

## **Policy-making for Industrial Competitiveness in Portugal: patterns of change in a traditional bureaucracy<sup>1</sup>**

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### **Introduction**

Recent administrative studies of change in organisations have been influenced by the new institutionalism approach to political science and the idea of path dependence (March and Olsen, 1989:167-168; North, 1996:100). The original creation of organisations and the evolution and interaction between organisations and their environment have established the prevailing practices that are institutionalised through rules, norms and procedures. Olsen points out that organisations may be conceptualised as institutions, with a set of rules and routines which “define legitimate participants and agendas, prescribe the rules of the game, and create sanctions against deviations as well as establish guidelines for how the institution may be changed” (1991:131). For instances it is expect to find in institutionalised organisations certain practices and procedures which guide the actions and organise the way units operate and articulate among them internal issues and problems. This institutional framework embodies an organisational culture, and shapes values, beliefs and interests (March and Olsen, 1989:53-55). This is an useful approach to analyse the process of change in a traditional organisation and the persistence of institutional features. The continuity of traditional features can be explain by the concept of path dependence.

According to Powell (1991:192), there is a path-dependence of patterns of development that perseveres within organisational procedures, and forms and shapes their future course. The path dependence concept explains how, even in processes of managed change, certain practices and structures are perpetuated over time. By path dependence I mean the process by which practices and procedures persevere because initial choices preclude future options. These are the institutional features that persist over time and are reproduced. They are elements that cannot change rapidly in response to perturbations in the environment. Thus, change and continuity are part of the same process. There are assorted features embedded in the culture which are reproduced and

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which persist in organisations. March and Olsen (1989:168) argue that organisations “embed historical experience into rules, routines and forms that persist beyond the historical movement and condition”.

North (1996:100) stresses the importance of history in the process of change, arguing that path dependence is a useful concept to understand today’s choices. Present and future actions are connected to the past. The new institutionalism approach to political science suggests that there is continuity in organisational choices. Organisations evolve over time in a process reflecting path dependence. Thus incremental change and continuity characterise the process of institutional change that has embedded within it a combination of constancy and a changing element. Changes are marginal adjustments “to the complex of rules, norms and enforcement that constitutes the institutional framework” (North, 1996:83). March and Olsen suggest that adaptation to an external environment follows the internal dynamic according to “an institution’s origin and history” (1991:256-257). This idea suggests that the organisation will reproduce certain features that are embedded in the culture and are the source of continuity. Organisations develop an assortment of rules, norms and meanings that are passed on to new generations through routines and repetition. In the case under analysis in this paper I will argue that there are disruptions in policy-making which lead the process of change but despite those pressures to change we can find patterns of continuity which are path dependent.

This is not to deny the influence of pressures for change or the possibility for managed change. It recognises, however, that absolute change is rare and associated with exceptional events that constitute a ‘crisis.’ Hence, it will be seen that even revolutionary developments in Portugal did not suppress the power of ‘path dependence.’ Thus, one would expect to find a permanent pattern which is preserved by the culture and is transmitted to newcomers through the socialisation process. Path dependence provide the key to understanding continuities and the persistence of culture in a bureaucracy. This is not a deterministic argument. Patterns of organisational change are subject to major disjunctures, but the powers of tradition and inherent structures create distinctive influences. Scott (1995: 135) points out that “each organisation has its own history and its own time-dependent line of development.” This source of institutionalisation influences the way organisations operate, and how they change over time.

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The management for change that occurred in a central public organisation with responsibility for industrial policy is used to explore the idea of path dependence. For many years industrial policy-making in Portugal was a bureaucratic activity performed by the Directorate-General of Industry (DGI), a centralised organisation which was established by the former regime<sup>3</sup> with the aim of controlling the industrial sector. The DGI functioned according to the principles of the bureaucratic-authoritarian state (Graham, 1983: 224), with strict administrative controls to protect the domestic market and local industries from foreign products and newcomers. Nor did this role change following the democratic revolution in 1974, since the left-wing governments established at the time implemented, through various nationalisations, an interventionist economic policy that reinforced the bureaucratic administrative control of industrial activity. The growth of the state-owned companies became a source for the expansion and reinforcement of the directorate's role in industrial policy. Hence, despite the democratic revolution there was a strong path dependence on industrial policy formulation and implementation.

