

Small Firm Specialisation in Global Value Chains: Evidence from the Cut Flower Industry

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Abstract

This is an exploratory study of challenges for small niche producers in the cut flower global value chain (GVC). The study involves interdisciplinary analysis of differentiation strategies to improve positioning and identifies the role of owner-entrepreneurs, innovation, and risk as factors lacking in GVC analysis.

Key words: SMEs; export marketing; GVCs; cut flower industry

JEL classification: F23; L7; M16; O13; Q17

1. Introduction

A pressing research issue in international marketing is to understand how small players can insert themselves, through specialisation, into a global value chain (GVC) and sustain a competitive position (Deakins et al., 2013). This paper reports on an exploratory study to investigate niche differentiation strategies (Tolstoy, 2014) by small firms in an industry whose GVC is largely dominated by one country—the Netherlands. An analysis of qualitative data from four case firms from New Zealand which compete in the cut flower GVC examines how they have attempted to improve their positioning through differentiation despite increasing low price competition from lower cost developing countries. Through an interdisciplinary analysis of export marketing by these small and medium-sized enterprises (SMEs), we suggest how small firm-level perspectives could be incorporated into GVCs. Our aim is to contribute to an emerging research agenda (Kiss et al., 2012) on the international entrepreneurial strategies of smaller firms, since many economies are

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made up of predominantly SMEs.¹ We do this in the context of GVCs that are already formed and dominated by developed economy firms, with increasing competition from firms in non-traditional and developing country locations.

Young or small firms are of critical importance for employment, economic growth, poverty reduction, and for formalising economic interactions in all OECD member states, and SME export performance is a key measure of progress towards those goals (OECD, 2013). There is still a lack of agreement on definitions of SMEs, but they are generally not subsidiaries of larger firms and their size is measured by employment numbers: fewer than 250 (in the EU) and fewer than 500 (in the US) (European Commission, 2014; OECD, 2013, p. 22; US Small Business Administration, 2014). Small firms are mostly considered to have fewer than 50 employees, with micro-enterprises having fewer than 10, and medium-sized firms with between 50 and 249 employees (OECD, 2013, p. 380). New Zealand defines micro as 1-5 employees, small as 6-19, small-medium as 20-49, medium as 50-99, and large as 100 or more (Ministry of Business, Innovation and Employment (MBIE), 2014, p. 12). The majority of exports from OECD countries is accounted for by firms of 250 employees or more, though in most OECD countries fewer than 10% of firms are exporters, with the smallest (micro firms of fewer than 5-9 employees) accounting, for example, for between 3% of exports in Norway and 17% in Denmark (OECD, 2013, p. 36). Approximately 97% of New Zealand enterprises are small (MBIE, 2014). In 2011, around 15% of New Zealand SMEs (of 6-19 employees) had generated overseas income in the last financial year (MBIE, 2014, p. 46). Of those SMEs generating overseas income, just under 40% did so through sales to other businesses rather than direct to consumers or end-users (MBIE, 2014). This chimes with OECD findings that firms are increasingly participating in GVCs and that they do so by specialising in specific tasks (OECD, 2013, p. 36). In this paper, we refer to SMEs as any firm with fewer than 99 employees (MBIE, 2014).

Many SMEs begin their internationalisation through export marketing (Root, 1998) and, while research attention currently focuses on the phenomenon of rapid and early internationalising international new ventures (Zahra, 2005) or born-globals (Chetty and Campbell-Hunt, 2004; Oviatt and McDougall, 1994), many small firms will still go through gradual, incremental, international expansion (Johanson and Vahlne, 1977). Though their internationalisation may be slow, it may nonetheless entail innovation and niche differentiation (Chetty and Campbell-Hunt, 2004). Our study is prompted by the observation that, although the majority of SMEs in many countries do not internationalise, a group of very small New Zealand firms seem to be motivated to compete in a highly competitive GVC which is dominated by the Netherlands. We are interested in any SMEs that are exporting (D'Angelo et al., 2013) and how they are inserting themselves into the structure of a global industry, not whether they internationalise incrementally, beginning with exporting and gradually committing more resources to international operations (Johanson and Vahlne, 1977) nor whether they seek to internationalise rapidly from inception (Knight and Cavusgil, 2004; Oviatt and McDougall, 1994; Zahra, 2005). We agree

with Tolstoy (2014) and Zahra (2005) on the need to understand how firms compete “after they have established themselves in foreign markets” (Tolstoy, 2014, p. 19).

