

The Private–State Interface: A Social Network Analysis of the Board of Directors of Malta Enterprise and its Predecessors

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Abstract: Historically, the boards of the Industrial Development Commission (pre-Independence), the Malta Development Corporation (1967–2004), and Malta Enterprise (2004–present) have always included representatives of private enterprise. The Malta Enterprise Act (2003) requires the minister responsible for the corporation to appoint persons (amongst others) who appear to the minister to have experience and show ability in matters relating to (amongst others) industry, trade, finance and organizations of employers. Almost identical provisions may be found in the Malta Development Corporation Act (1967).

Such organizations play an important role in economic development, mainly through policy and practice. They also provide an ‘interface’ between private enterprise and the state, between private interests and the public interest.

This paper proposes a Social Network Analysis (SNA) of the board of directors of Malta Enterprise and its predecessors, including that of the Malta Chamber of Commerce and Federation of Industries. Further data could also be gathered, especially from employers’ and workers’ associations, private entities such as Banks, or directorships of private enterprises, particularly those who had formed partnerships with other noted entrepreneurs who were on the boards of the studied entities.

Keywords: social network analysis, Malta’s economic development, entrepreneurial class, national bourgeoisie

In current economic sociology and some economic thought such as institutional economics, the idea of state and market are that they constitute ‘two sides of the same coin’.

It especially holds in countries where historically there is no domestic national entrepreneurial class. Such an entrepreneurial class is necessary to allow the institutional changes needed to foster sustained economic growth based on a diversified economy with a productive backbone. It is more apparent in an island economy which is confronted with smallness, remoteness, and openness.¹

After the Second World War, many British Commonwealth countries set up development corporations to counter the absence of a socially and politically powerful national entrepreneurial class in productive economic undertakings.

Malta Enterprise (ME) and its predecessors, namely the Malta Development Corporation (MDC) and the Industrial Development Board (IDB), are key to understanding the literature associated with the historical ‘weakness’ of the Maltese entrepreneurial class and their preference to concentrate on importation, distribution, real estate, and the local market.

Literature from Vella,² Chircop,³ Brincat,⁴ Refalo,⁵ and Baldacchino⁶ provide a historical understanding of the social groups and outline Malta’s economic development and the challenges faced by small islands and opportunities presented.

Such legal structures as the above development corporations provide the intention of bringing on board leading representatives of business to cultivate political, cultural, and technical acumen in order to kick start the island’s economic development.

- 1 G. Fischer and P. Encontre, ‘The Economic Disadvantages of Island Developing Countries: Problems of Smallness, Remoteness and Economies of Scale’ in *Competing Strategies of Socio-Economic Development for Small Islands*, ed. G. Baldacchino and R. Greenwood (Prince Edward Island, 1998), 69–87.
- 2 M. Vella, ‘Forgetting Industry: The Scarce and Selective Visibility of Malta’s Industrial Experience in the Field of Vision of Maltese Sociology’ in *Revisiting Labour History*, ed. J. Chircop (Malta, 2012).
- 3 J. Chircop (ed.), *Underdevelopment: The Maltese Experience 1880–1914*, (Malta, 1993).
- 4 M. Brincat, ‘The Birth of the Maltese Model of Development 1945–1959’, *Journal of Maltese History* (2009), 34–52.
- 5 M. Refalo (ed.), *The Maltese Commercial Class 1870–1914* (Pisa, 2010).
- 6 Fischer and Encontre.

The mercantile social bloc

The historico-politico conditions which governed what may be termed as the decline of the cotton industry and the ‘rise of the merchant families’ provide a context to understand the historical framework of the island’s entrepreneurial class.

During the seventeenth and eighteenth century, Malta had trading posts in Spain, Portugal, and France, amongst other countries. Its main products included the cultivation and spinning of cotton, salt, the manufacturing of caps. The cotton industry occupied nearly three-quarters of the Maltese population.⁷

Chircop⁸ postulates that an indigenous cotton industry was not allowed to ‘take off’ owing to the alignment of local pre-capitalist interests and anti-protectionist policies by the colonial administration. In this regard, a mercantile economy emerged and engulfed all the sectors on the island, further fragmenting the traditional manufacturing industry.