Membership of the EEC in 1986, and the requirements of Community policies on economic liberalisation and competition, prompted changes in the DGI to improve the effectiveness of Portugal's industrial strategy. These international pressures represented an important landmark in the policy changes that influenced the DGI's operations and activities. Traditional administrative instruments for controlling industries disappeared, assorted programmes designed to develop industrial sectors were implemented, and policy formulation shifted from the domestic to the international arena. Industrial policy was no longer a domestic issue but was dependent on the agreements established in the Membership Treaty and on the bargaining amongst other EEC member at Brussels. Moreover, the emphasis on industrial policy shifted from a vertical approach according to industries or industrial sectors, to broader issues such as productivity, competitiveness, design, internationalisation and quality. This sort of development represented a major disjunction in the way the DGI functioned, and prompted changes in the Directorate's organisation and operations to enable the requirement of the new policy issues to be dealt with. Therefore this case seeks to explain how practices and procedures persevere in a traditional organisation?

The concept of path dependence are used in the present research to explain the change process in a traditional organisation and the institutional reproduction of

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<sup>3</sup> - The previous regime (the *Estado Novo*) was established early in 1930, remaining virtually unchanged

tradition. It is expected that people will maintain procedures and processes which worked in the past because established practices give a sense of security and the 'way things are done' in the directorate.

The analysis of the DGI's reorganisation looks at recent changes by focusing on the continuities and the disruptions of policy-making. This paper argues that the political and economic transformation that occurred after the democratic revolution and the challenge of EEC membership represent a change in the DGI's operations. However, the change management in the DGI showed path dependency where the response to external pressures follows the power of tradition which can only be explained by the norms, rules and procedures embedded in the culture. The paper draws upon an extensive body of interview material that was concentrated on senior officials and civil servants engaged in policy making and implementation. The interviews, which were semi-structured and held individually, took place between May 1997 and January 1998. About thirty-two senior officials were interviewed, and data were written up immediately after each interview.

### **Industrial Policy-making in Portugal**

The initial formulation of industrial policy goes back to the 1930s where import restrictions and barriers to new entrants to industry aimed to protect domestic industries. A sort of discretionary permission needed for entry into the market, and a long and costly administrative process dissuaded newcomers and limited the industrial growth of established industries. The Act of Industrial Limitation (*Lei do Condicionamento Industrial*) in practice protected domestic monopolistic conglomerates against internal and external competition (Confraria, 1992:187, Pimlott, 1977:337). In addition, there were severe restrictions to international trade through a policy of import substitution. For example, enterprises had to send the Directorate General of Industrial Services<sup>4</sup> (DGIS) details of the volume of production for the following year and their requirements in raw materials. Imports and exports were carried out on the basis of previous administrative permission, centralised in the DGIS according to the needs of the domestic market. Senior officials confirm that the criteria for imports were arbitrary.<sup>5</sup>

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until the democratic revolution of 25 April 1974.

<sup>4</sup> - This was the former designation of DGI.

<sup>5</sup> - Confidential interview with a senior official on 20/8/1997

Political guidance on foreign trade sent to the administration was intended to protect domestic industries, but the final decision belonged to bureaucrats who decided at central level what should or should not be imported. The administration had strong discretionary powers which were the source of lobbying and influence from domestic economic groups (Confraria, 1992:31). Administrative control of industries created an imbalance in industrial markets, with certain large companies and economic groups controlling the market from monopolistic positions (e.g., chemistry, banking and cement). In addition, the closed nature of the domestic market hampered the development of a strong and competitive industry. Hence, industrial policy was mainly a bureaucratic and administrative activity to control domestic industrial production and foreign trade.

The democratic revolution of April 1974 did not represent a rupture in industrial policy. Even though the powers of strong economic groups were severely reduced and the legal barriers to entry into the domestic market were removed, the protectionist nature of domestic industries remained in place through the quantity and tariff barriers to foreign trade. Operations in the DGI<sup>6</sup> continue to be strictly administrative: i.e., the authorisation of imports and exports, and the exemption or otherwise from customs surtaxes. Moreover, the number of state-owned companies increased after the democratic revolution. Governments at the time, supported by left-wing parties, started a vast process of nationalisations in such areas as insurance, banking, power production, transport, chemicals, shipbuilding and other industries. The Constitution approved by the first Constituent Parliament reserved important industrial sectors as exclusive of state intervention, and authoritarian and bureaucratic types of control persisted. Pimlott (1977:350) points out that the revolution did not affect the exercise of economic power by the state administrative machine. Thus, industrial policy was based on the discretionary power of the state and followed the same bureaucratic control. The democratic revolution did not represent a rupture in policy the power of path dependence resisted revolutionary developments.

