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Cut-Roses Global Value Chain Governance:
Ecuadorian Exports to the Netherlands

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List of Acronyms

GVC	Global Value Chain
UNDP	United Nations Development Programme
VBN	Dutch Flower Auctions Association
OECD	Organization of Economic Cooperation and Development
CFN	Corporación Financiera Nacional
CBI	Center of Promotion of Imports from developing countries
UNIDO	United Nations Industrial Development Organization

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Abstract

The insertion of firms from developing countries into global value chains is usually associated with economic growth as reaching bigger markets and consumers with higher purchasing power brings about higher profits. However, in many cases, the global value chains where developing countries are inserted in, are controlled by developed countries' 'lead firms' who specialise in the higher stages of the chain. Therefore, this perspective is contested due to the profit gap between both actors and the power that the global buyers can have over the global value chain. According to the literature, upgrading, is considered as the path to development and economic growth and the chain's governance significantly influences the upgrading opportunities. In some cases, the organisation of the chain allows a progressive and complete upgrading, whereas in other instances functional upgrading is hindered by the lead firms.

The present research paper involves an analysis of the global value chain of Ecuadorian cut roses exported to the Netherlands. It aims to evaluate how does the value chain governance of this chain affect Ecuadorian Exporter's upgrading. Hence it involves an analysis of the actors in the chain as well as the benefits and motives for suppliers of developing countries to continue being part of it. Data is collected by interviewing four big Dutch global buyers and five big Ecuadorian exporters. The paper examines the interviews outcomes of both actors and a compilation of official publications, finding out that the type of governance in this global value chain is a combination of relational and captive, but the second is more influential regarding hindering functional upgrading on the exporters. The research aims to contribute to the global value chain literature by focusing on big Ecuadorian exporters' possibilities for upgrading, different from previous studies where the focus has been only on small and medium enterprises.

Relevance to Development Studies

"For many countries, especially low-income countries, the ability to effectively insert into GVCs is a vital condition for development" (Gereffi & Fernandez-Stark 2016:7). This research aims to contribute to the discussion around global value chain governance, focusing on the power relations between the actors in the global value chain of cut-roses and how these affect the upgrading of Ecuadorian exporters.

As stated by Gereffi and Fernandez-Stark (2016:32) "global value chain analysis highlights how new patterns of international trade, production, and employment shape the prospects for development and competitiveness." It is essential to look beyond industries to understand trade and production patterns, as relationships between the actors on a value chain are crucial for local economic development and it is not only a matter of participating in the global economy, what weights the most is how to keep up with the dynamism of the chain. Therefore, understanding how the governance of chains influence the producers' capacity and willingness to grow within the market, will give more clarity on how the sector can develop.

Keywords: Global value chain, GVC governance, buyer-driven chain, distribution channel, Ecuador, The Netherlands, cut-roses.

Chapter 1 Introduction

Horticulture developed through time as a fast-growing and dynamic global industry; the cut-flower sector has continued to grow worldwide as companies look forward to increasing profits and specialising in each stage of the value chain. With this specialisation going on through the past years, a big part of cut-flower cultivation has concentrated within developing countries located close to the equator, where the weather conditions are perfect for growing high-quality flowers, particularly roses.

The Netherlands has played a historical role in the flower sector from the beginning of the twentieth century, starting with tulip breeding and propagation, then quickly moving to local trading, and afterwards heading to the remarkable international trading of all types of flowers, positioning as the current leading global importer and exporter of roses. At the end of the 20th century, with the increasing supply of roses from developing countries located in the equator, the Netherlands identified the competitive advantage in terms of production that those countries had. Hence, it was one of the first countries whose firms decided to relocate their facilities in developing countries, especially in Africa, starting around 20 years ago. (Van Eenennaam & Soesman 2008:6)

The major developing countries that made the most of the competitive advantages given by nature and lower labour costs are Kenya, Ecuador, Ethiopia and Colombia. They have become the leading growers and exporters of cut-roses, and their production constitutes the first stages of the cut-rose global value chain. Firms from these countries aim to sell their product to clients in the first world to obtain good profits by trading higher volumes of product. As suggested by Humphrey (2004:12), exporting to international markets for the first time is a great challenge for many firms in developing countries, and the links of specific suppliers with specific buyers play an essential role in overcoming these challenges within a global value chain. But this facilitation of entry may come at a price of becoming locked into narrowly-defined roles. The floricultural industry is an example where many firms have had to pay that price.

Exporting roses to the central cluster of flowers in the world was initially an excellent opportunity for entering the value chain. The interaction with big and experienced Dutch buyers helped overcome language and logistics barriers, but these transactions have been taking place for more than 20 years, and the northern country continues to be the main entry point for cut flowers within European distribution. Ecuadorian roses still concentrate a considerable share of their supply aimed for Europe in the Netherlands, where Dutch buyers re-export over 95% of these roses to other countries mainly in Europe.

According to the global value chain theory, industrial upgrading is the path to follow for reaching economic development, and to enhance the position of firms in developing countries in global markets, (Gereffi et al. 2005:79). These authors define upgrading as moving to higher value activities in the chain, for increasing the benefits of participating in global production, it goes beyond the production process, spreading all over the global value chain up to the highest segments. However, in the case of the Ecuadorian cut-rose value chain, this aspect seems to be underrated.

This paper covers the case of big Ecuadorian exporters who for more than 20 years have been selling a considerable share of their product to Dutch global buyers who at the same time, have been distributing it around Europe. The deal seemed to work well for an extended period, especially when Ecuadorian roses were positioned as the only roses with impressive quality and unique characteristics, allowing the exporters to introduce in the global value chain. Even though these roses are still considered as such, African roses are significantly improving their quality, developing new varieties and working in growing roses with bigger buds and stems, looking more like the Ecuadorian product. This rising competitivity will earlier than later avoid prices from naturally increasing. Instead, the prices are more likely to be reduced when farms in Africa reach the desirable quality, considering their low labour costs and high foreign investment. Following (Gereffi et al. 2005; Humphrey 2004 and Amighini, 2006) upgrading is the path to follow to overcome being locked-in into lower-value segments, and upgrading possibilities depend on the value chain governance, hence, this paper aims to analyses How does the value chain governance affects Ecuadorian Exporter's upgrading in the cut-rose global value chain?

For understanding the effect of value chain governance, this research paper will consist on first mapping the cut-rose global value chain to identify the geography, activities and stakeholders involved, followed by an analysis of the chain aiming to determine the role that governance and inter-firm relations play in this structure.

The paper consists of six parts and proceeds as follows. Chapter 2 describes the theoretical framework used for analysis in this research, chapter 3, details the methodology used for obtaining empirical information, followed by chapter 4, with a deeper insight into the cut-rose industry in both countries: Ecuador and the Netherlands. In chapter 5, the results are detailed, followed by a discussion on the topic. Finally, chapter 6 contains conclusions and recommendations for further research.

1.1. Contextual background

According to CBI, Ministry of Foreign Affairs (2017) the rose is the most important cut flower in the European Union market. Imports of this product from third world countries increased on 22 per cent between 2011 and 2015, the principal importers of roses within the EU in 2017 were The Netherlands (77%), United Kingdom (10%), Germany (6%) and Spain (5%) (Eurostat 2018). With regards to the Netherlands, the European Commission statistical office (Eurostat, 2018) reports that, from January until October 2017, the country imported a total of 624 million euros worth in roses from countries outside the European Union, and exported 62 million euros to non-EU countries, mainly Russia and Switzerland. The office also positions the Netherlands as the main importing and exporting member state within the trading block.

The leading suppliers of cut roses to the European Union in 2017 were Kenya (51%), Ethiopia (20%), Ecuador (17%) and Colombia (5%), 'the Equator countries', being Ecuador, the principal provider of roses from Latin America. From 2000, many Dutch growers and propagators started to set up facilities in these developing countries, especially in Kenya and Ethiopia and hence, a significant proportion of the imported roses to the Netherlands are cultivated in farms owned by Dutch growers (Van Eenennaam & Soesman 2008:6).

Floriculture is the third most important agricultural export activity for the Ecuadorian economy. After bananas and shrimp, cut-flowers represent the third highest value of non-oil exports, accounting for 10.25% of a total of USD 8.6 billion of primary exports in 2017. Roses constitute 74% of the total exported Ecuadorian cut flowers, followed by summer flowers with 12%, gypsophila with 7%, and carnations with 2% (Expoflores 2018:5). The relevance of this sector relies mostly on job creation, currency generation and contribution to the GDP. It is a labour-intensive sector in which thousands of households rely on, and nearly all production of roses are sold in international markets

As stated by the Logistics and Foreign Trade Manager of Expoflores, currently the harvested surface of roses in Ecuador is around 3.600 hectares. On average, a farm requires 11 people per hectare to function.

Consequently, a 30 hectares farm has between 330 and 340 employees. For that reason, the sector has been a development promoter through job generation within these areas as the number of people required is considerably higher than in other activities like cattle raising for instance. As stated by Humphrey & Memedovic (2006:3) horticulture offers additional advantages for poverty reduction strategies "as it is labour-intensive, generating high levels of employment and relatively high incomes per hectare of land in use".

All Ecuadorian cut-rose farms are located in the provinces of Pichincha (77%) and Cotopaxi (12%) where the altitude is between 2,800 to 3,000 meters, but most of the farms concentrate in the cantons of Cayambe, Tabacundo, and Pedro Moncayo, in Pichincha. This location is one of the reasons why Ecuadorian roses are considered the best quality roses in the world. The perfect climate allows unique features in the roses; thick and long stems that can reach from 50 to 80 centimetres, large buds of five to almost seven centimetres, around 40 petals in a bulb, vivid colors, hundreds of varieties and a long vase life that can last from 12 to 16 days. The critical factors for growing good quality roses are "the highest possible luminosity in the best climatic conditions" (Nevado, 2012). Ecuadorian roses grow at a high altitude with 12 hours of day and night and perfect weather not too hot neither too cold for the rose to grow.

As reported by the Ministry of Foreign Affairs (2017) A large share of the imported cut roses is distributed within the European market by Dutch importing traders. Likewise, the commercial office of Ecuador in Rotterdam, states that around 95% of the imported roses to the Netherlands are re-exported to other countries, extending the value chain.

1.2. Research objectives and questions

The research will describe and analyze:

- Business relations between exporting firms in Ecuador and the Dutch buyers
- The type of governance the prevails among the global value chain
- Exporters upgrading opportunities within the GVC

The ultimate objective of this paper to obtain relevant information to answer the research question: 'How does the value chain governance affect Ecuadorian Exporter's upgrading in the cut-rose global value chain?'. It aims to contribute to the literature around global value chains in an empirical field of application to understand the relationship between Ecuadorian exporters and Dutch global buyers, with the purpose of shedding additional light on the topic. To further elaborate on the research question, the paper covers three sub-questions:

- Who are the actors within the cut-rose global value chain in Ecuador -The Netherlands transactions?
- What are the benefits for Ecuadorian exporters of being positioned within this GVC?
- Which are the reasons why Ecuadorian exporters continue to sell their product to traders in The Netherlands?

1.3. Scope and Limitations

It is relevant to consider the limitations and ethical challenges faced within this research paper. A desirable analysis of a global value chain involves every actor that is part of it. However, this study is only focusing on two actors who are relevant to the research; Ecuadorian exporters and Dutch buyers. These two actors are the scope of analysis as chain governance is directly linked to 'lead firms' which in this case are the Dutch global buyers and the exporters who in this case play the role of growers at the same time.

Due to time constraints in the research framework, and low availability of the principal actors within this mature market, the representativeness of the participants is meant to be reached by the selection of typical cases, nevertheless, regarding the quantitative representativeness, the size of the sample is one limitation. However, all participants responded the semi-structured interviews with a willingness to collaborate providing relevant information.

Chapter 2 Literature Review

This chapter constructs the theoretical framework to underline how it is that the value chain governance affects Ecuadorian Exporter's upgrading in the cut-rose global value chain, with the objective of analysing the collected data. The value chain governance is examined through the five typologies proposed by Gereffi et al. (2005: 83-88) which are explained in this chapter. It is essential to analyse the fragmentation of the chain in order to understand the social and economic integration within it.