The merchant families’ considerable influence – aided by its own reproduction, intermarriages, convergence with the colonial administration interests, and representation on board such as of the Chamber of Commerce, together with certain political acumen – entrenched their socio-economic status and created a social bloc which ‘lacked public spirit and the spirit of enterprise’.⁹

De-colonialization

The ‘mercantile social bloc’ and colonial admiration converged as ‘Britain sought to develop Malta mainly in those areas that best suited its interests ... to serve ... the vital British commercial and military routes’.¹⁰ By 1957 approximately a quarter of Malta’s labour force was still employed by the British services.¹¹

7 C. Vassallo (ed.), ‘Maltese Entrepreneurial Networks’, *Diaspora Entrepreneurial Networks: Four Centuries of History*, 1 (2005), 125–44.

8 Chircop.

9 Chircop, 112–19.

10 Vella, 5.

11 G. Baldacchino, ‘Far Better to Serve in Heaven than Reign in Hell: Malta’s Logic of Relat-

After the Second World War, owing to the atmosphere of upside-down de-colonization¹² and dependence on British military service expenditure, Malta's economy was to be stimulated by capitalist development which was 'to be an industrial one ... export-led ... and based mainly on wholly or partially foreign-owned enterprise'.¹³

The government's vision was then orthodox with elements of classical, Keynesian economics, and Rostowian 'stage's scheme'.¹⁴ This required a certain element of economic planning¹⁵ and 'in the absence of a progressive [entrepreneurial class] able and willing to promote industrial development, ... the task of promoting capitalist industrialization had to be taken up by the [State]'.¹⁶

The relationship between the state and the private therefore developed as government acted as the 'planner' and private enterprise acted as 'partner' and 'executioner'.¹⁷

Even though this relationship was being fostered, Baldacchino¹⁸ notes that entrepreneurship in small island states is lacking, and usually results in local entrepreneurs being '... dismissed as deficient in organizational skills, technical know-how and risk orientation'.¹⁹

Brincat,²⁰ citing the fifth development plan, also notes how such a lack of 'enterprising spirit' resulted in dependence on foreign investment as the 'domestic bourgeoisie was incapable of generating self-sustaining industrialization'.²¹

In this respect Zammit²² notes how entrepreneurs required incentives to invest in Malta.

ing to the European Union' in *Competing Strategies of Socio-Economic Development for Small Islands*, ed. G. Baldacchino and R. Greenwood (Canada, 1998), 213–37.

12 Ibid.

13 Vella, 54.

14 Ibid., 59.

15 *Plans, Policies and Strategies of the Maltese Government: 1960–1990*, ed. C. Zammit (Malta, 1994).

16 Vella, 57.

17 *An Assessment of Industrial Development in Malta: a Cost-Effective Approach*, ed. S. Bussittil, J. Dowdall, L. Baron, and A. Rote (Malta, 1970).

18 G. Baldacchino (ed.), 'Bursting the Bubble: The Pseudo-Development Strategies of Micro-States', *Development and Change*, 24 (1993), 29–51.

19 Ibid., 34.

20 Brincat, 34–52.

21 M. Brincat and J. Falzon, 'Aspects of the Economic Conditions Surrounding the Birth of the Labour Party in Malta', in *Revisiting Labour History*, ed. J. Chircop (Malta, 2012), 122–74.

22 Zammit.

The Aids to Industries Ordinance, the Industrial Development Act, and the Business Promotion Act offered ‘incentive packages’ to aid Malta’s economic development. This aid was to be curated by the above mentioned boards.

It is in this light that the acts and boards mentioned above illustrate how the interlocking of the ‘strengths’ of the private sector and ‘socially-relevant goals’ of the state are intertwined.²³

Malta’s developmental state

In his unpublished doctoral thesis Brincat²⁴ suggests that Malta’s post-colonial economic development could be described as ‘Developmental State’, even though it was out of ‘praxis that was rooted in and addressed Maltese realities’. The ‘Maltese Developmental State’ ‘can be described as a case of “political capitalism”: property, wealth and profit were mostly private, [whereas] the state and its bureaucrats acted within the overall parameters set by a capitalist system’.²⁵

Brincat continues stating that Developmental States might have to curate their own ‘national bourgeoisie’, which entails the state acting as a ‘catalyst’ to curb the shortcomings of the local entrepreneurial class.

Therefore, the state, and through a ‘dedicated state apparatus, such as the Malta Development Corporation’ initiated relations with foreign enterprises to fill in the gap created by a ‘small, socially, politically, and technically weak manufacturing ... local bourgeoisie’.²⁶

It is crucial to understand such apparatuses sociologically, as they offer a curated space where the interests and relations of both the state and the private interplay.

