



Camera di Commercio, Industria, Artigianato e Agricoltura di Cagliari

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Abstract of the Paper on the Research Project

**“Negative Management Differential
as perceived by entrepreneurs
of the Province of Cagliari”**



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1. Introductory Remarks

Pursuant to the amendment of Article 158 of the Treaty of Amsterdam, which became effective on 1 May 1998, the people of the islands of the European Union obtained formal recognition of the fact that insularity, or island status, is a cause of permanent structural handicaps of a social and economic nature.

Clearly, this acknowledgement leads us to expect that the European Union will, through its social and economic cohesion policy, take steps to eliminate (or at least mitigate) the handicaps of insularity and thus ensure that the people of the European islands can enjoy the same social and economic opportunities as the other European citizens.

Indeed, Article 158 quoted above is the benchmark for the implementation of a juridical and institutional policy of social and economic cohesion in the European Union. It places on the same level the least favoured regions of the Union and the islands; thus, it expresses a commitment to act for the benefit of both groups of disadvantaged regions, that is the least favoured and the islands.

However, five years since the Treaty of Amsterdam has entered into force, this article has not yet been implemented, while a number of events taking place in the EU arouse concern in the island communities, who fear that their right to equal social and economic opportunities may be denied them. We refer, in particular, to the new “enlargement of the Union to include 25 States in total”, the Convention of Europe, requests for recognition of various other types of handicaps etc.

As regards the latter point, we are certainly convinced that all types of handicap need to be dealt with, but this is not to say that all handicaps are of equal impact, or that the existence of other handicaps should be a reason for neglecting the permanent structural handicaps of insularity.



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2. Aims & Methods

The background and problems outlined above prompted the Cagliari Chamber of Commerce, Industry, Handicrafts and Agriculture to plan and implement a research project entitled “Negative Management Differential as perceived by entrepreneurs of the Province of Cagliari”.

The survey was carried out in the months of August, September and October 2002, so as to report on its results during the 3rd INSULEUR Forum held in Cagliari (Italy) on 14-15 November 2002.

The project had three main objectives:

- a) assess the local business people’s awareness of the impact of insularity on enterprise operation;
- b) identify those areas of company management which are most affected by insularity;
- c) measure the overall economic impact of insularity on local enterprises.

The results for the first two items of enquiry were largely as expected, i.e. there is clear awareness among business people of the multiple serious negative effects of insularity and there is a general consensus on the areas of company activity most affected by insularity. On the other hand, no attempt had been made before our study to measure the consequences of insularity – albeit in general terms – and thus assess their magnitude.

The survey was based on a sample group of local entrepreneurs who were requested to reply to a specific questionnaire. We collected and processed the replies of 100 entrepreneurs in the manufacturing sector.

3. Results

The survey produced the results summarised below:

- a) 97% of interviewees reported that their business was seriously affected by insularity;
- b) the remaining 3% reported no adverse effects simply because all their



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procurement and sales were local, i.e. on the island. These respondents run “micro” enterprises;

- c) the impact of insularity was perceived not simply as a general external diseconomy, but comprised a number of negative effects concerning, to different degrees, all business operations: procurement, sales, transportation, cost of power supply, access to credit, industrial processing, administration and accounting etc.;
- d) moreover, interviewees provided figures which supported their claim of greater costs and lesser earnings (negative management differential) in their different business operations stemming from insularity. In brief, the greatest costs emerged from the following three functions (average values are also indicated): transport of raw materials 18.82%, transport of finished goods 16.70%, procurement 15.64%. Slightly lower additional costs were reported in the following areas: manpower 12.27%, accounting, control, administration 6.70%, other industrial activities 6.31%.

Overall, this research project made it possible to identify and quantify the negative impact of insularity on local businesses in the range 20-24%.

Clearly, these values are cause for grave concern since, if local businesses face average production costs 20-24% higher than their mainland competitors, they cannot hope to measure up to competition and thus, at least in the medium/long term they will have problems entering the marketplace or will eke out their existence with very uncertain prospects.

Indeed, a high degree of instability seems to be widespread among local enterprises.