Portugal's membership of the EEC in 1986 was a landmark for domestic industrial policy. Fundamental changes were required in market operations that shifted the institutional framework. EEC competitive policy provoked changes in market regulations, prompted economic liberalisation, and pushed domestic industries into

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<sup>6</sup> - At this time DGI was split into several directorates according to certain industrial sectors. These included, for example, the Directorate General of Textile and Clothing Industries, the Directorate General of Chemistry Industry, the Directorate General of Food Industry.

intense competition. The old authoritarian and bureaucratic type of control was no longer suitable for the new framework, and this signalled a move from the direct intervention and control of the state towards a free market and a liberal policy.

The 'new' market was very competitive in price, quality and design, and the domestic industries were not ready to operate in such a competitive arena. The closed nature of the domestic market and the administrative control of investments had produced a labour-intensive and inefficient industrial sector. In addition, the requirements of the Single Market in 1992 produced pressure for the establishment of a policy to modernise and develop domestic industries. Therefore, it was necessary to support industrial modernisation as a way of helping domestic industries to adapt to the competitive market. Specific programmes, funded from EEC structural financial funds, were set up to support ways of improving the competitiveness of domestic industries. For instance, between 1989 and 1994 the DGI managed 53 billion escudos of state financial aid (DGI, 1994:43) to promote the introduction of new technology, improved productivity, work rationalisation, and quality and design. Moreover it prompted changes in approach to industrial policy issues. There was, for example, a shift from vertical industrial policies according to industries, towards a horizontal approach where competitive factors became the target of industrial policy. The new framework represented a shift in policy-making and the relationships among actors in administrative arena.

### *Continuities and Disruptions in Policy-making*

Industrial policy-making was an administrative and bureaucratic activity over a long period of time. As happened with other governmental policies, the role of representative organisations in policy-making during the dictatorship regime was severely reduced. A strong and centralised administrative system became the regime's tool in the decision-making process, which was restricted to the Prime Minister<sup>7</sup> and to senior officials. Graham points out that "For all practical purposes, the making and implementation of public policy in the New State<sup>8</sup> came to be limited to the bureaucratic arena," and called the policy-making process "a regime of administered politics" (Graham, 1975:14). The bureaucratic elite, which controlled the policy process in decisions concerning economics, politics and social policy, progressively expanded

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<sup>7</sup> - Salazar, who, as prime minister, ruled the country for 40 years under a dictatorship regime.

their power and pursued their own targets, thereby developing semi-autonomous organisational units. He argues that “each ministry became a kind of holding-company operating within its own policy... Within each ministry, there was a similar fragmentation existing among organisational sub units” (Graham, 1975:56). In the same way, the DGIS was a powerful directorate, responsible for controlling industrial activity that was operating with strong discretionary powers in a fragmented and semi-autonomous way. Policy-making was fragmented according to industrial sectors, and there were sub-units within the directorate responsible for its formulation and implementation. For example, there were services responsible for the industrial policies for the textile, chemical, and metallo-mechanical industries.

This fragmented approach to policy making did not change after the revolution. On the contrary, it can be seen in the analysis of DGI that there is a path dependence in industrial policy where fragmentation becomes more prominent. In the aftermath of the revolution, nationalisation increased the size of the public sector, thereby reinforcing administrative control of the nationalised industries. For example, the government, nationalised companies in areas such as insurance, banking, power production, chemistry and other industries. To control this vast public sector,<sup>9</sup> the DGIS was split up in 1976 into seven directorates, each of which was responsible for a particular industrial sector or area: textiles and clothing, pharmaceuticals, ceramics and glass-making, wood and cork, food, heavy mechanical, industrial chemical, and electro-metallo-mechanic and electronic industries (Decree-Law 358/76). The directorates took a regulatory and developmental role vis-à-vis the industries under their supervision, in a repetition of the previous pattern of the DGIS. The administrative system found the revolutionary period offered fertile ground in which to expand the directorates’ influence and control over industrial policy, thereby reproducing the fragmented approach to policy formulation and implementation in a path dependency. Moreover, these sub-units reinforced the semi-autonomous and fragmented characteristics of Portuguese bureaucracy.

