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Internationalization strategies in the Ecuadorian flower industry

by

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Projet # : 2018-2963 **-** Global Value Chains of Ecuadorian Flower Producers

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Resumé

Objectif : Ce travail de recherche vise à analyser la façon dont la stratégie internationale des entreprises floricoles équatoriennes a été influencée par des facteurs inhérents l'industrie afin de maintenir un avantage concurrentiel durable.

Méthodologie : Une approche qualitative a été choisie pour cette recherche. Onze hauts dirigeants d'entreprises floricoles équatoriennes (dont des membres d'Expoflores) ont été interrogés et leurs réponses ont été interprétées à travers une analyse de contenu qualitatif.

Résultats : L'avantage concurrentiel de l'industrie floricole équatorienne repose entre autres sur des facteurs tels que sa chaîne de valeur mondiale. Par conséquent, les entreprises floricoles équatoriennes doivent adhérer à l'exportation de leur produit afin de maintenir leur compétitivité internationale.

Limites : En raison des contraintes de temps, il n'a pas été possible d'interviewer un plus grand nombre de cadres d'entreprises floricoles équatoriennes. De plus, les entreprises des sociétés interrogées exportent presque exclusivement des roses. Par conséquent, la réalité peut différer pour les entreprises exportant d'autres types de fleurs.

Implications théoriques : Plusieurs implications théoriques peuvent être tirées en comparant les résultats de ce travail de recherche avec les informations de la littérature. Par exemple, extrapoler l'unité d'analyse des chaînes de valeur mondiales du niveau de l'entreprise (micro) au niveau de l'industrie (méso) et analyser comment les chaînes de valeur mondiales jouent un rôle dans le processus d'internationalisation des entreprises floricoles équatoriennes. Par ailleurs, cela pourrait s'avérer utile pour analyser l'impact dans d'autres industries.

Implications pratiques : Ce travail de recherche pourrait contribuer à la connaissance des gestionnaires des entreprises productrices de fleurs, qui cherchent à acquérir une perspective différente de l'industrie florale équatorienne et de son avantage concurrentiel.

Originalité : À la connaissance de l'auteur, il s'agit de la première étude portant sur l'impact des chaînes de valeur mondiales sur le processus d'internationalisation des entreprises floricoles équatoriennes.

Mots-clés : Chaînes de valeur mondiales ; stratégie ; Internationalisation de l'entreprise ; Équateur; Fleur; Industrie; La production de fleurs; Entreprises équatoriennes

Abstract

Objective : The present work of research seeks to analyze the how the international strategy of Ecuadorian flower producing firms has been influenced by industry-shaping factors in order to maintain a sustainable competitive advantage.

Methodology : A qualitative approach has been chosen for this research. Eleven top executives from Ecuadorian flower producing firms (including members of Expoflores) have been interviewed, and their responses have been interpreted through qualitative content analysis.

Results : The competitive advantage of the Ecuadorian flower producing industry is heavily reliant on factors such as its global value chain, among others. Therefore, Ecuadorian flower producing firms must adhere to exporting their product in order to maintain their international competitiveness.

Limitations : Due to time constraints, it was not possible to interview more than eleven executives from Ecuadorian flower producing firms. Furthermore, the firms of the respondents export almost exclusively roses. Therefore, reality might differ for firms who export other types of flowers.

Theoretical implications : Several theoretical implications can be drawn by comparing the results of this work of research with the information found in the literature. For example, it extrapolates the unit of analysis for global value chains from firm level (micro) to industry level (meso), and analyzes how global value chains play a role in the internationalization process of Ecuadorian flower producing firms, which might helpful to analyze the impact in other industries.

Practical implications: This work of research might contribute to the knowledge of the managers of flower producing firms who seek to gain a different perspective of the Ecuadorian flower industry and its competitive advantage.

Originality: To the best of the author's knowledge, this is the first study that focuses on the impact of global value chains on the internationalization process of Ecuadorian flower producing firms.

Keywords : Global value chains; strategy; Internationalization of the firm; Ecuador; flower; industry; flower production; Ecuadorian firm

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Introduction

When business is conducted beyond a nation's borders, it turns into international business. The exchange of goods and services within the limits of a single country is complicated and subjected to regulations and agreements. In international business, the same concept applies, but the complexity of the process increases due to differences in culture, politics, institutions, and regulations between the participating countries. Therefore, firms who seek to internationalize must develop an internationalization strategy that will ensure the success of their venture.

This work seeks to understand how the internationalization strategy of Ecuadorian flower producing firms has been established. It hypothesizes that Ecuadorian flower producing companies internationalize by exporting due to the impact of a variety of factors that have shaped the industry, such as its global value chain, international competition, and internal challenges.

This paper is comprised by four main sections: Literature Review, Methodology, The International Strategy of Ecuadorian Flower Producing Firms, and Analysis and Conclusions. The literature review will serve as the academic foundation upon which the main research question and the implementation of the company have been based and designed. Several concepts fundamental for the understanding the work of research will be explained, such as entry mode, international strategy, CAGE framework, among others.

The methodology section of the work will describe the approach chosen by the author for the completion of this work. A qualitative methodology has been chosen due to the nature of this particular topic. Interviews were conducted among top executives of

Ecuadorian flower producing companies and board members of the Ecuadorian association of flower producers and exporters (Expoflores). Their answers were coded and interpreted through the method of qualitative content analysis.

The third and fundamental section of the work will present an examination of the flower industry at several levels. First, an industrial overview at a global scale will be made. Then, a review on Ecuador will be developed to understand contextual aspects that have an effect on the Ecuadorian flower industry. The history of the industry, as well as the major companies, the governance, and regulations will be detailed with the objective of furthering the understanding of how the industry has evolved since its beginnings. Subsequently, the current state of the industry will be described. This includes details about the structure of the industrial supply and value chain, such as growers, suppliers, marketing and sales, logistics and distribution, innovation, and research and development (R&D) activities.

An overview of preserved flowers will be performed as well. The objective is to see how the industry developed this new product, how it differs from fresh flowers, and its future industrial impact. To conclude the section, the core of the research project will be presented. The interpretation of the results obtained through the interviews will be shown, and the hypothesis will be tested against it, leading to a conclusion on the topic.

The final section, analysis and conclusions, has as its main objective to summarize the key findings, as well as to analyze and compare the findings with the facts presented throughout the previous sections. It will also state the theoretical implications, as well as the practical implications of the research, thus unifying theory and practice. The limitations encountered throughout the research process will be described, and

recommendations will be made for individuals who seek to gain a broader understanding of the Ecuadorian flower industry, including its opportunities and its challenges.

Literature review

The objective of the following section is to define a series of concepts and frameworks found throughout the work of research by relying on the literature. First of all, international business, international competitive strategy, and competitive advantage will be defined in order to establish an overview of the main concepts upon which this work of research is based. Then, the different entry modes that firms can choose to venture into an international market will be categorized, and advantages and disadvantages for each entry mode will be established. The next subsection is about global value chains, followed by the CAGE framework and Hofstede's cultural distance framework subsection. Finally, corporate social responsibility will be defined from different perspectives and authors.

1.1) International Business, Strategy, and Competitive Advantage

International Business

To understand the concept of international business, it is important to first analyze what globalization means and entails. Sharan (2011) defines it as the interaction between different economies through international investment and trade. He states that international business has played a major role for several centuries (Sharan, 2011).

According to Greenwald and Kahn (2009), globalization gained full force in the nineteenth century and it was led by Britain. Technological inventions like steam transportation and telegraphs lowered the cost and time it took to exchange goods and information. This led to mass migration, which resulted in heightened levels of economic and social activity at an international level (Greenwald & Kahn, 2009).

It is evident that the availability of goods is geographically constrained. Therefore, the need for a product in a place where it is expensive to acquire it, not as good as somewhere else,

or unavailable will serve as motivation to exchange it for something that is valuable to the other party. Trade stems from these necessities (Greenwald & Kahn, 2009).

Buckley (2015) makes a needed distinction between "international trade" and "international business". International trade refers mainly on the exchange of goods and services between nations. However, international business goes one step further. It is described by Buckley as the action of engaging in a cross-border investment (Buckley, 2015).

If trade is international, its growth will largely depend on communication, transportation, financial costs, and tariffs or quotas imposed by the local government (Greenwald & Kahn, 2009). According to Sharan (2011), there are five main factors that have contributed to the rapid growth of international business in the past few decades: the fast advancement of technological innovation, the creation of institutions designed to enhance international trade, several countries opening their economies and facilitating the exchange of goods and services beyond their borders, the end of the former USSR, and an increase in competition (Sharan, 2011).

Understanding the underlying motivations of firms who seek to internationalize is the basis for comprehending international strategy. According to Cavusgil, Knight, and Riesenberger (2008), the reasons why a firm moves to an international market can be reactive or proactive. If a company internationalizes because its major customers go abroad is a reactive motivation, while actively pursuing fast-growing markets is a proactive motivation (Cavusgil, Knight, & Riesenberger, 2008).

After making the decision to go abroad, firms must choose a host market. Dunning's (2001) eclectic paradigm, also known as the OLI framework, originally developed in the mid-1950's, explains the patterns of production of multinational enterprises (MNEs) through foreign direct investment (FDI) (Dunning, 2001). It describes the ownership (O)-specific advantages of the firm, the location (L)-specific advantages of both home and host countries, and the possibility of internalizing (I) activities in the markets to exploit the O advantages (Dunning, 2009). The O component of the paradigm suggests that investing firms with a great competitive advantage,

compared to that of other competing firms, will be able to increase their production in their foreign venture (Dunning, 2000). L-specific advantages become apparent when firms identify a place from which they can benefit, thus choosing it to increase their O specific advantages through FDI. Internalization refers to how firms choose to organize their core competencies by assessing the L-specific advantages in order to enhance their O specific advantages (Dunning, 2000).

Deriving from location-specific advantages, Peng (2013) and Dunning (2000) make the link between what the firm is looking for (its strategy) and the advantages of a certain location. If a company is searching for natural resources, it must go to a location that has them, as well as the infrastructure for transport and communication. Companies looking for markets should search for a location in which customers are willing to pay and with a strong market demand (Peng, 2013, Dunning 2000). For firms in need for efficiency, ideal locations are the ones where economies of scale and low-cost factors are available. Finally, places with creative and innovative universities, companies, and individuals are the best for firms seeking innovation (Peng, 2013).

Following the internationalization process, firms must realize they will function in a different way than when they were involved in their home country. There are fundamental differences between engaging exclusively in domestic markets and venturing onto foreign affairs. Sharan (2011) mentions that the political environment might be different between home and host countries, which might ensue in risks for the venture. Furthermore, the exchange-risk between different currencies is an omnipresent concern. Also, host countries adopt different business strategies, among other differences (Sharan, 2011). On that note, Tallman and Yip (2009) state that the difference between domestic strategy and international strategy is that, while both are centered on business, international business must pay attention to the effects of locational differences and institutional contexts. Therefore, strategy must be adapted to these defining aspects and other analytical frameworks are required (Tallman & Yip, 2009).

International Competitive Strategy and Competitive Advantage

Porter (1985) defines competitive strategy as the quest for an advantageous competitive position within an industry. The main goal is to set the ground for a sustainable and profitable position that can endure the forces that are present in industry competition (Porter, 1985). To choose an appropriate competitive strategy, it is vital to assess two main aspects that will affect a firm's decision: the overall attractiveness of the industry in which the company will start its venture, and the determinants of relative competitive position within an industry (Porter, 1985). Tallman and Yip (2009) state that the principal components of strategic analysis are "setting goals and objectives, analyzing the environment to include competitive and industry analysis, analyzing resources and capabilities, developing strategic options, choosing a strategy, and implementing that strategy, with feedback loops among all the processes (Tallman & Yip, 2009, p. 308-309).

Through a successful competitive strategy, a firm has the potential to achieve competitive advantage. Porter mentions that competitive advantage "grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it" (Porter, 1985, p. 3). Deriving from this, Porter describes the two main types of competitive advantage and generic competitive strategies: cost leadership and differentiation. The third generic competitive strategy is focus, but it is not a type of competitive advantage (Porter, 1985).

A firm that follows a cost leadership strategy is seeking to become the producer who can offer the lowest cost in the industry. Its scope is broad, as it caters to several industry segments, as well as possibly operating in related industries (Porter, 1985). Economies of scale, proprietary technology, and preferential access to raw materials might be useful for these firms (Porter, 1985). It is important to note that a company should strive to become the ultimate cost leader, not one of many firms who are also competing for this distinction (Porter, 1985).

Regarding differentiation strategy, a firm's main goal is to offer something that is unique and valued by its buyers. It must be the only company able to cater to needs that buyers deem as important, and therefore are willing to pay a premium price (Porter, 1985). The differentiation does not necessarily have to be present in the product, but it can also be related to how a company

delivers or markets it. The type of differentiation will be closely related to the industry (Porter, 1985). The strategy is considered successful if the price premium is larger than the expenses that the firm incurs in to ensure its uniqueness. There can be multiple differentiation strategies in an industry, depending on which aspects are valued by buyers (Porter, 1985).

The last generic strategy, focus, refers to when a firm targets a specific and narrow segment or group of segments within an industry. This strategy can either have a cost focus or a differentiation focus. For this strategy to be successful, a firm must identify what makes that segment unique and cater to its needs. Cost focus specializes in the differences in cost behavior, and differentiation focus solves specific needs of the buyers of their target segment (Porter, 1985).

Porter (1985) emphasizes that every firm must choose which type of competitive advantage is best for the company. Trying to do everything without following a clear path will inevitably lead to strategic mediocrity. Porter states that if a company is not clear on the type of competitive advantage it will follow, it will have a below-average performance, and probably means that the company does not count with a competitive advantage.

Furthermore, it is not enough for a firm to create a competitive advantage, but it has to be a sustainable one in order to achieve an above-average performance for a long-term period (Porter, 1985). However, nowadays positioning a business is not enough, as it is considered as a static action for how the market currently works (Porter, Kim & Mauborgne, 2011). It is now believed that it is fairly simple for any competitor to copy market position, rendering competitive advantage temporary (Porter, Kim & Mauborgne, 2011). Porter, Kim & Mauborgne challenge these new notions, considering them as half-truths that could potentially lead to hypercompetition, which could be destructive for all firms participating in an industry (Porter, Kim & Mauborgne, 2011).

According to Durán (2001), there are several ways in which a firm's competitive advantage can be manifested. For example, it might lie in the technology the company has available, whether it is created or bought. Competitive advantage can also be shown in a firm's product differentiation, whether it is by its quality, commercial name, brand, design and

presentation, or if it is a strategic product (Durán, 2001). Another manifestation of competitive advantage is through the firm's negotiating power with governments, clients, and suppliers (Durán, 2001).

A firm's competitive advantage is derived from the relationship between its resources and capabilities, and the environment in which it competes (Durán, 2001). In fact, the competitive advantage can be enduring by integrating the firm's key resources and processes to achieve an efficient job for its customers (Johnson, Christensen, & Kagermann, 2011). Tangible and intangible resources are part of a firm's overall resources and capabilities. These can be physical (machinery and infrastructure), financial, technological (patents, processes, designs, know-how, etc), commercial (brands, commercial name, distribution channels), and management-related resources (capability of high management, work methods, software, datbases, etc) (Durán, 2001). The environment in which the firm competes includes the industry, the country's situation and its position within the region and the world, as well as the degree of risk of the location, and the amount and quality of competitors (Durán, 2001).

It seems as though Ecuadorian flower producing firms have found a source of competitive advantage. The country is extremely fertile for many high-quality agricultural products, which are coveted in international markets, thus making various firms choose to sell their products abroad. For example, Ecuadorian flowers comply with very high quality standards, and the best flowers do not stay within the country, but are sold to international customers. By engaging in international business, they must find a competitive strategy that puts them in a competitive position vis-à-vis other firms that come from flower producing countries.

Several questions arise: how have Ecuadorian flower producers found their international strategies? Do they structure their value chains in a way that allows them to find a competitive advantage, or do they adapt their strategies to a constraining value chain? In other words, is it possible that their value chains are immovable and these firms have to structure their international strategy around them? The latter is the statement that this work of research attempts to explain.

1.2) Entry Modes

There are several types of entry modes available to foreign firms who wish to enter a foreign market. Given that it is not a simple topic, entry modes are widely studied in international management. In fact, it is the third most studied theme in the field, behind foreign direct investment and internationalization (Canabal & White III, 2008).

When a firm has decided to internationalize, it must consider two crucial aspects that will shape its whole internationalization process and the aftermath of its venture. Deciding on a host country and how to enter it are key decisions that affect the firm's strategy (Andersen, 1997). Andersen (1997) offers some explanations for the increasing interest in studying entry modes into foreign countries. First, the concept of internationalization has several components, and entry modes are among the most important. Furthermore, choosing an optimal entry mode is a key element of the success of a firm that is entering a foreign market. Electing one that is not the best fit might prove to be a burden or the reason for failing in a host country. Finally, this topic has brought several theoretical contributions in the internationalization process of firms (Andersen, 1997).

Several frameworks have been developed with the objective of studying this topic. Some of them are entry mode as a chain of establishment, entry mode with a transaction cost approach, the eclectic framework, and the organizational capability perspective (Andersen, 1997). These frameworks have some similar characteristics, such as the basic theory upon which they stand, or the unit of analysis. For instance, entry mode as a chain of establishment, the eclectic framework, and the organizational capability perspective hold the firm as the unit of analysis (Andersen, 1997).

Brouthers and Hennart (2007) discuss four theoretical frameworks that have influenced the study of entry mode choice. These theories are transaction cost analysis (TCA), resource-based view, institutional theory, and the previously mentioned eclectic paradigm (OLI framework).

According to Brouthers and Heinnart, the vast majority of published entry mode studies have been based on these theoretical perspectives.

The most widely used theory is TCA. One of its premises is that "managers suffer from bounded rationality, whereas potential partners may opportunistically act if given the chance" (Brouthers & Hennart, 2007, p. 400). Asset specificity, uncertainty (both internal and external), and frequency are three factors within the theory that are closely linked to decision making. While conclusions on whether each individual factor affects decisions on entry mode, there is evidence to conclude that TCA excels at explaining entry mode choice (Brouthers & Hennart, 2007).

