# OSSERVATORIO SUL TURISMO DELLE ISOLE EUROPEE OBSERVATORY ON TOURISM IN THE EUROPEAN ISLANDS OBSERVATOIRE SUR LE TOURISME DANS LES ILES EUROPÉENNES

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### **RESEARCH DEPARTMENT**

Code: PA-1/07- e

# SIZE AND ROLE OF MICRO-ENTERPRISES IN THE MAJOR EU ISLANDS

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#### 1. Introduction

The theme of island status and the characteristics of EU territories surrounded by the sea has already been addressed by a number of studies and by some recent research projects which have highlighted disparities, structural disadvantages and the presence of an economy relying excessively on the internal market.

In the case of islands, their territorial configuration, geographical position and distance from the main international markets are the main constraints affecting the growth of enterprises in terms of turnover and size. The obvious presence of a negative operating differential between island enterprises and mainland enterprise (INSULEUR Forum, Ajaccio, 2004) also confirmed disparity in terms of competitiveness between enterprises located in the same territory. This disparity is due to a set of factors linked to the contest in which these companies do business.

Having made these obvious considerations we should now ask ourselves the following question: Are islands endowed with an economic structure, a labour and enterprise organisation different from those present in other areas and if the answer is yes, what determines this different economic organisation and what threats is it exposed to and what opportunities can it enjoy within the international competition scenario?

In order to answer these questions we should study more in-dept the role of micro-enterprises in the economic and social fabric of islands and especially attempt to understand why these micro-enterprises are so widespread on islands. This study therefore addresses the issue of the presence and role of micro-enterprises on the main EU islands, such as Sicily and Sardinia (Italy), Palma de Mallorca (Spain) and Corsica (France).

We started our study focusing on major islands to subsequently extend analysis also to smaller islands where the phenomenon albeit present is less obvious. Data collection was based on a questionnaire provided to the statistical offices of the Chambers of Commerce and Industry of these islands which are also Insuleur members. We also used data provide by some research agencies present on the various islands.

### 2. Result of the survey

The four islands chosen for this first survey are located in the Western Mediterranean and belong to three EU Member States: France, Italy and Spain. The islands taken into consideration differ as to their size, population, economic activities, per capita GDP and they also differ as to some social, economic and population indicators.



Figure 1: surface of European islands in the Mediterranean sea

Beyond the differences between these islands, we also took into account the different population variables (tab. 1) illustrated in the table below, we wished to see whether there were similarities between these islands as regards their structure and economic organisation.

Table 1: population indicators

Islands	Population	Below 15 years of age *	Between 15 - 64 *	65 years and older *
Balearics	906 266	15,6	70,2	14,2
Corsica	265 999	16,5	64,4	19
Sardinia	1 637 639 3	13,6	70	16,4
Sicily	4 972 124	16,9	65,9	17,2
Ionian islands	216 255	14,5	64,7	20,8
Northern Aegean islands	204 071	14,2	64	21,7
Southern Aegean islands	301 722	17,1	68,4	14,4
Crete	598 896	16,6	66,5	16,8
Republic of Cyprus	715 137	20,9	67,3	11,8
Republic of Malta	397 296	18,7	68,5	12,8

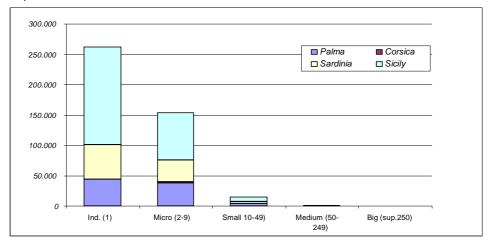
Sources: Eurostat

Analysing the data supplied by the Chambers of Commerce and Industry and the national statistical offices and classifying enterprises as to numbers of workers in 5 clusters, we may state that *micro-enterprises are the most widespread in absolute terms*.

The first class as to number is represented by one-person-businesses. The prevalence of micro-enterprises on the total is found both in the major islands (Sicily and Sardinia) and in Corsica and Palma de Mallorca.

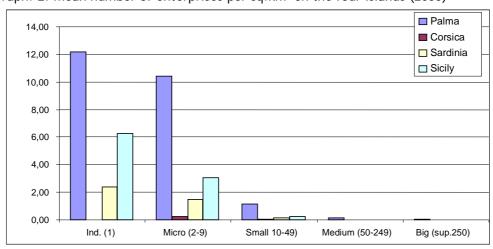
We can thus state that micro-enterprises in proportion are the most common form of enterprise in the islands surveyed and this regardless of the size of the islands. There seems to be no difference as to the class of enterprises between small and large islands.