Upgrading and trust are relevant concepts that will help frame the case together with the types of value chain relationships proposed by Humphrey and Schmitz (2002:1023-1024), analysing how different types of governance influence can lead to different upgrading opportunities. As argued by Kaplinsky & Morris (2000:9) "With the growing division of labour and the global dispersion of the production of components, systemic competitiveness has become increasingly important". Therefore, it is essential to examine the value chain structure and its governance, to have a concrete idea of the benefits and constraints that the actors face within this system.

2.1 Global Value Chain theory

The integration of the global economy shows new opportunities for economic growth, not only regarding income increase but also in terms of capacity and skills. As stated by Gereffi et al. (2005: 79) "The evolution of global-scale industrial organisation affects not only the fortunes of firms and the structure of industries but also how and why countries advance in the global economy". Specialisation plays a vital role in global value chain theory. Nowadays, vertical integration in the firm's production is less common, and it is evident how developing countries continue to carry out labour intensive operations that are in many cases locked in the first stages of the chain, while developed countries focus in the activities that generate more profit by adding value within the last parts of the network.

For understanding the global value chain theory, it is essential to first have an insight of its basic concept, the 'value chain'. Kaplinsky & Morris (2000:4) define value chain as "the full range of activities which are required to bring a product or service from conception, through the different phases of production, delivery to final consumers, and final disposal after use". The chain analogy is due to the linkage among the production phases that create a connected system leading to the finished product and the final consumer. However, Henderson et al (2002:442) as cited by Patel-Campillo (2010:83) contest this analogy arguing that a 'chain' is 'essentially vertical and linear' and suggest that 'network' is a more accurate term being able to grasp more detailed transactions that can go in different directions outlining what it really is, a multidimensional economic activity. In this paper, I am going to refer to the traditional chain analogy but taking into consideration its network approach.

Nowadays, the global connection among countries is constantly making value chains extend their geographical boundaries, potentiating specialisation to the national level. The issue with regards to this specialisation is central to the value of the chain processes, where in many cases the actions that require more inputs are less valued than the final operations in the chain, and therefore, the number of actors affect the margins for the first stages directly. Hence, it is essential to understand how global value chains are governed and to what extent their structures can change within arm's length industries.

Humphrey (2014:102) states that global value chains focus on the "analysis of linkages within the chain" aiming to identify benefits and drawbacks among the actors to determine if the governance of a value chain is sustainably beneficial or not. Therefore; GVC theory constitutes the basis of the analytical framework for this paper, looking forward to analysing the relationship between Ecuadorian exporters of roses and Dutch buyers.

Gereffi's definition of global value chains is the one that will be referred to in this document, analysing the power relations within it, also referred to as the 'chain governance'. Gereffi and Lee (2016:27) mention that "the GVC framework was created to understand better how value is created, captured, sustained, and leveraged within all types of industries" from two 'vantage points': governance and upgrading. As stated by Amighini, (2006:224) "The major aim of GVC analysis is to examine power relations in global value chains and to explore the possibilities for upgrading through a shift from lower-to-higher-value-added productive activities".

2.2 Global Value Chain Governance

"Governance can be defined as non-market coordination of economic activity" (Gereffi et al. 2001:4) its analysis emphasises the complexity of information exchanged between firms. According to the GVC governance theory, 'lead-firms' directly or indirectly influence the production, logistics and marketing systems' organisation worldwide. Hence, they are in a position where their decisions lead to important consequences for the access of developing countries to international markets, in many cases limiting their activities. These 'lead firms' share two attributes: market power and positioning in chain segments.

As Gereffi and Fernandez-Stark (2016:7) argue "Governance of global value chains is a key concept of the top-down view, it focuses mainly on lead firms and the organisation of international industries". These authors propose six dimensions of the GVC analysis; (1) Input-Output Structure of a GVC, (2) Geographic scope, (3) Governance Structure, (4) Upgrading, (5) Local institutional context, (6) Industry Stakeholders. This paper aims to examine three of the dimensions previously mentioned; 3, 4, and 5 but a more profound conceptualisation of governance is analysed through the five types of chain governance proposed by Gereffi et al. (2005).

Gereffi, Humphrey, and Sturgeon (2005:83) set out a typology of five global value chain governance types based on the structure of power relations between the contracting parties, which figure 1 summarises. There are three key determinants of these typologies: (a) complexity of transactions; (b) codifiability of information; (c)capability of suppliers (Gereffi et al. 2005:84).

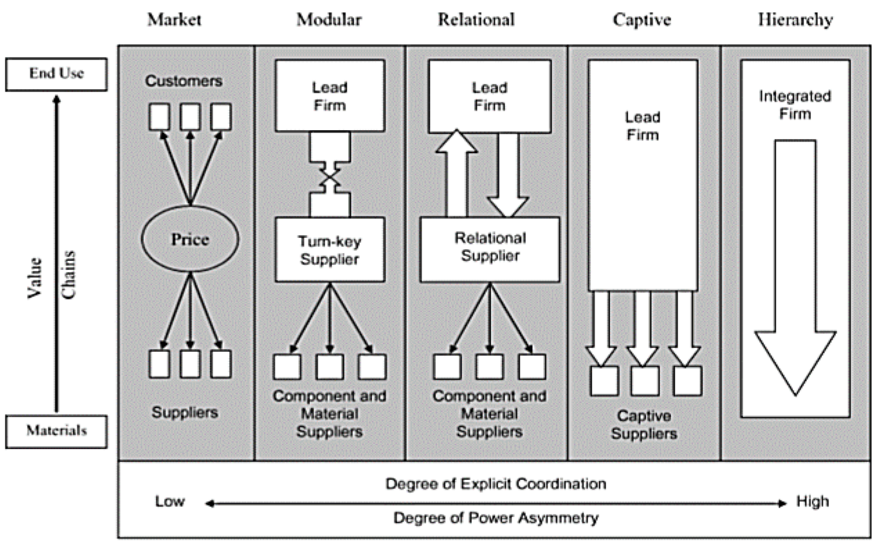
Figure 1 Five types of global value chains governance

Market	Modular	Relational	Captive	Hierarchy
• Low complexity of information exchanged • Buyers respond to specifications and prices by sellers • Low costs of switching to new parters	• Complexity: mid-level • Suppliers customize products following the costumer's specifications	• Complexity: High • Mutual dependence • Trust and reputation key factors • Knowledge exchange, supplier autonomy	• Complexity: High • Higher degree of monitoring and control by lead firms	• Dominant form, vertical integration. • Managerial control from headquarters to subsidiaries

Source: Author's elaboration based on Gereffi, Humphrey, and Sturgeon (2005:83-84)

Figure 2 depicts the five types of global value chain governance purposed by Gereffi et al. (2005:89), explaining how the complexity of activities and power asymmetry are higher within the captive and especially hierarchical types.

Figure 2 Types of global value chain governance



Source: Gereffi, Humphrey and Sturgeon (2005:89)

As it is argued by Gereffi et al. (2005:84), the relational type of governance "allows local firms to learn how to make internationally competitive consumer goods and generates substantial backward linkages to the domestic economy".

2.3 Types of international economic networks: buyer-driven global value chain

Gereffi (2001: 1618) suggests two kinds of international economic networks; the producer-driven and the buyer-driven. On the one hand, producer-driven chains are defined as those in which "big manufactures play central roles in coordinating production networks". These are common in the capital and technology-intensive industries like computer or aircraft. On the other hand, buyer-driven commodity chains refer to industries in which "large retailers, marketers, and branded manufacturers play the pivotal roles in setting up decentralised production networks in a variety of exporting countries" frequently developing countries. The common industries where this economic network is present are footwear, garments, handicrafts and agricultural products. These chains are characterised by "highly competitive and globally decentralised factory systems with low barriers to entry in production" (Gereffi 2001:1620).

Many global buyers do not own farms in the grower countries where they purchase roses. Nevertheless, the high volumes they buy give them more power and influence over the chain, where power results from control over distribution, marketing and retailing nodes. That is the main reason why the cut flower global value chain is determined as buyer-driven, in contrast with 'supplier driven' and I will analyse it from that perspective. As stated by Gereffi (2009:32) "the new international division of labour relied on further improvements in transport and communication technologies to slice up the value chain so that the most labour-intensive stages of the production process could be relocated spatially to areas with the most abundant and productive low-cost labour". The present research focuses on the theorisation around a buyer-driven chain, examining the requirements from buyers in this destination country.

2.4 Upgrading

Gereffi and Lee (2016:29) define economic upgrading as "a move to higher value activities in production, to improved technology, knowledge and skills, and to increased benefits or profits deriving from participation in GVC's." these authors distinguish three types of upgrading, based on the ones proposed by Humphrey and Schmitz (2004: 352) the table below summarizes both.

Table 1. Types of upgrading on a global value chain

Process upgrading	More efficient operations by reorganising the production processes or introducing superior technology
Product upgrading:	Moving into more sophisticated product lines
Functional upgrading	Acquiring new functions in the chain or abandoning existing functions to increase the overall skill content of activities. Involves changing the inter-firm division of labour within the chain

Source: Author's elaboration based on Gereffi and Lee (2014:29) and Humphrey and Schmitz (2004:352)

Humphrey and Schmitz (2004:349) propose that the relationships in global value chains often structure the upgrading opportunities of local enterprises. Developed countries usually participate in higher value-added activities like research and development (R&D), design, marketing and services, while developing countries tend to concentrate in lower value-added activities like production. It is important to analyse "how different forms of insertion in the global economy facilitate or obstruct the potential for the acquisition of capabilities and market access" (Humphrey 2004: 1).

2.5 Trust- Interorganizational trust

Among different definitions, trust is conceptualised by Moorman et al. (1993:82) as "a belief, confidence or expectation about an exchange partner's trustworthiness that results from the partner's expertise, reliability, or intentionality". It is the expectancy of an individual of relying on another one but is not limited to an individual level.

Anderson and Witz (as cited by Ganesan and Hess 1997:439-440) explain that there are four distinct entities within a buyer-seller relationship: (a) the buying organisation, (b)the purchasing representative, (c)the supplying organisation, and (d) the sales representative. The levels of trust can exist in many ways among the mentioned entities, from interpersonal trust – between the two representatives- to organisational trust – between a representative and the partner company. This research will analyse both types, looking forward to understanding how trust can help define the basis of the relationship that exists between Ecuadorian exporters and Dutch buyers within the global value chain. This framework aims to clarify what are the motivations that lead to the existence of a relationship between the actors and if it is long term relation.

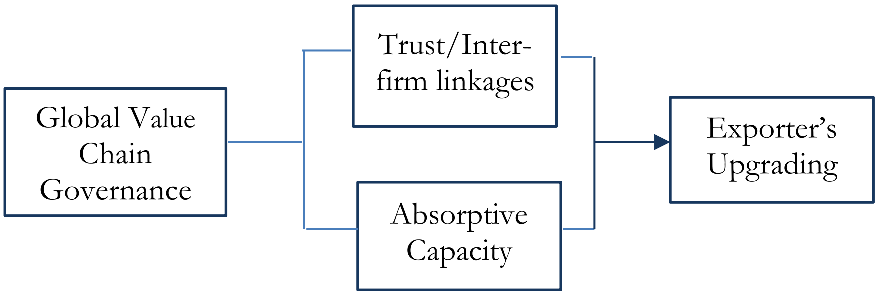
Carson et al. 2003 state that "inter-firm trust has been shown to lower transaction costs and cycle time within the supply chain" as cited by Delbufalo (2012:378). This argument can be directly linked to the type of governance that persists within the global value chain. Mutual trust exists when A and B have "complementary social trust with regards to other's behaviour" (Deutsch, 1973:267). Both parts perceive that the other person is aware of his intent and his trust and this will build the type of relationship which will further reflect on the type of governance.

2.6 Absorptive capacity

Cohen and Levinthal (1990: 128) define absorptive capacity as the "ability to recognise the value of new, external information, assimilate it, and apply it to commercial ends". Zahra and George (2002:185) as cited by Fransen and Helming (2014:1) define it in more detail as "a firm-level capacity defined as a dynamic capability pertaining to knowledge creation and utilisation that enhances a firm's ability to gain and sustain a competitive advantage". This framework will help to analyse the capacity component in upgrading together with the governance of the chain. It is stated by Fransen and Helmsing (2014:3) that "suppliers are in a poorer position to absorb knowledge from global value chains than traders" hence, it is necessary to analyse the real upgrading limitation within the chain.

Saliola and Zanfei (2007:369) argue that knowledge transfer can occur involuntarily by the local companies imitating managerial or technical practices of the lead firms, or voluntarily by direct knowledge transfer by lead firms in their effort to increase productivity. The aim of using absorptive capacity as part of the lens for analysing the case is to understand if the chain governance is what hinders the exporter's upgrading in the chain.