The resource-based view's central suggestion is that "firms develop unique resources that they can exploit in foreign markets or use foreign markets as a source for acquiring or developing new resource-based advantages" (Brouthers & Hennart, 2007, p. 404). When a firm manages to develop or acquire a set of firm-specific resources and capabilities that are valuable, rare, imperfectly inimitable, and without commonly available substitutes, it develops resource-based advantages (Barney, 1991, as cited in Brouthers & Hennart, 2007, p. 404). Brouthers and Hennart state that resource-based entry mode research is limited and needs further research. They suggest that it should be combined with other theoretical perspectives, such as TCA or institutional theory.

Institutional theory proposes that the institutional environment of a country will shape the decisions of firms, given that it sets the guidelines and regulations that govern within its borders. Scholars have identified five sources of risk or uncertainty that influence the choice of entry mode: government policy, product, macroeconomic, competition, and materials (Brouthers & Hennart, 2007). By contrast, new institutional theory (NIT) proposes three dimensions that conform the institutional environment of a country: normative, cognitive, and regulatory. They set the tone on how business is regulated in a specific country, bringing isomorphic pressures to incoming firms (Scott, 1995, as cited in Brouthers & Hennart, 2007).

The aforementioned eclectic paradigm (or OLI framework) developed by Dunning, while not a theory, is frequently used for the research of entry mode choice. It is a tool that "combines

insights from resource-based (firm-specific), institutional (location), and transaction cost (internalization) theories" (Boruthers & Hennart, 2007, p. 407). Therefore, it can be concluded that the OLI framework is an amalgamation of theories that aids in several fields, including entry mode decision.

Pan and Tse (2000) developed a hierarchical model to classify entry modes (Figure 1). The first division is between non-equity modes and equity (FDI) modes. Non-equity modes consist of exports and contractual agreements. Within exports, there are direct exports, indirect exports, among other types. Contractual agreements are conformed by licensing/franchising, turnkey projects, research and development (R&D) contracts, and co-marketing. Equity (FDI) modes, by contrast, contain joint ventures (JVs) and wholly owned subsidiaries (WOS). Joint ventures can be minority JVs, 50/50 JVs, or majority JVs. Wholly owned subsidiaries can be green-fields, acquisitions, or other types of WOS (Pan & Tse, 2000).

Entry Modes		
Non-Equity Modes	**Exports**	Direct Exports Indirect Exports Other Types of Exports
	Contractual Agreements	Licensing/Franchising Turnkey Projects R&D Contracts Co-marketing
Equity Modes (FDI)	**Joint Ventures (JVs)**	Minority JVs 50/50 JVs Majority JVs
	Wholly Owned Subsidiaries (WOS)	Greenfields Acquisitions Other Types of WOS

Figure 1.- Author's interpretation of entry mode types based on Pan & Tse's (2000) hierarchical model

Peng (2013) describes the advantages and disadvantages of each entry mode. It will depend on each firm to assess what is more beneficial in its internationalization process and commit to its decision once it has entered a foreign market.

Within the category of exports, direct exports have the advantage of giving the firm a better control over its distribution, and the possibility to have economies of scale concentrated in the home country. However, if the products are big or heavy, transportation costs increase. There might be trade barriers associated with protectionist measures in the host countries, which would increase the difficulty of selling the products to foreign customers (Peng, 2013).

By contrast, indirect exports have the benefit of not needing the direct handle of export processes and the firm can concentrate its resources on production. The problem lies in the diminished control over distribution in comparison to that of direct exports, and there is not a learning process on how to compete in a foreign market (Peng, 2013).

Regarding contractual agreements, licensing and franchising have the advantage of having low development costs and a low risk in foreign expansion. Nevertheless, the degree of control over technology and marketing is rather low, which might create competitors. Furthermore, there is an inability on behalf of the firm to engage in global coordination (Peng, 2013).

Turnkey projects, in which contractors are paid by firms to design and build facilities and train personnel, enhance a firm's ability to have returns from process technology in locations where it is difficult to engage in FDI or where it is restricted. On the negative side, they may foster an increase in powerful competitors, and there is a lack of long-term presence of the firm in the host country (Peng, 2013). R&D contracts allow the firm to enter markets where there are specific innovations at a lower cost. However, there are difficulties associated to the negotiation and enforcement of the contracts. Moreover, the firm's innovation capabilities might be reduced, and competitors can leverage on the location's innovations as well (Peng, 2013). Finally, co-marketing brings the opportunity to have access to a wider array of customers, but there is a limited coordination between the firm and its partner (Peng, 2013).

Regarding partially owned subsidiaries, joint ventures have multiple advantages. The risks, costs, and profits are shared with a partner, and the firm can gain access to the partner's

assets and knowledge. However, there is the possibility that the partner's interests and goals are not aligned with those of the firm. The operational control and the equity are not fully controlled by the firm, potentially hindering some processes. Global coordination can be complicated as well, depending on the quality of communication with the partner (Peng, 2013).

Wholly owned subsidiaries are classified between green-field operations and acquisitions. Green-field operations, which consist on building brand new offices and factories, give full operational control and equity to the firm. This also enhances the firm's global coordination. Furthermore, confidential information stays within the company, so the risk of information leakage is lower. Nevertheless, there is a high risk of political issues being a problem, high development costs, and the speed of entry is low compared to that of acquisitions due to the time it takes to build the infrastructure (Peng, 2013).

Acquisitions have the same advantages of green-field operations, but the speed of entry is considerable higher. It also carries the risk of political issues, and there are high costs, additionally to post-acquisition integration problems (Peng, 2013).

The type of entry mode a firm will choose to enter a foreign market depends on several factors, including its size. Multinational enterprises (MNEs), which are defined as large companies with considerable resources and business activities in multiple countries, tend to choose foreign direct investment as their entry mode (Cavusgil, Knight, & Riesenberger, 2008). Therefore, MNEs can afford to enter a market with equity-modes, which results in a commitment in the foreign market that is big and difficult to reverse (Peng, 2013).

Small and medium-sized enterprises (SMEs), companies that have less than 500 employees, are the most frequent type of firm in international business (Cavusgil, Knight, & Riesenberger, 2008). When they internationalize, these companies tend to choose exports as their entry mode (Cavusgil, Knight, & Riesenberger, 2008). This is consistent with Peng's (2013) statement that non-equity modes require smaller commitments in foreign markets.

Besides the size of the firm, the foreign market entry strategy will also depend on the type of cross-border transaction that the company performs. These transactions are classified in three main categories: trade of products; trade of services; or manufacture/trade of products or services abroad by having a foreign presence through direct investment (Cavusgil, Knight, & Riesenberger, 2008).

The firms that comprise the first category can be small manufacturers, large manufacturers, importers, or trading companies. Small manufacturers choose exporting as an entry mode, and their major activities are located in their home country, and typical foreign partners can be distributors, agents, or independent representatives (Cavusgil, Knight, & Riesenberger, 2008). Large manufacturers also choose exporting as entry mode. However, their activities are mainly located abroad, and typically, their foreign partners are a company-owned office or a subsidiary (Cavusgil, Knight, & Riesenberger, 2008). Trading companies do both exporting and importing, most of their activities are located within the home country, and their international partners are traders or manufacturers (Cavusgil, Knight, & Riesenberger, 2008).

Companies that trade services or intangibles are divided into several types, each of them having a different approach to internationalization. For example, service providers export their services, their major activities are usually located in the host country and their foreign partners are agents, branches, or subsidiaries (Cavusgil, Knight, & Riesenberger, 2008). Regarding firms that are licensors, the two main types are licensor with patent and licensor with know-how. They both locate their main activities in the home country and their foreign partners are the licensees, but the difference is that the licensor with know-how's license includes technology transfer (Cavusgil, Knight, & Riesenberger, 2008).

The last category, equity ownership in foreign-based enterprises, is conformed exclusively by MNEs. They enter host countries through foreign direct investment (via greenfield investment or via acquisitions) or equity joint venture. Their main activities are located in the host countries. If an MNE's foreign direct investment is via greenfield investment, it does not have a

foreign partner. If the foreign direct investment is done by acquisition, the acquired company will become the foreign partner. The MNE that enters a country through equity joint venture will rely on its local business partner (Cavusgil, Knight, & Riesenberger, 2008).

Selecting the right entry mode is crucial for any firm looking to enter a foreign market. However, it would be interesting to know whether academic findings and theoretical frameworks adapt to the reality faced by Ecuadorian flower producing firms. While their main entry mode, if not the only entry mode, is through exporting, knowing the reasoning process behind this choice would be a valuable contribution.

Perhaps they choose to do so because they are mostly SMEs and, as suggested by Cavusgil, Knight, & Riesenberger, they do not count with sufficient resources to expand through a different entry mode. Perchance there are institutional constraints that impede agricultural expansion through other entry modes. It is of paramount importance for this work of research to compare and contrast what the literature states regarding choice of entry mode and how it reflects in practice.

1.3) Global Value Chains

Porter (1985) states that a value chain is a representation of the unification of activities that are linked together to achieve a final product. A company's value chain is a direct reflection of its strategy, as its value chain might be different than the one of its competitors within the same industry (Porter, 1985). According to Porter, the key to a firm's competitive advantage sometimes lies in their value chain.

Value chains consist of value activities and margin (Porter, 1985). Value activities can either be primary or supporting activities. Primary activities include inbound logistics, operations, outbound logistics, marketing and sales, and service. These activities are vital in the process of the physical creation of the product, their sale and subsequent transfer to the buyer, and after-sale assistance (Porter, 1985). Support activities, by contrast, provide assistance to the aforementioned activities. They are divided into four main categories: firm infrastructure, human resource

management, technology development, and procurement (Porter, 1985). Finally, margin is "the difference between total value and the collective cost of performing the value activities" (Porter, 1985, p. 38). Porter emphasizes that the activities that form the value chain are not independent, but linked together to form the value chain. Therefore, their relationship is interdependent (Porter, 1985).

The concept of governance is key to understanding intra-chain dynamics. "Governance refers to the inter-firm relationships and institutional mechanisms through which non-market coordination of activities in the chain is achieved" (Humphrey and Schmitz, 2001, p. 22). Governance is about how control is exercised along the chain. In other words, when members of the chain embrace the parameters regarding production or manufacturing that have been set by others, governance emerges (Humphrey and Schmitz, 2001).

Value chains can either be producer-driven or buyer driven (Gereffi, 1994, as cited in Humphrey and Schmitz, 2001). When they are producer-driven, parameters are established by the firms that control vital product and process technologies. However, when they are buyer-driven, retailers and brand-name firms are the ones who establish the parameters. This control is more inclined towards marketing and design aspects, rather than fixed on production (Humphrey & Schmitz, 2001).

The reason for the importance of governance is mainly risk avoidance. When the parameters for either manufacturing or production are well-established, firms within the value chain conform to them to avoid the consequences of not complying. Failing to follow the guidelines on what shall be produced, how it will be produced (including labor and environmental standards), when it will be produced, the quantity to be produced, and the price set for the product might be an enormous risk for a firm (Humphrey and Schmitz, 2011).

According to Timmer, Azeez Erumban, Los, Stehrer, & de Vries (2014), international fragmentation of value chains has increased since the early 1990's, which might be related to

Sharan's (2011) statement about the fall of the former USSR being a factor in the growth of international business, which was previously mentioned.

Nowadays it is increasingly rare to find a product that has been completely produced in a single place. Whether it is the origin of the components or the place of assembly, the probability that at least one of the materials or an activity involved in the production of an item transcends international borders. As Sharan (2011) expresses, no country, whether developing or developed, is able to produce all the commodities it needs.

With the expansion of international trade, it became obvious that some places were better suited to produce certain products than others. Mudambi (2008) states that companies seek to transfer activities that could bring higher value to locations that offer this opportunity. Firms are geographically spreading their activities to obtain benefits from the comparative advantage of locations. Gereffi, Humphrey, & Sturgeon (2005) state that "the rising integration of world markets through trade has brought with it a disintegration of multinational firms, since companies are finding it advantageous to 'outsource' an increasing share of their non-core manufacturing and service activities both domestically and abroad" (Gereffi, Humphrey, & Sturgeon, 2005, p. 80). Mudambi developed the "smile of value creation" to show the pattern of value-creation throughout the value chain. It depicts how the activities that bring the most value, like R&D and marketing (located in both ends of the value chain) are conducted in locations with advanced market economies, while activities that bring less value, such as manufacturing (at the center of the value chain), are mostly conducted in developing economies (Mudambi, 2008).

Dedrick, Kraemer & Linden (2008) express how companies who were industry leaders in technology decades ago, such as IBM, were vertically integrated. This meant that they had an in-house approach to designing and building their products. This strategy allowed them to benefit from the value of their innovation for decades (Dedrick, Kraemer& Linden, 2008).

Mudambi (2008) states that the vertical integration strategy focuses mainly on benefiting on linkage economies. Therefore, the effectiveness and efficiency of the value chain activities that are controlled by the company increase (Mudambi, 2008).

However, the electronics industry, among many others, have proceeded to outsource several of their activities. This led to global value chains, or global production networks (Dedrick, Kraemer& Linden, 2008). This shift has had many causes, including the fact that many companies that were smaller in size did not count with the physical or economic resources to afford an in-house production (Dedrick, Kraemer& Linden, 2008).

Timmer, Azeez, Erumban, Los, Stehrer & de Vries (2014) cite the example of the iPod, a popular product offered by the technology company Apple, as a demonstration of how global value chains work. The case study of these popular products, originally written by Dedrick, Kraemer & Linden (2008), explains how global value chains have had an impact in the technology industry. In fact, when an Apple product is closely examined, the following phrase can be found: "Designed by Apple in California, Assembled in China".

This approach is described by Mudambi (2008) as a specialization strategy. Its goal is to focus on the creative heart of the value chain, and all the other activities are outsourced. The decision of a firm regarding which strategy is best suited for the company's interest derives from transaction cost analysis (Mudambi, 2008).

Transaction costs refer to the costs of using the market mechanism (Coase, 1973; Williamson, 1975, as cited in Mudambi, 2008). Every firm, according to Coasian analysis, should assess which activities bring more retainable value to the firm and should use market transactions for the rest. However, if a firm's vertical integration brings great benefits to the company, it would be rather nonsensical to outsource activities (Mudambi, 2008). In summary, firms must differentiate between activities that must be done in-house and activities that should be outsourced, depending on the value they obtain from each activity.

It would seem as though Ecuadorian flower producing firms have adopted a value chain that is structured in a way that influences their internationalization process. It is important to determine which activities are located in the home country (Ecuador), which abroad, and the criteria firms use to decide where to perform them and see if they follow the structure of Mudambi's smile of value creation. Furthermore, there might be a governance issue that establishes a permitted or preferred international strategy. It is possible that the main activities can only be performed in the home country, making it difficult or impossible to expand internationally through entry modes different from exports.

1.4) The CAGE Framework and Hofstede's Cultural Distance Framework

In international business, differences between countries are unavoidable. Geographical distance might be the most obvious one, but aspects such as administrative, economic, and political differences are also determinants of the success of an international venture. Attempting to homogenize the world in terms of business is a mistake that can easily be made (Ghemawat, 2001). Overestimating a foreign market's attractiveness is a recurring problem. Entering a new market comes with several challenges that must be analyzed beforehand, and there are useful tools such as the country portfolio analysis (CPA), but they do not assess the risks of investing abroad (Ghemawat, 2001).

Ghemawat (2001) developed the CAGE framework to explain a country's characteristics along four dimensions and make them comparable to those of another country. These dimensions are cultural, administrative, geographical, and economic. Industries are affected by the dimensions in at different levels. Therefore, there are industries that might be highly sensitive to a dimension, but not affected by another (Ghemawat, 2001).

One of the core differences between countries is culture. Regions within the same country have differences in their culture and values, so it is only natural that these will be more accentuated beyond the country's borders. Geert Hofstede (1980) explains that social systems are a consequence of human behavior having some degree of predictability.

To comprehend the cultural distance between countries, the concept of culture must be defined. Kluckhohn (1951) defines culture as "patterned ways of thinking, feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artifacts; the essential core of culture consists in traditional ideas and especially their attached values" (Kluckhohn, 1951, p. 86; as cited by Hofstede, 1980, p. 21).

Ghemawat's dimension of cultural distance includes differences in language, ethnicities, religions, or social norms. Industries that rely on these aspects are particularly susceptible to this dimension. For example, the entertainment industry must be able to overcome linguistic differences between countries. Other industries, such as car manufacturing, must pay attention to difference in taste regarding sizes, colors, models, etc (Ghemawat, 2001).

Hofstede, by contrast, handles culture as the manner in which the minds of individuals belonging to a specific group are programmed, and how it differs from those of other groups (Hofstede, 1980). Culture dictates the identity of human groups just like personality dictates the identity of an individual. In summary, culture refers to how a group of people respond to the environment (Hofstede, 1980). According to Hofstede (2001), no culture is sufficiently unique that it cannot be compared to others.

Hofstede developed a model specifically made for cultural distance. Each country has a score in each of the five dimensions of the framework, showing how strong that aspect is in the country's culture. The dimensions that serve as the basis for comparison between cultures are power distance, uncertainty avoidance, individualism vs. collectivism, masculinity vs. femininity, and long-term vs. short-term orientation (Hofstede, 2001).

Administrative distance, another of Ghemawat's dimensions, refers to how a country is managed and its political organization. For instance, the presence or absence of colonial ties influences the commercial relationship between countries. Furthermore, political relationships, government policies, institutional weaknesses or strengths are factors that can either hinder or

bolster trade and investment across countries (Ghemawat, 2001). According to Ghemawat, sharing a common history such as colonial ties leads to an increase of trade by 900% between two countries as long as their relationship is not hostile. The industries that are particularly sensitive to political and administrative influence are related to natural resources (e.g. mining, oil), national security (e.g. telecommunications), high sunk costs (e.g. infrastructure), or production of staple goods (e.g. electricity) (Ghemawat, 2001). There is the possibility to reduce the distance of this dimension by implementing trade agreements, or commercially unifying the region, as it was done with the European Union (Ghemawat, 2001).

