, as well as formal penalties for proven misconduct. In the case of Cypriot administration, a loosening of the formal procedures, should be matched by a strengthening of the informal culture to ensure the application of agreed codes. There also need to be appeal procedures, and a system of monitoring management. These should go side by side with a more active system of personnel management for every level of the administration.

One aspect of any such personnel management system should be to ensure that all staff are in a continual process of learning. This is what distinguishes a number of the most successful private organisations, particularly those whose competitiveness depends on innovation. In some instances this learning may be formal - through training programmes. In some, it is informal, by placing people in different situations, even in different organisations, in order to see matters from other points of view. It is the very opposite of routinisation.

Seen in this way, the moving of state employees from job to job, or to different Ministries, or indeed outside the Government itself for a period of time, should again be seen as an addition to learning rather than as a cost of change. The same ethos should encourage the government to send its industry officers abroad to look at the latest development in an industry, to attend short courses, and industrial fairs. This programme of learning itself offers a form of incentive. And where an officer is underperforming the answer again should be active personnel management rather than the threat of job loss, let alone a sentence to a lifetime of solitary confinement in the routine of a harmless job. The principle that people rise to their level of incompetence, is one applicable to the management systems of the Fordist age. It does not allow for the learning, the switching, and the active counselling that characterise the modern innovative organisations.

### Conclusions

The above constitutes some elements of what might be called 'the flexible state'. Its key features are:

- decentralisation
- close two way relations between service provider and user
- pluralism in service provision and service providers

- greater measure of formal and informal user control
- a move from a mass production to a craft model of industrial relations, within the context of a guaranteed job
- a concentration of strategic responsibility, and system co-ordination in the central administration
- the multi-skilling of government employees and the use of project teams in place of the static specialisation of the Weberian model.

Its emphasis is on what we might call the entrepreneurial state - entrepreneurial that is, not simply with respect to intervention in commodity production, but in the provision of all its services, including strategic planning. It gives greater importance to innovation, both in the delivery of routine services, and in the development of new ones. It gives new significance to the growth of an active organisational culture in place of reliance on a set of rigid formal rules. Instead of the private sector's wage relation of wages in exchange for the supply of services for a limited time period, the flexible state sees its employees as learning as well as supplying in the context of job security. This is a more active formulation than Weber's concept of the fulfillment of duties.

Weber advanced his bureaucratic model as a step beyond the personalised administration of pre-capitalist ruling classes. His image was that of a machine, with a functional division of labour, filled by professional administrators, operating according to clear rules, in a depersonalised organisational culture. It was a model for the age of manufacture.

The model of the flexible state differs from the Weberian model in each of these aspects. It sees the task of administration in terms of a creative human system dealing with non standardised tasks, rather than the mechanical production of a standardised output. Its metaphors are that of the closed loop rather than the one way street. Weber's model contains both brain and muscle, with the emphasis on the muscle. The flexible state shifts the emphasis to the brain, but



in line with human physiology sees each part of the brain as multi-skilled so that the loss of any one part can be compensated by the growth of another. Equally it sees the administrative brain as in some sense a collective one, including all those involved in any part of the chain of production. If the head and hand must closely relate, then each person needs to understand the hand, just as much as each hand contributes to the working of the collective head.

The key to the effectiveness of the flexible state is the capacity to rapidly revise the organisational structure. In place of the lengthily negotiated, and static organograms of the Weberian state, the flexible states organograms should be much more fluid and pragmatic. New structures should be tried out, and changed if they do not work. The emphasis should be on speed, feed-back and revision, rather than on the search for the rational organisation. To this end, new institutions should be seen as temporary, as should their staffing. All is provisional - only the temporary is permanent. Contrast this with the attempts to establish the Export Promotions Organisation. This has taken 16 years to set up, and is still subject to delay.

Behind this approach to administration is the view of the state as a labour process. I have been mainly concerned with the technical aspects of this labour process. Of course there is a political aspect. The state and its senior administrators are political. They are concerned with issues of class, of distribution, of gender and of the nation state. As such there are conflicts within the state itself - between its managers and the workforce, and - as in the case of Cyprus before 1974 - within its own senior structure. Similarly there are class and distributional conflicts in civil society in which the state intervenes, that is to say part of its output is in a narrow sense political. These conflicts are sharper in some periods, and some state functions, than in others. They quickly pre-empt the administrative considerations with which I have been concerned here. Central control will soon be reinforced in areas of sharp political conflict, whatever the general arguments for decentralisation.

My concentration on the administrative issues is not to deny the primacy of class and politics in the analysis of the state. Rather it is to assert that the administrative issues cannot be taken for granted once class and political issues are settled. This has been only too clear in post-revolutionary societies, in which, once class control over the state has changed, the administrative problems remained, and were answered by and large with the introduction of a Weberian model to cover not merely traditional social and political functions, but the running of the whole economy as well. In this sense the administrative questions have been swamped by political ones, and the materiality of administration has thereby been forgotten. Just as the political character of the state can be most clearly seen at times of conflict, so the problem of administration can be more easily analysed at times of relative social consensus. It is for this reason that contemporary Cyprus represents an interesting example of a more general set of problems which all states are necessarily forced to address.

ROBIN MURRAY

I.D.S.

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