23 *Autonomy and Control of Public Corporations: The Case of the Malta Development Corporation*, ed. A. Borg (Malta, 1998).

24 Brincat, 34–52.

25 M. Brincat (ed.), *Export-Led Industrialisation and Development in Malta, 1955–2000* (Malta, 2009).

26 M. Vella, ‘The Economics of Hypocrisy – Deconstructing Half a Century of Development Discourse in Malta: Notes on Work in Progress’, in *Social Transitions in Maltese Society*, ed. L. Cutajar and G. Cassar (Malta, 2009), 251–394.

State apparatus as a social network

The boards of directors of such ‘state apparatus’, mainly MDC and ME, were composed of representatives from government, private enterprise and associations, and unions.

The selection of such representative was entrenched in the legal acts of the development corporations and it is within reason to assume that such boards offered the conditions likely to generate networks in order to share resources and common goals.

Crossley²⁷ stresses that ‘networks form and are formed around “social worlds” which centre upon specific shared or overlapping interest which bring actors together in collective action ...’, and as problems that arise or could arise are usually ‘resolve[d] via friends and friends-of-friends with whom we may even form temporary alliances’.²⁸

Embedded networks

Although the author had undertaken an initial and exploratory research using a ‘positional approach’ and ‘linked lists’ methods, it was an exercise to understand the possibility of a social network within such state apparatus.

It is in this spirit that this paper proposes a social network analysis (SNA) of such state apparatus in order to understand the creation and the experience of the local entrepreneurial class in a modern and contemporary context.

It is within the discipline of (new) economic sociology to illicit such experiences and to frame them in ‘the problem of embeddedness’. Such economic activity should be understood through social relations and avoid ‘under-socialized’ or ‘over-socialized’ frameworks as ‘economic action must consider embeddedness in such structures’.²⁹

Social network analysis alleviates such a ‘problem of embeddedness’ as ‘it takes as its starting point the premise that social life is created

27 *Towards Relational Sociology*, ed. N. Crossley (London, 2011).

28 J. Boissevain, *Friends of Friends: Networks, Manipulators and Coalitions* (Oxford, 1974).

29 M. Granovetter (ed.), ‘The Impact of Social Structure on Economic Outcomes’, *Journal of Economic Perspectives*, 19 (2015), 33–50.

primarily and most importantly by relations and the patterns they form'.³⁰

In the context of Malta Enterprise and its predecessors, these concepts tie the Schumpeterian idea of entrepreneurship 'by pulling together previously unconnected resources for a new economic purpose'.³¹ These resources 'reside in separated networks'³² and need to be 'bridged'. Such resources could be defined as 'social capital'. Members who have weaker ties are viewed as having better social capital, where they capitalize their ties to be more successful.³³ As argued by Bogenhold³⁴ 'national and global policy makers started to employ social capital as a strategic concept for the use of an increasing number of associations'.

SNA would provide the quantitative mapping of such networks and the ability of further qualitative research. The formation of networks, the flow of information, and resources which form 'social capital' could be empirically studied within the context of an embedded social network and the experience of the local entrepreneurial class.

Aeden Chetcuti has completed and is currently reading for a Postgraduate degree in Sociology at the University of Malta. His main research and academic interests are in Economic Sociology and the Political Economy of Development, specifically, in relation to interlocking directorships on boards of entities that act as an interface between the state and private enterprise.

He is also a Marketing Coordinator at the Malta University Language School focusing on business development and the diversification of the school's services through research and the fostering of networks and partnerships.

- 30 A. Marin and B. Wellman, 'Social Network Analysis: An Introduction', in *The Sage Handbook of Social Network Analysis*, eds. J. Scott and P. Carrington (London, 2011), 11–25.
- 31 Granovetter.
- 32 Ibid.
- 33 S. Borgatti and V. Lopez-Kidwell, 'Network Theory', in *The Sage Handbook of Social Network Analysis*, ed. J. Scott and P. Carrington (London, 2011), 40–54.
- 34 D. Bogenhold (ed.), 'Social Network Analysis and the Sociology of Economics: Filling a Blindspot with the Idea of Social Embeddedness', *American Journal of Economics and Sociology*, 72 (2013), 293–318.