

# Successful Small-Scale Manufacturing from Small Islands: Comparing Firms Benefiting from Locally Available Raw Material Input

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**ABSTRACT.** This paper draws on an European Commission-supported Leonardo da Vinci Vocational Training pilot project-in-progress to review the prospects for SMEs in small island territories. It, focusing on manufacturing firms, and deliberately selects those which conform to a tough set of conditions of “success”: strong and consistent export orientation; local ownership; locally developed or adapted technology; and a workforce of up to 50 employees. This paper is based on “best practice” data collated specifically from five such “successful” firms, each based in one of five European island regions, manufacturing a product which benefits from locally available, raw material input. Research findings suggest that idiosyncratic features associated with smallness and islandness identity facilitate business success in such locations in spite of various well-documented structural handicaps. These features include a strong branding of the product with the respective island and associated characteristics island; free riding on island tourism; limited domestic local firm rivalry; an appreciation of social capital and the “quality of island life”; and the luring of islanders back to their island in order to become local entrepreneurs.

**SOMMAIRE.** Cet article s’inspire d’un projet-pilote de formation professionnelle Leonardo da Vinci, appuyé par la Commission Européenne, pour passer en revue les espérances des petites et moyennes entreprises de petites îles. Avec les manufactures pour point de mire, il choisit celles qui se conforment à de strictes conditions de « réussite » : forte orientation vers l’exportation; possession locale; technologie développée ou adaptée localement; et jusqu’à 50 employés. Cet article se base sur des données « meilleure procédure » recueillies auprès de cinq entreprises florissantes, situées dans des régions insulaires européennes et fabriquant un produit jouissant d’un apport local de matières premières. Les résultats des recherches suggèrent que les traits idiosyncratiques associés à la petitesse et à une identité insulaire facilitent la réussite des affaires, malgré divers handicaps structureaux bien documentés. Ces traits comprennent : forte association du produit avec l’île concernée et ses caractéristiques; avantages tirés du tourisme; rivalité domestique limitée; appréciation du capital social et de la qualité de la « vie sur l’île »; et attraction vers l’île des insulaires exilés pour en faire des entrepreneurs locaux.

## Introduction: Daunting Challenges

There is general agreement that small and medium-sized enterprises (SMEs) contribute vigorously to economic growth and to the creation of sustainable employment, a contribution all the more readily evident in the context of massive lay offs from large firms and especially appreciated in epochs of long-term structural unemployment. It is commonly understood that SMEs have a general capacity for flexibility and innovation, enabling them to respond more quickly to structural changes and to adapt just as rapidly to changing consumer taste and demand.

SMEs play an even more pronounced role in the case of very small island territories, since the average enterprise size is even smaller than elsewhere (Granovetter, 1984). This paper will first outline the extensive structural handicaps

generally affecting the set-up and operation of SMEs in small, often peripheral, island territories. Second, it will next discuss the methodology and basic data of a pilot project-in-progress which seeks to showcase the very exceptional success of a clutch of SMEs from five small, island territories in Europe: Åland, Iceland, Malta, Saaremaa, and the Scottish Isles. The ensuing analysis invites strategic considerations for successful SMEs in small island locations, while also offering insights into the political economy of regional development.

Yet, in principle, in these micro-territories, the challenges claimed to be faced by small, local firms based in small island territories are, to say the least, daunting:

- The size of the domestic market is small and, in the case of archipelagos, also fragmented and dispersed;
- There are high transport costs, especially handling, freight and insurance expenses, partly because of a tendency towards oligopoly and imperfect competition;
- There is an inability to achieve and exploit economies of scale in the local market: as a result, costs such as health, housing, energy, and education tend to be higher per capita;
- There are often very limited linkages to the local, small economy, which may tend to be significantly dependent on, and biased towards, the production of a single crop, product, or service;
- There may be a lack of skilled labour power or expertise which, where available, tends to relocate to larger and better paying urban agglomerations;
- There may be a lack of business expertise or acumen which again, where available, is likely to move away in search of better returns on investment and larger markets;
- There may be relatively high government-induced costs, such as entrance and compliance costs, rents, and taxes;
- There may be a dearth of effective and competitive support and infrastructural services, such as telecommunications and venture capital.<sup>1</sup>

Today, these challenges are so overpowering that a number of international organisations are in general agreement that small territories, especially small-island regions, share a set of characteristics which pose specific development problems.<sup>2</sup> These characteristics are fairly similar to those borne by peripheral rural areas which lose out from agglomeration economics and demographics (Polèse and Shearmur, 2002). Some scholars have been arguing that many of the alleged problems of small economies are either not peculiar to those economies or can be addressed through suitable policy measures (Srinivasan, 1986; Easterly and Kraay, 2000). Still, the general understanding remains that of a chronic condition of vulnerability, based on features such as remoteness from key markets, diseconomies of scale in the provision of public services, imperfect local competition in the provision of private services, openness to the vagaries of international trade and prices, and limited diversification of economic output (Briguglio, 1995; Atkins et al., 2000; Crowards, 2000).

