The Impact of a Business Incubation Centre On Business Enterprises in Gozo

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Abstract: It is widely acknowledged that micro-firms, together with small- and medium-sized enterprises (SMEs), contribute economic value to their country's Gross Domestic Product such that they are considered to be the backbone of their country's economy. However, small- and micro-firms face tests emanating from a lack of resources, access to finance, shortage of databases, increase in market competition, and a lack of entrepreneurial eagerness, capacity, and expertise. This research study examines to what extent Gozo, a small island, can strengthen its economic development and competitiveness by offering its micro-firms a business incubation centre. A micro-firm employs up to nine employees. The research stance applied is grounded theory methodology as advocated by Charmaz's (2006) constructivist approach. The use of interpretive and qualitative in-depth interviews is undertaken with nine owner-managers of micro-firms where one could note that the spirit of entrepreneurship of these owner-managers is high. Mistakes committed by the owner-managers' past management endeavours signals if there is the need of a business incubation centre in Gozo, a centre that will offer support to new business start-ups on a small island, with around 30,000 inhabitants. This research study came up with very significant findings. New micro-firms established in Gozo are after innovation and new markets. Their owner-managers have the drive and the insight to innovate and are eager to move forward. New firms are ready to look for capital so that their venture can compete more effectively, notwithstanding that banks have become very restrictive when providing finance. In most cases, micro-firms are politely denied finance as they are deemed too unsafe to lend to. EU funding necessitates that micro-firms have expert advice in the completion of EU funds applications; most micro-firms in Gozo cannot afford to employ a specialist for such a job. Owner-managers of micro-firms hold that Gozo's necessities should be looked at in a different manner from Malta as they consider the lead time to import raw materials to be much longer than their counterparts in Malta. Micro-firms managers are seeking a facility in Gozo that is able to provide them with managerial training relating to the recruitment of personnel, business planning, marketing capability, new investments, and organisation. Owner-managers seek to address their innovation eagerness by having a business incubation centre in Gozo that caters for research and development programmes.

Keywords: micro-firms; business incubation centre; entrepreneurship; innovation; EU funding; grounded theory; constructivist approach

Objectives of Paper

The aim of this research study is to assess what type of business incubation centre should be recommended for the small island of Gozo such that in turn contributes successfully towards Gozo's economic development and competitiveness. Moreover, this research study endeavours to also evaluate how the setting up of a business incubation centre in
Gozo impacts on the readiness of prospective micro firms for innovative entrepreneurship, and how an incubation centre can be valued by current micro-enterprises in Gozo. Small islands are labelled such because of their very small territorial size. They tend to also suffer from a geographical isolation. Being small and geographically isolated, small islands are viewed by many as sources of economic vulnerability. This is the case with Gozo, a small island in the Maltese archipelago. Gozo has an area of 67km² with a population of 32,000 inhabitants. It is widely acknowledged that small- and micro-enterprises are continually injecting vigorous economic growth into their respective country; this growth, in turn, helps to create new jobs. The National Statistics Office in Malta has identified no fewer than 51,000 small business units that were operational in 2021; 95% of these registered up to 9 full-time employees and the remaining 5% registered 10 to 49 full-time employees. These small business units provide around 65% of employment, 38% of the economy’s value added, and 17% of investments within the private sector in Malta. These micro-firms, together with small- and medium-enterprises (SMEs), create economic value for their country’s Gross Domestic Product and they are considered as the backbone of their country’s economy. However, small- and micro-firms face tests emanating from a lack of resources, access to finance, shortage of databases, increase in market competition, and a lack of entrepreneurial eagerness, capacity, and expertise. The Maltese government is continuously supporting small firms by providing schemes such as the Startup Investment Grant and the Training Subsidy Scheme which assist start-ups to nurture an entrepreneurial culture and to be resilient in order to be able to cope with future challenges. The Startup Investment Grant Scheme, which is administered by Malta Enterprise, assists start-ups to part-finance their initial investment in tangible and intangible assets, as specified in a business plan, to implement their business growth strategies. The Training Subsidy Scheme (TSS) programme, as administered by Malta’s Employment Training Corporation (ETC), is in line with the European Social Fund Employability Programme. The programme seeks to help self-employed persons in micro-firms employing less than 10 individuals by developing their skills through off-the-job vocational education and training and by providing a training grant with costs relating to training. Moreover, in the case of Gozo, the Maltese government’s budget for 2020 heralded that start-ups in Gozo would continue to benefit from the Gozo Business Scheme and the Start-up tax credit for new and emerging SMEs, thus encouraging more businesses to set up shop in Gozo. Prior to investing in a start-up company, the entrepreneur considers the contextual conditions and vulnerability factors that may impact the investment. Briguglio (2001) states that vulnerability, in the case of a small island like Gozo, can be attributed to the island’s environment and economy. The owner-manager has to also evaluate the projected performance of the start-up and the attractiveness of the locality where the investment takes place; the latter are usually considered lower in the case of archipelagos and islands (Camonita 2019).