The country’s membership of the EEC, however, prompted changes in industrial policy and in the decision-making process. First there was the abandoning of all sorts of foreign trade barriers. Secondly, the domestic market was opened to competition. Thirdly, industrial policy ceased to be a domestic issue and was subject instead to the competitive policies dictated from Brussels.

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<sup>8</sup> - The designation ‘New State’ was given to the dictatorship set up by the 1933 constitutional reforms.

<sup>9</sup> - In 1976 state-owned companies contributed 15 per cent of GDP and 6 per cent of employment (Gonçalves, 1990:41).

## **Traditional Bureaucracy and Response to Change**

The reorganisation of administrative structures responsible for industrial policy formulation and implementation followed the shift in policy. Economic liberalisation pressed for the establishment of an open market and prompted the necessity of supporting industrial modernisation to prepare domestic industries for the open market.

The DGI was reorganised in 1982 as a 'light and simple structure' to answer the challenges of this economic liberalisation (Decree-Law 149/82:1050). It was the result of the merging of three directorates that had been responsible for transforming industry, metallurgy industry and electromechanical industry. However, this 'new' entity showed continuity in its structure, especially as it kept the previous segmentation among internal offices. There was a path dependency in the DGI's internal units based on the traditional fragmented approach to industrial policy. The internal structure reproduced the sort of specialisation prevailing in the abolished directorates. For example, the internal structure had eleven operative services (the offices) whose areas were similar to the industrial sectors that had been under the control of the abolished directorates. There were offices responsible for the following: textile industries, food industries, general light industries, basic chemistry industries, light chemistry industries and electro-mechanical industries. Within these offices there were specialised divisions responsible for specific industries. This is what Graham (1975:56) defines as fragmentation among sub-units in Portuguese public administration.

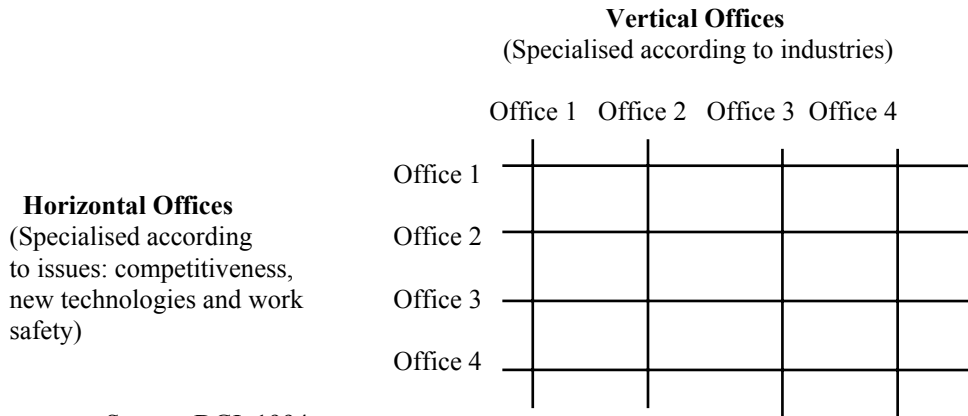
A major reorganisation in 1993<sup>10</sup> altered the DGI's internal structure to one more suited to the directorate's new role and objectives. The vertical specialisation of offices was reduced from eleven vertical services to five. At the same time new offices were created to handle the broader issues arising from the new institutional framework imposed by EU membership. These offices dealt with such matters as industrial development, new technologies, competitiveness and industrial infra-structures. The internal grouping followed a matrix-type structure, which represented the organisational response to the pressures prompted by industrial policy. The rationale underlying the matrix structure was the interconnecting of both the vertical offices and the horizontal offices, in order to improve policy decision making (see Figure 1).