Figure 3 Analytical Framework Diagram



Source: Author's elaboration

This research will look for patterns within the analytical framework to examine the empirical results within the case study aiming to answer the research question. The analytical framework will be addressed through first, the three key determinants of the governance typology proposed by Gereffi et al. (2005:83) which will help identify what type of governance prevails in this chain. Second, the inter-firm linkages, as well as the exporter's absorptive capacity, will provide more evidence for the argumentation. The four types of relationships distinguished in value chains, proposed by Humphrey and Schmitz (2002:1021) will also be examined within the case for concluding how the value chain governance affects Ecuadorian Exporter's upgrading.

Chapter 3 Methodology

The case study research method was selected because it allows achieving a more in-depth investigation of the case within a "real-world context" (Yin, 2014:16). The cut-rose industry was chosen as the field of study for two main reasons; first because it represents one of most relevant export industries in Ecuador, considered as 'non-traditional exports' in contrast with products like bananas and shrimp. Second, because the transactions with the Netherlands have followed the same structure for over 20 years, so analysing what the governance and upgrading theory state in the global value chain framework will contribute to the topic.

Therefore, this research paper covers a multiple case study of embedded units of analysis embedded within the value chain. In order to do a reliable mapping of the GVC and understand the relationship between the main actors, the study was carried out through mixed methods, consisting of primary data collected from structured interviews in the Netherlands, and secondary data, obtained from relevant institutions in the topic, looking forward to increasing the internal validity of the research. The collected data from the selected cases of big exporting firms in Ecuador and big importing firms in the Netherlands is descriptively analysed in chapter 5 aiming to answer the research questions.

3.1 Interviews

The main technique of data collection, one to one semi-structured interviews, was appointed towards the two selected 'actors' in the global value chain, considered as the most relevant for this research. This technique was chosen as it is a sufficiently structured method that addresses specific dimensions of the study while allowing the participants to give different perspectives on the topic. (Galleta, 2013:17).

According to Arturo Velastegui, Logistics and International Trade Manager from Expoflores, each grower is an exporter in the Ecuadorian rose sector, and currently, there are 517 registered exporters from which 18 of them are big exporters who report more than five million USD sales annually. Therefore, the selection of the cases began first by identifying who these big exporters were and if they currently sell their product to the Netherlands. Afterwards, 15 exporters were approached and contacted via e-mail, telephone and Linked-in, however, the interviews were confirmed and coordinated with five of them.

Likewise, on the importer's side, for the selection of these Dutch companies, the first step was to identify them and confirm if they traded Ecuadorian cut-roses to approach. Twelve big importing companies were contacted, and four interviews were scheduled within the Netherlands.

The main limitation for the interviews was time availability. During summer, specifically, June and July, are months of low demand for roses, due to the great variety of substitute flowers and consumer behaviour. But, from August and September the planning and purchasing retake place. Therefore, many of the exporters and buyers did not have time available for scheduling an interview.

Regarding Ecuadorian exporters of roses, the interviewed companies are five typical cases of big growers and exporters who concentrate around 10% of their global sales in The Netherlands. It is a representative share for Europe, considering that their share in other countries like Germany and France is below 4% and firms from these countries are among the main clients of the Dutch importers of flowers. These exporters' collaboration took place through skype call, and through an email questionnaire (appendix 2), aiming to understand their perspective and analyze the position on the studied global value chain.

The exporters' farms are located within Tabacundo and Cayambe, very close to Quito, the capital city and hence the international airport. Map 1 illustrates the proximity.

Map 1 Cities of Tabacundo and Cayambe - Pichincha, Ecuador

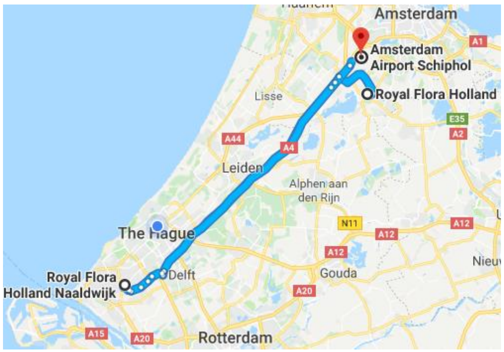
Source: Google maps 2018

All the interviewed exporting companies are family-owned businesses with Ecuadorian proprietors, different from Kenyan farms which in several cases are owned by Dutch investors. These Ecuadorian companies specialize in the cultivation of roses, and a description of each is explained below:

- Exporter 1: Over 22 years growing and exporting roses. 52 hectares of extension located in Tabacundo. Have been selling roses to the Netherlands since the beginning of their operations in 1996. Offers 91 varieties of roses
- Exporter 2: Located in Tabacundo with an extension of 24 hectares, has over 22 years growing and exporting roses and currently supply more than 100 varieties.
- Exporter 3: Over nine years of operations, located in Tabacundo with more than 20 hectares of extension and over 65 varieties.
- Exporter 4: Has 21 years of experience in the sector and 42 hectares dedicated to rose production in Cayambe. Offers around 110 varieties of roses
- Exporter 5: Around 23 years operating in the rose sector, counts with 29 hectares of rose cultivation in Lasso and Tabacundo, with more than 78 varieties.

Likewise, four typical cases of representative Dutch global buyers of cut flowers were visited and interviewed. These big importers' facilities are located within the principal Dutch flower cluster areas, three of them in Aalsmeer, The Netherlands, very close to Schiphol International Airport, and one within the Westland area, next to the Naaldwijk Royal Flora Holland. The distance between Royal Flora Holland in Aalsmeer is around 55 minutes by car from the Naaldwijk auction, on map 2 the geographical locations can be appreciated.

Map 2 Dutch flower cluster, Aalsmeer, and Westland Municipalities, The Netherlands



Source: Google maps, 2018

All the interviewed importing companies are Dutch-owned representative companies that started as a family-owned business but nowadays are global exporters with operations within several countries and all of them export over 96% of the purchased Ecuadorian roses. Three of them have from 40 to 100 years of experience and specialize in logistics and distribution, of the product, some specific characteristics are mentioned below:

- Buyer 1: operating approximately ten years in the sector, specializes in Ecuadorian rose imports and distribution, located in Aalsmeer's Royal Flora Holland.
- Buyer 2: Has more than 50 years of experience in the flower sector is one of the biggest importers and global exporter of flowers in The Netherlands as a result of the merger between two big Dutch groups. The main offices are in Aalsmeer.
- Buyer 3: Located in Aalsmeer, is a Global Dutch exporter with more than 100 years of experience in the flower sector, active in more than 60 countries
- Buyer 4: Over 40 years of experience, around 25 years been a member of the Dutch Flower group and located in Westland Greenport.

All the interviews were conducted throughout seven weeks, in English and Spanish and lasted between 45 to 50 minutes. All the representatives who agreed to participate, both in Ecuador and in Holland where men around 40 to 50 years old. There were also women among the contacted purchasing managers or CEO's, but none of them confirmed their participation in the research.

3.2 Secondary data

The secondary data analysed in this paper was obtained from official publications of The Central Bank of Ecuador, Cobus Trading group, the International Trade Centre and academic publications. Additionally, direct information was obtained through contact with representatives from Expoflores, the National Association of Flower Producers and Exporters of Ecuador, and Pro Ecuador, the commercial office of Ecuador in Rotterdam, aiming to obtain accurate and updated information about the sector.

As stated by Schmitz & Knorringa (2010:201) "Interviews with global buyers is an excellent method for identifying specific strengths and weaknesses and is particularly useful for comparative purposes, it is however only of limited value for unravelling the causes of the strengths and weaknesses". Hence, interviewing both actors, was of high relevance for understanding their relationships within the chain.

3.3 Data Analysis Method

The representativeness of this research is given by the selection of typical cases within both actors in the chain. The interviews were semi-structured to provide some space for the participants to expand their responses. For analysing the interviews' outcomes, first, the obtained data were transcribed and then coded within the three ways of coding proposed by Richards, (2015:133) descriptive, topic and analytical coding. Aiming to synthesise the information and align it towards answering the research objectives. Likewise, for examining the data, the process of reflective analysis was followed, which consists on (1) organize the raw data, (2) coding the data, (3) analyzing the data, (4) interpreting the meaning, (5) uncovering and discovering findings, (6) drawing relevant conclusions. (O' Leary 2004:185).

This research implements a qualitative research method based on a multiple case study as the respondents are actors on two sides; Ecuadorian exporters and Dutch global buyers. The primary technique of data collection is the semi-structured interview, and the interviews took place over a six-week period. The results are analysed through the analytical framework described in chapter two. The primary challenge faced during the data collection period was the time availability of the firm's representatives on both sides, considering that during July, the commercial operations take off again after a period of low demand during the first months of summer. The interviewing questionnaires can be found as appendices 2 and 3.

Chapter 4 Cut-Rose Industry: Ecuador and the Netherlands

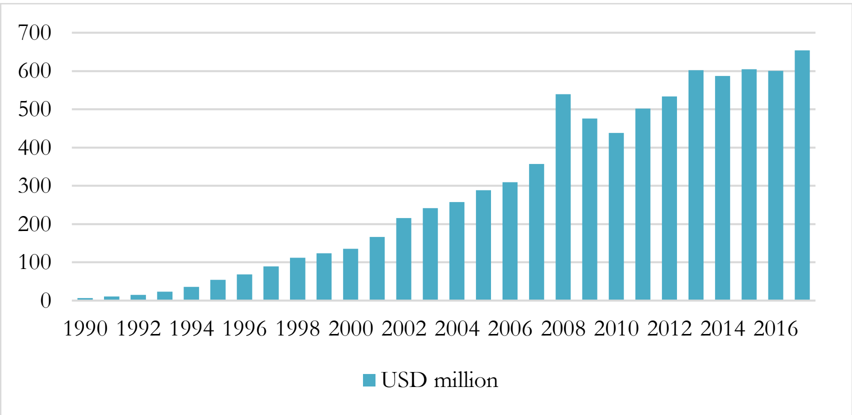
4.1 Ecuadorian fresh cut-roses industry

The beneficial location of Ecuador in the equator and the abundant fertile lands provide this small country with natural competitive advantages for agricultural production. Many cut flowers grow in Ecuadorian soils; however, the roses are the ones which stand out the most, concentrating three-quarters of the output. The cut rose industry started to develop in Ecuador around the 1980's, with the first farm registered in 1982 (Gomez & Egas, 2014:26). In late1984, the Association of Producers and Exporters of Flowers, EXPOFLORES, was subscribed within the Ministry of Agriculture and Livestock, with the mission of representing and supporting Ecuadorian flower industry framed in social and environmental norms. But it was in the 1990's when the cut flower sector started to expand, mainly because of two factors; the financing that Expoflores obtained from the National Financial Corporation (CFN) and the Andean Trade Preference Act (ATPA) signed with the United States on December 4th, 1991, which offered duty-free treatment for certain imported products from Ecuador, among them, cut flowers. At this time, it was more beneficial to export to this North American country as freights to Europe were more expensive and scarcer. Therefore, exports grew exponentially to this market (USITC, 2008:5-8).

Despite having more limitations for exporting to Europe, a market with higher purchasing power and with big flower trading companies was sitting there. Hence, going back to the proposition of Humphrey (2004:12) about how exporting to international markets for the first time is very challenging and how relevant the linkages with specific buyers are to overcome the difficulties of being introduced in the global value chain, the Netherlands became a strategic partner for Ecuadorian roses to be distributed within Europe. Being part of the global value chain boosted production in Ecuador and positioned 'the rose' as the highest quality product, but it came at the price of being locked into "narrowly defined roles" Humphrey (2004:12).

Throughout the 90's, flower exports began to increase progressively, on figure 4, the historical evolution of Ecuadorian roses global exports is depicted, from less than 7 million exported in 1990 to a total of USD 654 million reported on 2017.

Figure 4 Ecuadorian rose exports evolution Fob value- USD million (1990-2017)



Source: Author's elaboration based on EXPOFLORES (2018:2)

Nowadays, the cut flower sector is highly relevant for Ecuador. It occupies the third place, representing 10.25% from a total of USD 8.6 billion of primary exports in FOB prices, just after bananas and shrimp (Central Bank of Ecuador, 2017). This sector generates around 36.400 job positions, with more than 51% of women employees. Furthermore, according to Alejandro Martinez, executive president of Expoflores, the production chain, generates almost 58,000 direct and indirect jobs, the inputs and logistics suppliers move around one billion dollars annually. (El Comercio, 2016).