The research method applied is that of grounded theory as advocated by Corbin and Strauss’s (2008; 2015) conditional matrix and Charmaz’s (2006; 2015) constructivist approach. Grounded theory is a qualitative method that develops theory from observation, representing a structure that is both flexible and rigorous (Glaser and Strauss 1967). As a methodology, it is systematic to handle any biases and prejudices (Glaser and Strauss 1967). In this approach, theory evolves from the systematic collection, comparison, and analysis of data gathered, leading to concept generation and the continuous interaction between actions and concepts. The approach adopted in this study is in line with research developments in recent years, where grounded theory is being used as a methodology using the interpretative approach to undertake management research (Urquhart, Lehmann, and Myers 2010). Grounded theory is renowned for eliciting rich insights and comprehending the intricacies of organisational behaviour and activities leading to the construction of reality that is grounded in data.
Expert interviews were conducted with nine owner-managers of micro-firms that participated in this study as they can provide deep insights on the deployment of a business incubation centre for micro-firms. The software package MAXQDA2022 was used to enhance the coding and mapping capabilities that emanate from the coding and analysis of data collected. The researchers, already trained and experienced in interviewing techniques, were the only persons that gathered data and transcribed the digital recordings. The researchers followed Charmaz’s (2006; 2015) guidelines whereby data collection, comparison, and analysis are undertaken simultaneously after each interview is held. After each interview was concluded, the researchers created memos by utilising field notes that resulted from some brief comments and key important issues that emerged during the interview. This memo-writing process enabled the researchers not only to analyse the data promptly but also to generate ideas which may be checked at a later stage of the research process.

Research Question, Aim and Objectives

The research question that has directed this study and the corresponding aims and objectives can be expressed as follows:

To what extent can Gozo, a small island, strengthen its economic development and competitiveness, by setting up a business incubation centre for its micro-firms?

The objectives of this paper are more specifically as follows:
1. To assess what type of business incubation centre is suitable for micro-firms operating in Gozo, which will contribute towards its economic development and competitiveness.
2. To evaluate how the setting up of a business incubation centre in Gozo impacts the readiness of prospective micro-firms for innovative entrepreneurship.
3. To appraise how current start-ups by micro-firms operating in Gozo can reap the benefits from the setting up of a business incubation centre.

Start-ups and Business Incubators

Start-ups and business ventures do not face the same challenges where growth is concerned. They both refer to a new company, where a start-up is expected to grow at a fast pace in its initial stage, even up to seven percent weekly. A business venture is expected to grow gradually and may take even some years to register a profit (Small Business 2020). Starting a business venture is all about ideas that match one’s skills and goals. The owner-manager must assess the firm’s budget within a business plan, deciding on the amount of finance the firm is willing to invest in the new venture (Small Business 2020).

Van Burren (2019) postulates that specialisation, technical, purchasing and buying services can benefit the new start-up to continue to progress ahead. It is widely acknowledged that when a micro-firm start-up starts to function it is generally a one-man army. Van Burren (2019) contends that if the entrepreneur hires dedicated workers to handle different roles in his business, the firm would be reaping the benefit of a specialised workforce. This author reiterates that start-ups benefit from technical improvement when their production increases, having diminishing fixed costs per unit in relation to production output whilst a continuous increase in purchasing is set to provide benefits to the new start-up. Indeed, growth in business paves the way for placing more orders to one’s suppliers. As per Small Business (2020), the other difficulty that seems to reach the local entrepreneur, upon starting their venture, is that of hiring employees. Sokol (2020) suggests that whilst doing interviews can seem to be a day without end for the entrepreneur, selecting the appropriate employee, especially with unqualified candidates, can prove to be a challenge.
Briguolo (2001) holds that employees in many small islands are more willing to find jobs in the public sector rather than in the private sector; employees in the public sector are not motivated by profit and efficiency, but in many of the cases they are after the culture of political patronage.

Another difficulty encountered by start-ups is the issue of delegation. New micro-firms find it difficult to delegate tasks to their employees. This difficulty could by time pose a challenge to entrepreneurs since absence of task delegation is able to demand unnecessary pressure on management, resulting in tasks having to be done all over again (Small Business 2020). Capital to start one’s business always poses a difficulty; entrepreneurs seem to suffer short-term difficulties to finance their working capital requirements. Self-doubt is by far one of the difficulties that an entrepreneur encounters in the beginning of the firm’s venture (Small Business 2020). It is customary that an entrepreneur gets discouraged when sales are lower than goods produced. Although economies of scale can benefit a small business, self-doubt may demotivate the entrepreneur when something goes wrong with their venture; one feels like giving up one’s business. In such instances the entrepreneur is perhaps practically unaware of the benefits that may accrue if they adopt economies of scale in their day-to-day operations (Small Business 2020). Shukla et al. (2015) maintain that one can consider the entrepreneur, entrepreneurship, and the business incubator as that dynamic where the entrepreneur is the individual, entrepreneurship is the process, and the business incubator being that bonding force between the entrepreneur and entrepreneurship to provide more towards the economic growth of one’s country.