New Zealand has a reputation for highly efficient innovative agricultural firms in the dairy and timber sectors, but many of its horticultural sectors have high cost structures, especially around the cost, time, and availability of freight (Deakins et al., 2013). Moreover, internationalising New Zealand SMEs face significant barriers, such as limited experience of expanding internationally, limited knowledge about specific markets, problems of access to finance for international expansion, access to distribution networks, and remote distance from markets (MBIE, 2014, p. 47). More evidence is needed to explain how micro firms build a sustainable competitive position in global industries and what complex marketing decisions (Marshall et al., 2013) they make to compete in them. In addition, we address Casey and Hamilton’s (2014) call for more studies on the international performance of small firms from small (and remote) countries such as New Zealand.

Recent research has focused on new and interesting research agendas for emerging economies (Kiss et al., 2012; Xu and Meyer, 2013), which can also motivate research in the contexts of new strategies for firms in developed or transitional economies. Our research questions ask: (1) How do SMEs from non-traditional locations build positions in GVCs? (2) What export marketing strategies do the firms use to do this? (3) What factors explain the long-term sustainability (or not) of these strategies? Our intended contribution is to suggest ways to address the lack of a focus in the GVC on the role of individual entrepreneurs or managers and their decision-making, which is both influenced by and enacted within the GVC.

The paper proceeds as follows. We first set out particular concepts from the literature on export marketing relating to SMEs. We then set out the key dimensions from the GVC literature, which we aim to use in an interdisciplinary way to characterise the global industry context, which we then describe. We then set out our research method and provide an exploratory analysis of the position of four New Zealand case study firms in the cut flower GVC. This is followed by a discussion which motivates managerial implications and future research directions in the final section.

2. SME Export Marketing Strategies

Exporting is the major pathway (D’Angelo et al., 2013) to growth for SMEs, particularly when they are constrained by the domestic market, either because the market is still developing (Boso et al., 2013a) or because it is small (Casey and Hamilton, 2014). Successful exporting firms, as measured by growth, financial performance, or survival (Abouzeedan and Busler, 2004), are highly dependent on successful product innovation. This is achieved in terms of export revenue generation, revenue growth, and profitability (Boso et al., 2013a), which can provide early market share advantages, improved cash flows, enhanced visibility and legitimacy, and, importantly, can increase the likelihood of survival (Boso et al., 2013a).

The external context for such growth remains to be clarified, particularly “the extent to which environmental factors affect the long-term performance of innovative products” (Boso et al., 2013a, p. 59), which need to be considered alongside organizational factors (Zahra, 2005) driving “success rates of product innovations in internationally-oriented small business” (Boso et al., 2013a, p. 58) that give them competitive advantages. The long-term success of export product innovation is achieved by offering “differentiated new products”, which enable exporters to gain positional advantage relative to other firms (Boso et al., 2013a, p. 60). The ability to pursue a differentiation strategy (Tolstoy, 2014) was found to be one of the best predictors of export performance (Baldauf et al., 2000; D’Angelo et al. 2013) and “Export market-driven firms are often regarded as being better placed to develop understanding of market players, exploit this knowledge and adapt to existing market demands” (Boso et al., 2013a, p. 58).

The importance of product innovation in explaining “universal export performance” is emphasized by D’Angelo et al. (2013), who find that “innovating SMEs are able to sustain competitiveness in international markets” (p. 94). Change too is a vital variable to explore since export market dynamism, defined as the rate of change in export customer needs and competitor actions (Boso et al., 2013a, p. 58), is seen as a major influence on export performance, as measured by export profitability or export sales turnover (Boso et al., 2013a) or export effectiveness, intensity, or sales (Baldauf et al., 2000). We respond to calls by these researchers for more studies of additional environmental and organizational factors influencing export product innovation success.