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<sup>10</sup> - Formal reorganisations through a statute happen very often. There is a trend in Portuguese politics to



**Figure 1 - Matrix Type Structure of DGI**



Source: DGI, 1994

The move from a vertical specialisation to a matrix-type model was a response to the challenges of industrial policy. Policy formulation was not compatible with a fragmented approach to policy issues. The problems facing domestic industries were not just exclusive to one industry but were shared by them all. In particular, the Single Market of 1992 and the end of foreign trade restrictions made it essential to encourage domestic industrial competition. Senior officials had to concentrate on studies on the domestic industries in order to propose measures to promote new industries and industrial competitiveness. The directive and paternalistic approach of DGI to industrial issues was challenged, and had to be adjusted towards a more supportive role. The new industrial policy required a different approach to policy formulation – one that concentrated on competitive factors rather than on industrial sectors. For instance, issues that promoted competitiveness, such as productivity, quality, design and innovation, became crucial in industrial policy. Policy formulation and implementation required new skills which senior officials had to develop, and new methods and processes were also needed to deal with the increasing number of meetings in Brussels that concerned competitive policy and the management of EEC programmes. It required bargaining skills and good technical background support to protect the interests of domestic industries. Moreover, domestic industries no longer depended on administrative decisions in pursuing options related to their activity. A senior official<sup>11</sup> pointed out that with market liberalisation, enterprises did not care about DGI, except in

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established a new statute in directorates whenever there is a new government.

<sup>11</sup> - Confidential interview with a senior official on 24/6/1997.

issues related to the PEDIP programme.<sup>12</sup> At the same time, the DGI's directorship was looking for a new role and a new image among industries. The then Director General commented that DGI's activities were "guided according to Portuguese industry, through the promotion of several connections in critical areas of industrial competitiveness" (Rodrigues, 1990:23).

### *The bureaucratic response*

The 'new' directorate dealt with the idea of change by keeping the previous groups and their informal structures, thereby reinforcing continuity. And as a senior official pointed out, it was easy to identify the abolished directorates in the present structure because they stayed as a 'block'.<sup>13</sup> On the other hand, the reorganisation followed the traditional structure of Portuguese public administration, in that its structure was hierarchic and centralised with power concentrated in one person at the top: the Director-General

The new structure required dialogue among offices and extensive co-operation among them, and this was vital to its success. The strategic plan<sup>14</sup> stressed that relationships with external actors should use the synergies of the organisation and avoid 'feudal' work processes (Opções Estratégicas, 1994), while the Directorship regarded co-operation among units as critical to the policy-making process. However, this approach to problems went against the traditional culture, which was based on a fragmented and hierarchical approach to issues and to problem-solving. A struggle for information control started between vertical and horizontal offices. Some interviewees, for example, observed that the vertical offices sent information to horizontal ones, but that horizontal offices hardly ever sent information to them. Senior officials working in vertical offices complained that their offices had "no global information about processes".<sup>15</sup> One senior official explained this lack of co-operation as being due to the influence of culture: vertical offices were the most conservative because of their long service in the abolished directorates.<sup>16</sup>

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<sup>12</sup> - The PEDIP (Specific Programme to Develop Portuguese Industry) is a domestic programme financed by EU structural funds to promote the modernisation and development of Portuguese industries. It was implemented in 1989 and there is now a PEDIP II.

<sup>13</sup> - Confidential interview with a senior official on 2/7/1997.

<sup>14</sup> - The four year Strategic Plan was designed to diagnose and to propose directions for, DGI's activities.

<sup>15</sup> - Confidential interview with a senior official on 1/7/1997.

<sup>16</sup> - Confidential interview with a senior official on 8/1/1998.

Because of these difficulties, the matrix-type structure was not successful. Horizontal services have to work in a vertical way and must approach problems from a fragmented perspective. Senior officials and civil servants resisted the introduction of a more responsive, open and facilitative culture through the matrix type of organisation, and each office concentrated on its own work without worrying about what other offices were doing. Communication, too, followed the formal and written traditional pattern. The main administrative and hierarchical approach to issues and to problem-solving remained within the organisation, with each individual office reproducing its norms, rules and routines in a path dependence manner. Internal dynamics shaped and constrained the success of the matrix-type organisational model.

### *The policy making process*

The sort of transformations, established by the EEC treaties, had a direct influence on the DGI's responsibilities and operations, and represented a major shift in the administrative nature of industrial policy, since decisions concerning competitive policy were taken in an international arena and negotiated among other countries. There was a major change in the nature of the policy-making process. It moved from a technocratic process controlled by a bureaucratic organisation towards a complex structure of relationships where each participant tried to capture responsibilities. To deal with the complexity of policy there were several organisations that progressively required more intervention in policy formulation. This became more pressing with EEC membership and the prospect of having to manage financial incentives programmes. The struggle to attract and control these programmes shifted the influence of the DGI on policy. On the other hand, the formulation of policy needed to be co-ordinated with other actors in a sort of network of relationships. For example, senior officials admitted that they needed the background support of other organisations (enterprises, universities and research organisations) to support the Portuguese position in negotiations about EEC competitive policy, which had a direct influence on domestic industries.<sup>17</sup> This required active participation in decision-making, something that was entirely different from the administrative and hierarchic traditional way of doing things. It also called for more flexibility, new skills and a new way to approach problems and their solutions. This represents a major challenge that has needed a more comprehensive approach,