The failure rate of start-ups in many countries is considered very high—over seventy per cent (70%) (Patel 2015). Many entrepreneurs such, as Kratch (2016) and Gilbert et al. (2010), suggest how entrepreneurs can manage risk when they launch their new venture. Clark (2006) claims that start-ups in developing countries risk daily their new business ventures because of their government’s indifference; some developing countries oppose entrepreneurship and investment. Griffith (2014) notes that start-ups do fail miserably, amongst other valid reasons, because they lack a market for their product. Kaminskaite (2017) holds that others confuse innovation with creativity and ideas; some financial analysts also tend to suggest that ideas that generate cash are considered as innovations.

Henry (2017) asserts that any small firms fail because of a number of factors. These factors comprise: management of start-ups starting to lack motivation and commitment; managers being “filled” with self-pride, resulting in an unwillingness to listen to others; management taking advice from people that are not specialists in their line of business; management lacking business knowledge as to how to administer operations, markets and finance; and management tending to ignore their customers.

Bøllingtoft and Elhøi, (2015) state that the concept of business incubators for start-ups is “borrowed” from the field of medicine. These authors contend that business incubators are institutions that in their line of duty are there to help new ventures in their first days of operation. These institutions are set to provide new enterprises, amongst other things, with physical facilities, proper contacts for facilitating access to capital, a good communication infrastructure, and managerial assistance through the incubator’s personnel. Shulka et al. (2015) claim that business incubation centres should also provide would-be entrepreneurs with assistance such as developing business plans, marketing plans, the building of management teams, and assistance in how to obtain capital.

**Grounded Theory Methodology**

The methodological stance that has been adopted by the researchers for this study is that of grounded theory. In this approach, theory evolves from the systematic collection,
comparison, and analysis of data gathered, leading to concept generation and the continuous interaction between actions and concepts (Glaser and Strauss 1967). The approach adopted in this study is in line with research developments in recent years, where grounded theory is being used as a methodology using the interpretative approach to undertake enterprise research (Goulding 2002; Urquhart Lehmann, and Myers 2010). Because of the specific nature and particularity of this research study, grounded theory is an appropriate and suitable methodological stance (Birks and Mills 2015).

Grounded theory, through the activation of in-depth interviews, is regarded as an appropriate qualitative methodology that furnishes rich insights and considerations of organisational tasks and processes, forming integrated patterns that result from the close proximity to the qualitative data gathered (Corbin and Strauss 2008). Grounded theory’s approach to sampling discards the procedure for calculating sample size, purposely searching for valuable cases that are rich in information content (Aquilina 2017). Indeed, sampling is not a procedure that is undertaken for locating participants who represent the population at the beginning of the study, as it is in quantitative inquiry. Rather, in qualitative inquiry, the goal of sampling is to represent the phenomenon (Bryant, 2019). Grounded theory researchers initially undertake convenience sampling by selecting early participants. The initial data collection and analysis subsequently directs the researchers to discover diversity in properties and new avenues of enquiry leading to purposeful sampling. In this study, theoretical sampling is also undertaken, as participants had to be chosen specifically to provide additional concepts on specific themes, experiences or other attributes requiring additional development.

The researchers conducted face-to face interviews with 9 participants with the premise that such interviews were the sound mechanism by which to generate data in grounded theory research. Each interview, which was digitally recorded, lasted between 30 to 45 minutes. Table 1 provides a demographic overview of micro-firms participating in this study.

Participants were notified beforehand with a purpose statement—by means of a covering letter—that explained clearly the objectives of the research study that is to be undertaken. The researchers adopted Rubin and Rubin’s (2012) approach of responsive interviewing where researchers are able to explore in detail the happenings, motivations, and opinions of their participants and be able to understand better the world from the participants’ viewpoints. In order to explore in detail their participants’ experiences or motives, the researchers had to adapt themselves to the interviewees’ personal traits, especially when facing owner-managers that had an introvert character. Such owner-managers presented a challenge to the researcher in that one had to resort to structured questions in order to mitigate the risk of ending the interview process prematurely.

Grounded theory uses a fundamental concept, that of the coding of key themes and incidents provided in the transcripts of the research participants, as they attempt to provide their perspective on a phenomenon. There is evidence that decision-makers are more likely to endorse findings that derive from qualitative research rather than the traditional quantitative survey measurements as the primary source of data collection (Shankar and Goulding 2000). This research study has adopted Charmaz’s (2006) constructivist approach. It assumes multiple realities and multiple viewpoints of these realities.
Table 1: Demographic overview of micro-firms that participated in this study

The researcher’s values, positions, and actions impinge on the interpretations and construction of categories, subcategories, and properties that stem from the interaction between the researcher and participants. Furthermore, as posited by Bryant (2017), the grounded theory method must relate to the development of research skills such as motivational enquiry, critical insight, interpretation, expertise and experience which contribute towards the theoretical sensitivity of the researchers.