Graph. 1: Number of enterprises classified by the number of worker on the four islands (2005)



However, we decided to rearrange date relating the number of enterprises in each class to the surface of each island so as to calculate the degree of concentration in the territory.

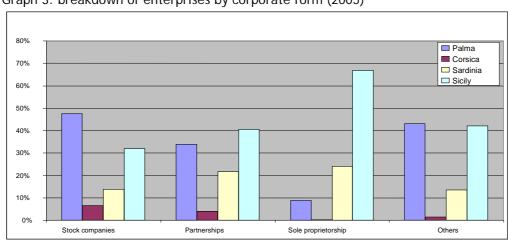
Palma de Mallorca ranks first with 12 one-person-businesses and 10 micro-enterprises per sq.km, followed by Sicily with 2 enterprises per sq.km and by Corsica. Palma de Mallorca, is therefore the island with the greatest concentration of enterprises in the territory. This shows that the greater or lesser presence of micro-enterprises in the territory is independent of the island being linked to other social and economic indicators.



Graph. 2: mean number of enterprises per sq.km on the four islands (2005)

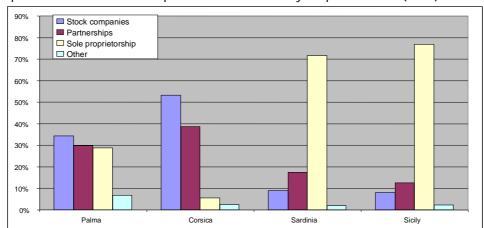
Looking at the legal status of enterprises (graph 3) we see great differences between the islands. Micro-enterprises in Palma de Mallorca are mainly grouped into two legal forms that are quite different from one another: stock companies and other forms such as associations, cooperative companies, autonomous bodies and others.

In Sicily, as in Sardinia, micro-enterprises are mostly one-personbusinesses, partnerships or other types of legal forms showing that the form of the stock company is less appealing. This is linked to the high costs and greater bureaucratic duties required for setting-up and running of such companies in Italy. Finally Corsica shows an opposite trend vis-àvis the two Italian islands, since stock companies are widespread compared to partnerships, whereas alternative forms of enterprises are scarcely used and grouped under item "Others".



Graph 3: breakdown of enterprises by corporate form (2005)

These characteristics are more obvious if we compare the islands considering percent breakdown of each legal form per island (graph. 4).



Graph 4: breakdown of enterprises on the islands by corporate form (2005)

Another area of study was distribution of micro-enterprises by industry sectors<sup>1</sup>: i.e. manufacturing industry, services, trade and tourism. We wished to assess whether micro-enterprises are present in these sectors or whether they tend to cluster in specific sectors.

Using a spider web-graph (graph. 5) we can see<sup>2</sup> that trade is the sector with the greatest concentration of micro-enterprises, followed by services, the manufacturing industry and tourism (accommodation).

Looking at size (micro, small, medium) by sector, the areas of the graph show for all islands a greater clustering around "micro" size. The island of Palma de Mallorca shows greater presence of enterprises in the tourism sector, both micro- and small- size-enterprises, in this marking a difference from other islands.

This leads us to state that "micro-enterprises" are widespread in all economic sectors on all islands with the exception of some islands where small enterprises prevail in the manufacturing industry and tourism.

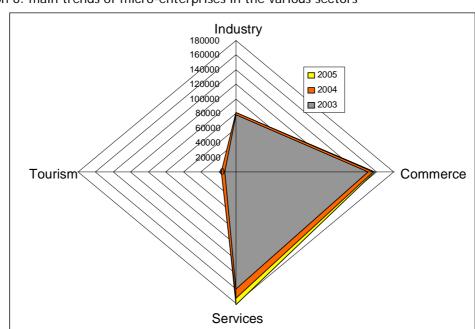
<sup>&</sup>lt;sup>1</sup> We were not able to provide data for agriculture, due to the lack of homogenous data and therefore difficulty in making comparisons.

<sup>&</sup>lt;sup>2</sup> This datum was obtained from comparison of areas delimitated by individual sectors. To normalize data we used logarithmic functions.

Industry Micro 100.000 tourism Medium Industry Small 10.000 .00 tourism Small Industry Medium Palma tourism Micro Commerce Micro Corsica ■ Sardinia Services Medium Commerce Small Sicily Services Small Commerce Medium Services Micro

Graph 5: breakdown of enterprises by size and sector

As regards more in-dept analysis of micro-enterprises dynamics in the last three years (graph 6) divided by industry sector we may remark that services and commerce are the most dynamic sectors. We may thus state that micro-enterprises are key players on islands, especially in providing a boost to economic growth in those sectors, in particular services, where entry and exit are easier and where the level of investment, technology and know-how is not the main barrier to entry.