1. These observations have been collated from various sources and are paraphrased in Fischer and Encontre (1998).

2. These include the United Nations (and satellite bodies like UNCTAD) and the Commonwealth Secretariat.

The European Union has also come round to recognize that island regions, along with rural, mountainous, cross-border, or low-population density areas, suffer from structural handicaps linked to their island status<sup>3</sup> and has spelt these out to include “remoteness, insularity, small size, difficult topography and climate, and economic dependence on a few products.”<sup>4</sup> These handicaps are imputed to be permanent and therefore chronic inhibitors towards social and economic development. A recently commissioned report concludes that “islands and island regions [in Europe] are facing a series of problems which undermine their regional competitiveness in economic terms” (Planistat Europe, 2003: 19).

One is hard pressed to imagine how SMEs in such small island territories can contribute actively towards the transformation of Europe into the world’s most dynamic, knowledge driven region by 2010, as professed by the Lisbon Declaration (2000). Instead, and in sharp contrast, the expectation is that of a sustained lack of local competitiveness in the face of imported goods. Protectionism and benevolent economic stewardship by the state or a regional authority may have encouraged local investment in producing for the small domestic market, such as in food, beverages, and cottage industries, where this is allowed or tolerated.<sup>5</sup> Such operations, however, are often stubbornly uncompetitive. Moreover, even where small-island territories have good quality and competitive products, there are difficulties in sourcing effective research and development capability, suitable terms for financing and/or in adopting appropriate technology. The all-too-frequent outcome is a steady deterioration in the competitive position of local SMEs, a short-to-medium term loss of markets, and an erosion of profit margins. Finally, a dependence on typically more expensive transport, insurance, and tele-communications costs acts as a built-in structural disadvantage to such firms engaged in manufacturing, especially in bulk (high-volume), heavy, perishable imported raw material or exported products.

### **Dearth of Manufacturing Capacity**

The dominant nature of local entrepreneurship in the geo-economic circumstances of small islands is often mercantilist: imports rather than exports, trade and consumption rather than industrial manufacturing production, attract the interest of the local commercial community. Politically, the importing elite typically enjoy the upper hand and tend to elbow out locally produced goods in preference for imported (possibly cheaper and better) ones from off-island. There is also a “cargo cult” disposition by local consumers who prefer to patronise high-status foreign goods coming from the mainland or the core, even at times when they are more expensive or of inferior quality than the local counterpart (Worsley, 1968). One may argue that the Cohesion Funds and Structural Funds of the European Union have facilitated the transformation of many island peripheries into relatively more affluent sites with upgraded infrastructure (CPMR, 2002: 86);

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3. Declaration 30 adopted by the Conference which adopted the Treaty of Amsterdam (1999) and, since June 18, 2004, enshrined in the Treaty establishing the EU Constitution (Article III-116).

4. Article 299.2 (ex-article 227) of the Treaty of Maastricht (1997) as applies to the Community’s outermost (ultra-peripheral) regions.

5. All 286 island territories of Europe are eligible for state aid authorised under Article 87(3) (a) of the Treaty of Amsterdam, with a few exceptions.

but, an added consumption capacity of imports may have been achieved along with the loss of all local productive capacity, except perhaps construction.<sup>6</sup>

Thus, it is no surprise that few small-island economies have a significant manufacturing sector. The only exceptions among 32 sovereign island states are Fiji, Malta and Mauritius (Baldacchino, 1998: 270; Prasad, 2003: 51). Furthermore, where this manufacturing sector exists, it is mainly export-led investment fuelled by foreign investment and technology (Sklair, 1991) and often benefits from export subsidies and other positively discriminatory legislation (Prasad, 2004: 45–48; Waugh, 1987). In most cases, small-island territories have abandoned the industrialisation phase, leap-frogging from agricultural self-employment to service economies, specialising in tourism, banking, bunkering, berthing, communication, and administrative jobs in both the private and public sectors, and often bolstered further by a range of other “rents” and remittances (Bertram and Watters, 1985; Kakazu, 1994).