As stated by Arturo Velastegui, Logistics and International Trade Manager of Expoflores, there are currently 517 companies dedicated to the production and export of roses in Ecuador. These companies are categorized as small, medium or large, depending on their gross annual sales, as it is explained in table 2. The cut-rose sector is a mature industry for the country, and the required investment and output for the competition is high. Therefore there are no micro enterprises in the industry.

Table 2 Small, medium and big rose producers in Ecuador 2018

Size	Number of Exporters	Gross annual sales
Small	345	\$100.001 – \$1.000.000
Medium	154	\$1.000.001 – \$5.000.000
Big	18	> \$5.000.000
	517	

Source: Velastegui, Expoflores (2018)

According to the International Trade Centre (2017), Ecuador ranks as the second biggest exporter of fresh cut roses in the world, exporting 21,27% of roses around the world, after the Netherlands who ships 41,55%.

4.2 The Netherlands fresh cut-rose industry

The Netherlands is known as the leading exporter of cut flowers and foliage in the world, as well as the main importer of these products from developing countries. According to the Center of Promotion of Imports from developing countries (CBI, 2016:2), the rose is the most significant cut flower in the European market, with over five billion stems imported from outside the EU in 2014. Table 3 depicts the world's top five importers of fresh cut roses and shows that the Netherlands is the only one with a positive trade balance since most of the roses this country imports are re-exported to other countries. The reason why this northern country has reached such success and worldwide recognition in the sector is nowadays their high-level logistics management on perishable goods and distribution, which positions it as the most important logistics hub of cut flowers. As stated by Benson-Rea & Stringer (2015:50) "the Netherlands, through its historical development of a national cluster, as a horticultural pioneer, and as a global trading hub, has scale, scope and extensive logistical and transportation advantages".

Table 3 Top five importers of Fresh cut roses and buds – HS code 060311

Importers	Value imported in 2017 (USD thousand)	Value exported in 2017 (USD thousand)	Trade balance in 2017 (USD thousand)	Share in world imports (%)
World	$3,092,317	$3.190.447		
Netherlands	$722.814	$1.408.911	**$686.097**	23.4%
United States of America	$581.027	$8,728	$-572,299	18.8%
Germany	$ 363.028	$30.688	$-332,340	11.7%
United Kingdom	$ 209.756	$7.939	$-201,817	6.8%
Russian Federation	$ 179.833	$375	$-179,458	5.8%

Source: International Trade Centre (2018)

The Netherlands has a worldwide known history on production and trading of flowers, pioneering in the auction market and positioning as the central hub for international floral trade. One of the triggering factors for achieving this position is the co-operative culture which started to build up from 1912. According to Van Eenennaam and Soesman (2008:3) from the beginning of the 20th century, the Dutch flower cluster was standing out focusing on "improvement of yields, product quality, and development and the introduction of new products". The firms involved at that moment were creating self-governing organizations to control quality standards that were later supported and regulated by the government. A relevant association that came about at the same time as the Dutch auctions was the Dutch transport and logistics industry association (TLN) at the beginning of the 20th century, specializing in cut-flower transportation and providing around 750,000 carriers annually at that time. Nowadays, with the demanding efficient and effective handling of perishable goods, the logistics component of the Dutch flower cluster is high on top.

When the first auctions took place during the 20th century, Dutch growers started to offer their products together to the dealers in one place, becoming stronger and obtaining better prices. The auction market is named Royal Flora Holland, a prominent auction company where around 145,000 sale transactions of flowers and plants are daily registered (Royal Flora Holland, 2017). This cooperative has currently 4.291 members and 2.439 registered customers. In 2017, it reported a turnover of 4.6 billion euros and hired presently 2.956 employees.

Due to the relevance of this cooperative especially within the central location in Aalsmeer, 10 kilometers away from Schiphol International Airport, a lot of transport companies, breeders and traders are located nearby, in this municipality. The same happens with other locations like Naaldwijk and Rijnsburg, demonstrating the collaboration and organization of the Dutch flower cluster, where all these actors compete in their interest but also cooperate for the common benefit of the cluster. The extensive facilities also have offices for rent; many traders are located inside this trading park, even though not all of them purchase or sell through the auction clock.

It is outstanding how a country that started with tulips commercialization in the 17th century and that has never enjoyed an ideal climate for horticulture is nowadays one of the most representative horticulture exporters of the world. The Netherlands began trading flowers grown in their lands, but over time with the consolidation of the cluster and increase of international trade, they found out that their competitive advantage was not in growing the roses but in distributing them. Therefore, many Dutch firms found more profitable to import flowers from countries located close to the equator and even to relocate their facilities within these countries for producing during the whole year with lower costs and higher quality. Hence, a significant proportion of the imported flowers from Kenya and Ethiopia, grow in plantations owned by Dutch growers. (Van Eenennaam and Soesman, 2008:6)

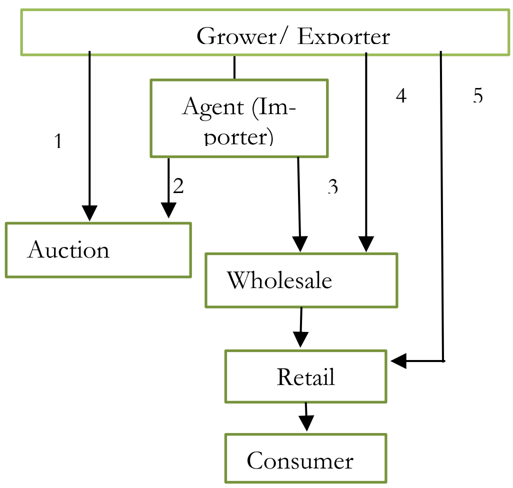
The two main costs for the flower production in the Netherlands are labour and energy., due to the high labour costs in the country and the amount of energy that the greenhouses demand because the natural weather conditions are not suitable for whole year production. Therefore, the competitive advantage of production is found in developing countries' suppliers whose plantations enjoy highly beneficial climate conditions and production opportunities throughout the year. The Dutch importers and distributors found more profitable to focus on the higher stages of the chain, which are logistics, bouquet making, distribution and marketing.

Nowadays there are over 650 flower and plant export companies established in the Netherlands (Flower Companies, 2018), most of them located within or around the flower auctions of Royal Flora Holland. The total export value of flowers and plants in Holland in 2017 reached a peak of €6 billion according to FloriBusiness (2017). From which €1,4 billion correspond to imported roses from Kenya, Ethiopia, Belgium and Ecuador (CBI, 2017). As stated by the CBI, Market Intelligence (2016) "The Netherlands is a major trade hub for flowers and the most important point of entry for cut roses from developing countries". This country provides most of the imported roses to the EU and can distribute them anywhere else on the same day. Trademap (2017) reports the three principal destinations for Dutch exports of roses as Germany, France and the United Kingdom.

4.3 Distribution in the European Union

As stated by ProVerde (2010:44) cut-flowers generally enter the European market through five different distribution channels, depicted in figure 5 below. This supply chain network consists of growers, exporters, auctions, traders, logistics service providers, and marketplaces where the consumer can finally access the product.

Figure 5 Pro Verde (2010) Sales channels for flowers entering the EU market



Source: ProVerde (2010:44)

The Dutch auction is a descending price auction, also known as 'clock auction', where the price of the seller's good is set to a high price, and then it is gradually lowered until the first bid takes place. The rate cannot be lower than the minimum the seller is willing to accept. Royal Flora Holland is the cooperative where these auctions take place, but in the case of Ecuadorian Roses, the auction clock is not commonly used.

It is essential to have a clear idea of the actors that intervene in the chain to understand the linkage of the distribution channels in the global value chain

- *Dutch global buyer* – also known as 'importer', this actor oversees purchasing high volumes of flowers directly from the farms. In most cases, they manage the whole import logistics process from the country of origin to their facilities in Europe. The value added of this actor reflects in the infrastructure, know-how on handling the product, and their distribution network. These global buyers must manage the entire supply chain so that the roses are not exposed to a damaging temperature or environment. As roses are a perishable product, the minimum error can affect the quality and hence returns.
- *Wholesaler* - Generally, wholesalers purchase product from the Dutch global buyers to further distribute lower volumes or sell directly through their 'web shops'. However, wholesalers can also import the product directly from the grower.
- *Retailer* – this actor also tends to buy flowers form the growers, but in many cases, they also purchase from wholesalers. They sell directly to the consumer.
- *Florist* – also considered as a specialised retailer, generally purchase lower volumes of roses, and hence their suppliers are mainly wholesalers and in some cases importers. Florists don't tend to buy directly from the farms due to the high costs that low volume transactions represent in this sector. In most European Union countries, florists are the principal channel for customers to purchase Ecuadorian roses for special occasions.

In general, Ecuadorian cut- roses are distributed within the Netherlands mainly through three of the five channels suggested by Pro Verde.

- \- The traditional channel, when the exporter sells the product to the 'big' importer who is in many cases in charge of the import's logistics and then sells the product to a wholesaler throughout the EU.
- \- Direct sell to an importing wholesaler: In this case, the exporter sells the product to an importing wholesaler who manages to distribute it within the domestic market or another European Union country. Many of these wholesalers are large-scale enterprises, who sometimes also add value by making their bouquets ready for distribution.
- \- Directly to retailers; the retailer, in most cases supermarket chains, purchases the product directly from the grower.

According to Proverde (2010:47) "Traditional florists still dominate the retail distribution of flowers in most EU countries. In Belgium, about two-thirds of all flowers are sold by florists". The premium Ecuadorian roses are usually not found in supermarkets due to their characteristics and higher prices, most of the specialized florists offer them among their portfolio of products. Ines Guerault, a French florist, stated that "In all Europe, each florist knows that Ecuadorian roses are the best in the world". In all these cases, the final stage of the chain is the one that generates more profit, and the actions that require more inputs are less valued than the final processes in the chain. That is a consequence of being structured in the global value chain, but is it hindering or furthering Ecuadorian exporters operations?

This chapter deepens in the cut-rose industry of both countries, Ecuador and the Netherlands, to have a clearer view of the history behind each sector. Ecuadorian roses are positioned worldwide as the best quality roses, and for more than 20 years, rose exporters have been selling their product to buyers in the Netherlands, a country that specializes in distribution, as well as in all stages of the flower production chain, with nearly 100 years of experience. The main three distribution channels for cut-roses in Europe are (1) the auction, (2) global buyers-importers, (3) wholesalers, (4) retailers. However, in the case of Ecuadorian roses, the auction is not approached as a trading tool.

Chapter 5 Results and discussion

This chapter describes the empirical information obtained for the research and presents an analysis based on the theoretical framework described in chapter 2. The interviews with Dutch global buyers took place within the municipalities of Aalsmeer and Westland in The Netherlands, where the Dutch flower cluster concentrates. Aalsmeer is located around 10 kilometres from Amsterdam Schiphol International Airport, conveniently spotted for the roses to be shipped as fast as possible. Westland, on the other hand, is part of the Greenport Westland-Oostland, "largest international greenhouse horticulture area in the Netherlands" (Phillips, 2016:4) and is also one of the locations of the Royal Flora Holland flower auctions in Naaldwijk. A total of four Dutch global buyers were interviewed; three of them in Aalsmeer and one in Westland.

The interviews with Ecuadorian Exporters were held via Skype and through a survey questionnaire via email. The exporters' farms are located in the province of Pichincha within the neighbour cities of Cayambe and Tabacundo; the main rose production area in the country, close to the capital city and the international airport.

5.1 Overall findings

Based on the obtained data it is possible to identify that the governance structure of this global value chain provides specific opportunities for Ecuadorian exporters within the relational aspect. However, selling Ecuadorian roses to the Netherlands is sometimes considered as "a necessary evil". One of the exporters explained this by saying "it is a bad thing because it is not the best sale, that is to say, the margin is sacrificed because it is sold practically to importers who then sell to wholesalers and florists throughout Europe. But it is necessary because there are many customers in Europe who still only buy from Holland for convenience and lack of knowledge about the farms capacity".