Gurd (2008) advocates that grounded theory is not only appropriate to analyse questions relating to process, but is also suitable to evaluate behaviour in organisations. Glaser and Strauss (1967) also claim that grounded theory fits the interpretative approach, since data analysis leads to inductive rather than deductive discoveries. Whereas they discard the rigour of testing a hypothesis from existing theories, they contend that the creation of analytical codes and categories evolves through the continuous comparison of data sets throughout each stage of the analysis. This constant comparison method paves the way for theory building.
Strauss’s early discord with Glaser had led to the former collaborating with Corbin to formulate a coherent and structured codified data system. Whereas Glaser applies grounded theory as a research design, Corbin and Strauss regard grounded theory as a research technique which follows a set of procedures systematically (Gurd 2008). Similarly, Charmaz (2006) transforms the heuristic rules applied by Glaser and Strauss into a flexible approach by advocating researchers to use these guidelines as an assortment of generic principles. Indeed, she raises the level of grounded theory to a technique that researchers adopt in their research activity. In this respect, the researchers’ justification for adopting grounded theory methodology emanates from its definite elements, embodying a series of systematic steps for data collection, coding, and analysis, theoretical sampling, memo writing and constant comparison leading to the generation of conceptual categories, sub-categories, properties, dimensions and theory building (Charmaz 2006). Indeed, through these procedures researchers can identify and analyse patterns of data leading to the derivation of theory that will be consistent empirically.

Context and Process in Grounded Theory Research

Grounded theorists Glaser and Strauss (1967), Charmaz (2006), and Corbin and Strauss (2008) affirm the importance of process in grounded theory, arguing in its favour and that if researchers understand the intricacies of how, rather than why, small firms will reap the benefits that may accrue from the setting up of a business incubation centre. They contend that structural or contextual conditions cannot be discarded, as these impact the processes that are derived from strategic actions, interactions, and emotions. To assist researchers in identifying and analysing processes, they devise strategies to detect concepts within categories, tied to a central category. This linkage process develops iteratively until the emergent categories saturate through theoretical sampling. Likewise, Charmaz (2006) maintains that since processes are moulded by past events, even the most standardised processes will effectively uncover new perspectives and insights.

Description of Framework

The researchers utilise MAXQDA2022 as a qualitative data-analysis software application in order to exploit the mapping capabilities that result from coding and comparison activities of the large volume of data gathered. This process entails evaluating data to formulate a set of categories, sub-categories, and properties. Each transcript from the interview data is uploaded onto MAXQDA2022. During this stage, the researchers use in-vivo coding whereby each interview is analysed by selecting all important incidents from each interviewee’s discourse. Although the process of uploading the first 3 interviews’ detailed transcripts and generating in-vivo codes for each interview proved to be very time-consuming, the researchers believe that this was not time wasted. This process generated some 290 in-vivo codes. Charmaz (2006: 56) emphasizes that “in vivo codes reflect assumptions, actions and imperatives that frame action”. Through in-vivo coding, the author contends that researchers develop a profound understanding of what is unfolding within the participants’ working environment.

After this exercise is completed, the researchers created concepts from the code segments which emerge from each phrase or sentence or paragraph that are linked to each in-vivo code from each transcript. The researchers then uploaded the remaining six transcripts, one at a time, onto MAXQDA2022, analysed data segments, and undertook the constant comparison approach to strengthen the existing codes or to create new ones. Concepts
are then formed by collecting the codes together, transforming them into common themes and subsequently placing them into categories and sub-categories, each with their properties and dimensions. At this stage, the researchers also undertook the process of axial coding, as advocated by Corbin and Strauss (2008), by classifying the category framework into contextual conditions, actions/reactions, and consequences/outcomes. Consequently, the researchers endeavour to identify the interrelationships between categories and to relate structure with process. After compiling the conceptual category structure, coded segments are analysed from each transcript and subsequently linked to the corresponding properties and sub-categories within each category. This process, which entails a continuous comparison of data sets, guides the researchers to validate the data sets gathered. Consequently, this proves to be an adequate method to reduce the risk of the researchers influencing the study with their preconceived ideas, which would naturally have accumulated throughout their professional experiences. MAXQDA2022 assists researchers to evaluate and interpret systematically textual data. In particular, its main screen embodies 4 windows representing a quadrant structure of document group, coding/category system, text browser and the retrieved segment window. Figure 1 depicts an example of MAXQDA2022 used in this research study, showing the four windows. MAXQDA2022 fits within the analysis framework that is essential when a grounded theory study is carried out.