As if this tragic picture is not enough, a heightened pace of transition to a knowledge-based economy presents still more bad news for small islands. Globalization and global competitive trends are leading to the greater concentration of resources associated with the modern economy (high-tech industries, flexible IT-skilled labour pools, research and development institutes, ICT-specializing universities) in large, urban centres and metropolitan areas. This trend suggests that new technologies are *not* altering a pattern of concentration ushered in by industrialisation; but are actually helping to fuel it. It appears that geography (measured as proximity to large centres of population) increasingly matters in the knowledge economy, while contemporary success (measured in terms of economic viability) is co-terminous with being a successful knowledge economy (Polèse and Shearmur, 2002): “The world, economically and in management terms, has become a network of ... prosperous city-regions” (Ohmae, 2001: 33).

The implications of such an assessment spell the demise of periphery locations. Any location which is unable to muster a significant critical mass of knowledge will find itself exporting people, brains, investment, and other forms of capital to attractive metropolitan zones or their immediate suburbs. Employment opportunities on small islands will fall, actual entrepreneurs will move away, and potential ones will look askance. The young and educated people will relocate and migrate first, often never to return except to briefly visit relatives and friends. A decreasing population reduces the political clout of the peripheral community, rendering a lobbied political resolution to their adverse condition less likely while the availability of state-of-the-art public infrastructure (as in roads, health care, and education) also declines. This vicious dynamic appears irreversible. Depopulation, for many islands and peripheral regions, is already a real threat. Would the movement of the brightest and most able to the core make it even worse?<sup>7</sup>

Small islands are structurally cheated of markets, economies of scale, and institutional “thickness” (Amin and Thrift, 1994: 14–15). Burdened as they are with

6. Jean-Didier Hache, Secretary-General, Islands Commission, Conference of Peripheral Maritime Regions of Europe, private e-mail correspondence, April 13, 2004.

7. For example, Royle and Scott (1996) describe how those islands off the coast of Western Ireland which have been linked physically to the mainland have staved off depopulation much better than those islands which remain “unbridged.” See also Crichton (2004).

these structural handicaps, how can they not only react to these conditions but do so in a proactive way? Small-island communities must now navigate in a world that not only penalises the small and peripheral, but also favours big cities. At face value, they are amongst the most poorly equipped to respond to the challenges of the information age. Do, and can, small islands offer interesting lessons to the political economy of regional development?

### The NISSOS Project

A three-year pilot project, supported by the European Commission through its Leonardo da Vinci project,<sup>8</sup> is attempting to come up with a tentative answer to this question. The project, titled NISSOS,<sup>9</sup> seeks to develop vocational training tools and an entrepreneurship programme which is sensitive to, and based on, the best practices and experiences of those few, successful, small-scale, locally owned, export-driven, technology-adaptive manufacturing units with no more than 50 employees in small-island territories. The 11 partners of this project are co-ordinating inter-disciplinary research into exceptionally successful firms (as defined above) from five island territories in Europe which show great diversity in terms of geographic fragmentation, economic development and jurisdictional status<sup>10</sup> (see Table 1).

Table 1. Five European Island Territories participating in the NISSOS Project—basic data (data collated during summer 2003).

Island Territory	Population	Land Area (sq. km)	No. of Populated Islands	Jurisdiction	No. of Firms	Firms* per 10,000 Population	Mean Work Force
Ålands	26,000	1,430	21	autonomy within Finland	25	9.6	15.9
Iceland	290,000	103,000	4	sovereign state	53	1.8	26.0
Malta	400,000	315	3	sovereign state	19	0.5	22.5
Saaremaa	36,000	2,900	7	county	20	5.5	23.3
Scottish Isles	100,000	10,110	87	spread over six local authorities	23	2.3	10.5

\* These are locally (island) owned, mainly export-oriented, manufacturing firms with up to 50 employees and with locally developed or adapted technology.

The density of such successful firms varies between the territories, from a high of just over eight firms per 10,000 resident population in the case of the Ålands to only one firm per 19,000 residents in the case of Malta. Iceland suggests the highest mean employment levels among such SMEs, with an average workforce of 26 employees (inclusive of sub-contracted personnel). This could be indicative of more vigorous growth and expansion beyond the complement of the initial start-up staff.

8. [http://europa.eu.int/comm/education/programmes/leonardo/leonardo\\_en.html](http://europa.eu.int/comm/education/programmes/leonardo/leonardo_en.html)

9. NISSOS is the Greek word for island. Studying islands has been referred to as 'nissology' (McCall, 1996). NISSOS is also an acronym for Network of Islands for Small Scale Organizational Success.