This research analyses the value chain governance based on the three key determinants of the five typologies explained in chapter 2, which are: (a) complexity of transactions, (b) codifiability of information, (c) capability of suppliers (Gereffi et al. 2005:83). Therefore, following this framework, it is possible to establish that the interviewed Ecuadorian exporters experience a combination of both captive and relational types of governance. On the one hand, these exporters are 'captive' in the chain due to the logistics and distribution structure that is rooted in the European Union market. Even though 20 years ago, this structure was ideal for introducing Ecuadorian exporting firms in the global value chain, they now seem to be locked-into narrowly defined roles by the buyers (Humphrey, 2004:12). Considering that globalization is steadily shortening distances regarding more direct and accessible connections, the chain structure becomes subject to questioning. On the other hand, the value chain governance is also relational as trust is a crucial element for the actors and the costs of changing partners are very high.

Upgrading possibilities are analyzed within the proposal of Humphrey and Schmitz (2004:349) on how "upgrading opportunities of local enterprises are often structured by the relationships in global value chains" or chain governance. The analyzed value chain shows strong and long-term relationships within the actors; both actors mentioned the high costs involved in switching partners. According to Humphrey and Schmitz (2004: 352) upgrading in a ‘quasi-hierarchical’ or captive chain is limited to the first two types of upgrading; product and process.

Exporter 2 mentioned that “Nowadays there are no longer language or logistic barriers to ship the product” but what prevails now are the distribution barriers, the know-how of handling the product throughout the European Union, and the competitive advantage of the Dutch logistics hub, which hinders the willingness of exporters to upgrade in the distribution function of the chain. Hence, due to this context, some exporters consider that this the current negotiations are an acceptable deal, with lower risks justifying the structure of the chain.

An extended value chain represents a lower share of the price for the first stages of the chain. However, ‘eliminating’ intermediaries aiming to generate more profits, also signifies assuming higher risks, which are not likely to be taken by most of the exporters as they currently specialise in high scale production of roses and not in the highly competitive distribution within the European Union. The interviewed exporters do sell cut-roses directly to specific buyers in Europe, but a representative share of these exports concentrates in few buyers in The Netherlands.

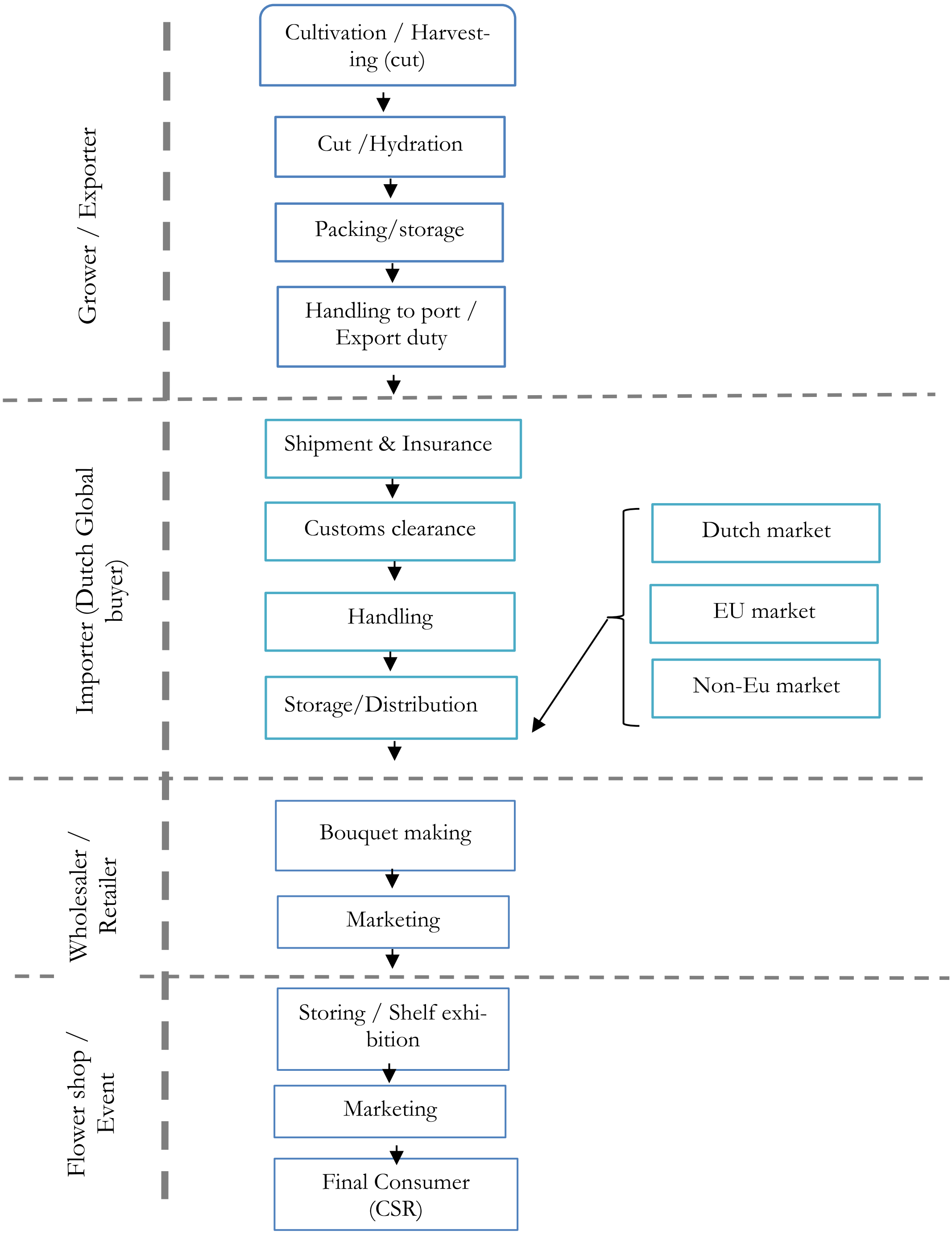
5.2 Actors in the global value chain

The number of actors in the chain can vary depending on the negotiation and strategy of both the exporter and buyer. Nonetheless, in general within the value chain which this paper analyzes, there are five main actors: (1) The grower, who also plays the role of exporter, (2) the importer (Dutch Buyer), (3) the foreign wholesaler / foreign specialized retailer (4) the Flower shop / Events company (5) The consumer.

All the interviewed buyers manage the negotiations directly with the exporters. Buyer 4 mentioned that they have an agent in Quito, the capital city of Ecuador, who is in charge of doing the ‘paperwork’ and visiting the farms, this agent earns a commission and payment for his services but, the Dutch buyer directly manages the contact, negotiations and relationship with the grower. Buyer 2, different to the three other importers, has an office in Ecuador and mentioned that it adds value for them as it counters the time difference for the purchasing representatives working there and it allows them to be directly in touch with all the growers. Hence they can reduce freight costs by centralising their logistics.

Diagram 2, illustrates the examined value chain, showing the activities handled by the different actors, from the grower to the consumer.

Diagram 2. Ecuadorian Rose value chain (The Netherlands Market)



As stated by the interviewed exporters, most of the times they sell their roses to a big Dutch importer, in fewer cases, the exporter sells directly to wholesalers or retailers and very few times to flower shops. Only about five per cent of the imported roses are sold for local consumption in the Dutch market, as an estimated 95% is re-exported to wholesalers in other countries; primarily European Union countries, but also Non-EU like Russia or Switzerland.

The primary destinations of the re-exported roses are France, Germany and Eastern European countries, the most mentioned by buyers, Slovakia.

5.3 The Dutch global buyers

The interviewed Dutch global buyers are typical cases of medium and big buyers with broad experience in trading all types of flowers, specially cut-roses. Three out of the four companies (buyers 2, 3, and 4) are big Dutch importers in the Netherlands with more than 40 years of experience in the sector, they purchase about 35 % of roses from growers in the Netherlands and import the rest from developing countries. None of the participating importing companies owns farms in Ecuador; they specialize in the logistics and distribution of the product worldwide but especially throughout Europe. Buyer 1 is a median company established ten years ago, which specializes exclusively in the purchasing and distribution of Ecuadorian cut-roses.

The main non-EU suppliers of buyers 2,3, and 4 are Kenya, Ethiopia, Ecuador and Colombia, representing on average 55%, 20%, 18% and 8% respectively of their imported roses. Buyer 1 on the other hand imports only Ecuadorian roses and works with around 20 suppliers. All the respondents agree that Ecuadorian roses are a premium product, and they are worth a higher price in comparison to the other origins. Consumers are willing to pay more for this product, but the three big buyers mentioned that Kenyan product is improving considerably and now they are offering larger buds.

The main innovations in this sector are the development of new varieties, packaging optimisation, and logistics. Collaboration among the actors within these aspects provide the first hints of relational governance in the chain (Gereffi et al. 2005:83). However, the exporter assumes all the risk of developing new varieties, and it can take up to 6 years until the new rose starts to propagate in the required volumes. Furthermore, preserved roses are a value-added product that the buyers have been purchasing. It represents around two per cent of these companies' turnover, and the demand of fresh-cut roses has not been affected by this innovation, even though the lifetime of preserved roses is considerably longer, lasting up to a year. Buyer 3 mentioned that this product is in high demand for events as a souvenir.

Buyer 2 is one of the biggest importers in the Netherlands, the purchasing manager of this company mentioned they have a collaborative program with suppliers like the 'Preferred Supplier' program, which aims to create an open relationship environment and provide sales reports per country to develop and grow specific products and niches. The respondent argued that within this framework the companies collaborate in fields like "more efficient ways of product handling or packaging". Likewise, the other three importers mentioned how vital trust and mutual collaboration are for building a robust long-term relationship needed in this sector. It is possible to identify both levels of trust proposed by Anderson and Witz (1989) as cited by Ganesan and Hess (1997:439) within the actors; the interpersonal trust and organizational trust. The purchasing managers and sales managers are always in direct contact within an inter-personal framework, and representatives from both sides visit each other periodically for strengthening the relationships and generating a perceived organisational trust.

As mentioned earlier, the cut-flower sector is a mature market, and there are no exclusivity agreements among the suppliers and buyers. Nonetheless, within the relational framework, most of them establish price agreements which are maintained through the whole year and without contractual formalities, as stated by buyer 3, both sides respect the "gentleman agreements". That is a clear example of the level of inter-organizational trust that withholds among the actors. Furthermore, buyer 4 mentioned that they agree on a yearly fixed price with the grower for established orders, but they also negotiate with other prices for intermittent loads which vary on a weekly basis and with a weekly availability. For these intermittent loads, they usually consolidate the product with another Dutch importing company to reduce shipping costs per stem.

Certifications and Standards

The trend towards standardisation is driven by different motives, as stated by UNIDO (2015: 1) due to "consumers becoming more demanding regarding safety and quality products, as well as increased awareness and concern for social an environmental sustainability issues" among different stakeholders. In many labour-intensive global value chains, the capacity of reaching basic quality levels is an entry barrier for suppliers. From the perspective of the interviewed Dutch global buyers, standards are ideal for establishing a commercial relationship with a supplier; they mentioned that in the case of Ecuador, most of the suppliers comply with their high standards and count with certifications like Flor Ecuador which regulates labour and environmental standards.

However, in this sector what weights the most is to comply with the buyer's quality standards. The respondents mentioned that in most cases their customers do not request certifications before purchasing the product. Buyer 4 indicated that in general, their customers are not asking for certifications, but when exporting to some countries like Switzerland or England, some of them do ask for some certifications from the country of origin. He stated, "we have a lot of customers in France, Italy, Russia, Eastern Europe, and no one is asking for certifications, at least at our level of clients which are wholesalers and our clients are selling to flower shops or events". The retail companies' clients do ask for certifications, and hence in most cases, it is compulsory to have them on the label. However, retailers like supermarkets do not buy through this Dutch importer.

Buyer 3 mentioned that in the case of African flowers, some of their clients do request certifications like Fair Trade and Rainforest Alliance due to the low governmental regulation and the child labour issues. But, likewise what exporter 4 stated, when it comes to an event or even flower shops, certifications are not a very strict requirement.

Some of the wholesalers' customers request bouquets instead of individual cut flower bunches. However, for rose growers, it is usually more expensive to ship bunches because of the size and weight of the product on airfreight. Hence, it is better for the importer or wholesaler to manage the role of bouquet making in the Netherlands and then distribute across Europe due to cost efficiency.