As the output of innovation processes, export product innovation results from innovativeness, which is entrepreneurial behaviour within the firm (Boso et al., 2013a; Knight and Cavusgil, 2004). Boso et al. (2013b) have found that innovativeness, a broader conceptualization than product innovation, benefits firms most which operate in “competitive and dynamic export markets,” whilst benefiting firms to a lesser extent in “less competitive and static markets” (p. 62). They point to the importance of networking capabilities to enrich the innovativeness-export performance relationship, especially in channels. Crucially, they identify that global market opportunities and pressures are driving firms to innovate to survive and compete, but that exporters which lack innovativeness are held back and this deficiency may be a critical barrier to export success. A set of major considerations in assessing firms’ innovativeness involves their decisions and strategies around their international operations and how they deal with structural challenges. This can include strategic flexibility to differentiate within business relationships whereby firms alter their offerings and operations “to enhance value in particular foreign business relationships” (Tolstoy, 2014, p. 18). In summary, among the critical dimensions of export marketing for SMEs are product innovation, new product development (NPD) and customer responsiveness (Boso et al., 2013a; 2013b), relationship-building capabilities (Boso et al., 2013b), and strategic flexibility in networks, relationships, and products (Tolstoy, 2014). As a well-accepted framework for analysing the input-output structure of production and supply, we use

the GVC concept as a structural context to understand the export marketing strategies of SMEs.

3. Global Value Chains: SMEs, Governance, and Upgrading Opportunities

Global value chains (GVCs) connect international trade and production networks with distinct patterns of coordination. In his original conception of global commodity chains (GCCs), the predecessor to GVCs, Gereffi (1994, 1995) identified a four-fold framework: an input-output structure (wherein value is added through the transformation of inputs into outputs), institutions (formal and informal arrangements which shape the globalising processes in which GVCs exist), geography (the ways in which firms use different geographical locations to gain access to resources), and governance structures (authority and power relations within the value chain). Two forms of inter-firm networks govern access to markets: producer-driven and buyer-driven value chains (Gereffi, 1994). Producer-driven chains are characterised by sectors with high technological and capital requirements, in which access to markets is shaped by firms in control of technology. In contrast, buyer-driven chains are characterised by non-equity ties with brand name distributors controlling market access through product design, brand names, and marketing. Production is outsourced by retailers and brand-name companies.

By the late 1990s, scholars began to reappraise the GCC framework. The term “commodity” was seen to be too narrowly focused and referring to primary products or low-value-added goods (Bair, 2005). In some industry sectors, there was not a clear distinction between buyer-driven and producer-driven chains, and in actuality chains can be driven by several categories of lead firms through a variety of governance mechanisms (Gibbon et al., 2008). Thus, the polarity and linear nature of the dual typology was not seen to fully capture the dynamics of value chain governance (see Bair, 2008; Gereffi et al., 2005; Henderson et al., 2002; Humphrey and Schmitz, 2000; Riisgaard and Hammer, 2011). Instead, the GVC terminology was seen to be more “inclusive of the full range of possible chain activities and end products” (Gereffi et al., 2001, p. 3) and in particular “more nuanced in its ‘chain’ representations through the analysis of different value chain ‘strands’ and a variety of governance forms and ‘driving’ mechanisms” (Ponte, 2014, p. 359).

Subsequently, five different types of inter-firm co-ordination patterns operating along a continuum were identified: market (governed by arm’s-length market transactions), modular (knowledge is codified and transferred to suppliers with limited monitoring required), relational (mutual reliance between buyers and suppliers), captive (suppliers are dependent on buyers), and hierarchical (vertical integration). The distinction between the different types of inter-firm coordination patterns are based on the complexity of information required for transactions, the ability to codify this information, and the capabilities of suppliers. A change in one or more of these variables can alter the degree of coordination by lead firms (Gereffi et al., 2005; Sturgeon, 2009). Sturgeon (2009, p.126) stated that the relationships between the lead firm and first-tier suppliers “go a long way towards setting the

governance character of the entire chain” and that there can be a “mixing of GVC governance forms within industries ... and even single establishments” (2009, p. 124). Notwithstanding the identification of different forms of inter-firm coordination, the original buyer- and producer-driven governance mode has shown “dynamism over time” (Patel-Campillo, 2010, p. 81) as lead-firms can, and do, play a greater role in organising the chain for more commodity-like products.

Key for supplier firms are the upgrading opportunities attainable through participation in value chains. Upgrading is the shifting between stages of a value chain and occurs when “actors (principally firms) seek to reposition themselves along the chain in order to increase the benefits (e.g., security, profits, technology, or knowledge transfer) that they receive from participating in it” (Bair, 2008, p. 5). Lead firms determine the extent to which knowledge is transferred along the value chain (Dolan and Humphrey, 2000; Henderson et al., 2002; Humphrey and Schmitz, 2004); the transfer of knowledge can vary depending on the governance arrangement (Khattak et al., 2015).