10. These are Ålands (Finland), Iceland, Malta, Saaremaa (Estonia) and the Scottish Isles (United Kingdom). For more about the NISSOS project visit: <http://www.nissos.net>

The Scottish Isles have the smallest mean employment level of just 10.5 employees per firm, suggesting low consolidation. The Saaremaa case includes exclusively firms that have been established since 1990, many via conversions and privatisation; mean employment levels in such firms may have gone down in the last decade, even with business expansion, as a result of rationalisation and technological input.

### Research Objectives and Method

The research methodology adopted by the NISSOS Project is intended to first identify and then distil those features which have contributed to a performance which is exceptional by any standard, possibly also thanks to, rather than in spite of, the conditionalities of small scale, insularity, and peripherality and any of their associated socio-economic features. It uses a data-collection strategy pioneered in similar studies undertaken with respect to similarly successful manufacturing SMEs on the island of Viti Levu, Fiji, and Prince Edward Island, Canada (Baldacchino, 1999a; 1999b; 1999c; 2002). The pilot project seeks to identify the pedagogic implications of such inductively acknowledged 'best practices' and will compile a training manual and an interactive CD-ROM to bring these lessons home to policy makers, would-be and actual entrepreneurs, and students in higher vocational education in small island territories. Case studies have been criticised for providing only idiosyncratic and fragmentary evidence and for thwarting the development of theory (Page et al., 1999; Shaw and Williams, 1998: 254). However, in utilising the inductive approach which seeks to be informed by actual practice on the ground, the NISSOS project hopes to develop more appropriate, thinking-small policies of benefit to SMEs located in small islands which are not shorn of their own theoretical principles.<sup>11</sup>

A common questionnaire template was first devised, based on 65 distinct questions, and drafted following a discussion among project partners and experts (a copy is provided as an appendix to this paper). It was initially tested on a set of five firms (one from each participating territory) which, while corresponding to the criteria of success, also had in common a dependence on a naturally available resource or raw material input. Data was collated from key informants during summer 2003, especially from managers, employees, and/or owners of the firms in question. NISSOS partner organisations were responsible for drawing up a report based on the case study of the firm selected from their own territory. These cases were presented at a NISSOS Project workshop in Reykjavik, Iceland, in September 2003 and were keenly debated for their specific and generic lessons. The data was presented by using an essentially descriptive format. A summary of the key results is available in Table 2. For cross-reference purposes, the questions which have elicited the data set out in the table are indicated in its first column (Q1, Q2) and may be checked in the questionnaire.

### Discussion

While successful in accordance with the terms of the investigation, all five firms under study use different natural resource inputs (wood, wool, glass, and fish).

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11. "More 'Thinking Small' Policies Needed to Help SMEs," *Cordis Newsletter* 198 (June 3, 2002): 7. Accessed on April 11, 2004 from: <http://www.cordis.lu/focus/en/src/archives.htm>

Table 2. Data Summary pertaining to five successful SMEs based on raw material input, one from each participating island territory.

	Alands	Iceland	Malta	Saaremaa	Scottish Isles
Firm	Snickarboden	Lysi	Mdina Glass	Saare Paat	Shetland Weaver*
Product-Q1	wooden window blinds	fish liver oil	decorative glass	wooden boats	fashion garments/knitwear
Year Established	1986	1938	1968	1991	1982
Employees-Q2	12	45	35	44	1 +30 (subcontracted)
Exports as % Turnover-Q4	50%	82%	35%(+T)	75%	30%(+T)
Idea Originator	Founder	Founder	Founder + 2 Foreigners	Partnership (Swedish)	Founder
Annual Turnover:euros-Q3	1,000,000	6,500,000	800,000	550,000	65,000
Local competitors-Q6	2	1	2	0	15
Why set up-Q12	niche identification	perceived need	prompt by foreign friend	via Swedish partner	increased local demand
Why export-Q16	saturation of local market	perceived need in USA	saturation of home market	saturation	saturation & risk diversification
Founder	Krister Lindberg (KL)	Tryggvi Olafsson & brother Thordur	Joseph Said & 2 foreigners	Reorganisation of former collective	Linda MacDonald*
Founder Background	Engineer	Fishery Businesspersons	Designer	No specific individual	Skilled Knitter
Boss Bias?-Q34/36	Owner-Founder-Manager	Owner Granddaughter of founder	Owner-Founder-Manager	no	Owner-Founder-Manager
Management?-Q37/38	1/1 Manager Related	2/2 Managers Related	3/4 Managers Related	2/3 Managers Related	No Managers
Training-Q43	In-House (owner+foreman)	In-House	In-House (by owner)	In-House	In-House (by owner)
Worker Turnover-Q45	Low	Low	Average	High	Low
Skill availability-Q40/41/42	yes	yes	no	no	unclear
Wages-Q48	unclear	below average	unclear	unclear	below average
Best Practice (HR)-Q33	team spirit	unclear	production bonus	team rewards	loyalty
Rely on Internet-Q11	nil	unclear	nil	very rare	unclear
Cheaper than Competition?	no	no	no	yes	No
Cost Advantage-Q28	No: flexibility	No: uniqueness	No: flexibility	Yes: cheaper inputs	No
Technology-Q20/21	imported/ improved	imported/improved	imported/ improved	imported/ improved	imported only
Local Suppliers of Tech'y?	yes	yes	no	no	yes
Best Practice (Prod'n)-Q32	quality program	quality ISO 9002	no	no	Shetland Lady Trademark
Initial Finance-Q13	bank loan	self-financing	self-financing	unclear	self-financing
Sources of Finance-Q59	bank loan	unclear	personal & bank	bank loan	Trust-Grants-Private Sources
Institutional Support	unclear	UpJohn (USA)	unclear	Former Swedish owner	Significant
State support-Q60/61	nil	took part in trade missions	subsidised rent export promotion	"export support"	capital/promotional literature/ trips abroad/equipment upgrade
Obstacles to Export-65	unclear	unclear	freight (4%)/red tape in the past	borne by buyer	borne by buyer (5.8%)
Networking-Q64	no	unclear	Skilled Craftspersons	unclear	yes-local (SKTA)
Link with Island-Q49		Health - Purity - Fishing Quality- Maritime Tradition	Quality-Link with Tourism	Hand-made	Wool - Nature - Sheep
Other Island Effects	familiarity of founder with shop owner quality of life for founder			Long Tradition of Boat Building	Link with Tourism
Island Branding	low	high	high	high	high
Other Features			includes retail area		includes retail area