Geographic distance also affects commerce. The lack of a common border, as well as the size of the country, the adequacy of its transportation, the difference in climate, and physical remoteness are a few of the aspects mentioned by Ghemawat that are englobed within this dimension. The industries that are affected by it are mostly the ones with products that have a low value-to-weight ratio (e.g. cement) or are perishable (e.g. vegetables or fruits), among other industries (Ghemawat, 2001).

Finally, economic distance between countries can be observed in significant gaps between gross domestic product (GDP), the incomes and purchasing power of their inhabitants, as well as the quality of their infrastructure, natural resources, etc. Examples of industries that are affected by this dimension are those that offer products dependent on the purchasing power of the population (e.g. cars) or economies of scale (e.g. cellphones) (Ghemawat, 2001).

Both frameworks attempt to showcase from various angles the difference between countries. Attempting to ignore these differences is futile, and firms can benefit from these differences to leverage their performance through their knowledge about their host countries. Therefore, firms should thoroughly analyze their possible host countries.

Ecuadorian flower producing companies have much to gain from correctly exploiting the differences that characterize countries. For example, the biggest advantage that Ecuador has is its stable weather, which is ideal for growing high-quality flowers all year round. Countries that are

not located on the equator, and therefore are subjected to seasonal changes, do not have this advantage. Hence, Ecuadorian flower producing firms gain significant value just based on a geographical advantage and can cater to markets who cannot obtain the same product. However, geographical distance poses a logistics issue, because fresh flowers have a short life-span.

Economic distances might also be advantageous for these companies. Coming from a dollarized country with low wages, they can maximize the value of their production without having to worry about currency instability. Furthermore, they can access countries with populations with high purchasing power, such as Western Europe and North America.

It would be interesting to assess how these distances influence the way in which Ecuadorian flower producing firms organize their global value chains and conduct their international business ventures. Since, as previously stated, it is important for firms to leverage from the differences between countries, it would be intriguing to see how these are inserted into these firms' strategies.

1.5) Corporate Social Responsibility

In recent years, companies have started to acknowledge that their activities have an impact on society, the environment, and overall development. Corporate sustainability stems from the concept of business morality, and it is related to achieving development for society and the environment, especially in developing countries (Kourula, Pisani, & Kolk, 2017).

According to Dahlsrud (2008), finding an objective definition for corporate social responsibility (CSR) is complex and some authors have struggled to do so. There are several definitions, however these seem to be biased and serve specific interests. The challenge in defining the term is that there is no methodology to determine its level of bias (Dahlsrud, 2008).

Since there is no possibility of measuring the objectiveness of the definition of CSR, it should be viewed as a social construct that will always have a degree of bias (Berger and Luckmann, 1966; as cited in Dahlsrud, 2008). With the goal of arriving to a definition, the

approach chosen by Dahlsrud is to reconcile the definitions available by assessing their similarities and differences (Dahlsrud, 2008).

Dahlsrud concludes that even though there is not a universal definition for CSR, those offered by diverse authors are consistent and define a phenomenon. One author defined CSR as "context-specific organizational actions and policies that take into account stakeholder's expectations and the triple bottom line of economic, social, and environmental performance" (Aguinis, 2011, p. 855; as cited in Aguinis & Glavas, 2012). However, according to Dahlsrud, the real practical challenge for businesses is not to define the concept, but rather to acquire an understanding of the phenomenon and apply it to their strategies (Dahlsrud, 2008).

Peng (2014) states that a company's stakeholders are the central part of its CSR practices. Stakeholders are individuals or groups that are involved with an organization, and can affect as well as be affected by its objectives (Peng, 2014). Stakeholders emphasize the importance of global sustainability, defined as "the ability to meet the needs of the present without compromising the ability of future generations to meet their needs around the world" (Peng, 2014, p. 555). Therefore, the goal is to achieve sustainable capitalism.

Peng (2014) developed a table summarizing some of the recommended CSR practices for MNEs by international organizations. There are several categories that describe the guidelines that should be followed by MNEs in their host countries. Some of the recommended actions are that MNEs should not interfere in internal political affairs, should ensure their compliance with economic and social development policies, should reinvest a part of their profit in the host country, and they must respect human rights and fundamental freedoms (Peng, 2014). MNEs should also respect the host country's decisions over its natural resources, conform to laws and regulations regarding environmental protection, refrain from illegal involvement in local politics, and not bribe or give improper benefits to public servants (Peng, 2014). Furthermore, MNEs should create jobs in certain locations with the cooperation of local governments, give advance notice of plant closures and manage the consequences, and respect the rights of their employees to engage in

collective bargaining (Peng, 2014). Regarding technology transfer, MNEs should adapt and develop technologies that are needed in the host country, and they should provide appropriate terms and conditions for the licenses for industrial property rights (Peng, 2014).

Respecting all the aforementioned guidelines is a complex task for firms. Therefore, their activities have to be arranged by categorizing what primary stakeholders and secondary stakeholders expect. Primary stakeholders are individuals or groups of people on which the company's survival depends. Secondary stakeholders, by contrast, are individuals or groups that either affect or are affected by the firm, but they are not key players in the survival of the firm (Peng, 2014). Therefore, the stakeholder view of the firm proposes that instead of focusing solely on economic aspects, firms can satisfy the demands of both primary and secondary stakeholders by adopting a triple bottom line. This consists of a set of economic, social, and environmental goals, which makes a firm's activities more comprehensive (Peng, 2014).

Nonetheless, even if companies engage in corporate responsibility, it is still believed that firms are gaining profits at the expense of the general well-being (Porter & Kramer, 2011). A possible explanation is that firms' concept of value creation has not evolved with times, thus still operating with an outdated point of view. Therefore, they prioritize short-term performance instead of fostering sustainable methods that guarantee long-term benefits, as well as protecting social and environmental welfare (Porter & Kramer, 2011).

Porter and Kramer (2011) propose shifting the paradigm for firms towards shared value. Economic efficiency and social progress are not mutually exclusive concepts, and shared value seeks to reconcile them by getting firms to set economic and social value at the core of their activities. To achieve this, firms need to gain a broader knowledge about what society needs and how they can provide it through their activities (Porter & Kramer, 2011).

Porter and Kramer (2011) greatly emphasize shared value does not mean to share the value that was created by the firm, given that this would suggest a redistribution approach. The fair trade movement would fall in this category because instead of increasing the amount of value

created, it aims to give a higher proportion of revenue to farmers by paying them more money for the same product (Porter & Kramer, 2011). If a shared value perspective were to be applied, the goal would be to foster the improvement of the farmers' growing techniques and increasing their efficiency and the quality of their products. Thus, revenues are bigger for the company and for the farmer, and value was expanded for both (Porter & Kramer, 2011).

Regardless of how firms decide to exercise their CSR practices, it is necessary for their success in today's world. According to Peng (2014), the best-performing firms are those that engage in CSR activities, and accommodate them to be a part of their core economic functions. Stakeholders are now more aware of the ability of firms to create social value, and expect them to do so. Therefore, firms must now strive to have more humane, inclusive, fair, and sustainable practices that also generate wealth, benefitting both firms and societies (Peng, 2014).

Corporate social responsibility has been an absolute necessity, albeit one that some companies are tempted to ignore in developing countries. Numerous articles, which will be discussed later on, expose the difficulties that workers have faced in the flower industry. Low wages, one of the aspects that make locations like Ecuador ideal for manual labor, more often than not come with undesired social and environmental consequences.

Being an issue that is tightly linked to the governance of the value chain, it is important to discuss the regulations that have been imposed on flower producing companies in Ecuador. These firms must comply with them if they want to obtain important certifications. If they choose not to engage in corporate social responsibility, it is very likely that foreign customers will refuse to keep buying their products. It would be fascinating to explore the impact that the increasing requirements for engaging in corporate social responsibility have impacted these firms' value chains, and, therefore, their internationalization process.

To conclude, the following figure (Figure 2) serves as a summary of how the topics addressed along this section are interconnected, offering a broader view of the internationalization process of firms.

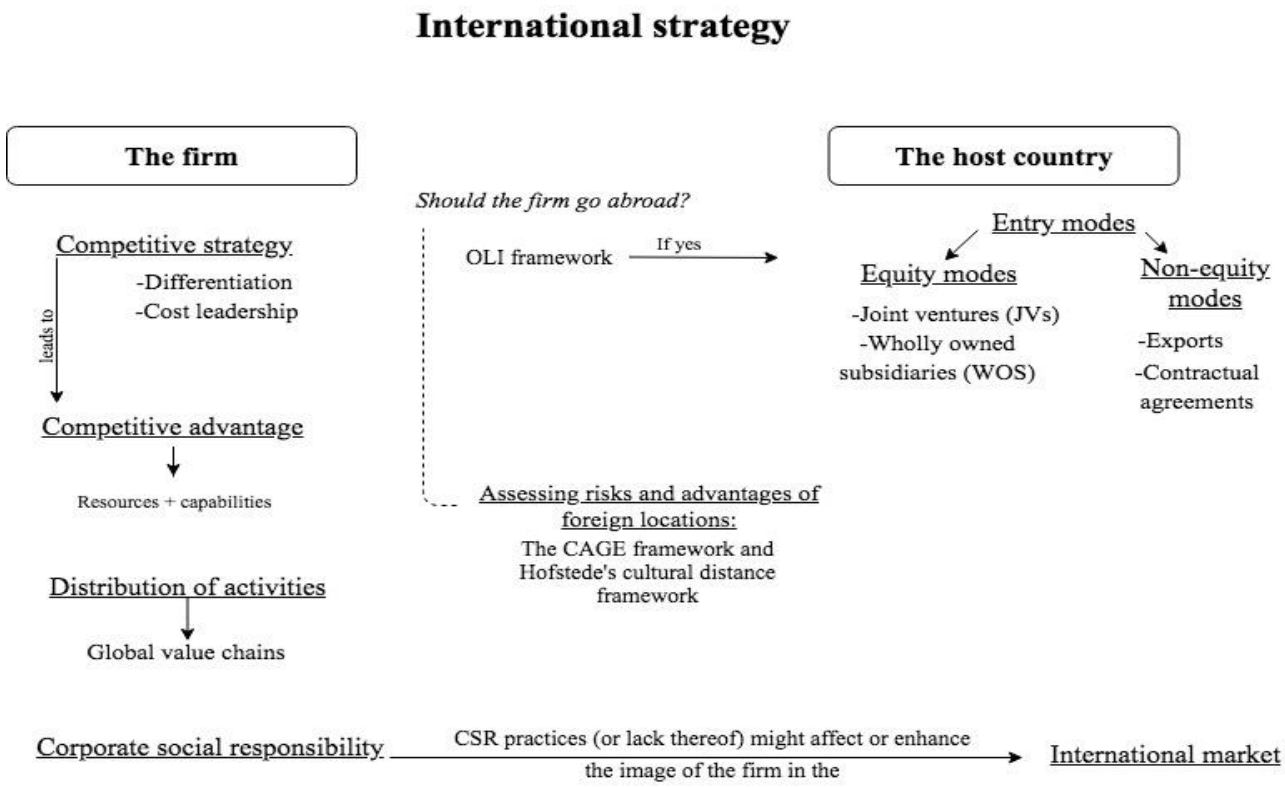

Figure 2.- Author's diagram of the interconnection of factors that influence the internationalization process of firms

Methodology

The present work seeks to study the international strategy of Ecuadorian flower producing firms, and how it has been developed in order to maintain its competitive advantage. Therefore, a qualitative approach has been followed to achieve this objective. The choice of a qualitative study was made based on the nature of the research.

Yin (2011) establishes several benefits of following a qualitative methodology. These benefits are also core characteristics of a qualitative approach. First, qualitative research involves personalized social interactions that are not constrained by artificial research procedures, as it would be the case in a laboratory environment. This allows participants to freely engage in the interaction, with the possibility of expanding their answers beyond the questionnaire that has been pre-established by the researcher (Yin, 2011).

Furthermore, by allowing participants to go beyond the fixed questions that do not require a yes/no answering format, they are encouraged to freely offer their personal views and perspectives on the subject matter (Yin, 2011). This could bring more value to the investigation, as it displays the knowledge of an industry's insider combined with their own personal and subjective experiences, while still adhering to the main topic. Given that these are people that are experiencing the industry on a daily basis, their subjective statements might even challenge what has been preconceived and taken as a fact by previous research (Yin, 2011).

Moreover, Yin (2011) states that qualitative research has the benefit of covering contextual aspects, which are factors of great importance when analyzing an industry. While this is also achieved with quantitative methods, a qualitative approach brings a greater level of detail and specificity that cannot be represented in a quantitative fashion.

Economic, social, environmental, and institutional context are valuable because they convey an explanation as to why an industry has developed in a specific manner. It is highly

possible that obtaining data that excludes these conditions might skew the findings and would not be beneficial to the knowledge contribution that is the ultimate goal of a research process. On that note, surveys are not advisable if context is needed because their questions are structured in a way that limits the answers, avoiding further development on a topic.

Finally, "qualitative research strives to collect, integrate, and present data from a variety of sources of evidence as part of any given study. (…) The study's conclusions are likely to be based on triangulating the data from the different sources. This convergence will add to the study's credibility and trustworthiness" (Yin, 2011, p. 9). Data regarding the flower industry at a global scale, the history of the Ecuadorian flower industry, and other aspects worthy of further research has been gathered from reputable sources, such as books, research papers published on journals, institutions (e.g. government agencies), and specialized magazines. This information complements the results of the interviews, offering a comprehensive overview of the dynamics of the Ecuadorian flower industry, as well as answering the research question.

2.1) Data gathering

Given the aforementioned characteristics and subsequent benefits of the chosen approach for this work of research, qualitative interviews have been conducted. The group of participants consisted of eleven respondents, which were either CEOs/top executives of Ecuadorian flower producing companies, or board members of the association of Ecuadorian flower producers (Expoflores) at the time of the interview. It is important to mention that respondents work for rose producing firms because it is the country's most exported flower and these type of firms are the most commonly found in the industry.

The respondents were asked several open questions that serve as a guideline for the interview. By asking open questions with a well-established central theme, the answers provided by the participants count as valid data that aids in the study of the research question, while at the same time giving further information that might be of interest.

These respondents have been chosen because of their positions within their respective companies, which give them knowledge of information regarding the company and its strategic plans. Furthermore, these respondents must be part of a company that has already expanded to international markets. Therefore, Ecuadorian flower producing companies who sell exclusively to the local market were not considered. It is important to specify that this study focuses on firms that are headquartered in the provinces of Pichincha and Cotopaxi, due to time and geographical limitations. Therefore, companies with main operations in other provinces have not been taken into account.

Participants who are board members of Expoflores have been chosen due to their overall knowledge about the industry, such as value chain structure, and their close proximity to companies that are competing in the industry. This provides the perspective of people who have been involved in flower producing firms but might also have a broader perspective of the industry that may result from being involved in an association.

As previously stated, the questions have been formulated in a way that yield results that count as valid data for the purpose of the research, while also providing information that might contribute to the broader scope of the paper. The questions have a common thread, and mainly focus on the global value chain specific to the industry and its impact on the internationalization process of firms (see Annex 1 for the full questionnaire).

The interviews were conducted in Spanish, the official language of Ecuador and the native language of the respondents. The questionnaire has been developed both in English and Spanish. The English version has been developed in order to be approved by the ethics committee, and the Spanish version has been translated by the author, whose native language is Spanish. The answers have been recorded (voice only) with the consent of the respondent, making it possible for the author to have access to the raw data at any time after the interview has been conducted.

The respondents were notified before the interview that their answers are completely confidential and have been exclusively utilized for this work of research. Their information has not been used in any manner, except for the author to organize the data. Therefore, their answers are anonymous. This has the goal of assuring the participants that no one has had or will have access to their personal information and answers other than the author and the supervisor.

2.2) Data analysis and interpretation

For the analytical portion of the research process, the "five-phased cycle" proposed by Yin (2011) has been followed. It is comprised by the following steps: compiling, disassembling, reassembling and arraying, interpreting, and concluding. This sequence of actions enables the researcher to analyze all the information in a thorough manner. This approach is similar to the one proposed by Schreier (2012) for qualitative content analysis.

The first step, *compiling*, has been done by gathering the data from the interviews, namely the recordings, and the notes that were taken throughout the interviewing process. It was then organized to compose a database. The objective is to collect all valuable data (Yin, 2011).

After the information has been compiled, it was *disassembled* into categories that were classified by relevance and similarity. A *reassembly* of the data was performed due to changes that were made to the first classification system. This step included *arraying* the information within lists. The overall objective of these two steps is to organize the data in a manner that simplifies the analytical process (Yin, 2011).

The fourth step, *interpretation*, consisted in transforming the organized information into a narrative that is the essential portion for analysis. By appropriately interpreting the answers provided by the respondents, it has been possible to draw *conclusions*. This was the final step of the research process, bringing closure to the research question (Yin, 2011).

In this specific case, the data was disassembled and organized in a coding frame named "interview results", as suggested by Schreier (2012). The two main categories are global value chains and internationalization of the firm, the variables, and each has subcategories. The

answers provided by each respondent were classified and reassembled into a chart that showcases each participant's statement regarding each topic. Then, the content of each answer was interpreted by analyzing the intended correlation made by the respondent between the two variables. For this, both the manifest and the latent meaning of the answers must be taken into account. Therefore, it has been possible to draw patterns across all the data, and conclude whether most participants agree on how global value chains have had an impact on the internationalization process and international strategy of their respective firm.

Results were also compared and contrasted with the information found in the literature review section of the work. It is fundamental to see how the reality compares to previous research, either to confirm it or refute it. It is also worth noting that this work of research is presented as part of the M. Sc. program. Therefore, the knowledge acquired through the courses has been used to develop the hypothesis, as well as throughout the research process.

2.3) Limitations

As with most research projects, there are some limitations that must be mentioned. First, it is impossible to interview executives from all Ecuadorian flower producing companies due to factors such as time constraints, geographical constraints, and possible unwillingness to respond. Therefore, the number of respondents has been limited to a feasible quantity of interviews and to those willing to participate. The chosen participants are representative of the general environment, thus enabling the author to extrapolate and generalize the findings.