![MAXQDA screenshot representing the 4 segments: Document, Browser, Coding, and Retrieved Segments](image)

The hierarchical structure, as illustrated in Figure 2, comprises a core category, three categories, and various sub-categories denoting the various constructs that emerge from the evaluation of the 9 in-depth interviews with owner-managers of micro-firms.
Figure 2: Interrelationships between the three main categories

The core category focuses on the “establishment of a business incubation centre in Gozo enterprise education”. The three categories which comprise the contextual conditions, actions and reactions, consequences, and outcomes are rooted in Strauss and Corbin’s (1998) coding paradigm of the Conditional and Consequential Matrix. Context portrays the set of conditions in which situations relating to the setup and growth of micro-firms in their preparation to adapt to the implementation of a business incubation centre in Gozo occur and to what extent these micro-firms respond through their actions and interactions. As a result, these previous actions bring about consequences which represent the outcomes of these actions or of responses to events. Therefore, whereas the outcomes are the result of actions in response to the implementation of a business incubation centre, the consequences answer the questions about what happened as a result of those actions. Consequences may in turn trigger changes in the contextual conditions. Furthermore, there is the issue of reverse causality where the consequences will also influence further actions, reactions, outcomes, and context. This is not a problem in grounded theory as authors such as Charmaz (2006) and Corbin and Strauss (2008) argue that all categories will react and interact to explain the phenomenon under study.

The researchers followed Corbin and Strauss’s (2008) recommendations by analysing data for process and examining the interrelationships between concepts within the categorical framework based on context and conditions, actions and reactions, and consequences and outcomes. Each category comprises six sub-categories as depicted in Figures 4, 5, and 6. These subcategories are further expanded with their corresponding properties in Figures 4, 5 and 6 reflecting the construction of reality through the interpretation of grounded data. An evaluation of the interrelationships between these emerging constructs, within the hierarchical structure denoting contextual conditions, actions/reactions and consequences/outcomes, was carried out. A typology strategy is followed in this research study whereby data is grouped into categories, subcategories, properties and dimensions according to established common criteria. The identification of the relationships and interrelationships between these emerging constructs would not have been possible without integrating structure with process, as advocated by Strauss and Corbin (2008). Structure encompasses the contextual conditions and the consequences, whereas process
denotes the actions and reactions undertaken by the micro-firms’ owner-managers. The different cycle stages that each owner-manager passes through shows that the contextual conditions trigger the owner-managers and business incubation providers’ actions and reactions, which then influence the outcomes and consequences.

**Contextual Conditions**

The Contextual Conditions category, which depicts the emerging constructs in Figure 3, comprises six sub-categories, namely, Organisational Setup, Organisational Background, Family-owned Firms, Pre-Startup Strategy, Owner-Manager Characteristics, and Organisational Growth.

![Image of Figure 3: Emerging constructs within the Contextual Conditions Category](image)

**Organisational Setup**

Most of the owner-managers of the micro-firms that participated in this research study undertake strategic decisions based more on pragmatic intuition rather than on academic principles. Such a strategy generally leads owner-managers to throw away money without even starting their business; as participant 1 states, “We should have asked for advice on what strategy we could adopt at our start-up since we were throwing away money as a new company.” However, this study shows that six owner-managers experienced business growth over the years requiring them to undertake strategic decisions, engaging themselves in various forms of business planning and strategic management behaviour.

Most small-firm owners are very busy and find it hard to justify spending some time to write up a business plan. However, most owner-managers acknowledged the importance of thinking about their firms’ future business activities. All participants in this research study stated that when they started their business activities, their firm had no formal business plan written down. However, most of the firms did formulate their business plan after operating after four years. Some firms tend to formulate a business plan when their firm specialises in other business areas.

The majority of the micro-firms in this research study did not have an articulated mission statement. It is evident that such firms are not spearheading their firms’ strategy, or setting goals to direct the owner-manager and the employees towards the organisations’
effectiveness. These firms are more prone to consolidate their day-to-day business operations. Those firms that had a written mission statement, which is also displayed on their website, focused on the business activities that impacted their customers positively and on other stakeholders such as suppliers, partners, and the community. These firms continuously scan the market to evaluate how their firms can perform better.

**Organisation Background**

All participants claimed that raising the required venture capital to start a business is hard for a microfirm entrepreneur, an argument that is widely acknowledged by the local banks as well. Such a situation arises because participants stated that it is very difficult to provide security if they seek credits from the banks. All the micro-firms in this research study are family firms and managed by owner-managers. All the owner-managers in this research study did not approach the central government for financial help at the initial stage of their start-up. Furthermore, all micro-firms in this research study were found to be family- or owner-manager owned.

**Owner-Manager Characteristics**

Most owner-managers that participated in this study demonstrated a high sense of personal ambition that was instrumental in overcoming all hurdles that unfolded throughout the firms’ day-to-day operations. One major characteristic which influenced owner-managers was to believe in their capabilities to run the firm. For example, participant 1 emphasised that the owner-manager has to have faith in the running of the business, especially when the firm is passing through turbulent times, and stated that “had I not been a stubborn person I would have closed down after a year or two, like the others.” However, personal ambitions sometimes pose a dilemma for owner-managers as they have to decide when to take up professional advice or not. For example, participant 2 was advised by his accountant not to open a business that serviced IT, a new niche in the local market. But this owner-manager stood by his personal ambition to go ahead and invest in this niche market.