\* = pseudonym, following a request by the firm concerned.

They also exhibit different levels of competitiveness. Saare Paat is based in a country with a very recent history of economic liberalisation; its relatively lower wages allow that and other Estonian firms to compete on cost advantages, maintaining a high level of labour intensity in the production of hand-made wooden boats and other wooden products: the down-side is a relatively higher turnover of staff, presumably moving to better paying jobs in a buoyant labour market. Shetland Weaver utilises a putting out system to produce its FairIsle Garments. While it enjoys no price advantage and benefits from low worker turnover, it does not enhance or adapt imported technology and its operation remains strongly centralised around its founder and owner, in spite of being physically dispersed. This may explain its relatively lower annual turnover. Snickarboden, Lysi, and Mdina Glass do not compete on price advantage, have imported and adapted technological inputs, enjoy low staff turnover, have benefited from links or experiences abroad, and have instituted some kind of devolved management structure, even if with elements of family labour. Snickarboden and Lysi also benefit from the local availability of technological suppliers.

Apart from the Estonian case (which is a transformation from a former collective venture), the other four firms exhibit the typical launch of an SME as a one-person or family affair, based essentially on their own financing and/or a bank loan (probably under personal guarantee). Even many years after their establishment, these firms continue to remain controlled or dominated by the owner or his or her close relatives. However, the existence of a third party (such as a foreign friend, a business contact, a local supportive retailer or a potential client) is usually crucial and acts as a catalyst to the business set-up and is often a gatekeeper to the crucial off-island or foreign-market niches.

In all five cases, the obvious limitation of the local domestic market means that the decision to export off-island is a foregone conclusion. Unlike other larger markets, one cannot assume that an initial invention or major innovation will be followed by a period of relative stability marked by heavy local demand (Dahmen, 1988) where “passive entrepreneurs” (Morrison et al., 1999) come in to free-ride on someone else’s intuition. The decision to set up the firm may have been taken along with, rather than separately from, the identification of an off-island or foreign market niche. In the case of Shetland Weaver and Mdina Glass, the presence of tourist visitors on their island allows them to export their products without incurring additional freight, insurance or distribution costs.

Shetland Weaver has acknowledged strong state support, via local enterprise councils, in various aspects of its operation: capital procurement and upgrade, promotional literature, trade trips, and premises development. In the other four cases, support by the state or its agencies has been described as nil or marginal. In one particular case, “red tape” was singled out as a negative feature of state involvement. Such statements need not imply the total absence of state support; but, they may imply that whatever is provided by the state directly or otherwise is not valued highly by the recipient.

All five firms report that in-house training is a key feature for developing the skills of their employees. All five, except Lysi, have a strong craft disposition to their operation; so, much depends on the training of employees or out-workers, along with the inculcation of the corporate ethos, to ensure that a product that meets



company standards and client expectations. This training is often performed directly by the owner, who doubles up as instructor and the firm's cultural archivist.