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<sup>17</sup> - Confidential interview with a senior official on 1/7/1997.

combined with good bargaining skills. Senior officials have remarked that they were not equipped to participate in international meetings, which required high technical knowledge and lobbying skills.<sup>18</sup> This represents a major shift from a bureaucratic approach towards a political approach to industrial policy. One senior official commented that there has been a change from a state that permits and inspects, towards a state which advises and supports.<sup>19</sup> Senior officials in the DGI have been pushed to move from a directive and authoritarian culture to one with a more open and facilitative approach to problems. For instance, the Director-General has been trying to change the directorate's image and to develop a strategy to expand relationships with the industry and its representatives. These changes have been structured into the consolidation of the organisation in its particular sphere and by the reinforcement of its influence among the various actors. Senior officials have realised that the DGI's authoritarian and bureaucratic role was no longer appropriate for the new framework, although some senior officials consider the process has led to a loss of responsibilities.<sup>20</sup> Hence, the nature of policy-making changed after Portugal had become a member of the EEC. Industrial policy was no longer a domestic issue managed by bureaucrats but a process that was dependent on international negotiations. The institutional framework shifted accordingly. The focal point of policy-making converged on Brussels, and policy formulation depended on negotiations with foreign partners. Policy-making required technical backward support, and new skills to equip senior officials to negotiate and participate in international meetings and to increase the participation of enterprises and other economic agents in formulating policies. Such attributes were critical in decision making to support and justify Portuguese options at EEC forums on domestic industrial policy and EEC competitive policy.

### *Relationships with external players*

In the administrative arena there was a major shift in the position of the DGI. The ending of administrative control over imports and exports reduced its responsibilities and its influence on industrial activity. For example, enterprises wishing to pursue their foreign trade activities or to expand their production capacity no longer had to depend on permission from the directorate. Its former authoritarian style was

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<sup>18</sup> - Confidential interview with a senior official on 8/1/98.

<sup>19</sup> - Confidential interview with a senior official on 24/6/1997.

<sup>20</sup> - Confidential interview with a senior official on 23/6/1997.

now incompatible with the new industrial policy and decision-making process. A senior official noted that until EEC membership they had carried out a kind of ‘administered industrial policy’, but that role was not possible any longer.<sup>21</sup> The DGI had moved from being a regulatory agency to becoming a partner in industrial development, and was now promoting a more active relationship between the individual industry and the directorate.

This new approach to policy-making was emphasised by a senior official who pointed out that the DGI needed to move towards enterprises with the target of giving a public service.<sup>22</sup> The new industrial policy required an open approach to the issues under debate in order to make a more satisfactory adjustment to the national position during EEC negotiations. Senior officials and civil servants engaged in policy-making and policy implementation realised that the organisation’s previously negative image among enterprises called for a ‘rebadging’, since a new identity would strengthen its position. In looking for a new role, the directorship needed to improve its image among the industries. The strategic plan for 1994-1999 proposed several initiatives to ‘sell’ a new image of the organisation, such as increasing the dialogue with enterprises, improving delivery of services, and adopting a business-like language (DGI, 1994:74-81). According to the Director General, senior officials needed to give priority to visiting enterprises and maintaining a dialogue with entrepreneurs, which could be regarded as “a ‘sine qua non’ condition to good service” (Rodrigues, 1990:24). However, senior officials resisted such openness and dialogue. Interviews make it clear that people objected to paying visits to companies because they were not accustomed to this practice, while Directors of Services were afraid of being overtaken by their subordinates; thus either the Directors of Services visited enterprises or no one would. But because Directors of Services generally did not visit enterprises, nobody undertook this activity at all.<sup>23</sup>

The horizontal nature of the new industrial policy became a fertile area for governmental organisations to expand their operations. The vast programme to modernise domestic industries, supported by structural funds from the EU, opened up opportunities for other central organisations to attract new responsibilities. The DGI, in fact, managed only the following incentive programmes: some sub-programmes of PEDIP (Specific Programme to Develop Portuguese Industry), a sub-programme of

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<sup>21</sup> - Confidential interview with a senior official on 24/6/1997.