Another important limitation is that, given the fact that only rose producing firms have been taken into account, it is possible that the conclusion reached by this work of research might not be applicable to firms who only grow other types of flowers. Rose producing firms have been chosen because they are the main flower exported by the country.

Finally, industries are dynamic and might change due to government policies, economic health of host and home countries, or several other reasons. Therefore, the conclusions reached by this work of research are valid until a major alteration in the industry changes the landscape.

In case that this scenario should happen, a new research could be done in order to assess if the conclusions are still consistent.

The International Strategy of Ecuadorian Flower Producing Firms

3.1) The flower industry at a global scale

There are several countries that have developed a significant and important flower producing industry. The biggest exporting countries will be described in this section in order to bring a general overview of how the flower industry has grown at a global scale.

According to Porter, Ramírez-Vallejo & Van Eenennaam (2013), the Netherlands has managed to become the most important player in the flower industry ever since they entered it several centuries ago. In the last two decades, the country hs developed the most technologically advanced flower cluster in the world (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013). However, increasing costs within the country, as well as the growth of more profitable crops, have been pushing Dutch companies to go abroad and expand their operations (Melese & Helmsing, 2010).

It is important to note that the country's proficiency in logistics comes from centuries of specialization in trade, which started with the Dutch United East-Indian Company. In 2008, the Netherlands destined 6% of its GDP in transportation systems and logistical networks. Amsterdam's airport, Schiphol International Airport, is the fourth largest cargo airport in Europe, and it counts with outstanding levels of efficiency, and Rotterdam's port is the biggest European port (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

The Dutch flower industry started with the introduction of the tulip into the country from Turkey in the 16th century. Tulip bulbs began to be exported in the 17th century. Flowers started being gradually more accessible for diverse sectors of society. Tulips were mostly grown in an area of the country known as the Bulb Region, located between Leiden and Haarlem. In the mid-19th century, greenhouses started being used for growing flowers. These were eventually replaced

by structures that controlled the temperature to make flower production possible throughout the year (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

In the early 20th century, the Dutch Horticultural Council, the first flower trade organization, and two auction houses were created. Furthermore, trade associations and bulb growers created the Flowerbulb Inspection Service (BKD), a phytosanitary inspection service. BKD is now an independent administrative body in charge of inspecting all flower production. In the 1950's, the Dutch flower industry started becoming involved in foreign flower industries by becoming suppliers of products and knowledge (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

The Dutch are innovative pioneers within the flower industry at all levels of the supply chain. They have developed advancements in logistics, climate-controlled greenhouses, growing and harvesting techniques, among other fields. This has contributed to the country's position as a leading flower exporter. In 2009, 60% of flower exports was comprised by Dutch flowers, and the vast majority (90%) of flowers that entered several European countries (Denmark, Germany, Hungary, France, among others) are Dutch. However, it is worth noting that for roses, 34% of exports were Dutch (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

The Dutch influence in the industry at a worldwide level is notoriously heavy. For example, the Ethiopian flower industry is reliant on Dutch investors, who participate in various segments of the cut flower value chain. Close to half (37%) of the total production is grown by Dutch producers, and 2/3 of Ethiopian flowers enter the Dutch market. Furthermore, due to the bilateral cooperation with the Ethiopian government, the Dutch play a critical role in the establishment and development of key institutions for the industry (Melese & Helmsing, 2010).

Ethiopia faces a problem identified by Melese and Helmsing as the "poor country paradox", in which a developing country is in need for innovation and investment that cannot be covered by its internal capabilities. Because of this, there is an influx of FDI in particular sectors, which results in the formation of enclaves. This means that direct employment is being generated

in the country, but domestic firms do not benefit (or minimally benefit) from the effects caused by the FDI. Therefore, instead of enclaves, developing countries should strive for endogenisation, in which the country in question starts gaining internal capabilities and starts gaining control of the export base that was initiated by external factors (Melese & Helmsing, 2010).

Even though there is no interest on the Dutch investor's behalf in sharing technology with local firms, joint collective action exists in non-core activities, such as transportation. Furthermore, Dutch cooperative flower auctions are trade channels that have been of paramount importance in the international expansion of Ethiopian flowers. It should also be noted that the Dutch create trade standards and share supporting knowledge in institutions in order to train skilled staff. Moreover, with the aforementioned Dutch bilateral cooperation, the Ethiopian government has promoted the industry in various ways, such as making low-cost finance and land available (Melese & Helmsing, 2010).

Ethiopian flowers are divided into three categories: summer flowers, roses under greenhouse, and cuttings under greenhouse. The majority (80%) of the flowers grown are roses, and they are grown in either hydroponics or soil. Furthermore, three to ten varieties of roses are grown in each farm, which are mostly located in the highlands within a 200 km radius from the airport in Addis Ababa. By June 2007, seventy firms were active and six were starting operations in the industry. It is also important to mention that flowers are the country's sixth largest export commodity after coffee, oilseeds, chat, leather, and live animals (Melese & Helmsing, 2010)

Ethiopia is an attractive location for FDI in the industry for several reasons. First, the flowers grown in the country are high-quality due to the various landscapes and ranges of altitude. Furthermore, there is an abundance of natural resources that are vital for the industry, such as water and land. Its geographical location, which is relatively close to European market, is another source of attractiveness, as well as its cheap transportation costs (lower than those in Kenya), cheap labor, support from the government, and low crime and corruption rates. Ethiopia has one

of the youngest flower industries, therefore there is still much to be developed in the country in terms of competitiveness and technological advancements (Melese & Helmsing, 2010).

Kenya, another African country, is the fifth biggest flower exporter in the world, after the Netherlands, Colombia, Ecuador, and Israel (Melese & Helmsing, 2010). Flowers represent the country's third foreign-currency earner, after tea and tourism. In 2008, approximately 2,180 hectares were destined for flower production. The flowers that account for the majority of Kenyan exports are carnations and roses (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

According to Porter, Ramirez-Vallejo, & Van Eenennaam, Kenya is the leading exporter of flowers to the European market, producing 35% of the total. The majority (65%) of Kenyan flowers are sent to the Netherlands, followed by the United Kingdom (23%). The rest are exported to Germany, Switzerland, and France. Kenya suffered a decrease of European demand after an economic crisis in 2009. As a result, the country was aided by FloraHolland to diversify their export markets, and these were expanded to Japan and Russia, as well as Middle Eastern and American markets (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

The Kenyan flower industry began in the 1960's by "European settlers in semi-marginal land" (Hughes, 2001, p. 394). In the 1980's a study was made to assess the potential of the country for the development of a flower cluster. This study was funded by the Kenyan government, the Dutch Ministry of Development Aid, and the union of Dutch growers. The feasibility was partly marked by the country's exposure to constant sunshine throughout the year (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

During the next decade, the country began to perceive an increase of FDI, mainly by Dutch companies. Large-scale farms that were vertically integrated were created. These farms were involved in the whole supply chain, from acquiring plants to direct retailer distribution. Furthermore, they were conveniently located close to the Nairobi International Airport, from where the flowers shipped to international markets. In 2008, the great majority (70%) of flower production was made by Dutch growers in Kenya. The other 30% was owned by Kenyan firms,

whose main activity was exporting carnations and roses to the U.K. (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

The Kenyan flower industry is highly dominated by Dutch firms. Some of them co-own cooling facilities near the airport with Dutch auctions. FloraHolland is involved in logistics and exports, as well as data gathering of the supply chain. Moreover, there are Dutch seed companies present in the country. There is also academic collaboration between the two countries, as the University of Wageningen, alongside the Kenyan and Dutch Ministries of Agriculture, have set up exchange programs for students since 1994 (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

Colombia, located in South America and north of Ecuador, is another key player in the global flower industry. According to Korovkin (2003), the cut-flower industry was first developed in Europe and North America, but due to weather conditions and difference in labor costs, it was relocated to Colombia during the 1960's and 1970's. According to Porter, Ramirez-Vallejo, & Eenennaam (2013), the flower industry in the country started in the 1960's, when it was determined that Colombia had optimal conditions for growing flowers. In 1973, the association for Colombian flower exporters, named Ascolflores, was created to promote their exports. In the following years, Ascolflores set a policy to diversify the varieties of flowers that were grown in the country (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

Even though Colombia had achieved the status of being the second-largest flower exporter in the world right behind the Netherlands by the 1980's, it came with a high social cost. The creation of trade unions, along with increasing social conflict, escalated to a point in which European organizations for labor, human rights, and the environment intervened. This series of problems caused the Colombian industry to slow down, and the Ecuadorian industry to start (Korovkin, 2003).

In 2008, Colombia had a global export market share of 13%. At a global scale, 60% of carnations, 8% of chrysanthemums, 20% of pompons, and 4% of roses are from Colombia, and

95% of Colombian roses are destined for export (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013). Besides weather conditions, its closeness to the United States is another source of advantage for the Colombian industry, and the country is the foremost exporter of cut flowers to the U.S. market. The vast majority of flower production (90%) is grown in the Bogotá savannah, which is close to El Dorado International Airport, from where the flowers are shipped to international markets (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

According to Porter, Ramirez-Vallejo, & Van Eenennaam, Colombian flower production employed 80,000 people and another 110,000 employees worked in closely related activities, such as shipping and packing. However, the Dutch influence in the industry is evident. For example, knowledge and technology comes from the Netherlands. Furthermore, Dutch companies have set up subsidiaries in Colombia in order to offer a variety of goods and services such as tools, irrigation, seeds, and young plants. Some logistical aspects are also covered by Dutch companies, such as cold chain management, sea shipments, and handling. Regarding research done in the industry, Ascolflores established a center called Ceniflores. Its goal is to further innovation about pesticide substitution, improvement of sustainability, among other environmental endeavours (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

Armbruster (2002) states that the supply chain of Latin American countries in this industry is completely fragmented, as opposed to the Dutch supply chain. This problem has caused a notorious drop in exports between the years of 1997 and 2000. Since flowers are perishable, the delay of 8 to 10 days from farm to consumer proved to be detrimental for the performance of those countries during this period.

In conclusion, it seems as though some flower producing countries in the developing world have had some sort of symbiotic relationship with the Dutch flower industry. They have benefitted from the knowledge transfer and FDI the European country has brought. By contrast, the Dutch have benefitted from less costly labor and land, which brings more value to their investment.

3.2) An overview of Ecuador

The Republic of Ecuador (República del Ecuador) is a country located in South America. According to the Ecuadorian constitution, the country is a democratic, social, sovereign, independent, unitary, intercultural, plurinational, and laic constitutional State of rights and justice (Asamblea Constituyente, 2008, p. 16). The government is decentralized, and, as of November 2017, the President and Head of State is Lenín Moreno Garcés.

With a population of 16.3 million people and a territory of 283,561 square kilometers (World Economic Forum, 2015-2016; Pro Ecuador, n.d.), Ecuador is a relatively small country compared to others in the region, such as Colombia, Brazil, Chile, and Argentina in terms of population and territory. Its gross domestic product (GDP) is of US$ 100.2 billion, and its GDP per capita is of US$ 6153.80 (World Economic Forum, 2015-2016).

The country's location is privileged, as it lies in both the southern and northern hemispheres, and the equator passes right through it. (Pro Ecuador, n.d.). It is divided into four regions: the Highlands (Sierra), the coastal line (Costa), the Amazon (Oriente), and the Galápagos Islands. Ecuador borders with Colombia to the north, Peru to the South and East, and the Pacific Ocean to the West (Ministerio de Relaciones Exteriores y Movilidad Humana, n.d.). It is the world's main exporter of bananas, as well as a major exporter of flowers, tuna, shrimp, and cacao (Pro Ecuador, n.d.).

While Ecuador placed 114th on the World Bank's Ease of Doing Business report among 190 countries, it has adopted certain measures to increase the ease of starting a business in the country. For example, Ecuador eliminated the requirement of publishing in local newspapers the company charters. Furthermore, enforcing contracts in the country has been made easier by the implementation of a pre-trial conference, introduced in a new code of civil procedure (The World Bank, 2017). Ecuador had the following scores in the categories assessed by the World Bank: starting a business (70.61/166), dealing with construction permits (71.03/76), getting electricity (69.13/95), registering property (67.53/69), getting credit (45/101), protecting minority investors

(46.67/118), paying taxes (59.25/137), trading across borders (68.65/97), enforcing contracts (56.68/95), and resolving insolvency (25.17/157) (The World Bank, 2017).

Regarding education, Ecuador has made adjustments to increase its quality, as well as to reduce illiteracy rates. In a study that assessed the quality of education in the region, Ecuador placed in the bottom three in the year of 2006. A more recent study showcased how it has improved in the subsequent years (Antamba Chacua, 2015).

As of 2014, men attended school for approximately 9.93 years, and women for an estimate of 9.71 years. While the difference between genders is not big, there is an important gap in terms of years of schooling between rural and urban areas. In 2014, the average schooling period in urban areas was of 10.86 years, while in rural areas it was of 7.39 years. The same phenomenon can be observed with illiteracy rates, in which 3.8% of the population in urban areas is illiterate, while 10.3% of the population is illiterate in rural areas. The gap between genders in this aspect is more reduced, as 6.7% of women were illiterate in the country in 2014, while this was true for 4.7% of men (Antamba Chacua, 2015).

Finally, Ecuador's infrastructure has improved in the past years. The country counts with a train system of 966 kilometers that connect the highlands with the coastal area, however, it is not used for commercial purposes, but rather for tourism. The three main ports in the country are the ones located in Guayaquil, Manta, and Bolívar. Each port has its own unique characteristics that make them equally important. For example, the port in Guayaquil is technologically advanced and equipped for efficient and fast logistics. The port located in Bolívar is specifically placed in the province with the largest production of bananas. The port in the city of Manta is especially made for large ships (Pro Ecuador, n.d.).

Ecuador has three international airports, located in the largest cities in the country. Mariscal Sucre International Airport is the airport that is closest to Quito, the capital city. José Joaquín de Olmedo International Airport is located in the city of Guayaquil. Eloy Alfaro International Airport is located in the coastal city of Manta. The country has also renewed its

telecommunications system, as an optic fiber network has been installed throughout the country (Pro Ecuador, n.d.).

3.3) The flower industry in Ecuador

According to Pro Ecuador, the Institute in charge of promoting Ecuadorian exports and foreign investment, Ecuadorian roses are considered to be the best in the world due to the thickness and length of their stems, as well as big sepals, bright colors, and long life-span after being cut (Pro Ecuador, n.d.).

Moreover, Ecuador produces different types of flowers, such as over 400 varieties of roses, summer flowers (Alstromeria, Gysophilia, Hypericum, Limonium, among others), and over a hundred varieties of tropical flowers (Leaf Bolero, Leaf Jawaii, Leaf Lord Nelson, among others). Tropical flowers have the advantage of having a long life-span and not needing refrigeration, unlike other types of flowers. Furthermore, Ecuador is the biggest producer of gysophilia, dedicating hundreds of hectares to the growth of this summer flower (Pro Ecuador, n.d.)

Pro Ecuador states that the country counts with a unique commercial strategy in this industry. It consists on having several medium-sized producers growing over 400 varieties of flowers, which is more than double of competing countries. The strategy used by the competition has been to grow very few varieties in vast pieces of land with the objective of lowering production costs and remain competitive (Pro Ecuador, n.d.).

Ecuadorian flower producers strive to always be ahead of the current global trends regarding flower sizes and colors in order to cater to different markets and sell their products to over 110 countries around the world. While there are global trends, taste in flowers also depends on each country's culture and traditions (Pro Ecuador, n.d.).

3.3.1) The history of flower production in Ecuador

The flower industry began in Ecuador at the end of the 19th century with the growth of roses, summer flowers, and tropical flowers. However, it was at the end of the 1980's and

beginning of the 1990's that producers started growing flowers with the intention of exporting them (Dirección de Inteligencia Comercial e Inversiones Pro Ecuador, 2013).

The first types of flowers that were grown to fulfill this objective were carnations, roses, chrysanthemums, and gypsophilas. Given the geographical characteristics of Ecuador, various other types of flowers, such as daisies and alstroemerias, are grown in the different landscapes that exist within the country (Dirección de Inteligencia Comercial e Inversiones Pro Ecuador, 2013).

The flower industry started growing when it was discovered that light conditions specific to the highlands region of the country had certain characteristics that were optimal for the growth of high quality flowers, especially big roses. As the industry started growing and expanding all over the highlands, regions that were primarily rural, such as the provinces of Pichincha, Cañar, Cotopaxi and Azuay, started developing (Dirección de Inteligencia Comercial e Inversiones Pro Ecuador, 2013).

The first flower producing firm, Jardines del Ecuador (Gardens of Ecuador), was established in 1964. It was located in Lumbisí, a town located close to Quito. It counted with 320 employees and with 20 hectares, on which carnations, chrysanthemums, and roses were grown. It is the first flower producing firm that focused on exporting its products. Jardines del Ecuador stopped its international venture in 1975 due to problems with its employees, and started to cater exclusively to the local market (Terán Manzano, 2013).

On November 1984, the Ecuadorian Association of Flower Producers (Asociación de Productores de Flores del Ecuador- Expoflores) was officially created and registered within the General Registry of Associations, an entity of the Ministry of Agriculture and Cattle Raising (Registro General de Asociaciones del Ministerio de Agricultura y Ganadería). The main goal of Expoflores was to obtain funds from the National Financial Corporation (Corporación Financiera Nacional- CFN) (Gómez Rea & Egas Chiriboga, 2014).

The industry greatly benefitted from trade agreements such as the Andean Tariff Preference Agreement (Acuerdo de Preferiencias Arancelarias Andinas- ATPA), signed in 1991 with the United States. The industry grew by 300% because of the agreement and the economic aid of the CFN (Gómez Rea & Egas Chiriboga, 2014). The agreement signed with the U.S. Agency for International Development offered credit to flower producing companies. This increased both domestic and foreign investment in the industry. The value of Ecuadorian flower exports increased from US$ 14 million in 1990 to US $195 million in 1996 (Korovkin, 2003).

Later in the decade, however, the Ecuadorian flower industry encountered a problem. While exports did not decline, their value increased at a significantly slower rate. This could be partially explained by a saturation in the international market. Moreover, given that industries that rely on exports greatly depend on the financial health of the purchasing market, Ecuadorian firms that exported to Russia were impacted by the European country's economic problems during the second half of the 1990's. This caused several flower producing firms to go bankrupt (Korovkin, 2003).