The owner-manager’s role and knowledge of business processes are crucial for the running of the firm in a professional way. Most participants claim that the owner-manager has to continuously exploit his managerial skills in order to exercise his role effectively in supervision, leading, structuring activities, public relations, and conflict solver.

**Family-owned Firms**

All the micro-firms that participated in this study are family-owned. Whereas it was perceived that all these firms would be employing members of their family, actually only 45% of the firms employ family members. For example, participant 8 stated that his firm employs only family members: “A son of mine works on the production line with two workers, my wife tends the shop and sees to deliveries, my other son runs the IT section, whilst on my part I attend to all other related business responsibilities of the firm.” One of the disadvantages working in small firms is that advancement to a higher position within the organisation is sometimes minimal. Most participants claim that due to the small number of employees in micro-firms, owner-managers tend to advocate flexible practices leading to less bureaucracy and faster decision-making. Furthermore, qualified employees in small firms sometimes work in an environment which leaves little room for job satisfaction. As participant 7 recalled, when he had an overqualified IT employee who was offered a job by another form, he as owner-manager “supported him to quit”. It is significant that the most common objectives of the family business owner-managers in this research study were the creation of a sustainable long-term profit and the creation of employment opportunities
with their firm for their children. Research participant 3 stated that it is his intention to offer his business to his children when the time is appropriate; this is dependent on whether the children would like to make a career or not from entrepreneurship. Research participant 2 spoke of his belief in long-term profitability in order that his firm moves forward: “We look after longterm profitability.” Research participant 3 suggested that his firm is still doing healthy business because he, as owner-manager, always opted for long-term profitability; research participant 3 argued that he succeeded in his business because he opted for long-term profitability. However, given that the owner-managers of these family-owned firms are first-generation business owners, the objective of passing the business to next generation was more important than profits.

**Organisation Growth**

In this research study, most of the micro firms did not pursue licensing, new product development, and outside financing as modes for organisational growth. However, owner-managers find alliances and new markets to be the right courses to be followed in order that their micro-firms register organisational growth.

![Figure 4: Emerging constructs within the Actions/Reactions category](image)

**Actions and Reactions**

The actions and reactions category, which is depicted in Figure 4, comprises six subcategories, namely, Market Research, Business Plan, Difficulties in the initial stages of micro-firms, the Incubation Centre at Kordin, Managing Employees, and Website Utilisation. This research shows that some of the owner-managers of micro-firms rarely engage in risk assessment exercises, as the latter require a specific budget and human resources, which are limited in both cases for micro-firms. One can therefore that these owner-managers are more oriented to be risk-takers as innovations and services produce a big payoff over the longterm.

The researchers also found that limited research has been conducted on micro-firms’ sustainable competitive advantage. From the interviews of micro-firms’ owner-managers,
it emerges, that all those interviewed had never conducted a competitive advantage analysis. Owner-managers in this research study claim to have never conducted a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis, with the result that such managers could never examine their strengths and weaknesses in their market. When encountering threats to their businesses, many managers in this research study turned to diversification. The latter helped firms in Gozo to find profitable growth opportunities in their core businesses; in other firms, diversification helped to strengthen the firm’s resources and competitive capabilities. There exists at present no Business Incubation Centre in Gozo. Some owner-managers in Gozo are aware about this; other managers are not even knowledgeable about the term incubation business centre. The only incubation centre that Gozitan owner-managers have access to lies 41 kilometres away from Gozo; for the Gozitan manager it takes a one-way two-hours trip to reach the Kordin Business Incubation Centre in Malta. Managers in this research study feel that the lack of an incubation centre in Gozo is depriving them of visiting a place on local soil where one could find some advice on markets, management training, and computing services, to cite some examples. This study finds that micro-firms operating in Gozo still face challenges as if on their first day of business, particularly an increased competition from abroad, and their ability to adapt to fast market demand. Owner-managers claim that Gozitan micro-firms are not able to realise their full potentiality due to several factors related to the double insularity of the island from which they operate. Micro-firms in Gozo also suffer from challenges due to economics of scale, as their small scale is being challenged by increasing market competition from Maltese competitors and from present-day globalisation and economic integration.

In this research study, only two owner-managers diversified their business operations at the start of their second year in business, whereas the other owner-managers are still holding out on diversification but agree to diversify when there is the prospect of doing so. This research study found that only three of the owner-managers undertook market research prior to the launching of their new ventures, and in one case the owner-manager relied on trial and error rather than undertaking market research. Participant 7 claimed that “doing no market research at all is a mistake that increases the chance that one’s business can collapse”. For example, research participant 8 stated that putting aside market research at the pre-launching of his firm resulted in his firm producing goods for a market with few customers or where the supply was bigger than the demand. This research study found that some owner-managers did engage themselves in conducting marketing research prior to their operations, as in the exploration for a niche market on the local market, the need to understand one’s customers, if the place from which the firm was to operate was attractive, and so on. For example, participant 3 maintained that he carried out market research just at the start of his operations in the search of a local niche market. Participant 4 started his firm’s entrepreneurial activities by conducting market research, which is truly essential to understand customers, before he opened his business operations.