Market Segmentation

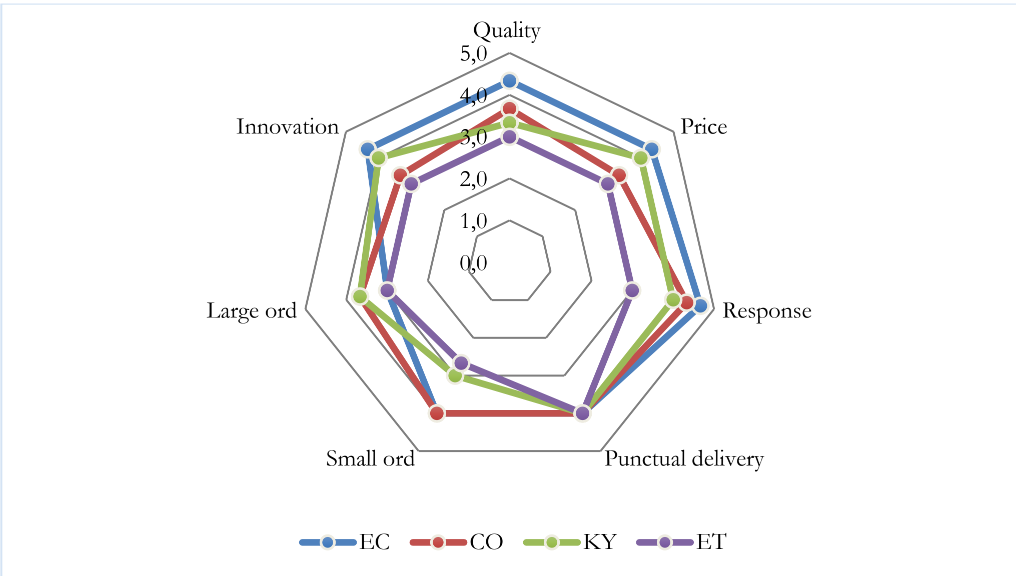
Global buyers decide which producers and from which countries will be given the opportunity to sell so they can further distribute their products throughout Europe and Non-EU countries like Russia and Switzerland, this power position on the side of the lead firms is another evidence of the captive coordination that governs the chain. As part of the interviews, the buyers were asked to rate the strengths and weaknesses of the exporters from the four main supplying developing countries; Kenya, Ethiopia, Ecuador and Colombia, aiming to understand their perspectives when deciding about the product. Nevertheless, it is relevant to bear in mind that the buyers may have a general view as an effect of previous experiences with specific supplying companies and this paper is generalizing those viewpoints at the country level.

These four central rose supplying countries to the Netherlands are developing countries and possess distinct competitive advantages in production. For instance, Kenya is considered by the buyers as a very cheap supplier of roses, due to lower labour costs and currency exchange. Many Dutch investors relocated their facilities in this African country, and the farms specialize in the massive production of fewer varieties. The buyers argued that African roses are increasing their quality and size, but in general these roses are still not seen as premium; hence they are sold in higher volumes through different channels. Buyer 4 stated that they purchase around 95% of the Kenyan roses via the auction, different from Ecuadorian roses which are no purchased through the auction clock tool.

Within Latin America, Colombian roses are also good quality roses but are not considered to be at the same premium quality level as Ecuadorian roses. Therefore all the exporters revealed to have a higher share of imports from Ecuador rather than from Colombia.

The buyers were asked to rate the countries based on their experiences with suppliers from Ecuador, Colombia, Kenya, and Ethiopia within seven criteria: quality, price, response, punctual delivery, coping with small orders, dealing with large orders, and finally innovation and value-added, figure 2 shows the average of these rates.

Figure 6. Performance comparison of main Non-EU suppliers



Source: Author’s elaboration based on interviews with Dutch global buyers

As figure 2 depicts, Ecuador was rated with the highest rank regarding quality, obtaining 4.3 points over 5, and contrasting with Ethiopia (3 pts) who is considered as an average product regarding quality. In general, Colombia, Ecuador Kenya and Ethiopia were rated at a similar level in terms of response and punctual delivery, however only Kenya and Colombia perform better in terms of coping with large orders, especially when it comes to a specific variety, due to the sizes of the farms and lower array of roses per farms. Buyer 4 commented that in Kenya a big farm around 40 hectares could have four or five varieties, whereas in Ecuador a farm of that size can have 40 different varieties.

5.4 The Ecuadorian Exporters

A total of five Ecuadorian exporters were interviewed aiming to understand their position and perspectives in this global value chain. In general, the five respondents grow 100% of the product they sell; they do not buy from third parties. Their farms located within Cayambe and Tabacundo, are around 25 and 45 hectares and each of them generates about 11 jobs per hectare.

Three out of the five interviewed exporters sell their whole production in international markets. However, Exporters 3 and 4 explained that nearly 10% of their product is sold in the local market, mostly roses with shorter stems and smaller sizes. Exporter 3 mentioned that it is a business with a slight margin of gain per stem. Therefore they try to allocate all the production.

These companies offer from 65 to over 100 different varieties of roses, which is great for the European market considering that the exporters referred to it as a "very specific" market. The vast variety of vivid colors is one of the key characteristics within Ecuadorian roses production; exporter 1 mentioned that many years ago, the demand of roses was limited to the color, as there were few types. For instance, the buyers demanded 'red rose or pink rose' but now with such diversification in colors and specific features, the demand has become very specific. This exporter stated "Now the buyers request x amount of *red freedom* rose for example" they request the varieties depending on their specific characteristics, vase life, color intensity, length, and as Europe is so selective with varieties, the supply can become very limited for each selection. From this perspective, it is possible to find 'modular' governance features in the chain, based on the complexity of developing new varieties, however once again the relational aspect can also be perceived, as the buyers collaborate by giving feedback on trends and consumer behaviour.

It takes from 6 to 8 years to develop a new variety of rose. Therefore the exporters must think thoroughly before engaging in developing a new one. The first step is to analyze the market trends and discuss it with their clients (Dutch buyers in this case) to receive suggestions, but the exporter assumes the risk of breeding and propagating a new variety.

The five interviewees have two certifications in common; FlorEcuador and BASC. The first one is an integral scheme of accreditation with a socio-environmental scope for Ecuadorian exporters within the floriculture sector. It is managed through Expoflores and represents the certification seal for a company that produces a high-quality product caring for its workers and the environment. Therefore, it guarantees that the company is socially responsible and promotes environmental responsibility towards natural resource conservation, as well d confidence in safety and health of the employees, assuring no child labour, it is at the level of 'Fairtrade'. BASC certification stands for Business Alliance for Secure Commerce which aims to promote a culture of security and protection in international trade against the risks of illicit activities like drug trafficking, terrorism, and money laundering.

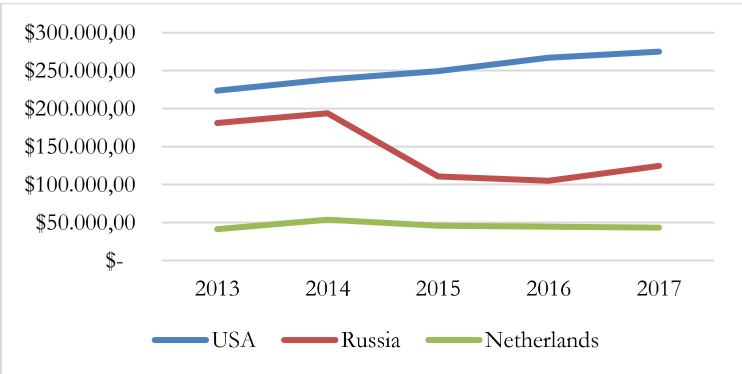
The Royal Flora Holland 'auction clock' mechanism is not used for trading Ecuadorian roses, different from African roses which are mainly traded through that tool. According to the general manager of export company 5 "To sell at the auction, great volumes are needed per variety, besides the cost of going out at the auction is high and the price you get is low". Many discounts apply within the auction, like for instance the trolleys used and labour costs of exhibiting the roses in 'proconas', and according to the CEO of another exporting company (4), "sometimes the exporter ended with a deficit in the sale" therefore it is a lot better to sell directly to their customers. However, there are other types of Ecuadorian flowers and plants traded through the clock, but not Ecuadorian roses.

In general, there are three main reasons why the auction clock is not part of this value chain of Ecuadorian roses. (1)The profit per stem is too low to risk it within the auction clock, where the price is uncertain, (2) as there are so many varieties of roses per farm, almost no exporter can fill the required amount of trolleys with one single variety. (3) There are several service charges that the exporter must cover by discounting them to the price set in the auction. Hence the exporter could end up with a negative balance.

Visits and face to face interaction are essential in every long-term business relationship. All the respondents mentioned they visit their buyers in the Netherlands at least once a year, with the objective of having direct contact, showing commitment and strengthening the relationship. They consider that it is always necessary to have face to face meetings and direct dialogue with their customers.

In 2014, Russian demand for roses decreased considerably, and being Russia one of the main destinations for Ecuadorian Roses, the exporters began to look for other markets to sell their product. Exporter 3 mentioned that due to the proximity, many exporters re-directed that supply towards the United States, but the sudden increase of supply resulted in a decrease in prices for that market. Figure 7 shows the reduction in Ecuadorian exports to Russia after 2014 as well as the rise in exported roses to the United States.

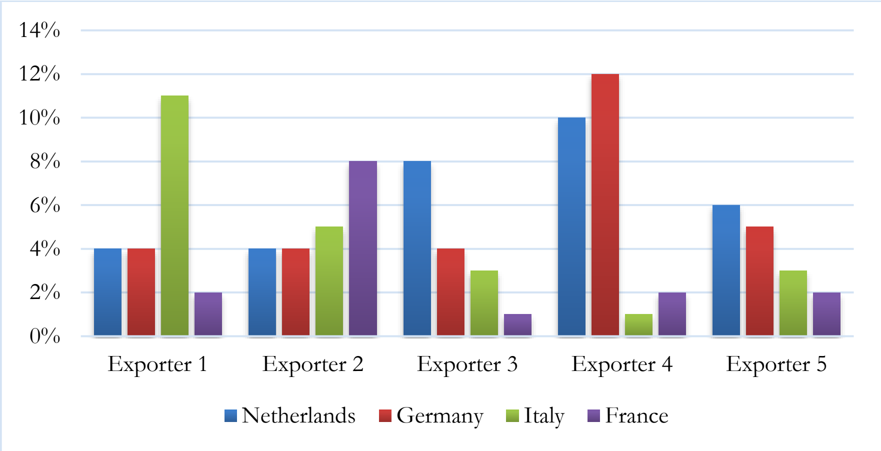
Figure 7 Ecuadorian Rose Exports evolution to main destinations (2013-2017)



Source: Author's elaboration based on the International Trade Center (2018)

Within the European Union, the respondents defined as principal destinations The Netherlands, Germany, France and Italy. Figure 8 depicts the share of Ecuadorian rose exports to the main three destinations.

Figure 8 Main European destinations for the interviewed Ecuadorian exporters



Source: Author's elaboration based on fieldwork

The respondents currently supply diverse markets worldwide, but the Netherlands still holds a very significant share of their exports. Despite to the fact that most of the Ecuadorian roses sold to this northern country are re-exported to other countries within the EU, the suppliers consider that the Netherlands will continue to be one of the main buyers for their roses (Exporters 2,3, and 4). The interviewed buyers mentioned that over 95% of the imported Ecuadorian roses are re-exported mainly to wholesalers, throughout EU countries. The principal reasons for it are: first, the Netherlands is a worldwide recognised logistic hub, counting with the required infrastructure for transporting the product and delivering it in perfect shape. Second, the know-how of distributing the perishable product throughout Europe with the adequate infrastructure has captured the foreign wholesalers' trust in their services. Third, the highly competitive and experienced distribution market; the exporters argue that even if they would aim to manage a more direct distribution, the high competitiveness and sophisticated network of Dutch buyers are a significant limitation for walking on that risky path. Also, the perceptions and business strategies of wholesalers and flower shops, many of these European actors in the chain, prefer to buy the roses from the Netherlands due to their reliable experience handling the product and their rapid response rate in case of claims.

Exporter 3 mentioned "In Holland, one of our main buyers is a large group, which has subsidiaries all over the world. They buy high volumes and pay directly to the exporter, which is a guarantee for us, and then they redirect the product efficiently through Europe or to its various subsidiaries in other countries such as the United States or Australia". He also stated, "for a crop like ours it is good to develop the relationship with this big importer and not necessarily supply directly to each of their small customers". The exporter mentioned that direct supply to small clients would increase uncertainty and as the margin per stem is not that high, they prefer to avoid that risk. This representative ended up stating that "the Netherlands will continue to be the main market for a big part of Ecuadorian roses".