Besides international economic factors, Ecuadorian farms had to face the strong competition coming from other flower producing countries. Colombia was still a strong competitor in the industry due to its position as the largest Latin American flower producer. Furthermore, African countries like Kenya started to emerge due to several factors, such as lower labor costs (Korovkin, 2003).

Furthermore, Ecuador underwent changes that were not favorable for the industry during this period. Even though the country has relatively stable weather conditions, a meteorological phenomenon known as "El Niño" was particularly damaging in 1997. Unusually low temperatures, combined with low luminosity levels, affected flower production (Korovkin, 2003).

Politically and economically, the country had one of the most serious crises in its Republican history. The Sucre, the official currency in the country at the time, devaluated at an extremely accelerated pace. In August 1998, the exchange rate was of one US dollar to 18,000

Sucres. By contrast, in January 2000 one US dollar equaled 25,000 Sucres and inflation was at 97%. 1999 was a particularly disastrous year for the Ecuadorian economy, and it concluded in social upheaval. One of the largest banks in the country, Banco del Progreso, filed for bankruptcy due to insolvency, leaving thousands of people without their money. It was one of several banks to go bankrupt since August 1998. In an attempt to stabilize the banking system, the government deemed it necessary to freeze checking and saving accounts that exceeded a certain amount for a period of one year. This was done to avoid massive withdrawals. On January 9th, 2000, the US dollar was adopted as the official Ecuadorian currency as a stabilizing measure. The President, Jamil Mahuad, was forced to resign on the same month (Rojas, 2014).

In spite of these problems, the industry managed to regain strength and has consistently grown in the last fifteen years. In 2007, flower exports brought in USD $473 million, while in 2012 exports were of USD $740 million. Furthermore, industry growth can also be assessed by the number of hectares utilized for production. In 1996, 1484.96 hectares were used for growing flowers and a decade later, this number increased to 3440.65 (Gómez Rea & Egas Chiriboga, 2014).

Within the last decade, the industry has slowly grown throughout the years (Figure 3). The lowest point for the industry was the year 2006, in which the Free on Board (FOB) exports reached USD $439 millions. However, in terms of exported tons, the lowest year was 2007, in which only 91,000 tons were exported (in 2006, by comparison, the total number of exported tons was of 105,000) (Pro Ecuador, 2017).

Even though the industry has grown in the past few years, it does not mean that there have not been problems for Ecuadorian flower producing firms. Given that not all companies export to the same market, the performance of a farm is tightly linked to the economic and political situation of the country of destination. For example, farms that cater to the Russian market were negatively impacted when the Eurasian country received sanctions from the United Stated and the European Union and the oil price dropped, resulting in a drastic decline of the ruble (El Universo, 2014). In

spite of these problems, the Ecuadorian flower industry has managed to get stabilized, and the government is planning on implementing tax incentives to aid flower producers and encourage investment (Ebizor, 2017).

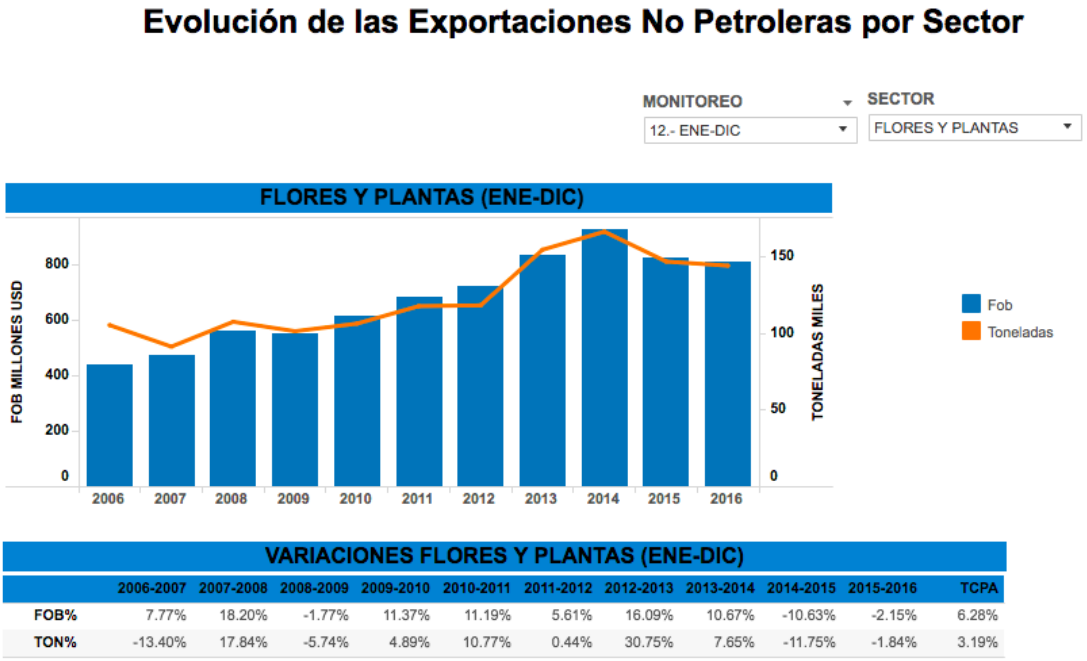

Figure 3.- Evolution chart of non-oil exports by sector (flower and plants) from 2006 to 2016

Source: Pro Ecuador, 2017

3.3.2) Major companies

The biggest firms in the industry (Figure 4) are ranked by the total number of sales and profits, and only the top five companies will be described in this section. The latest available information is for the year 2016. The information has been obtained from Ekos, a renowned magazine and online platform that focuses on business related topics. Based on these considerations, the biggest flower producing firm in Ecuador is Hilsea Investments Limited, which is in the 340th place in the highest-selling Ecuadorian firms (all sectors) ranking for the year 2016. Hilsea's total sales were of USD $50,530,548, and perceiving profits of USD $1,378,359 (Ekos, 2017).

The second largest company is Falconfarms de Ecuador S.A., placing 645th in the ranking. Its total sales were of USD $26,037,825, which is slightly more than half of Hilsea's sales. This shows that Hilsea is the largest company by a considerable margin. Falconfarms had a profit of USD $537,764 for 2016. It is important to note that Falconfarms has obtained multiple awards from Ekos (1st place in the Ekos de Oro awards for 2004, 2006, and 2007 for the non-financial sector), while Hilsea has not obtained this type of recognition. The award aims to recognize corporate leadership in the country, and the recognition (audited by Deloitte) is based on financial indicators, efficiency, and performance (Ekos, n.d.).

The third biggest firm is Rosaprima Cia. Ltda., raking in the 668th place. Its total sales for 2016 were of USD $24,764,939, and it had profits of USD $555,181. It has also obtained recognition on behalf of Ekos (1st place in the Ekos de Oro awards for 2010, 2011, and 2012 for the non-financial sector) (Ekos, 2017). The fourth largest company is Denmar S.A., which is in the 811th place in the ranking. Denmar sold USD $20,041,707 in 2016, and its profits were of USD $1,032,887. Finally, the fifth biggest flower producing firm is Flores Equinocciales S.A. (Florequisa), placing 876th in the ranking. Its total sales for 2016 were of USD $18,066,926, and its profits were of USD $1,167,725 (Ekos, 2017).

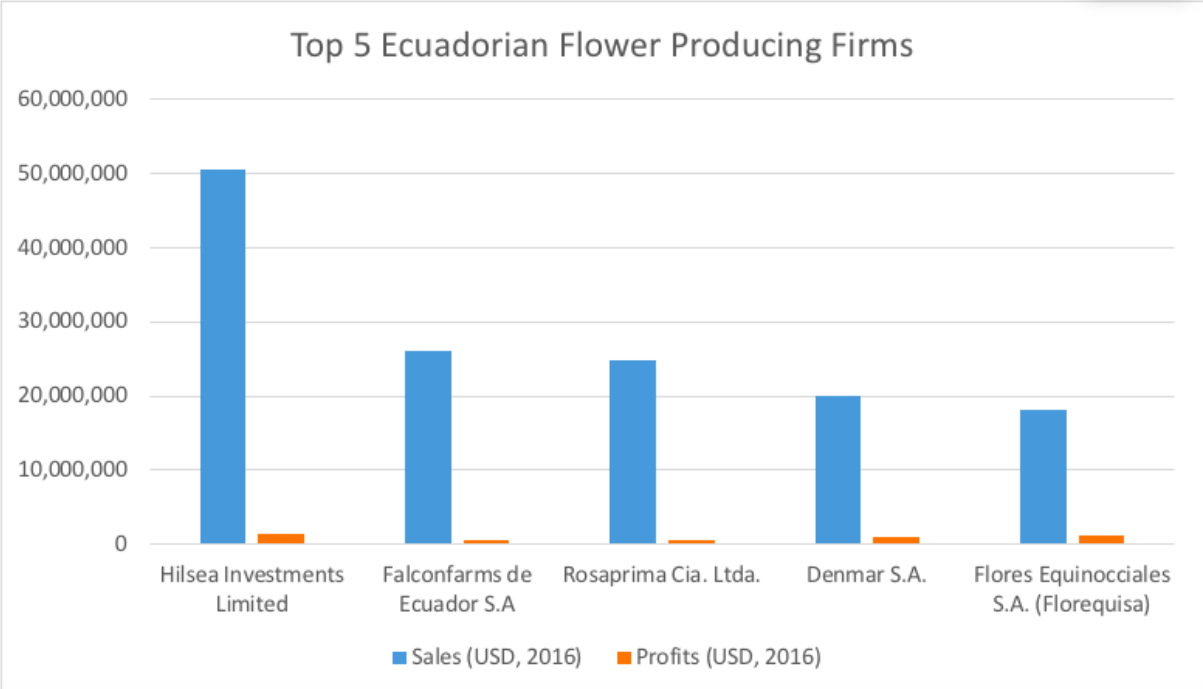

Figure 4.- Author's chart portraying the five major Ecuadorian flower producing firms

Source: Ekos, 2017

3.3.3) Corporate social responsibility, regulations, and governance

Practices in business ethics have been increasingly implemented all over the world in various industries, and the flower industry in Ecuador is no exception. Given that poor working conditions have been exposed in certain developing countries, several regulations and certifications guaranteeing good working conditions have been required for companies. For firms that engage in international business, these certifications are of important for their image in foreign markets.

Some common industrial practices have a social and environmental impact. The health of vulnerable populations has been jeopardized for the sake of more efficient industrial practices. At the time of Handal, Lozoff, Breilh, & Harlow's (2007) research, the most commonly used pesticides in the Ecuadorian flower industry were organophosphate (OP), carbamates, and dithio-carbamates. Their research's objective was to investigate the effects of these substances on

children living in communities with a high-exposure to the chemicals (in Cayambe and Tabacundo, regions primarily engaged in flower growing) at a neurological level. They compared and contrasted the obtained results to those of children who were not exposed to the pesticides.

Handal, Lozoff, Breilh & Harlow's study shows that children who live in areas that are highly exposed to the aforementioned pesticides tend to have a delayed neurobehavioral development, even after other influential aspects such as stunting, anemia, or low levels of stimulation at home were controlled for. More notably, some of the children in the affected community belonged to households with more maternal stimulation, lower levels of anemia, higher socio-economic status, and higher maternal education, which are aspects that should improve neurobehavioral development (Handal, Lozoff, Breilh, & Harlow, 2007).

These results come as no surprise. Organophosphate, carbamates, and dithio-carbamates are highly controlled pesticides that should not be utilized. In fact, Fairtrade has classified organophosphates such as parathion and parathion-methyl in the red list, which is specific for substances that must not be used on Fairtrade products (Fairtrade, 2009).

Certified farms are forbidden from using these substances. However, there are farms that are not certified and fully operational that still use these chemicals in the flowers, exposing their workers to their effects. Foreign markets are getting increasingly demanding regarding corporate responsibility, which is why Ecuadorian flower producing firms that want to sell to these markets should get certified in order to demonstrate that they follow responsible business practices, both socially and environmentally.

FlorEcuador Certified, created in 2005, is one of the certificates available. FlorEcuador has four main goals that are the basis of the certification. The first is to guarantee the compliance of rights, benefits, safety, and health of all employees. Secondly, FlorEcuador seeks to minimize the environmental impact caused by flower growing in Ecuador. Furthermore, it looks to control and minimize the use of pesticides and other chemical substances used in the industry. Lastly, it

seeks to regulate teenage employment and guarantee the absence of child labor (FlorEcuador, 2005).

To become certified, a farm has to follow 130 requirements that cover several aspects that involve the daily functioning of the farm (see *Annex 1* for a sample of the checklist). The certification is careful to emphasize on social and environmental requirements such as annual medical check-ups for all employees, water usage and bacterial analysis, and the location of agrochemical warehouses (they must not be located near houses, schools, rest areas, etc) (FlorEcuador, 2005).

All chemical products must be registered with Agrocalidad (Agroquality) and Ministerio de Agricultura y Ganadería (Ministry of Agriculture and Cattle), and they must not be restricted nor prohibited by Ecuadorian authorities. On this note, farms avoid alltogether chemical substances that fall under "Category I" of the toxicology scale, which are extremely noxious. An annual audit is performed to ensure that certified farms maintain their practices (FlorEcuador, 2005).

Another important certification is the Business Alliance for Secure Commerce (BASC). The standards sought by this certification are considered to be the minimum safety criteria and to establish the basis upon which exporting firms set up processes and operations that decrease the risk of theft, loss, contraband, drug trafficking, terrorism, money laundering, and any other illegal activities (World BASC Organization, 2012).

For this certification, the exporting firm must perform an evaluation of its supply chain at least once a year. The BASC's concept of the supply chain includes the suppliers, the exporting firm, the distributors, until the final destination of the product. If a firm has hired the services of another firm as part of its supply chain, all firms involved must work together to ensure the application of the same safety measures (World BASC Organization, 2012).

Fairtrade International is an organization that also offers certifications to producers. Fair trade is defined by the organization as "a trading partnership, based on dialogue, transparency,

and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in developing countries" (Fairtrade International, 2011).

Max Havelaar, the first Fairtrade label, was created in 1988 due to the influence of the Dutch development agency. It was replicated in various North American and European markets in the subsequent years. Almost a decade later, in 1997, Fairtrade International was established in order to unify national Fairtrade organizations and standardize worldwide guidelines and certifications. The Fairtrade Certification Mark was created in 2002 "to improve the visibility of the Mark on supermarket shelves, facilitate cross border trade and simplify export procedures for both producers and exporters" (Fairtrade International, 2015).

Few Ecuadorian flower producing firms have a Fairtrade Certification. Those who do follow the Fairtrade Standard for Hired Labor. This particular certification seeks to establish standards that ensure the rights and the wellbeing of workers. For example, to obtain the certification, firms must guarantee that their employees have the right to join trade unions, as well as the payment of decent wages, and they must set health and safety standards. For this, companies are required to allow Fairtrade International representatives to interact with their employees (Fairtrade International, 2014).

Both governance and regulations are heavily linked to corporate social responsibility in the Ecuadorian flower industry. Governance is buyer-driven, as per the definition set by Humphrey & Schmitz (2001) that was explained in a previous section. International buyers, especially European and North American customers, are setting higher expectations for Ecuadorian flower producers. Regulations that must be followed are dictated by the government, as well as the entities that offer certifications.

The Ecuadorian government has set regulations that must be followed by firms operating in the country. Many regulations have a connection to social or environmental responsibility. For example, exporting firms must acquire a phytosanitary certificate from Agrocalidad (Agrocalidad-

Agencia de regulación y control fito y zoosanitario, n.d.). Furthermore, firms must guarantee that they are not using forbidden pesticides in their farms (Ministerio de Agricultura, Ganadería, Acuacultura y Pesca). It is also important to mention the mandatory affiliation of every employee to the Ecuadorian Institute of Social Security (IESS) in order to ensure access to universal healthcare (IESS- Instituto Ecuatoriano de Seguridad Social, n.d.).

There are buyers who purchase flowers exclusively from certified farms due to the exponential growth of social and environmental consciousness. These customers are willing to pay a premium price in exchange for the guarantee that the product they are acquiring has been produced under responsible conditions. Some flower producing firms choose to not get certified because doing so increases costs significantly. To obtain certification, firms must comply with government regulations and the rest of the standards that each certification requires. Therefore, the parameters to which Ecuadorian flower producing firms must adhere, or the governance, are set by the government, the organizations who certify the farms, and increasingly demanding clients.

3.3.4) The value chain of the Ecuadorian flower industry

Before making an overview of the industry's value chain, it is vital to highlight the constraints when attempting to study the Ecuadorian flower industry. As stated by Gómez Rea & Egas Chiriboga (2014), the information available about the industry is mostly limited to numeric data. In other words, most studies done regarding the industry are economic and financial in nature, mostly focusing on export numbers. Therefore, there is an evident lack of academic information about the other aspects that comprise the rest of the industry. Since Gómez Rea & Egas Chiriboga's undergraduate investigation seeks to fulfill this gap, it will be used as a main source.

The supply chain of Ecuadorian flowers (Figure 5) starts with the breeders, who are the suppliers of seeds and young plants. Breeders create new flower varieties, multiply the seeds, and cultivate the young plants that will be purchased by flower producing firms. It is a highly

specialized activity and not much of the process can me mechanized. Before they can be sold to flower producers, young plants are matured in fields or greenhouses. Breeders register their new varieties in order to protect their intellectual property. In Ecuador breeders are mainly Dutch subsidiaries (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

When growers have purchased the desired varieties, flower production starts. Local and foreign inputs, such as imported pesticides and fertilizers, as well as national products such as plastic for the greenhouses, are important for the cultivation process. Once the flowers are harvested, they enter the post-harvest phase. To guarantee that the flowers will reach their final destination completely fresh, the temperature must be controlled, therefore the cold chain begins (Ministerio de Comercio Exterior, 2015). After quality controls, that will be further explained in the logistics section below, freight forwarding services transport the flowers to the airport. Several airlines offer the service of flower transportation, and they are embarked in either a cargo plane, or a passenger plane. Once the flowers reach the destination airport, they are still kept in a cooled truck until they reach the export market.