Consequences and Outcomes

The Consequences and Outcomes category, which is depicted in Figure 5, comprises six subcategories, namely, Gozo Potentiality, Double Insularity, Decision-Taking, Professional Advice, Advisory Bodies for Start-ups, Opportunities of work in Gozo, and Human Resources Recruitment.
Figure 5: Emerging constructs within the Consequences/Outcome category

**Gozo Potentiality**

Most participants emphasized the various challenges that Gozo faced as a small island. These challenges dealt mainly with how to cope with high transport costs, its small population, its small size, and fragmentation of markets. Notwithstanding these challenges, all participants contended that Gozo provided them with great potential. For example, Participant 9 finds that Gozo being a small island has the potential to attract foreign customers since the latter would like to know more of what the island can offer in terms of history and culture, besides making use of the services that the company offers. Furthermore, research participant 6 considers that Gozo’s full potentially in doing business is being delayed since Gozo has no permanent link with mainland Malta. Research participant 6 suggested that a fast ferry, a helicopter service, and a permanent link with the sister island Malta could solve the many setbacks that are hindering the potential of Gozo’s economic development.

**Double Insularity**

Owner-managers state that small islands face great challenges as they lack enough transport links with the nearest mainland. For example, participant 6 stated that while Gozo is an ideal place for specific services which are not found on other islands, micro-firms suffer from double insularity as micro-firms in Gozo depend on transport and communication links with the nearest sister island Malta. The current ferry terminal is a congested harbour presenting limitations to micro-firms that would like to expand their business more when addressing local or international markets. The same participant claimed that today micro-firms in Gozo can boast of being one of the pillars that sustain the Gozitan economy, creating quality jobs and growth development. But owner-managers of small firms, according to participant 6, still find that, apart from the transport link question, double insularity between Gozo and Malta still creates dependance among micro-firms on the mainland as regards certain services like energy networks, to cite one example. Furthermore, participant 2 remarked that double insularity is still creating problems to micro-firms in Gozo. For this owner-manager, Gozitan micro-firms are presently competing with Maltese and foreign competitors whilst the local market is that of 35,000 inhabitants; he contends that because of double insularity, prices of goods are inflated.
Opportunities of Work in Gozo and Human Resources

All the participants in this research study contended that the development of Gozo’s economy depends upon the growth of its natural assets, including the creation of new jobs that in turn contribute towards enriching the quality of life of the inhabitants. They also maintain that regional inequalities between Gozo and Malta remain unmistakably noticeable particularly in the performance levels of firms, particularly micro-firms. There are limitations of employment openings inside a small island like Gozo and this phenomenon has caused a substantial brain drain from Gozo. For example, participant 2, a graduate in software engineering, recalls that the decision to open up a small venture was consequent to the fact that at his former place of work he had no job satisfaction. He claims that as in Gozo there were no opportunities of work he had two options to consider: either to open a small business in Gozo or seek a job in Malta. Participant 3 also said that he finds it hard, presently, to recruit employees as many locals prefer to work on the sister island Malta as there are more opportunities of work than in Gozo. Wages are higher in Malta than those that can be offered by small firms in Gozo. Consequently, participant 3 is employing a small number of employees from the eastern EU countries. Participant 6 asserted that when it comes to employment opportunities in Gozo, locals are more inclined to seek a job with the public service rather than with the private sector.

Advice to Start-ups

All owner-managers interviewed in this research study divulged that before starting up their business venture, they had nowhere to go in order to take advice on business matters. Research participant 3 recalled that at the start of his venture, the fact that he had “nowhere to go for business advice” meant that his business venture was literally a leap in the dark from day one. Research participant 4 remarked that before he started business he went shopping around for material and machine suppliers. He noted that even government entities at that time could not help him with advice for his enquiries, with the result that he had “to sort of invent the wheel”, having to consume a lot of time and money in order to get started. Participant 4’s advice to start-up owner-managers is to ensure that the customers in one’s market are willing to pay for the firm’s product. He advocates that it is not a wise decision for an owner-manager to finalise a product because others in the family or close friends enjoy the product.

Research Propositions

The themes that emerged from the in-depth analysis from the data collected are exemplified in the corresponding proposition statements as demonstrated in Table 2. It is recommended that these themes are addressed if a business incubation centre is to be set up for micro-firms in Gozo.
Table 2: Proposition statements for themes to be addressed for a business-incubation centre for micro-firms in Gozo