Europe has better prices than most of the states from the United States where prices are lower because of the high market share of Colombian roses. These roses enter the US market free of tariffs due to the free trade agreement between both countries. Hence the Colombian product becomes more price competitive than Ecuadorian product in North America.

The only negative aspect about Europe is that that during summer (June, July and August) the sales drop considerably due to holidays and the offer of a lot of substitute flowers and plants.

The following six steps are the general operation processes of Ecuadorian roses traded to the Netherlands:

- The rose is cut (most of the time one day before dispatching)
- The rose is hydrated for at least 24 hours
- The product is packaged
- Sometimes the roses spend from two to three days in the farm's cold room waiting to be sold.
- When sold, transportation and logistics take place directing the product from Mariscal Sucre International Airport to Schiphol Airport and afterwards to the importer's facilities, taking around three days
- Sometimes the product also stays one or two days in the importer's cold room waiting to be sold to wholesalers, retailers or florists.

It can take one week from the cut of the rose until the sale to the wholesaler, so the distribution management is critical for the rose to maintain its quality. Ecuadorian roses are known for having a vase life of around 12 to 16 days, but this can be affected if the product's logistics and distribution management are not the correct one.

As cut-roses have a limited shelf life and are naturally delicate, logistics play a vital role in this sector. The product can never be exposed to high temperatures and must be transported in refrigerated trucks or containers to the importer's facilities to be further delivered or picked by wholesalers or flower shops.

The price of roses

According to Expoflores (2018:3) in 2017, the referential price per kilo of Ecuadorian roses, - around 14 stems- was USD5.26, showing a decrease of 3.8% concerning 2016. This product showed its highest referential price in 2012 with USD 6.07 per kilo. However, it is necessary to bear in mind that there are more than a hundred varieties of roses and the price varies according to them and the features each have.

After being cut and hydrated, the roses are packaged on bunches; each bunch has 20 to 25 roses for the European Union. In France and Germany, for instance, flower shops sell a bunch of 20 Ecuadorian roses from €30.00 to €33.00. The FOB unit price of a stem within a high-volume order can be around EUR0.45 per stem, while the retail price at a florist shop is around EUR1.50 per stem. The table below describes a general example of the price breakdown of a rose stem in the European Union.

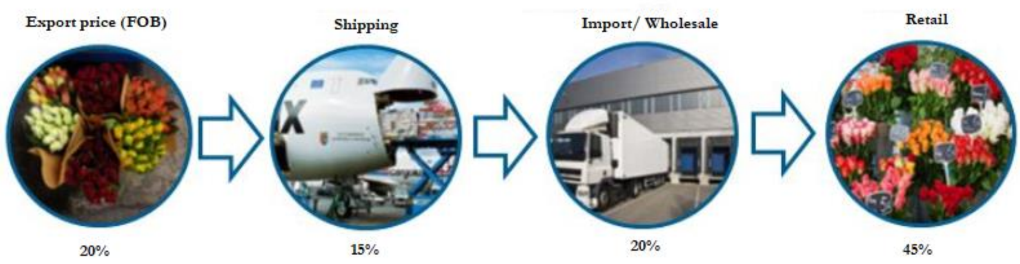
Table 4 Average Ecuadorian rose price breakdown within the European Union market

Stage in the value chain	Contribution to final product value (%)
Within Ecuador	
Roses (including packaging and labour)	20%
Outside Ecuador	
Shipping, duties, insurance, landing charges	15%
Importer's margin	17%
Wholesaler / Retailer margin	18%
Florist margin	30%
Total outside Ecuador	80%

Source: Author's elaboration based on fieldwork

On average, around 80% of the rose price in the European Union market encompasses distribution costs and services. Figure 9 depicts the breakdown of a standard price of roses in the European Union market. According to the CBI (2017), the retailer is the actor in the chain with the highest return on the product but sometimes also the highest risk. In economies of scale, the actions that require more inputs are less valued than the final processes in the chain.

Figure 9 Price breakdown of roses for EU market



Source: CBI Ministry of Foreign Affairs, Netherlands (2017:14)

Buyer 4 stated "when we started selling the roses, we could not sell the product at a lower price, but at the moment sometimes we say to the exporters what the price must be because there is a lot of much supply. And it is not that we want to pay less, but if we don't follow the market then we don't sell any flowers".

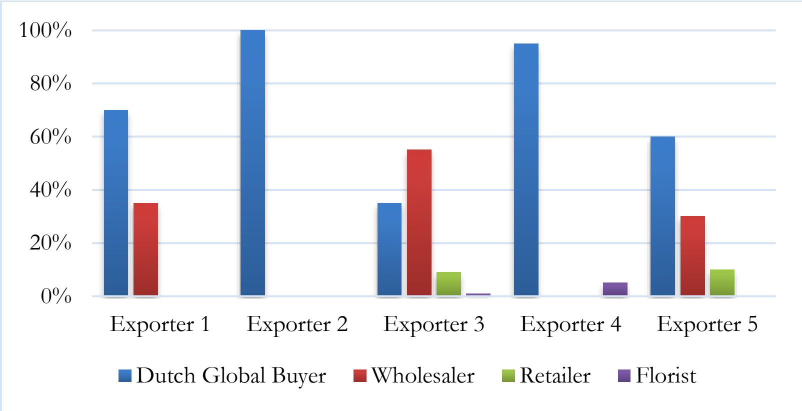
Constraints of selling directly to florists

According to Exporter 4 ", the orders of the florists are of low volumes, they can be ten boxes per week, and to order ten boxes directly to the farm in Ecuador is even more expensive due to the high freight and logistics costs". That is why flower shops buy from wholesalers, who at the same time buy from importers because, in this industry, higher imported volumes represent lower freight and logistics costs per stem, and as the only way of transporting this product from Ecuador is by airfreight, the costs tend to be high.

The exporters agreed that from this point of view, it is better for the growers to sell high volumes to their customers, exporter 5 mentioned "If I sell only to florists, I would need to have much more complex logistics, involving refrigerated rooms, trucks and vans in the destination country to reach these customers".

As figure 6 explains, the clients of these Ecuadorian exporters in the Netherlands concentrate on Dutch global buyers and wholesalers. For instance, exporter 2 stated that within the Netherlands, his company works mainly with four Dutch global buyers. Other exporters like 3 and 5 carry out some transactions at the retail and florist levels, but still, most of their sales concentrate in within importers and wholesalers.

Figure 9 Ecuadorian Exporter's clients in the Netherlands



Source: Author's elaboration based on interviews to Ecuadorian exporters

Therefore, the reason why Ecuadorian exporters do not sell directly to flower shops turns around the logistics costs. No florist will demand the same volume as Dutch global Buyers, and so the single florist will not be likely to fill one container to reach the lowest possible freight and logistics costs. The average airfreight cost per stem is \$0.15 to \$0.20 when the container is full, and from \$0.30 to \$0.35 when it is less than a container. Additionally, the florist would have to be responsible for all the internal handling, a field where they do not specialise. As stated by the United Parcel Service (UPS, 2017) "International flower delivery is truly a race against the clock". Logistics and infrastructure play a vital role in this global value chain. Therefore, the more specialised the different stages in the chain are, the better the performance.

5.5 The global value chain type of governance

This research aims to answer how does the value chain governance affect Ecuadorian Exporter's upgrading in the cut-rose global value chain? Hence it is necessary to establish the type of governance. Within the typology proposed by Gereffi et al. (2005), it has been possible to identify mixed patterns of two governance types in this chain; captive and relational. Gereffi (2001:1620-1622) argues that "buyer-driven chains are most closely tied to relational rents, which refer to several kinds of interfirm relationships, including the techniques of supply chain management that link large producers with small and medium-sized enterprises". This is the case of large buyers and large exporters of roses in Ecuador, as it is common in these type of chains, it is evident how the lead firms have representative power over the firms in the first stages of the chain, allowing to reflect control, but the actors demonstrate long-term relationships with constant interaction.

The cut-roses global value chain governance is not a 'perfect market' nor is it 'pure hierarchy' type of governance, it is a combination of two types: relational and captive as it shares characteristics from both. The relational governance characteristics are evident, mainly due to the trust and interdependence that the exporters and buyers have, and which are the basis of the long-term relationships the actors have built. There are high costs and risks in switching to new partners for both growers and buyers. The high volumes traded among these actors and the frequency of the orders make possible for exporters to optimise production costs for competing in the global market.

By interviewing both actors, the necessity of constant interaction and knowledge sharing was noticeable. Importers are in continuous dialogue and share market information with exporters for coordinating production or for suggesting the development of new varieties. All the respondents revealed to maintain frequent contact and visit each other, the buyers visit Ecuadorian farms two or three times a year, and the exporters also visit the buyer's facilities one or two times per year. These linkages are strengthened by trust, generating mutual reliance. However, the importers specify what is needed and demonstrate control over the suppliers due to the high availability of substitute products in this market.

Dutch buyers and growers collaborate in some ways, especially in quality verification. All the interviewed buyers emphasized that quality is the most relevant criteria for them. Therefore, anytime a new load arrives, the importers randomly take out a bunch of roses from one of the boxes to make a visual inspection and put it on a vase to also check the vase life performance. One of the buyers expressed that in general there are very few complaints about Ecuadorian roses, the quality is nowadays very reliable, and when there is a claim, the rate of response is very high from the exporter.

Most of the exporters attend international trade fairs, and so do many clients of the importers hence, trust also plays an essential role in facing these situations. There are cases when clients approach the growers suggesting doing business directly without the importer, but the relationship withholds. All the importers mentioned this to be a typical situation, but they argued that the exporters inform them when one of their clients make that kind of approach. However, it is not prohibited, but it could damage the relationship, the growers stated that they are not willing to lose a long-term buyer who purchases high volumes for a new client who will not request the same amounts and who has not yet demonstrated the seriousness in payments.

Regarding the way in which buyers managed to lock the exporters in, Humphrey (2004:14) established that one possibility for buyers to "lock in" suppliers is "by making them transactionally dependent" referring to purchasing a large proportion of the supplier's output so that the costs of switching to a new supplier would be high. That is what happened in this case, the exporters have become transactionally dependent on the purchases of these big buyers. According to Gereffi's and Fernandez-Stark (2016:11), in a captive GVC "small suppliers are dependent on one or a few buyers that often wield a great deal of power". The studied actors within this GVC are not small suppliers; they are rich companies in Ecuador with annual sells of more than 5 million dollars. However, they are still dependent on a 'few buyers', and due to the market structure, the possibilities for a successful functional upgrade are very low. Gereffi et al. (2005:87) argue that the inter-firm linkages in a captive governance "control opportunism through the dominance of lead firms, while at the same time providing enough resources and market access to the subordinate firms to make exit an unattractive option."

Overall, the relationship between exporters and importers gives them good opportunities in product and process upgrading, especially regarding developing new varieties, packaging improvement and vase life performance, but it keeps them captive regarding the functional upgrading opportunities. Following Fransen and Helmsing (2014:2) "Global buyers may actively support innovation of suppliers in non-strategic areas, but they are likely to block innovations in strategic areas" in this case, the importers are actively supporting the exporters' innovation in terms of quality and packaging but seem to block them in strategic areas, which are logistics and distribution throughout Europe.

There are two main benefits for being part of this global value chain: First, the distribution specialization of the Netherlands is very efficient in handling the product at the right time and in the right way. The importers reach several wholesalers or flower shops all around Europe through a high-quality distribution. Selling a high volume to only one actor benefits the exporter by reducing risks and logistics costs in a field where they are not as specialised as the importers, hence, it reduces the complexity of commercial transactions. Second, as many wholesalers and flower shops prefer to buy directly from the Netherlands because of their long years of experience in the sector, in some cases this is the only way to reach those markets. Exporter 3 mentioned that many wholesalers prefer to avoid having to negotiate with the farm if they have the possibility of contacting the distributor and obtaining the product 'easily' for them.

From this perspective it is beneficial for Ecuadorian exporters to be positioned in the global value chain, allowing them to keep up with their sales volume. It was mentioned several times by the exporters that as this is a business of low margins, it is essential to be able to sell in high volumes and reduce the risk.