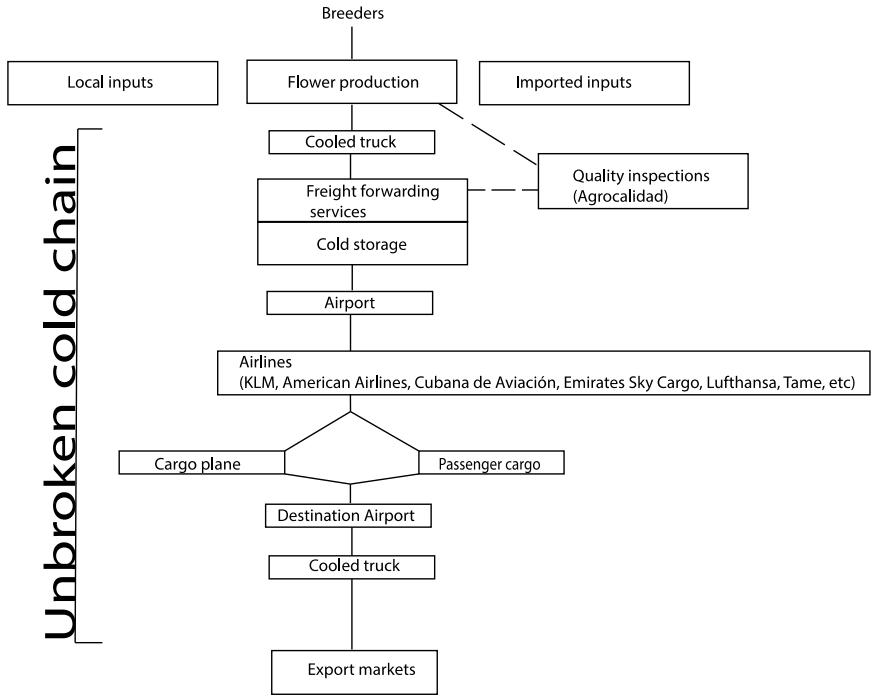

Figure 5.- Author's reinterpretation of Melese & Helmsing's (2010) Ethiopian cut flower supply chain chart, adapted to Ecuador's flower industry

3.3.4) a. Growers

According to Porter, Ramirez-Vallejo, & Van Eenennaam (2013), there were approximately 700 flower producing firms in Ecuador in 2009 that covered around 4,000 hectares. The most important markets for the Ecuadorian flower industry in 2013 were the United States, with 40% of the flowers being exported to North America (including the Canadian market), followed by Russia (25%), the European Union (20%), and the remaining 15% being exported to other countries such as Japan, Ukraine, and Kazakhstan (Asociación de Productores y Exportadores de Flores del Ecuador (Expoflores), 2013). In 2017, the export markets remained the same, but the percentages changed (Figure 6).

ECUADOR: Exportaciones Totales de Flores *Enero - Mayo*											
Nombre	2016				2017				Variacion 2017/2016		
	Toneladas	USD Miles	Precio	Share USD	Toneladas	USD Miles	Precio	Share USD	Toneladas	USD Miles	Precio
EEUU	30,839	191,320	6.20	53%	29,561	195,605	6.62	46%	-4.1%	2.2%	6.7%
Rusia	10,230	48,605	4.75	13%	12,290	65,584	5.34	15%	20.1%	34.9%	12.3%
UE (28)	12,530	68,626	5.48	19%	15,424	82,244	5.33	19%	23.1%	19.8%	-2.6%
Otros	9,908	55,750	5.63	15%	15,714	83,570	5.32	20%	58.6%	49.9%	-5.5%
Total	**63,506**	**364,301**	**5.74**		72,989	427,003	**5.85**		**14.9%**	**17.2%**	**2.0%**

Figure 6.- Total flower exports January-May 2017

Source: Expoflores (2017)

The average extension of flower producing farms is of 7.1 hectares, and the average of flower varieties grown per hectare is 4.6. The average of flower varieties grown per farm, however, is of 57. Small farms, with an average of 6.12 hectares, comprise 62% of the industry, while medium farms (average of 13.9 hectares) account for 28%, and big farms (average of 37.2 hectares) count for only 10% of the industry (Asociación de Productores y Exportadores de Flores del Ecuador (Expoflores), 2013).

Among the various types of flowers being produced in the country, roses are the most popular, accounting for 65% of exported flowers. They are followed by summer flowers (25%), tropical flowers (7%), and the remaining 3% being other flowers. Flowers rank third in the top five non-petroleum related exports, behind bananas and shrimp, and ahead of cacao and palm (Asociación de Productores y Exportadores de Flores del Ecuador (Expoflores), 2013).

Within the global industry Ecuador ranks third, after the Netherlands and Colombia, in terms of flower production and exports. Flowers produced and sold by the Netherlands account for half (50.2%) of those sent to Germany, France, and the United Kingdom. After Ecuador comes Kenya, followed by Ethiopia, Belgium, Malaysia, China, Italy, and Israel (Dirección de Inteligencia Comercial e Inversiones Pro Ecuador, 2013).

Regarding tax barriers, Ecuadorian flowers such as roses, carnations, orchids, etc., are not subject to taxes in most countries. The most notable exceptions are Switzerland, Canada, Kazakhstan, and Ukraine. Ukraine is the country with the highest taxes for this product. However,

the Ecuadorian industry is not affected by these measures, since an extremely small percentage of the flowers are exported to Ukraine (Dirección de Inteligencia Comercial e Inversiones Pro Ecuador, 2013).

The locations with the highest concentrations of flower producing firms, like Cayambe and Latacunga (in the Pichincha and Cotopaxi provinces, respectively), have attracted people from all over the country for job opportunities. While traditional activities, such as cattle raising, has employed five workers per fifty hectares, the flower industry employes ten to twelve workers per hectare (Dirección de Inteligencia Comercial e Inversiones Pro Ecuador, 2013).

As of 2012, the flower industry employed 120,000 workers (Dirección de Inteligencia Comercial e Inversiones Pro Ecuador, 2013). More than half (51%) of the workforce is comprised by women, and the flower industry counts with 571 farms distributed in 4000 hectares (Asociación de Productores y Exportadores de Flores del Ecuador (Expoflores), 2013). Members of an indigenous community interviewed by Korovkin (2003) stated that working for flower producing farms was favorable because they offered higher wages than other types of employment, such as domestic work. However, Korovkin reports that some farms made their greenhouse employees work under a "productivity system". In this system, workers had productivity targets to reach regardless of the overtime needed. However, they were not economically compensated for the overtime. This practice is highly illegal, as the Ecuadorian Labor Code states that employees are allowed to work over the standard 40 hours per week, but overtime cannot exceed 4 hours per day or 12 hours per week. Furthermore, they must be paid the equivalent of one normal hour of work plus a 50% charge. If overtime occurs between midnight and 6:00 AM, there is a 100% charge on the hour of work (Ministerio del Trabajo, 2005).

3.3.4) b. Sales and marketing

The number of flowers that can be sold by flower producing firms is determined by market demand and the strict quality controls. If firm has a FairTrade certification, its clients must have a six-month supply contract. Once the flowers are on the ship or the airplane, the buyer must cover

the rest of the expenses and must accept the risk of loss or damage. The responsibility of the seller at this stage is to take charge of the paperwork needed for the export process (Terán Manzano, 2013).

Flower prices are not standardized nor public. Therefore, firms tend to keep their fees between them and their clients. Terán Manzano has compiled an estimate of the pricing of certified flowers in the US market on the basis of stem-size. On average, a single flower with a stem of 40 centimeters is priced at USD 0.32. A flower with a stem of 50 centimeters is sold at an average of USD 0.45. If the stem is of 60 centimeters, the price of the flower increases to USD 0.55. Finally, a flower with a stem of 70 centimeters is sold at an average of USD 0.78. The size of the stem depends on the preferences of the market. In 2011, flowers with stems of 40 and 60 centimeters were the most sold volume wise (Terán Manzano, 2013).

As for sales methods, besides the traditional ways of contacting clients, e-commerce has gained force within the industry to gain a wider array of clients at a global scale. Ebizor, a platform that specializes in the analysis of Ecuadorian productive sectors and guilds, has developed Clúster Flor, which continually releases information related to the flower industry. On its online platform, it has published advice for Ecuadorian flower related firms that desire to venture on e-commerce. E-commerce facilitates the relationship between vendor and consumer, thus furthering the possibility of engaging in an increased number of international sales. Clúster Flor recommends to provide a digital catalogue with all the information the buyer might deem as necessary, such as the life-span of the flower, size, and color. Furthermore, the customer must be aware of the shipping conditions and time if the flower has a particularly short life-span (Ebizor, 2017).

Next, the firm's website must be user friendly in order to give the buyer a pleasant shopping experience. Therefore, the buyer must be able to easily navigate and browse. Secure payment is vital in these types of transactions, as consumers must know that the transaction is completely reliable. Finally, firms must invest in marketing for their e-commerce website, as

clients must know there is a possibility beyond traditional buying methods. The website must be appealing for both traditional customers and new segments of society (Ebizor, 2017).

Regarding marketing methods, Ecuadorian flower producing firms have several options for promoting their products. Clúster Flor cites a series of advice given in a report published by the Floral Marketing Research Fund, an organization dedicated to consumer research for the flower industry, on how increase flower consumption for the "millennial" generation (Ebizor, 2017).

The "millennial" generation, in this context, refers to people born between 1977 and 1994. This segment of society's collective annual purchasing power is of US $200 million. However, flower consumption has decreased in the last two decades. Members of this generation are not the main consumers of flowers, and have different attitudes and preferences regarding flowers than previous generations. It is because of this reason that a different marketing strategy must be applied towards this particular generation (Yeu, Zhao, & Rihn, 2016)

Among the strategies suggested by Yeu, Zhao, & Rihn, there are three main ones cited by Clúster Flor for the Ecuadorian context. First, it is important to offer to this generation the option of customization. Buyers of this segment value the opportunity of having a personalized flower arrangement. Secondly, coupons, special prices, and fidelity programs should also be offered. This is to deter the client from seeking out better deals and buying from the competition. Finally, using e-commerce as a mean to cater to these clients, as well as marketing the products in a creative manner will attract "millennial" customers and encourage them to purchase more flower products (Ebizor, 2017).

As for flower producing firms and flower wholesales, Clúster Ecuador recommends to label each variety offered to the market with all the information the user might find useful about the flower they intend to purchase. It is important to note that, according to one of the respondents, flower producing firms mostly follow a business to business (B2B) sales and marketing strategy, while wholesalers can either have a B2B or business to consumer (B2C) strategy. The information

included can be technical, as well as advise for the customer on how to take good care of the purchased flower. By facilitating this information to the consumer or other companies that buy the flowers, the seller can boost their attractiveness in the market as well as their sales (Ebizor, 2017).

3.3.4) c. Logistics and distribution

The Ministry of External Commerce has compiled a series of protocols and regulations from several institutions with the goal of assembling a manual for the improvement of logistical processes and the value chain, and thus to increase the international competitiveness of Ecuadorian flowers (Ministerio de Comercio Exterior, 2015).

Figure 7 shows the optimal logistical flow of Ecuadorian flowers. The process starts with flower producing firms (described in the flowchart as "exporters"). The firm must count with an exporter registry, given by the Ministry of Agriculture, Cattle, Aquaculture, and Fishing (MAGAP). After the exporter has issued the commercial invoice and the customs declaration for exports (DAE), the flowers are inspected by Agrocalidad (Annex 4). After being approved, the product is loaded onto the trucks that will take the flowers to the cargo agency. The cargo agency is in charge of preparing the necessary documents for shipping. The Ecuadorian National Service of Customs (SENAE) must inspect the flowers and perform a narcotics control. With the approval of the SENAE, the flowers are palletized and sent to the airline (Ministerio de Comercio Exterior, 2015).

According to Porter, Ramirez-Vallejo, & Van Eenennaam, most of the transportation within the industry is done by Dutch logistical companies. Some have invested in the development of new technologies to transport flowers by ship more easily, such as storage techniques and special containers. FloraHolland, present in the country since 2005, acts as a support for Ecuadorian growers by aiding them in trade and logistical aspects. Furthermore, the firm has consolidated cargo by ship or air to help Ecuadorian firms sell their flowers in the European market (Porter, Ramirez-Vallejo, & Van Eenennaam, 2013).

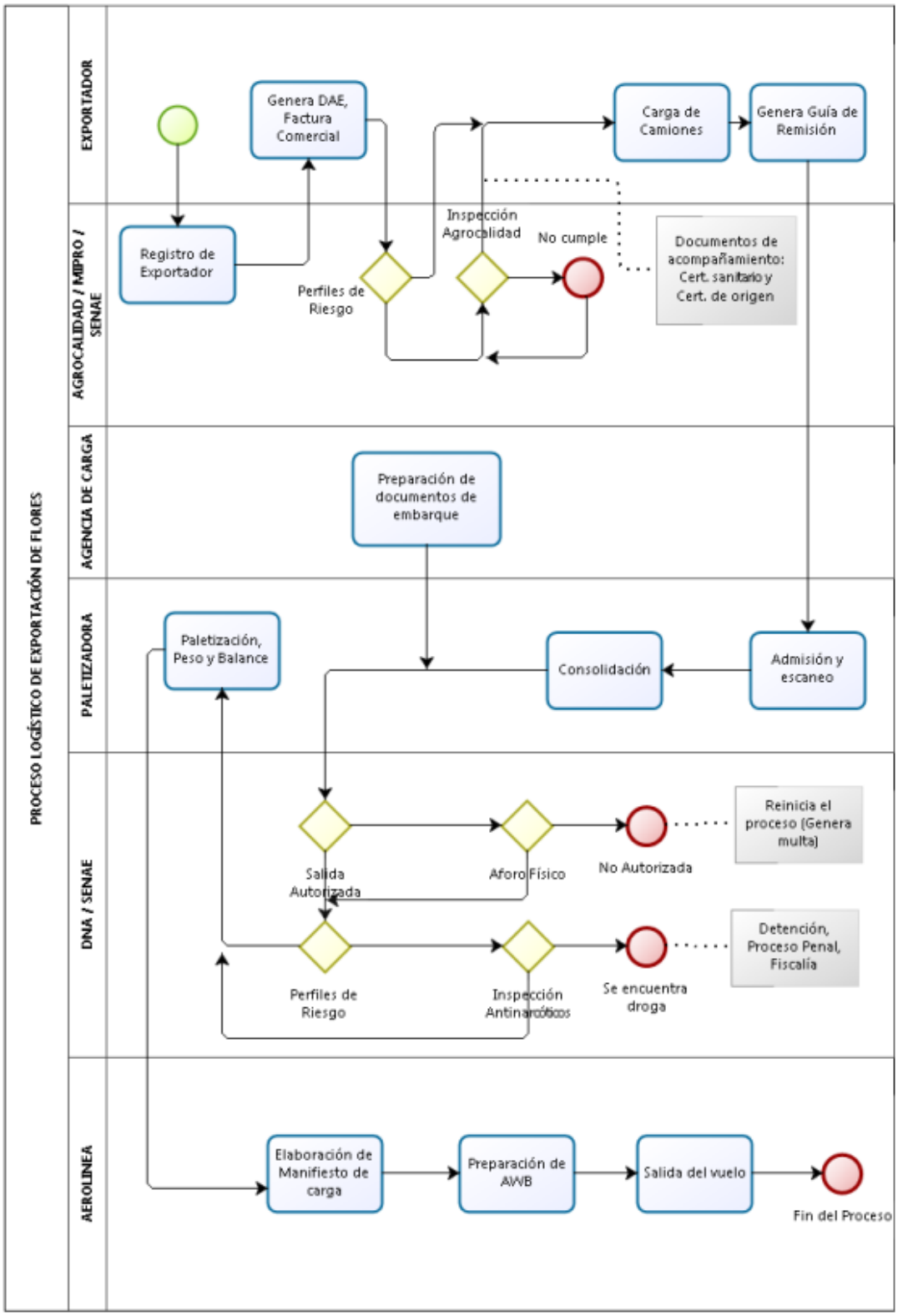

Figure 7.- Optimal logistical flow of Ecuadorian flowers destined for export

Source: Ministerio de Comercio Exterior (2015)

3.3.4) d. R&D and innovation

The Ecuadorian flower industry is under constant development and innovation. This has been occurring mostly with the objective of replacing older technologies and process optimization. For example, a method for reducing the plant's abiotic stress, which is caused by droughts, high saline concentration, and extreme changes in temperature, is still being researched (Dirección de Inteligencia Comercial e Inversiones Pro Ecuador, 2013).

Research is conducted mainly in the field of biotechnology. Development in this area ensures the good quality of the plants, as well as an optimal crop performance. One of the substances developed for this, called HTP-Crop, is made with various botanical ingredients, such as algae extract mixed with nutrients and chemical compounds. It is important to note that innovation is also geared towards the reduction of chemicals used in the industry. In the country, the Ecuadorian Organic Flowers Growers Association (ECOFAS) has tried to implement practices that aim to reduce the use of agrochemicals and fertilizers (Dirección de Inteligencia Comercial e Inversiones Pro Ecuador, 2013).

Technological advancements and innovation can also be observed in the specialized greenhouses and irrigation systems present in several farms. According to Pro Ecuador, the country is one of the foremost innovating countries in terms of flower production. Producers regularly receive assistance and counseling regarding how to improve their practices, which also influences on the innovation done within the country. An Ecuadorian seal of quality has been developed to certify a certain standard of environmental management. Moreover, more products are being constantly developed, such as edible organic flowers and preserved flowers (Dirección de Inteligencia Comercial e Inversiones Pro Ecuador, 2013).

According to Gómez Rea & Egas Chiriboga (2014), one the areas in which Ecuadorian flower producing firms try to innovate the most is the production process (expanding greenhouses

and trying to acquire new types of flower varieties). Furthermore, companies within the industry also seek to gain better efficiency at inventory management, logistics, and customer service.