Only Saare Paat offers products which are less expensive than those of its direct competitors. The other four firms must compete on quality to justify a higher priced product. The quality exigencies of the product are often supported by a specific quality program. Lysi conforms to ISO 9002 standards while Shetland Weaver upholds the Shetland Lady Trademark, which is an attempt at the local branding of quality garments.

Combining a retail outlet alongside the manufacturing facility proper is shrewd business sense for both Shetland Weaver and Mdina Glass. In that way, tourists, other visitors, and would-be clients can experience the development of the eventual product; production and consumption become deliberately blurred because of the overlapping of activities and experiences. Manufacturing takes on the character of a "looked at" process, an object of the tourist "gaze" (Urry, 1990) and therefore more readily associated, appropriated, and "consumed" as a souvenir.

### **Associating with the Island**

A small island economy quickly imposes an off-island orientation to any local entrepreneur. The export-or-perish syndrome is a very powerful one on small island territories and may somehow compensate for the absence of "domestic firm rivalry" that elsewhere pushes firms into higher quality products and processes, in turn creating competitive advantage (Briguglio and Buttigieg, 2003: 7; Porter, 1990: 92). Four out of the five firms being reviewed have two, one, or no significant domestic competitor.

Moreover, deliberately or otherwise, four of the five firms under consideration appear to benefit handsomely from their association with their home island. Iceland's long and proud association with the sea, its fisheries industry, and its maritime culture promote the branding of Iceland as a reliable provider of fish or marine related products and derivatives, as are the products of Lysi. Moreover, the tourism industry in Iceland is also branding its product as a high-priced destination with very high standards of natural beauty, purity, cleanliness, and general good health, all of which are useful sales pitches to Lysi's health products.<sup>12</sup> Similarly, Malta's tourism profile is heavily themed with notions of a hardworking and flexi-skilled Mediterranean race; the skill involved in developing the decorative ware of Mdina Glass is thus a way of congealing in time both contemporary labour as well as its historical past, as are other products, such as gold and silver filigree or hand-crafted decorative lace.<sup>13</sup> Saaremaa (the island of the wood nymph) and its Saare Paat firm are also free-riding on the island and Estonia's long tradition as a haven for wood.<sup>14</sup> It is no surprise that most of Saaremaa's export-oriented firms today are in the wooden-boat building or home-construction business; yet many of Iceland's export-driven firms are engaged in the fisheries sector.<sup>15</sup> But the close association between product and island is perhaps best advanced by Shetland and its FairIsle

12. The Iceland Tourist Board's sales pitch for 2004 is: "Pure. Natural. Unspoiled. Iceland. the way life should be." Visit [http://www.goiceland.org/brochure\\_2004/index.html](http://www.goiceland.org/brochure_2004/index.html) (Accessed April 2004).

13. "The Maltese are known for their gold and silver filigree and handmade lace. Other specialties include pottery, glass, ceramics, dolls, copper and brass articles." From: <http://www.visiturope.com/Malta/> (Accessed April 21, 2004).

garments.<sup>16</sup> The textile product is deliberately branded as the quintessential Shetland Islands souvenir, not the least thanks to the link between sheep, wool, nature, and the garment product to the islands. Local FairIsle knitters engage in cooperative competition (Shuk-Ching and Shuk-Ching, 2002), thanks to their common interest in safeguarding the high international regard of their Shetland Lady label and trademark.<sup>17</sup> The same strategy is being deployed with good effect in relation to Harris Tweed and by a number of Scottish Isles, such as Islay, Jura and Arran, in relation to whisky distilling (Royle, 2001: 176–78).

Meanwhile, Snickarboden stands out in failing to declare any association between its wooden window blinds and the Åland Islands. However, its owner and founder had spent time abroad in Sweden, yet decided to return to Mariehamn in order to enjoy what he claims to be a better quality of life. Although not articulated explicitly, elements of such an enviable quality of life on a small island might well include a well-bonded and loyal work-team (Bennell and Oxenham, 1983), strong family structures and other social networks based on mutual knowledge and familiarity (Boissevain, 1974; Srebrnik, 2000), and other significant and long standing “social capital” supports which promote unitarism (Baldacchino, 1999a; 2005). The island effect is not only significant in extending and packaging the island lure to potential clients (Baum et al., 2000; Fairbairn, 1988), but also to potential entrepreneurs. In so doing, it does well to develop a “brain-rotation” strategy which depends on the attraction of foreign brains to the island; or of local brains leaving the island, developing skills, knowledge, contacts and acumen while away, and then luring them back with their added knowledge. This may be one viable response to the challenges of the knowledge driven economy; although, admittedly, such a global outlook may not figure so prominently on the strategic agenda of small-island entrepreneurs who are developing products sourced from local inputs. That a significant percentage of an island population may be away at its respective metropole at any point in time (Lowenthal, 1987: 41–43) facilitates the “glocalisation” of its citizenry (Courchene, 1995), and its ability to mix and match local virtues with global opportunities.