<sup>22</sup> - Confidential interview with a senior official on 2/6/1997.

<sup>23</sup> - Confidential interview with a senior official on 20/8/97

RETEX (Programme for Regions Dependent from Cloth and Textile Industries), and PRODIBE (Programme to Develop Equipment Industries). Meanwhile other public organisations were entering the administrative arena of industrial policy, where they competed with DGI for policy influence and the management of incentive programmes. For example, six governmental organisations<sup>24</sup> shared the management of these programmes in areas such as productive investments, quality, internationalisation and foreign investment, innovation, industrial property, energy saving and environment. This has led to classic infighting among the central organisations within the ministry, where personal trust and a sympathetic attitude among senior officials to the wishes of politicians is a crucial factor in successfully attracting new responsibilities and participating in policy formulation. This personalistic feature was a legacy from the previous regime and was revitalised after the revolution. Hence, a lack of political confidence reduces the connection with politicians, thus weakening the directorate's influence in policy-making and implementation.

Relationships between the ministry and the directorate depend on the minister's political confidence in the Director General. Since the democratic revolution of April 1974, a major shift has taken place in the power and influence of directorates on policy-making and implementation. First, there was a change in the promotion procedure for the position of Director-General. The long-serving position of Director-General was replaced by a political appointment that lasts only for a three year term. This procedure is the same for the position of deputy Director-General. Other high positions (e.g., Director of Services and Head of Division) are promoted by competitive examination among senior officials. Secondly, there has been a trend for ministers to set up their own staff of advisors in their cabinet, and to transfer the responsibility for policy formulation from the directorates to the cabinet. For example, ministerial cabinets perform parallel activities alongside the DGI. A senior official remarked that the directorate had been losing its technical influence in policy-making.<sup>25</sup> Policy-making has become a bargaining process among central organisations, and there is a permanent struggle between the minister's cabinet, the directorate and other central organisations

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<sup>24</sup> - These are the Institute for Support of Small and Medium Enterprises and Investment (IAPMEI), the Portuguese Institute for Quality (IPQ), the Investment, Trade and Tourism of Portugal organisation (ICEP), the National Institute of Engineering and Industrial Technology (INETI), the National Institute of Industrial Property (INPI), the Directorate-General of Energy (DGE) and the Directorate-General of Environment (DGA).

<sup>25</sup> - Confidential interview with a senior official on 24/6/1997.

to secure greater participation in the policy process where each participant operates as a 'holding company' within its own sub-set of a policy.

Industrial policy changes thus caused a major shift in the DGI's operations. Not only was its administrative and bureaucratic character severely reduced but it was also required to adopt a more open and consultative process of policy formulation and implementation. This represented a setback for the DGI, which lost its role and importance in managing industrial policy. For instance, a senior official commented that prior to EEC membership his job, which was concerned with foreign trade, had been mainly administrative and that this had finished.<sup>26</sup> Thus industrial policy was no longer a DGI 'monopoly' but instead had become an issue that had to be negotiated and bargained over with other players, and that required new skills and a different approach to problems and their solutions.

## **Conclusion**

This paper shows the importance of shifts in policy-making in the process of change in DGI and argue that despite the pressures for change there are patterns of continuity which are path dependent. The analysis shows that shifts in the nature of policy-making required a more open approach to policy-making and a different ways of doing things. The horizontal nature of industrial policy opened up an opportunity for other organisations to compete for policy formulation and implementation, and for the management of specific programmes to develop domestic industries. Management for change therefore focused on three main issues: development of new skills to deal with the policy making process, the improvement of relationships with external actors through a 'DGI image', and the internal reorganisation of the directorate. The analysis of the process of change within the DGI however reveal that the response shows institutional reproduction of tradition. Senior officials maintained those procedures and processes which were the 'way things are done' in the Directorate. There was continuity in traditional features which are partly due to the reluctance to change processes that have worked in the past and partly because new methods were incompatible with the established traditional methods. The normative framework embedded in the culture of the serving officials meant that they almost instinctively reject the new methods. Hence,

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<sup>26</sup> - Confidential interview with a senior official on 2/7/1997.

despite political and economic transformation which occurred after revolution and with the EEC membership there was path dependency in the change management of DGI.

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