3.4) Preserved flowers as a derived industry

According to Clúster Flor, preserved flowers have gained extreme notoriety within the industry within the past five years, and especially during 2017. They are considered to be a different segment of ornamental goods, and they do not compete directly with fresh cut-flowers. This is due to the fact that there are different uses for preserved flowers that are not achievable with fresh flowers. Preserved flowers are sold in the business to business (B2B) and business to consumer (B2C) modalities, and are used for vertical gardens, as well as creative presents (Ebizor, 2018).

Preserved flowers are experiencing rising levels of popularity at a global scale. Because of the increasing demand, they are becoming a highly profitable product, and are considerably more profitable than fresh flowers. Several small firms have started and grown by only producing and selling this product. Furthermore, even though preserved flowers are not interfering in the demand of fresh flowers, they are being requested for the same holidays that were traditionally important for the flower industry, such as Mother's Day and Valentine's day (Ebizor, 2018). One of the respondents stated that preserved flowers will not replace fresh flowers because there are consumers who appreciate their life-cycle, which is not an effect that can be observed in preserved flowers. However, from a financial point of view, there might be customers who consider preserved flowers to be more cost-effective in the long term. This is mainly because they can last for more than six months, thus relieving the client from having to constantly purchase fresh flowers. A prime example of this scenario is the hotel industry, in which large quantities of flowers must be constantly replaced.

According to Clúster Flor, a firm that wishes to venture on the field of preserved flowers must take several aspects into account, which could take up to a year and a half of research. Given that the production process is quite complex, the firm must assess which flower varieties are

appropriate for the process and which are not. Selecting a reliable supplier is of paramount importance, as fresh flowers are the main raw materials for preserved flowers. Therefore, a constant supply of high-quality flowers is vital for the success of the venture (Ebizor, 2018).

According to one of the respondents, the preserved flower industry is not new. In fact, it started in France and Japan approximately three decades ago. When Ecuadorian roses started gaining fame around the world, the concept of preserved flowers was also introduced into the country because of the quality of the raw material. The process consists in dehydrating the flower and removing all its liquids with alcohol-based solutions. The goal is to remove everything that could influence in the decomposition process of the flowers. After this step is completed, new substances are injected into the flower, achieving a dyeing effect in the flower's cellulose. The process can also be done with different substances in every step, and the chosen method depends on each company.

The respondent estimates that approximately six million preserved roses are being produced in Ecuador on a monthly basis. Colombia is another major producer of preserved flowers. Just between the two largest preserved flower producing firms, six million preserved roses are produced on a monthly basis. Japan also produces preserved flowers, but the country is the largest consumer of preserved flowers in the world, and it is estimated that the per-capita consumption of this product is of 1.1. Other emerging consumers of preserved flowers are some European countries and the United States.

The respondent stated that an important differentiator in this industry is using fresh flowers from certified farms as raw material. By using these flowers for the production of preserved flowers, farms can find a competitive advantage, both in local and foreign markets. There is also the possibility to acquire a certification just for the process that goes behind the manufacture of preserved flowers. Regarding innovation and R&D in the field of preserved flowers, new processes are firm specific. In other words, even though the basic principles are based on standardized practices, there are different processes for the manufacture of preserved

flowers. Therefore, each firm is in charge of developing the process that is best suited for the firm's resources and capabilities. For example, there are firms that only produce preserved roses, while others have managed to preserve different types of flowers. This specificity in production constitutes a difference from the fresh flower industry.

In conclusion, preserved flowers are a product that is gaining much value due to its long-lasting nature. There is a continually growing market that is constantly demanding them. Even though it would be easy to think that they could potentially replace fresh flowers, there is no concern on the behalf of flower producers, because they consider that there will always be demand for fresh flowers, as there are customers that will not trade one for another. These flowers are perfect for countries that do not have an ideal weather for growing flowers and in which the import of fresh flowers could be costly. A single purchase of preserved flowers could potentially last for several months, eliminating the buyer's need to worry about constantly changing them. It is a product that is sure to continue to gain popularity at a global scale.

3.5) The international strategy in the Ecuadorian flower industry

The Ecuadorian flower industry, like all other industries, has been shaped by a series of factors that influence the decisions that firms within the industry make to remain competitive. One of the most influential factors in the Ecuadorian flower industry is its global value chain. According to Melese & Helmsing (2010) "value chain framework shows the complexity of a particular production-transaction sequence (functional interdependence)", and "geography plays a role in value chain analysis because of economic differentiation between production and transaction locations" (Melese & Helmsing, 2010, p. 38).

Following Porter's (1985) aforementioned statements regarding how value chains are a representation of linked activities with the objective of obtaining a final product and how a firm's competitive advantage can lie in its value chain, it can be said that the situation of the Ecuadorian flower industry is a particular case.

Value chains, which are analyzed at a firm's level, can be extrapolated to the whole industry based on the results of the interviews. In other words, it would seem that in this particular case, the global value chain is structured at an industrial level, rather than at a firm level. While Ecuadorian flower producing firms perform all their production-related activities in Ecuador, key aspects of the industry are performed abroad, such as variety breeding and international sales.

All respondents stated that one component of the competitive advantage of the Ecuadorian flower industry is the wide array of rose varieties that are offered to the international market. One respondent said that while in Colombia there are thousands of hectares dedicated to very few varieties, Ecuador's specialty is to offer several varieties, and that is why Ecuador sets the global trend on which variety will gain popularity during a certain period of time. That is why breeders, companies in charge of developing new varieties, are of great importance for the industry. However, Ecuador does not count with the technological advances needed for genetic research and variety development. Therefore, this process is mainly done in industrialized countries, such as Germany and the Netherlands. Once the new variety has been developed, it must be tested in Ecuadorian ground to see if it can adapt to the soil. It is important to note that several respondents stated that there are very few Ecuadorian companies that are trying to develop breeding within the country, but it is too costly to imitate what foreign breeding companies achieve.

The other component of the industry's competitive advantage is the quality that flowers grown in Ecuador have. Respondents attribute this factor to the geographical location of the country. A combination of altitude, weather, luminosity and hours of exposure to light set the perfect conditions to have a year-round production of roses with characteristics that are deemed to be of great quality. Furthermore, the perpendicular sunbeams of the equator make the flower develop brighter colors. Another location-specific advantage described by a respondent is the access to clean water, which has been a rising problem in competing countries. The respondent stated that some farms in Colombia have had to use sewage water for production, which decreases

the quality of the flower. All respondents alluded to the fact that this quality can only be achieved because of the combination of geographical and weather conditions that only Ecuador has.

All respondents stated that the quality of Ecuadorian roses is what sets them apart from those of competing countries. In fact, some respondents said that their main competitors in markets that look for high-quality roses are exclusively Ecuadorian firms. This is because Ecuadorian flower producing firms have focused in a differentiation strategy, which is why these roses are constantly regarded as the best in the world. By contrast, respondents stated that countries like Colombia, because of the number of hectares dedicated to few varieties and other factors such as low production costs, aim for a low-cost mass market strategy. This has caused the industry to be divided into two segments: high quality flowers (where most Ecuadorian firms compete) and mass market flowers. It is important to note that Colombia has managed to achieve economies of scale with this strategy, which Ecuador cannot do.

Regarding sales, one respondent said that Ecuadorian flower producing firms must sell their flowers in the international market because the local demand is severely reduced for the supply. If the firms had not expanded their market scope, they would have gone immediately bankrupt. Moreover, there is great demand for Ecuadorian flowers in other countries because they cannot produce a similar product due to their geography, weather, and the high costs of attempting to grow flowers under artificial conditions. Respondents cited the United States, the European Union, and Russia as their main customers.

Therefore, there is great value in the international development of flower varieties, Ecuadorian production, and international commerce for the Ecuadorian flower industry, specifically for roses. The industry has found a global value chain that makes its competitive advantage sustainable. This is the reason why all respondents confirmed that their firms engage in direct exports to retailers or wholesalers, and some have commercial offices abroad.

When asked if they would find it advantageous to have a farm in another flower producing country, nine out of eleven respondents said that they would not consider doing it. Some noted

that while it be theoretically beneficial (there would be lower production, labor, and transportation costs), the risks are more significant. First of all, there are difficulties associated to entering a foreign country with a high-cost entry mode, such as cultural, economic, and administrative differences (aspects the CAGE framework addresses). Moreover, being an agricultural activity, the employees must be highly trained and trustworthy to avoid problems such as plague and fungi infestations. It is highly difficult to replicate the skills, training, preparation, and loyalty of a key employee, such as a technician, in another country. One respondent cited the case of a Latin American flower producing company that set up a farm in Kenya, and local employees did not know whether they could trust their employers, so they set the farm on fire. Finally, respondents cited costs, logistics, and weather conditions as further complications of such venture.

Of the two remaining respondents, one stated that if their farm had an interest in entering the European market, they would set up operations in an African country. The other respondent said that if they had the financial means, they would consider setting up a farm in another country. This raises an important point regarding the state of the Ecuadorian flower producing industry. The first respondent manages one of the largest flower producing firms in Ecuador, which is owned by Colombian investors. Therefore, they already have the financial means required to expand into other countries through FDI. However, the Ecuadorian industry is mainly formed by small farms (62%) and medium farms (28%) (Expoflores, 2013), and several of these are family-owned. This might also explain the lack of investment power and interest to engage in FDI, as evidenced by the answers given by the respondents. By contrast, as stated by a respondent, Colombian flower producing firms are few and enormous, which allows them to invest in foreign countries.

It is important to mention that Ecuadorian flower producing firms have not engaged in vertical integration because it is not part of their business model, and it is costly to do so. Only one respondent mentioned that they are trying to achieve vertical integration by starting to make the transportation of their products in-house, but only within Ecuador, as they are not planning to

do the same abroad. Regarding sales, Ecuadorian flower producing firms either export directly to their customers following a B2B model, or some have their own commercial offices in foreign countries, most notably in the United States. This is as close as they have come to vertical integration, as most do not deal with final consumers directly. Final consumers purchase the flowers from florists, who buy them from wholesalers or flower producing firms. Some respondents, however, stated that it is not profitable to sell to small florists because they do not require large amounts of flowers, preferring to sell to wholesalers instead.

It is also important to note the challenges that flower producing firms face in Ecuador. While the country is geographically optimal for the production of flowers, economic issues and government policies have debilitated the industry, which, according to all eleven respondents, is able to survive solely on its competitive advantage: flower quality and wide array of varieties. Ecuadorian flower producing firms face certain disadvantages vis-à-vis other flower producing countries like Colombia. For example, Ecuador does not count with a free trade agreement with the United States, which Colombia does have, and this makes Ecuadorian flowers more expensive. Furthermore, Ecuador's currency is the US dollar, which makes it impossible for the country to devalue it to lower the production costs, which is something Colombia has done with the peso. Therefore, labor and freight costs increase, decreasing the competitiveness of flowers.

All respondents stated that the former government, which was in power from 2007 to 2017, took an unfriendly stance towards businesses. This has continued with the subsequent and current government, occupied by the same political party. Legislation in general has constantly changed and laws are regularly issued, so businesses have functioned in an unstable environment. Labor laws are deemed as rigid and have been structured in a way that it has become increasingly expensive for businesses to hire employees, as well as firing them. Moreover, new environmental laws, described by one of the respondents as "issued without much analysis", have increased the amount of paperwork that flower producing firms need to complete, decreasing their productivity.

Companies also need to hire people to take care of the new requisites established by the laws, which increases costs.

In conclusion, the Ecuadorian flower industry has been shaped by certain factors, such as its global distribution of activities (global value chain) (Figure 8), geographic and weather conditions, and a differentiation competitive strategy that have maintained its competitive advantage, which lies in its variety assortment and flower quality. The research and development of new varieties is mainly done in European countries, such as Germany and the Netherlands due to the technology that is available in these locations. Production is exclusively done in Ecuador because flowers develop characteristics that are recognized internationally as being of high quality. According to all respondents, Ecuadorian flowers are categorized as the best in the world in terms of quality. Even though firms face certain challenges in the country, production must be done in Ecuador to ensure the quality of the flowers.

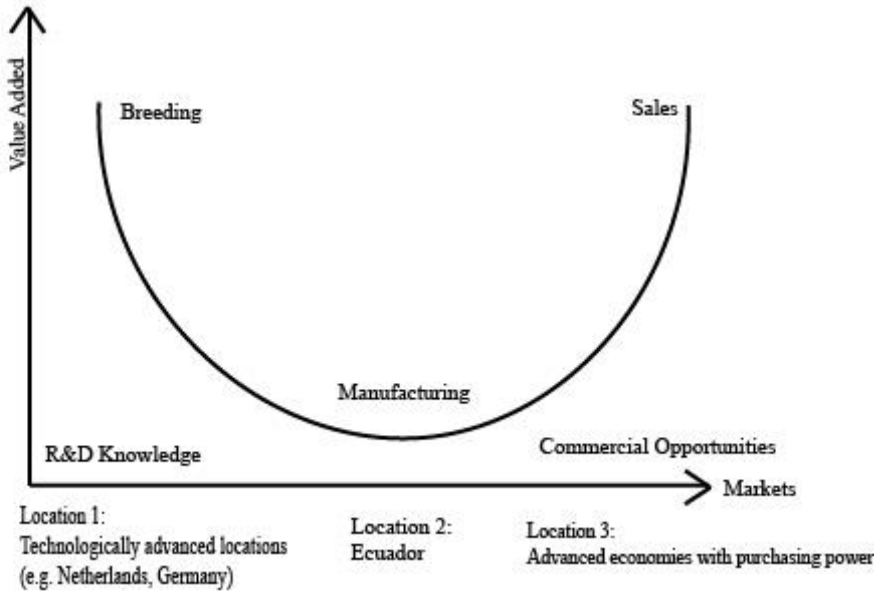

Figure 8.- Author's reinterpretation of Mudambi's (2008) smile of value creation, adapted to the Ecuadorian flower industry

Ecuadorian flower producing firms sell their products in international markets because the local market is not sufficient for the supply, and foreign customers are willing to pay higher

prices that could never be matched by local demand. Therefore, activities are performed in locations where they reach the most value. Because producing in Ecuador is a vital aspect of the industry's competitive advantage, firms have not ventured in foreign production, and therefore have only engaged in exports. Hence, it can be concluded that due to a variety of factors that have shaped the industry, the only feasible entry mode at the time for Ecuadorian flower producing firms into international markets is through exports.

Analysis and Conclusion

Before addressing the theoretical and practical implications of the present paper it is worth to specify that, to our best knowledge, this is the first work of research that focuses on the international strategy of Ecuadorian flower producing firms. Therefore, examining the Ecuadorian flower industry, namely that dedicated to growing roses, from this angle allows us to analyze it from a fresh perspective, and to draw conclusions that might be helpful in bringing a broader image of its situation and its challenges.

There are several theoretical implications that must be analyzed based on the theoretical content found in the literature review, the facts about the Ecuadorian flower industry stated in the previous chapter, and the interviews conducted with the top executives from Ecuadorian flower producing firms. These implications are particularly important because they unify theory and practice, thus being instrumental in assessing how accurately the theory is reflected in practice, and might bring a new perspective for future research opportunities.

First of all, the Ecuadorian flower industry has managed to gain its competitive advantage at an industrial level, not at a firm level. A major component of its advantage is the manner in which the industry has organized its activities in order to maintain this advantage, which is comprised by the extensive flower variety it offers, as well as the quality of its product. The quality is exclusively linked to the specific geographical and weather conditions of the country. According to several respondents, while African roses have improved their quality, it is still not comparable to those grown in Ecuador. Therefore, production must be done in the country to get the same level of quality. The flower variety, by contrast, is a consequence of flower breeding done in some European countries, namely the Netherlands and Germany. While there have been attempts of flower breeding in Ecuador, it is too costly to replicate the same results achieved in the aforementioned countries. Finally, firms within the industry sell their products to international markets for two main reasons. Some respondents stated that the country

does not have a flower purchasing culture, and therefore the internal demand does not match the supply and the market would get excessively saturated. The other reason is that foreign markets, who do have a flower purchasing culture, are willing to pay significantly higher prices for the flowers that simply cannot be obtained from local customers.

Even though global value chains are generally analyzed at a firm level (micro), following Porter's (1985) statement that a value chain is a representation of the unification of activities that are linked together to achieve a final product, this analysis can be extrapolated to an industrial level (meso). This extrapolation would still be consistent with Porter's statement regarding how a firm's competitive advantage can lie in their value chain, because the advantage of the Ecuadorian flower industry certainly lies in its global value chain. Therefore, the industry is benefitting from the comparative advantage of specific locations in order to maintain its competitive advantage.

The second theoretical implication is that, analyzing from an industrial perspective, the Ecuadorian flower industry has adopted an international competitive strategy of differentiation. This is based on the statement given by all respondents that what truly sets Ecuadorian flowers apart are their quality and the wide array of varieties offered. One respondent stated that Ecuador has managed to make a brand out of the country's name within the international industry. International customers actively seek for Ecuadorian flowers when looking for a high-quality product. Therefore, the industry has managed to have a product that is unique and valued by buyers, who pay a premium price for it. By contrast, Colombia competes on a cost leadership strategy, or low-cost strategy. This is the reason why most respondents stated that their major competitors are other Ecuadorian firms, because Colombian firms compete in a different segment. One respondent expressed that their firm competes with Colombian firms when the Ecuadorian supply decreases, making customers settle for the neighboring country's product.

The fact that the international competitive strategy has been adopted at an industrial level rather than at a firm level might be explained by the differences between Ecuadorian and

Colombian flower producing firms. According to one respondent, the Colombian industry is made up by few firms that are massive in size. Therefore, they can achieve economies of scale by growing few flower varieties in large territories. By contrast, the Ecuadorian industry is largely comprised by SMEs that offer high-quality flowers in several varieties. This is why they do not count with the same financial nor land capacity as Colombian firms to achieve economies of scale and compete in the low-cost segment. However, there might be some Ecuadorian firms that choose to engage in this segment.