In spite of the often-assumed potential of the internet in transcending space and developing into an effective business tool,<sup>18</sup> the five SMEs from small island territories in this study remain exceptionally unconvinced and sceptical of such prospects. To them, it seems that the best approach to source suppliers, identify clients, and develop a market share remains the one they are most comfortable and familiar with: face-to-face encounters and personal knowledge (Shrimpton and

14. Juniper Trees, along with dolomite, windmills, and the famous local home-brewed beer are considered the symbols of Saaremaa. From <http://www.saaremaa.ee/eng/tourism/default.htm> (accessed April 21, 2004).

15. Ten out of Saaremaa’s 21 successful SMEs are engaged in building wooden products (houses, boats, souvenirs); while at least 16 out of Iceland’s 53 successful SMEs deal in fish or fish-related products.

16. “Shetland is probably better known for its knitwear than for any other craft product.” From [http://www.shetlandtourism.com/pages/shetland\\_crafts.htm](http://www.shetlandtourism.com/pages/shetland_crafts.htm) (accessed April 21, 2004.) FairIsle is actually the name of the southernmost island of the Shetland archipelago.

17. <http://www.users.zetnet.co.uk/shetland-collection/lady4.gif> (accessed April 21, 2004.)

18. “Europe is better geared towards entrepreneurship, but major obstacles remain,” *Cordis Newsletter* 186 (December 2001): 10. From <http://www.cordis.lu/focus/en/src/archives.htm> (accessed April 11, 2004).

Pollett, 2000). The development of a presence on the world wide web is important, and most export-oriented firms in the five territories now have their own web-site; yet, the internet's role in actually clinching business remains to be seen. Perhaps the internet is more useful as a marketing tool to those other companies which compete on price. Being involved in an up-market niche may explain why one can afford to be slow in grasping any of the benefits of internet marketing.

### Conclusion

*"[B]eing an island does not seem to be the handicap to economic performance that one would intuitively expect" (Armstrong and Read, 2003: 255).*

In spite of structural handicaps, there exist a few but notable examples of successful, locally owned and export-led, small-scale manufacturing operations from small islands. They may not operate as parts of large knowledge clusters, but they may have deployed their entrepreneurial innovation skills<sup>19</sup> by identifying what they can do best, which is promote quality (often branded) products for selective niche up-markets. In spite of a general non-availability of island-specific data,<sup>20</sup> this paper has diagnosed such examples that are drawn from firms which use naturally available resource inputs. This has been done with a view to unpacking a set of best practices that may be translatable to other firms on the same or similar island territories. These practices may, in turn, inform the training, education, and professional development of business students, apprentices, and/or entrepreneurs from the same and other small-island jurisdictions.

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## Appendix: Template Questionnaire

### *Successful Small-Scale Manufacturing from Small Islands – The NISSOS Project*

#### Fieldwork Template

The project partners met in Sliema, Malta in May 2003 and agreed on a template which would guide their pilot investigations into at least *one* successful firm per island territory during summer 2003. The results of such pilot fieldwork were be circulated amongst all project participants by September 15, 2003 and then reviewed and refined in the second project meeting that was scheduled to be held in Reykjavik, Iceland in September 2003.

The revised fieldwork template is outlined below. It consists of 652 questions that are organised into a series of sections and sub-sections and are as follows:

- A. Enterprise Data
- B. Stakeholder Analysis
- C. Enterprise Competencies
  - Production Considerations
  - Marketing Orientation
  - Operational Effectiveness
  - Enterprise “Internal” Architecture
- D. The Firm’s Resources
  - People
  - Reputation
- E. Enterprise “Fit” with Its Environment
- F. Other Reasons
- G. Additional Considerations

#### **A. Enterprise Data**

1. Product Description
2. Number of Employees (full-time and other)
3. Turnover in (annual data over the 5-year period: 1997–2002)
4. Exports as a percentage of turnover (same 5 year-period)
5. Number of years exporting
6. Number of direct local competitors
7. Number and Names of countries presently exporting to
8. Number of ‘regular’ overseas clients
9. Position and name of person responsible within firm for exports
10. Freight costs as percentage of landed price in main export market
11. Percentage of exports derived through internet, if any

#### **B. Stakeholder Analysis**

12. How did the project idea originate?
13. How was the initial finance for the project raised?
14. Did the firm find the necessary institutional support?
15. What are the perceived reasons for the firm’s success in exporting?