<table>
<thead>
<tr>
<th>Theme</th>
<th>No.</th>
<th>Proposition Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start-Up Challenges</td>
<td>1</td>
<td>Micro-firms that are operating in Gozo still face challenges as if they are still in their first day of business.</td>
</tr>
<tr>
<td>Technological Change</td>
<td>2</td>
<td>Micro-firms operating in Gozo are adapting to the complex issues resulting from technological change, and other constraints related to knowledge, novelty, and inventiveness.</td>
</tr>
<tr>
<td>Unleashing Potential</td>
<td>3</td>
<td>Micro-firms operating in Gozo are not able to realise their full potential due to several factors related to the double insularity of the island from which they operate.</td>
</tr>
<tr>
<td>High Transaction Costs</td>
<td>4</td>
<td>Gozo’s double insularity means that micro-firms have higher transaction costs relative to large enterprises.</td>
</tr>
<tr>
<td>Economies of Scale</td>
<td>5</td>
<td>Because of their small-scale operations, Gozo’s micro-firms are challenged by increasing market competition from their Maltese competitors and from the international markets.</td>
</tr>
<tr>
<td>Economic Resilience</td>
<td>6</td>
<td>Notwithstanding the various challenges, Gozitan micro-firms still manage successful niches in the domestic and in the international markets, provide the local economy with employment, have not been swept away with the process of globalisation and regional integration, and remain at the same time locally and internationally competitive.</td>
</tr>
</tbody>
</table>

**Conclusions**

The study promotes the assessment of setting up a business incubation centre in Gozo in order that Gozo’s small- and medium-sized enterprises can contribute more to local economic development and competitiveness. Owner-managers, in all the micro-firms interviewed, claimed that they have no knowledge as to what constitutes a business incubation centre, and showed a lack of awareness that such a business incubation centre exists in Kordin, Malta. When micro-firms are about to enter into entrepreneurship, they maintain that they should have enough capital so that there is no interruption in operation activities, which may lead to financial loss or bankruptcy. Those micro-firms that are family-owned contend that, although healthy in capital resources, any business poses risks due to intense competition by their competitors.

This research study has identified that Gozo, a small island, faces great challenges as it lacks enough transport links with the nearest mainland Malta. Gozo can be considered an ideal place for services, unable to be found on other islands in the Mediterranean, like Sicily, Cyprus, or the Balearic Islands. Owner-managers in this research study confessed that the establishment of an incubation business centre cannot serve its purpose to the full and be to the advantage of start-ups if themes that emerged in the proposition statements are not considered.

This study confirmed that a business incubator centre would be considered as a hub of entrepreneurial action in Gozo, the hub being the first source of assistance for new start-
ups, as well as serving as a centre that can improve the island’s business climate. In this study, owner-managers stated that the deployment of information technology in their firms instigated the need to adopt and exploit changes to enhance their competitiveness and to maximise their profits. Their perception is that a business incubation centre in Gozo, with its programmes in innovation or in research, would increase their potential in expanding their business outwards rather than inwards. The implications of the study are several as the importance of the setting up of a business incubation centre in Gozo have been made repeatedly without success. Most owner-managers contend that start-up firms need the right conditions and advice in order to start their ventures. The new entrepreneur expects assistance that is easily available, support that is high in quality, and that is in line with their expectations; owner-managers expect that a business incubation centre in Gozo would also provide them with the opportunity to access science and technology. New micro-firms established in Gozo are after a business incubation centre that addresses their specific needs, namely one that is able to provide them with managerial training in the recruitment of personnel, business planning, marketing capability, new investments, and organisation. Owner-managers of micro-firms in Gozo are, in other words, seeking innovation.

Future Considerations

It is an acknowledged fact that micro-firms in Gozo are one of the pillars of Gozo’s economy, besides tourism and the construction and property development sectors. Micro-firms contribute daily to job creation, innovation, and to competition. After a deep analysis of the findings that emerged from this research study, the researchers propose the following recommendations to exploit the potential of micro-firms operating in Gozo, thereby leading to the island’s enhanced economic development and competitiveness.

1. There is the urgent need that a business incubation centre be built in Gozo that can stimulate economic development and growth through enterprise promotion, offering various services, regardless of business activities. Gozo’s economy is still dependent on Malta for its economic expansion in many sectors. Gozitan entrepreneurs still believe in investing capital on new start-ups; one can anticipate that a business incubation centre in Gozo will in return support Gozitan entrepreneurs in their new ventures, providing them all with skills development programmes to meet their markets operations.

2. Venture tenants can stay at the business incubation centre according to policies that the manager of the Gozo Business Incubation Centre directs. Given the right preparation at a business incubation centre, new entrepreneurs in Gozo will be able to enter markets with more confidence, able to reap early returns on their investments to them, to employees, and other actors outside their firms—namely the Gozitan community.

During the past few years, the local industry has seen many large firms downsizing their operations into small, independent, and entrepreneurial business companies. Micro-firms, in particular—on many occasions—promote that economic competitive advantage which large companies strive hard to acquire. Gozo has not succeeded in maximising its strengths to diversify its economy and adjust to its industry’s needs, where micro-firms are vital to the Gozitan economy. Aiming to have a diversified base that boosts business development and survival, a business incubation centre in Gozo could be the catalyst that serves healthier business accomplishment, increasing profitability levels whilst promoting development and growth in Gozo’s economy.
References