The third theoretical implication is related to the entry mode by which Ecuadorian flower producing firms enter foreign markets. Due to how the industry's value chain is structured, the optimal place for production is Ecuador, if the quality is to be kept. Nine out of eleven respondents stated that they would not consider engaging in FDI and setting up a farm in another location. One respondent stated that their firm might consider it, if they found an attractive location and if they had sufficient economic power to invest in the venture. The remaining respondent said that if their company had interest in entering the European market (their only market is the United States), they would definitely start operations in an African country to maximize productivity. However, it is absolutely necessary to note that this respondent manages one of the biggest firms in the country, which is owned by Colombian investors. This is connected to the previous point of Colombian firms having significant investing power. The other respondents worked in SMEs, which make up the majority of the Ecuadorian industry. It is also worth noting that, according to one respondent, several Ecuadorian flower producing firms are family-owned, which further complicates a venture as impactful for a firm as FDI.

The choice of entry mode of Ecuadorian flower producing firms is consistent with the literature. They engage in direct exports, or they export to their commercial offices abroad. Several respondents stated that they would not consider investing in foreign countries, namely African countries where flower production is booming, because they do not know how the

environment is and it would be too risky. This is consistent with the statement found in institutional theory that sources of risk and uncertainty influence entry mode choice (Brouthers & Hennart, 2007). Furthermore, the reasons found among the respondents' answers as a deterrent from venturing into FDI are consistent with the CAGE framework developed by Ghemawat (2001). Cultural, administrative, geographic, and economic differences between Ecuador and African countries are considered by respondents as too big to consider investing there. The geographic aspect was mentioned by a respondent, who stated that it might be difficult to find employees who would be willing to relocate.

Another aspect worth mentioning regarding the entry mode choice for these firms is that it is consistent Cavusgil, Knight, & Riesenberger's (2008) statement that SMEs tend to choose exports as their entry mode. This is also related to Peng's (2013) notion that the commitments required in international markets in non-equity modes are significantly smaller than those required in equity modes.

The final theoretical implication is related to corporate social responsibility. While Peng (2014) states that accommodating corporate social responsibility practices is linked to the performance of a firm, based on answers given by respondents it is possible to say that engaging in these practices helps the image of the firm, but their business has never been affected by not choosing to do so. One respondent expressed that clients from certain nationalities do not care about corporate social responsibility at all, but rather about the price of the product. Customers of other nationalities are willing to pay a premium price for flowers that come from certified firms, but most respondents agree that corporate social responsibility is not vital to compete in the international market. It could be interesting to explore how the importance of corporate social responsibility differs by culture.

As for practical implications, an important contribution of this work of research might be to bring attention to the challenges that keep the industry from growing. All respondents expressed their concern with the rigidity of Ecuadorian labor laws, as well as tax regulations that

are not business-friendly, and the lack of trade agreements with major commercial partners, such as the United States. If the industry is unable to grow, the only thing that will keep the industry competitive is the quality of the flowers, which could be matched in the future by African industries. Then, the main source of advantage will disappear and Ecuadorian flower producers will face a dire situation. Therefore, this paper might help to raise awareness of the urgent need of changes in the government's policies.

Finally, since this is the first paper to link global value chains to the internationalization process of Ecuadorian flower producing firms, it might also help to complete possible knowledge gaps about how the industry works, its history, and its challenges. This might be useful for managers, who may benefit from seeing a broader picture of the industry from a different perspective.

In conclusion, the hypothesis about Ecuadorian flower producing firms engaging in exports because factors such as the industry's global value chain, the home country's geographic and weather conditions, differentiation competitive strategy, and industrial challenges (such as tax and labor law issues) have an impact in their internationalization process is confirmed. Hopefully the present paper might serve as the basis to further the research on the impact of the internationalization strategy of other flower industries, or other Ecuadorian industries. Another interesting topic to further research on could be if the same conclusion applies to firms who grow other types of flowers that are not roses. This work of research might also help to shed some light on issues that affect Ecuadorian flower producers, such as policies that keep the industry from growing and aid in the development of the industry.

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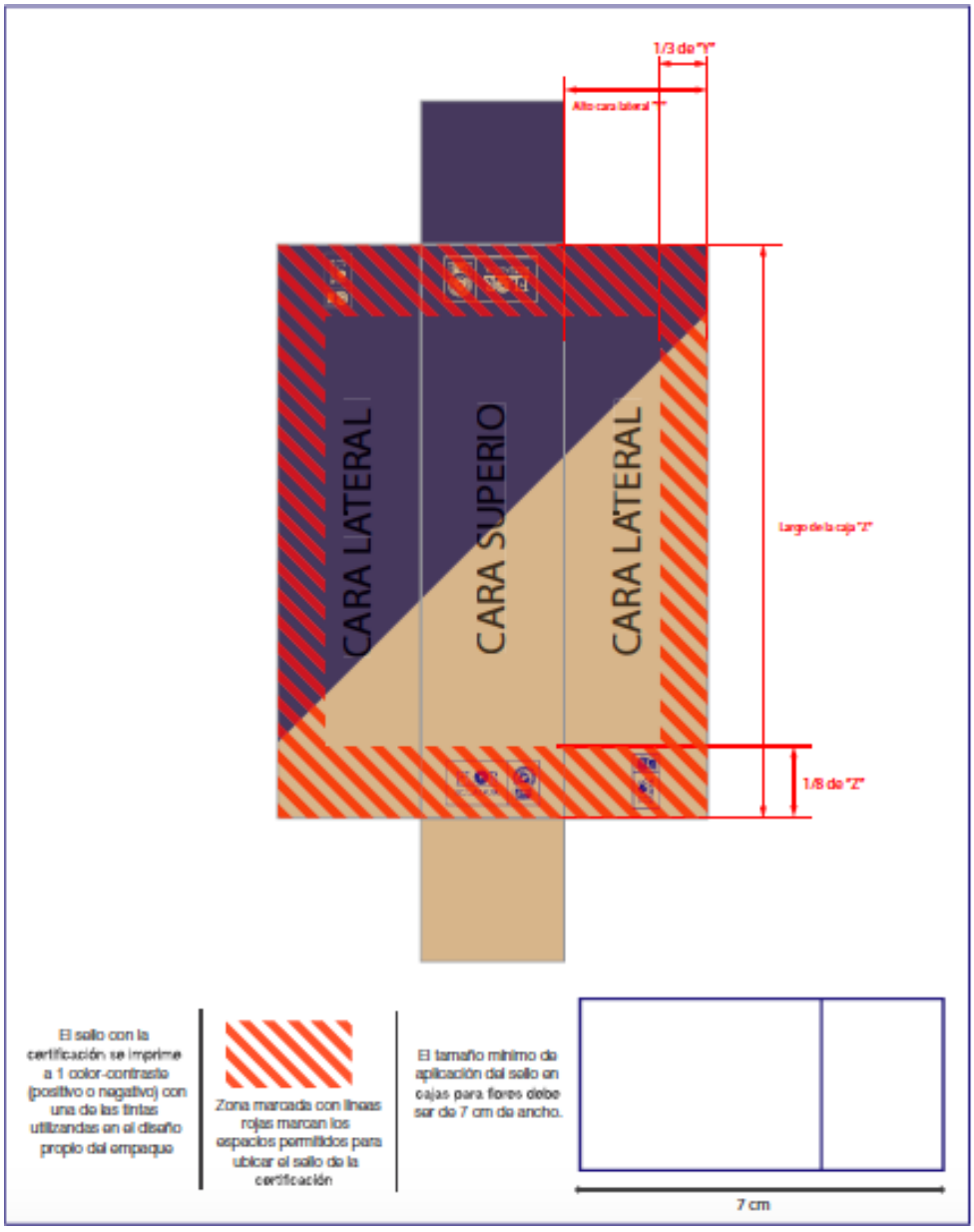
Annexes

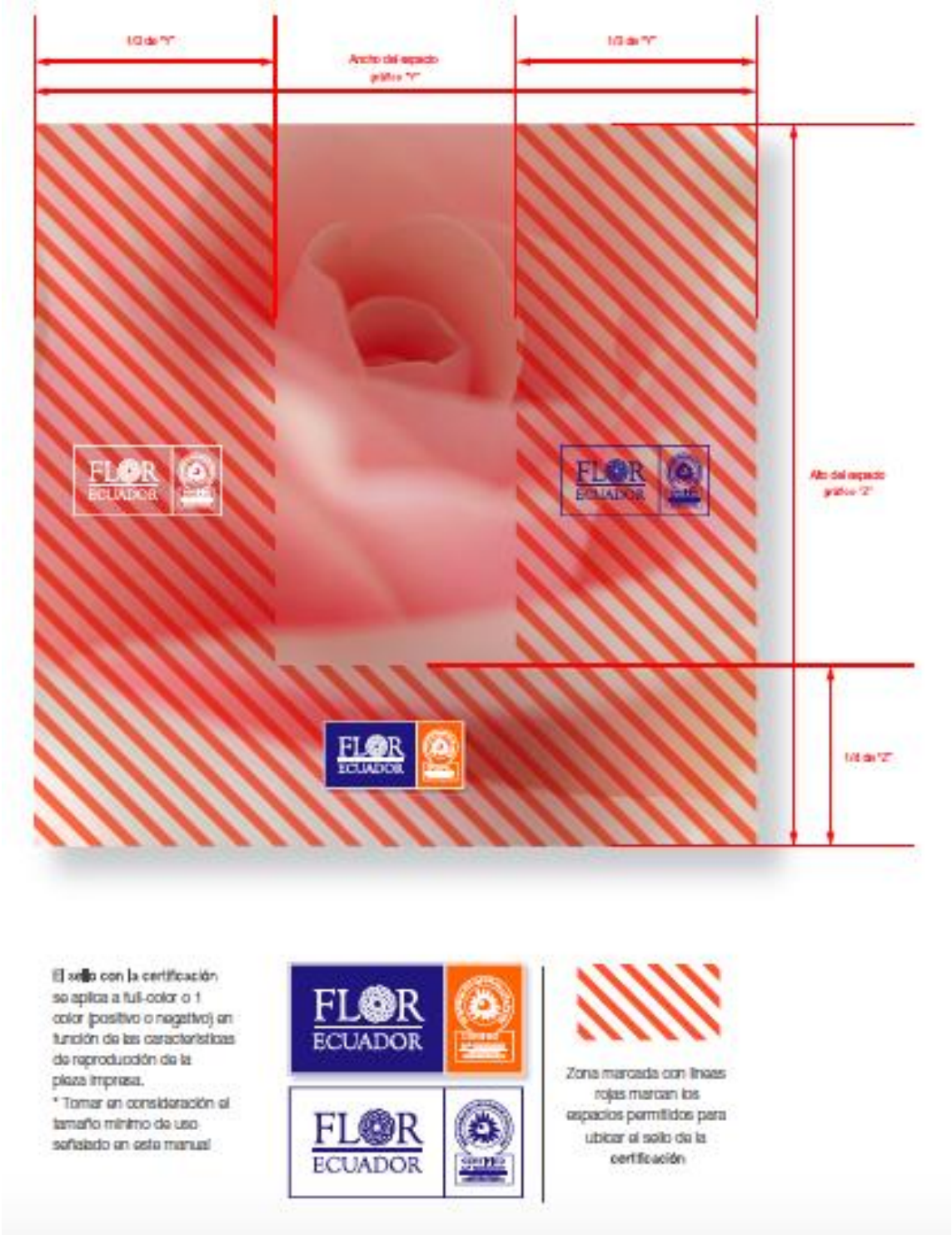
	Código	Requisitos
1	DB0305	Todos los empleados de la finca se encuentran afiliados al Instituto Ecuatoriano de Seguridad Social (IESS)?
2	DB0306	La finca paga puntualmente todo lo correspondiente al IESS?
3	DB0307	Los formularios referente a pagos de décimo tercero, décimo cuarto y utilidades se encuentran registrados en el ministerio competente?
4	DB0308	¿Cuenta con el Reglamento Interno de Trabajo o en trámite los últimos dos años?
5	DB0323	¿La empresa no mantiene relaciones laborales, comerciales o de cualquier índole con personal menor a 15 años?
6	DB0324	En el caso de contar con trabajadores adolescentes entre 15 a 18 años, ¿la empresa cumple con las disposiciones legales y técnicas?
7	DB0413	¿La empresa cuenta con Reglamento de Seguridad e Higiene aprobado por el Ministerio competente y actualizado dentro de los últimos dos años?
8	DB0512	¿Los envases de plaguicidas que se encuentran acopiados previo a la entrega de éstos al proveedor se encuentran triple lavados?
9	NNL0602	¿Cuenta con la Licencia o Registro Ambiental emitida por la Autoridad Ambiental de Aplicación responsable (AAAr), o en trámite los últimos dos años?

Annex 1.- List of the non-negotiable (mandatory) requirements to be followed by flower producing firms to obtain the FlorEcuador Certificate ®
(FlorEcuador, 2005)

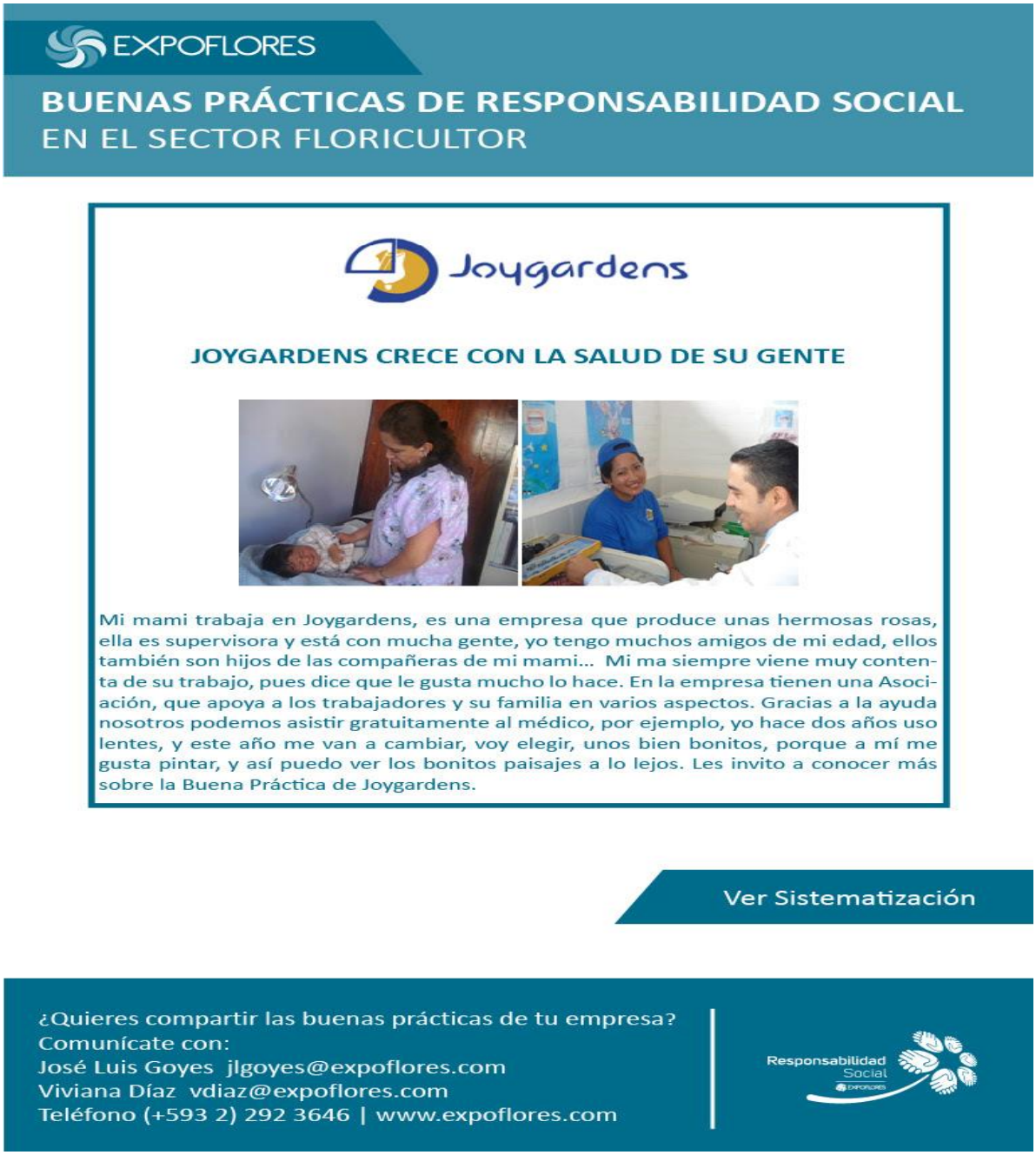
1 NÚMERO DE CERTIFICADO
Tipo: Arial Bold - Tamaño definido por el espacio

2 NOMBRE DE LA EMPRESA VERIFICADORA
Tipo: Arial Bold Condensada
Tamaño definido por el espacio


1/3 de "Y"
Alto cara lateral "Y"
CARA LATERAL
CARA SUPERIO
CARA LATERAL
Largo de la caja "Z"
1/8 de "Z"
El sello con la certificación se imprime a 1 color-contraste (positivo o negativo) con una de las tintas utilizandas en el diseño propio del empaque
Zona marcada con lineas rojas marcan los espacios permitidos para ubicar el sello de la certificación
El tamaño mínimo de aplicación del sello en cajas para flores debe ser de 7 cm de ancho.
7 cm



Annex 2.- Sample of the FlorEcuador Certified® logo used by certified farms and guidelines of its placement on boxes used for export and on printed material (FlorEcuador, 2005)



Annex 3.- Sample of the announcement of an Ecuadorian flower producing firm about its social responsibility practices, showcased as the testimony of the child of one of the employees. The text says: *"My mom works for Joygardens. It is a firm that produces beautiful roses. She is a supervisor and she is surrounded by many people. I have many friends of my same age, and they are also children of my mom's coworkers. My mom always comes home very happy about her job because she says that she likes what she does. In the company, there is an Association that supports the workers and their families in many aspects. Thanks to their help, we can go to the doctor for free. For example, I have been using glasses for two years and this year I will get new ones. I will choose very nice ones because I like to paint, and this way I can see the beautiful landscapes from afar. I invite you to know more about Joygarden's good practices* (Author's translation) (Image: Courtesy of Joygardens S.A.)

Annex 4.- Picture of an Agrocalidad agent performing a phytosanitary inspection in an Ecuadorian flower producing firm. According to the agent, each country has a specific list of forbidden plagues. Therefore, they must check for different plagues, depending on the destination market. Picture taken by the author with the authorization of the Agrocalidad agent.