- a) internal
  - the owner/managing director
  - other management
  - employees
  - other
- b) external
  - state/government authorities/officials
  - local authorities/officials
  - clients
  - bank
  - other

16. Who and what triggered the drive to export?

- Saturation of home market
- Retaliation to entry of foreign competitors in home market
- Diversification of business (e.g. currency) risks
- Encouragement by public-sector support agency
- Other

### ***C. Firm (or Enterprise) Competencies***

a) production considerations

17. Are the firm's products priced cheaper on the export market?

18. Does the product have any unique features or specialised use?

19. If the firm has a cost advantage is it due to:

- Cheaper Costs: raw material; labour; water; electricity; other
- Uniqueness of production process
- Flexibility: small runs
- Location: closeness to market
- Other

20. Is the production technology imported?

21. Has the firm improved this technology?

22. Are there any local suppliers of specialised machinery used in the production process?

b) marketing orientation

23. How were the first contacts with the export market established?

24. Were export opportunities to other markets explored?

25. Is the exported product any different from that sold in the home market?

26. Who are the firm's main competitors in the respective export markets?

27. Are any of these competitors from the same country as the firm?

28. Are the products of competitors cheaper or more expensive? (possibly indicate difference as a percentage of firm's price)

29. How does the firm's exported product reach the final buyer?

30. Does firm enjoy competitive advantage from its distribution system abroad?

31. How are sales in the export market promoted and supported? (via advertising, below-the-line promotions, discounts, etc.)

c) operational effectiveness

32. Does the firm follow any “best” practice that gives it a cost or an operational advantage, such as:

- Financial management
- Use of information technology
- Innovation
- Flexibility
- Other

d) enterprise “internal” architecture

33. Does firm follow any “best” practice in structure, internal communication, drive to support worker commitment that lead to a competitive advantage, including:

- Stimulates team spirit
- Transmits enterprise values
- Communicates objectives
- Sets and monitors targets
- Rewards performance

#### ***D. The Firm’s Resources***

a) people

34. Was the enterprise established by its present owner?

35. What was the background of the original owner?

36. Is the enterprise still managed by its owner?

37. Are there other managers running the enterprise?

38. Are they related to the owner? (yes/no/both):

39. If they are relatives of the owner, have they had formal training in the activity they are responsible for?

40. Does the company’s production require any specially-skilled workers?

41. If yes, are these skills readily available on the labour market?

42. If yes, where is the supply of such skilled workers coming from?

43. If no, does the enterprise provide its own training?

44. Who is responsible for training such workers in-house?

45. Is there a high turnover in the employment of such workers? What percentage of the staff has been replaced over the past 12 months?

46. What percentage of the staff has had training and/or work experience off the island?

47. What percentage of the staff has had educational experience off the island (do *not* include distance learning)?

48. How do the firm’s wages and salaries compare with the sectoral average on the island?

b) reputation

49. Does the enterprise benefit from the reputation of its region/island/country in its line of business?



50. If yes, can this benefit be defined?
51. Does the enterprise enjoy a reputation among its clients as a quality supplier of products/services?
52. Is such a reputation shared by other stakeholders such as, suppliers, banks, local authorities?
53. Does the enterprise brand its products?
54. Is this brand different from the enterprise's name?
55. What percentage of the client base would select a product on the reputation of the enterprise rather than the strength of its brand?
56. How does the enterprise actively promote its brand?
57. What percentage of turnover goes to fund advertising and other brand-building measures?

***E. Enterprise "Fit" with Its Environment***

58. Define the enterprise's relationship with the bank.
59. Define the enterprise's sources of finance.
60. Has the enterprise benefited from state support programmes for small enterprises? (heavily/significantly/marginally). Specify.
61. Were state programmes or agencies supportive of the export drive? (heavily/significantly/marginally). Specify.
62. Did government offer specific incentives to encourage exports? Specify.
63. Does the enterprise have any strategic alliance with supplier/key client?
64. Does the enterprise in any way network with similar enterprises in its field?
65. What were the main limiting factors/obstacles that the enterprise had to overcome in its drive to export?

***F. Other Reasons for "Success"***

***G. Additional Features***

- a) The evolution of entrepreneurship: Why and how was the firm actually started? What led to the entrepreneur to take up the challenge of production?
- b) The adaptation of technology: Why and how did the production process and design get adapted (and not just adopted)?
- c) The leap into export: Why and how did the firm take the critical step of trying to go for exports?