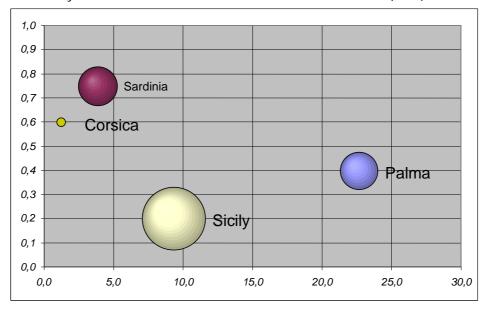


Graph 6: main trends of micro-enterprises in the various sectors

A further aspect we wished to analyse was the islands' position with regards to two indicators: the density index of micro-enterprises (ratio between the micro-enterprises and the island surface) and concentration index of micro-enterprises looking at economic activities<sup>3</sup>.

The size of the bubbles represents the number of micro-enterprises present on each island. Sardinia and Corsica, regardless of their territorial extension, display greater concentration of micro-enterprises in some activity areas and both display low density of micro-enterprises as correlated to the territory.

Sicily has a higher number of enterprises with low density but good distribution among industry sectors. On the other hand, Palma de Mallorca has a density of 23 micro-enterprises per sq.km and greater concentration, especially in the commerce, services and tourism sectors.



Graph 7: density indexes and concentration ratio on the four islands (2005)

## 3. Some remarks on the results of the survey

<sup>&</sup>lt;sup>3</sup> We used the Harfindhal index which takes value 1 if micro-enterprises are all clustered around few economic activities (maximum concentration) and 0 if they are equally distributed among all economic activities (equal distribution).

The results of the survey show that micro-enterprises are the most widespread form of business activity on islands.

The research shows that islands have a different economic and organisational structure compared to other geographical areas. It also shows that the prevalence of micro-enterprises does not depend on the size of islands.

The breakdown of enterprises by size and their relative spread are not linked to the size of islands. Islands all share a specific economic structure which is based on a more or less widespread network of microenterprises.

In the industry sectors taken into consideration (manufacturing industry, commerce, tourism and services), *micro-enterprises operate with different legal forms linked to the specific legislation in each country*. In Italy (Sicily and Sardinia), micro-enterprises are mostly one-person-businesses or partnerships, whereas in Spain (Palma de Mallorca) and in France (Corsica), there is greater recourse to partnerships and stock companies.

Considering individual sectors, we may say that *micro-enterprises are* widespread in all sectors of island economy, with the exception of some islands where small enterprises are more widespread in the manufacturing industry and tourism.

Moreover, trends highlight that in the past three years growth rates of micro-enterprises have increased in commerce and services and are higher than that of SMEs.

This trend shows that micro-enterprises play an active role as a factor of change. The increase in the number of micro-enterprises leads to a greater fragmentation of the economic system. This can be a consequence of various factors, such as:

- 1. *Greater competition* in the internal markets of islands or spurred by international markets;
- 2. Change process triggered by spin-offs from SMEs or large companies;
- 3. Reorganisation processes due to technology change processes and industrial reorganisation, etc.;

4. Growth of the industry sector leading to set-up of new enterprises and activities.

A second interesting result shows micro-enterprises clustering in the services and tourism sectors which are the main areas of island economy.

Therefore, since islands are largely marked by a high number of enterprises and workers in the tourist industry and also considering the seasonal nature of tourist activity, the spread of micro-enterprises on islands is justified by the need to operate with an organisational structure that is more flexible to the change in tourist market demand.

However, it has to be stressed that the choice of the size of the enterprise is often made not as a transitional phase of the start-up process of a business activity but is a choice for the permanent conduction of operations.

The small size of businesses, while affording greater flexibility to market changes also implies weaknesses as regards:

- lack of capital or difficulty in obtaining loans;
- inadequate marketing resources for meeting new market challenges;
- often lack of technology know-how;
- lack of economies of scale and economies of scope;
- limited participation in forms of association and excessive individualism in tackling external challenges.

The EU has set up programmes supporting the growth and development of SMEs, but no specific incisive actions have been planned for islands which are mostly characterized by a universe of micro-enterprises that are key players in the economic and social fabric of island economies.

However, we may also say that the great fragmentation and spread over various sectors of this type of micro-enterprises makes it difficult to plan direct and straightforward actions and poses a challenges to economic policy initiatives also on the local level targeting this type of enterprises.

In planning economic policies targeting this class of enterprises, in particular on islands, actions should be designed not on the basis of islands size or different geographical contexts but based on territorial

density, number of micro-enterprises and their degree of concentration in the various industry sectors.

However these are just some of the main results of the survey which require further in-dept study taking into consideration the different policy objectives pursued by each island.

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