5.6 Governance and exporter's upgrading

The influence of governance in upgrading is analysed within the propositions of Humphrey and Schmitz (2002:1023-1024) where they describe four types of relationships that can be distinguished in value chains as "different forms of chain governance have different upgrading implications". The authors argue that a captive global value chain "offers very favourable conditions for fast process and product upgrading but hinders functional upgrading". On the other hand, the relational approach offers the ideal upgrading conditions but "are the least likely for developing country producers because of the high level of competences required" (2002:1023-1024). Therefore, using these propositions the case of Ecuadorian exporters is hanging in the middle of both relationships. The interviews allowed to go in depth on their relationships and it was possible to identify that the exporters' functional upgrading opportunities are hindered mostly by the organization of the chain but also by their perception on how things work.

All the interviewed exporters mentioned that they are not looking forward to assuming higher risks by selling lower volumes to smaller buyers. As the business is stable at the moment, it is acceptable to continue within this structure. However, they should reconsider these transactions to avoid shrinkage of their sales as it happened in Russia in 2014.

This chapter contains a narrative description of the empirical information collected for this paper. It describes the relationship between Ecuadorian exporters and Dutch global buyers from each point of view, showing relevant aspects for identifying the combination of relational and captive types of governance that govern the chain. In spite of being a combination, the captive element is more evident regarding upgrading. Dutch buyers collaborate in ways that can lead to process and product upgrading, but not to functional upgrading. Hence, within this quasi-hierarchical relationship (Humphrey & Schmitz, 2004) scaling up in the chain is not likely to happen.

Chapter 6 - Conclusions

This study has sought to contribute to the global value chain debate by using the case of Ecuadorian Exporters of roses and Dutch global buyers, looking for an answer to the following question: how does the value chain governance affect Ecuadorian Exporter's upgrading in the cut-rose global value chain?

The obtained empirical information and theoretical analysis allow to establish that even though more than 95% of the Ecuadorian roses imported by the Netherlands are re-exported to other countries, the global value chain governance, brings about specific opportunities to the exporters, who are willing to continue negotiating under this structure because the prices have been kept stable during the past years. However, in general, the exporters would like to upgrade further and distribute their product directly, but there are three main limitations to achieve it; the high investment it involves, the chain coordination by lead firms who have the 'know-how' of directly distributing the roses within Europe and the perceptions of the European buyers. "It is a highly competitive market with very experienced players". (Exporter 1, 2018).

The GVC theory proposes five specific types of chain governance; nonetheless, after analyzing this value chain, it was possible to identify a combination of two types: captive and relational. Even though the exporters and importers have strong long-term relationships, the importer is the one who has more power in the negotiation as the activities he develops are in the upper stages of the chain. Some exporters consider these transactions through the Netherlands as a 'necessary evil' because it is not the best negotiation for them, as they sell their roses to an importer who afterwards re-sells the product to wholesalers and specialized retailers throughout Europe. But it is necessary because there are many customers in Europe who still only buy from Holland for tradition and trust in their worldwide logistics specialization. Many wholesalers or big flower shops consider as a more comfortable option to report a claim to a supplier in the Netherlands, rather than contacting the Ecuadorian farm on another continent. There is also a lack of awareness of the capabilities and response ratio of the farm.

Dutch global buyers are traders with more than 50 years of experience commercializing flowers; they count with extensive facilities and logistics infrastructure to correctly handle the product. So, the exporter's perception is that they must continue strengthening their relationships to increase their orders, without wondering on the risky alternatives for upgrading in the chain.

Following Humphrey and Schmitz (2002) it is possible to establish that the governance of the chain, referring to its coordination and structure, does affect Ecuadorian exporters functional upgrading. These exporters are captive in the logistics that Dutch global buyers provide based on the commercial structure of European customers. Hence, they will need to re-think their position in the chain as competitors like Kenyan firms are developing better-quality products that will eventually affect international prices.

The exporters reach innovation and technological upgrading in their own, however in aspects like the development of new varieties, the importers collaborate with suggestions and cooperate by putting the exporters in contact with specialised breeders, but still, the growers take a full risk on the investment. The importers strengthen their relationship for having a reliable supplier who meets their standards, and at the same time the growers learn about them and are confident about receiving their payments and respecting price agreements.

All the exporters mentioned that the cut-rose sector is an industry with low margins, so they should be prepared if Dutch buyers decide to lower their prices because of the increasing quality and supply from African roses. The industry could be directly affected by any changes in price or demand, so following the theory, the growers should find the way to upgrade. Even though Humphrey and Schmitz state that the type of governance influences upgrading opportunities in the chain, the firm's absorptive capacity is also fundamental. Furthermore, public policy plays a critical role in promoting upgrading. Considering that taxes and customs barriers are two elements that increase production costs, the government should develop systematic policies to help these relevant actors in the economy, overcome the upgrading challenge. It is necessary to promote domestic investment as well as innovation and technological development looking forward to finding better ways for overcomming the challenge of being locked in the chain. Hence, a well framed public policy would incentivise investment in new alternatives for reaching the improved logistics systems that will be soon necessary.

The reflection on this research stands on the fact that it is possible to find combinations of the governance types depending on the industry, and there is always a type of governance that is more dominant. In this case, the cut-roses global value chain shows a combination of two types, and regarding upgrading the captive governance prevails. In labour-intensive industries, it is more likely to find a stronger captive element, but the relational component is also crucial for all long-term relationships. This combination might be found in many other industries, and functional upgrading is likely to depend on the type of governance of the chain, even when it comes to big representative suppliers and not only with regards to small companies.

Further research on this topic could focus on the competitor's side as well, analysing the type of governance present in value chains with other suppliers and the evolution of prices and demand.

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Appendix 1 List of interviewees

Ecuadorian Exporters Exporter I: Gonzalo Luzuriaga, Chief Executive Officer at Bella Rosa, Ecuador Exporter II: Jose Antonio Bueno, Chief Executive Officer at Sisapamba Rosas, Ecuador Exporter III: Juan Carlos San Clemente, Commercial Manager at Unique Collection Ecuador Exporter IV: Eduardo Letort, Chief Executive Officer at Hoja Verde Cia and Sense Ecuador Exporter V: Victor Lobato, Chief Executive Officer at Florpaxi Group Ecuador
Dutch global buyers (importers) Buyer I: Bas Broeders, Operations and Purchasing Manager in Farm Direct Flowers Willem van Maasdijk, CEO at Farm Direct Flowers Buyer II: Leon Bonte, Purchasing Manager at Fleurametz Buyer III: Leo van Rijn, Import Manager at Hilverda de Boer Buyer IV: Ard Bruggeling, Purchase Manager at Hamifleurs

Appendix 2. Interviewing questionnaire for Dutch Global buyers

Questionnaire - Dutch Global Buyers of roses

(All information will be dealt with confidentially and will only be used with academic purpose)

Name of the company:

Beginning of operations:

Respondent's position:

Location:

1. Which countries are your most important suppliers of roses? And, since when have you been importing?

a) _____% of imports
b) _____% of imports
c) _____% of imports
d) _____% of imports

2. Do you have your own rose farms in any of these countries? If so, in which of them?

3. Which value-added products do you buy from Ecuadorian exporters?

4. Within Ecuadorian roses imports, which of the following certifications do you demand from your suppliers?

Florecuador ☐
☐
Fair Trade ☐
BASC ☐
Rain Forest Alliance
Other: ________________________________

5. Do you expect that in 5 years from now the percentage of roses that you buy from the following countries will have increased or decreased? Why?

Ethiopia: ________________________________
Kenya: ________________________________
Ecuador: ________________________________
Colombia: ________________________________

6. What do you give to your supplier apart from the opportunity to sell? Check for assistance in:

Achieving reliable quality ☐
☐
Technology - process ☐
Developing new varieties
Other :

7. Do you put your customers in direct contact with the growers you buy from? For example, retailers who what to contact the growers directly

8. Do you provide training/internships to employees of your producers in Ecuador?

9. Do you have exclusivity or price agreements with any of your Ecuadorian Suppliers? Explain

10. What percentage of the imported roses from Ecuador do you export to other countries and what percentage is sold in the local market?

Export to EU countries ___________%

Export to Non- EU countries ___________%

Sales within the Netherlands ___________%

11. Would it be easy to switch to other roses suppliers, in case that Ecuadorian exporters stop supplying your company? Please explain

12. How many times per year do you visit roses farms in Ecuador?

Once a year ☐

Twice or more ☐

Do not visit ☐

13. Do your suppliers exhibit at European trade fairs? How do you manage the risk of your clients contacting your suppliers?

Yes ☐

No ☐

14. Which countries are the main destinations for your exported roses?

- _____% of exports
- _____% of exports
- _____% of exports
- _____% of exports

15. What percentage of Ecuadorian roses do you sell to the following customers:

Wholesalers _____%

Retailers _____%

Florists _____%

Thank you for participating in this academic research

Appendix 3. Exporter's interviewing questionnaire (Spanish)

<u>Cuestionario - Exportadores Ecuatorianos</u>

(La información se tratará de manera confidencial y solo se utilizará con propósito académico)

Nombre de la empresa:

Inicio de operaciones:

Cargo de entrevistado:

Ubicación:

1. ¿La empresa cultiva el total de las rosas que exporta? Si su respuesta es no, ¿cuál es el porcentaje que compra de terceras partes?

SI ☐

Compra a terceros: ____%

2. ¿Cuántas hectáreas cultiva?

3. ¿Exporta la totalidad de su producción o vende un porcentaje de su producto en el mercado ecuatoriano?

Se exporta 100%

venta local _____%

4. ¿Cuántas variedades ofrece?

5. ¿Ofrece producto con valor agregado en el mercado europeo? (ej.: flor tinturada y preservada, u otro) De ser así, podría indicar que porcentaje de sus ventas representa?

6. ¿ Con qué certificaciones cuenta su empresa? ¿El mercado holandés le exige alguna certificación en particular?

7. ¿Es miembro de EXPOFLORES o de alguna otra asociación de exportadores de flores de Ecuador?

8. ¿ Si su respuesta anterior fue no, ¿podría indicar su motivo ?

9. ¿Cuáles de los siguientes atributos de ser parte de Expoflores considera más beneficioso? Enumere del 1 al 5 siendo 1 el más relevante

Contactos (locales) ______

Contactos (internacionales) ______

Lobbying ______

Capacitaciones ______

Investigación de mercados ______

10. ¿Puede nombrar dos aspectos en los que considera que Expoflores pueda mejorar como asociación?

11. ¿Qué porcentaje de sus ventas se destinan a los siguientes mercados?

EEUU	______%	Alemania	______%
Rusia	______%	Italia	______%
Holanda	______%	Francia	______%

Europa del Este ______% Los demas ______%

China ______%

12. ¿Desde cuándo exporta Rosas hacia Holanda (Países Bajos)?

13. Ofrece rosas ecuatorianas en el 'reloj de la subasta de Royal Flora Holland ubicado en Países Bajos?

14. ¿Si su respuesta anterior fue no, podría explicar sus motivos?

15. ¿Considera que la relación comercial con importadores de Países Bajos lo ayuda a crecer como exportador?, por ejemplo compartiendo información sobre nuevas tendencias, tecnologías u oportunidades? Explique con un ejemplo general

16. ¿Recibe asistencia de los importadores de Países Bajos en:

Cumplimiento con parámetros de calidad para UE

Nuevas regulaciones en el mercado

Nuevas variedades de rosas para Europa

Planificación estratégica

Otro _________________________

17. ¿Realiza visitas periódicas a sus compradores en Países Bajos (1 o 2 veces en el año)?

18. ¿Mantiene acuerdos de precios con sus clientes en Países Bajos?

Países bajos

Otros

No

19. ¿Cuáles son los beneficios de vender su producto a un importador en Holanda?

20. ¿Ha considerado abrir sus propias oficinas en Países Bajos para tener mayor control de su cadena logística? ¿Por qué?

21. Qué porcentaje de las rosas exportadas a Holanda se comercializa a través de los siguientes canales?

Importador Holandés Minoristas Retailers

Mayoristas ‘wholesalers' Tiendas de Flores

22. ¿Espera que en los próximos 5 años el porcentaje que exporta a Países Bajos haya incrementado o disminuido? ¿Por qué?

23. Se estima que al menos el 95% de las rosas ecuatorianas importadas por Holanda, son re-exportadas hacia otro destino. ¿Considera que esto representa una desventaja para su margen de ganancia al extenderse la cadena de valor o considera que la logística y servicios proveídos por los importadores holandeses lo justifica?

Muchas gracias por su participación contribuyendo al proyecto de investigación