Of relevance to this paper is economic upgrading, which can occur in four ways. First, local firms learn from global buyers about how to improve their production process through the more efficient transfer of inputs into outputs. This is referred to as process upgrading. Second, firms engage in product upgrading through the movement into the production of higher value-added products within the same sector. Third, functional upgrading occurs when firms acquire new functions in order to increase their skill base. The new functions can either substitute or complement their existing skill base. Finally, chain or inter-sectoral upgrading occurs when firms move from one value chain to another. This can involve new productive activities or different sectors of the value chain (Gereffi et al., 2005). The extent to which knowledge is transferred from lead to supplier firm varies depending on the governance arrangements: “The critical question is, however, how value chain relationships affect the process of learning, innovation and the acquisition of technological capabilities” (Humphrey, 2004, p. 7).

Participation in GVCs provides both opportunities and challenges for SMEs. Largely seen as supplier firms within GVCs, SMEs can strengthen and upgrade their position within the value chain through the experience and knowledge gained from participation. While opportunities can be provided for an SME to upgrade, the firm may need to further develop its capabilities in order to take advantage of upgrading and learning options (Chiarvesio et al., 2010; Kaplinsky and Readman, 2001). While the small size of SMEs suggests that they can be flexible and responsive to signals from lead firms, at the same time their actual size and lack of resources and internal capabilities may limit them from taking advantage of, and achieving, upgrading opportunities (Kaplinsky and Readman, 2001). To date, research on GVCs has not singled out the size of the firm as the “main driver of firm’s power in the GVC” (Chiarvesio et al., 2010, p. 8); therefore, SMEs can be both developers and drivers of their own GVC as well as specialised suppliers embedded in GVCs controlled by multinational corporations (Chiarvesio et al., 2010).

The GVC literature has largely examined upgrading from the perspective of developing countries which are dominant at the production end of the value chain (Dolan et al., 1999; Gibbon, 2003, 2008). Our paper, in contrast, examines how small firms from a non-traditional location (albeit a developed country with established marketing capabilities in agriculture and horticulture) is evolving (even upgrading) its position within the cut flower industry. We suggest that many new emerging economy firms face similar challenges, that is, how new players from non-traditional locations can insert themselves into GVCs. In terms of the industry context, Rissgaard (2009) identified the cut flower industry as a buyer-driven chain whereas Patel-Campillo (2011) found that the sector can be considered either a buyer- or producer-driven chain depending on the structure of the industry. In countries where there are strong grower-led co-operatives, such as the Netherlands, the industry has transitioned from a buyer-driven chain to become a producer-driven chain.

3.1 Industry Context

The nature of the industry matters for the analysis of firm-, chain-, and country-level IB activity, and any study of the international arrangements of firms must take into account the potential effects of industry differences (Andersson, 2004). Previous research has highlighted the importance of industry context for understanding firm internationalisation (Andersson, 2004; Boter and Holmquist 1996; Fernhaber et al., 2007; Laurell et al., 2013). Within the wider question of levels of research and analysis in IB (Meyer et al., 2011), the country level and the industry context can enable or constrain internationalisation (Xu and Meyer, 2012). Research is needed to connect the roles of entrepreneurs and key managers with internationalisation and relate these to internationalisation in specific industry contexts (Laurell et al., 2013). Importantly, research which reports on firm internationalisation often generalises findings across industries, but “not all industries display the same dynamics” (Laurell et al., 2013, p. 301). We now set out our research context, design, and method and explain the procedures for the study.

4. Research Context and Method

We first describe the research context of the global cut flower industry and the population of cut flower growers and exporters in New Zealand. We then explain our procedures for sampling, data collection, and analysis of New Zealand cut flower exporters, which are the unit of analysis within a global market context.

4.1 The Global Cut Flower Value Chain

The cut flower GVC is characterised by the dominance of the Netherlands-based market, with a group of second-tier players, followed by a group of emerging economy producers (see Tables 1 and 2). 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. The world export market is currently worth USD 8.3 billion (Comtrade, 2013; see also Table 1), of which the Netherlands accounts for 60% (Porter et al., 2013), a share which grew consistently during the period 1997–2007 by 2% per year (Porter et al., 2013). As a result of the global recession, increased competition from new entrants and growing value chain consolidation, growth has slowed more recently (see Table 1). The key importers are Germany, the UK, the US, the Netherlands, and France (Porter et al., 2013; see also Table 2). Despite some shuffling among the key suppliers and core markets, there is consistently high demand for fresh cut flowers. The Netherlands sources flowers globally for repackaging and re-export (Porter et al., 2013).

Table 1. Top Global Flower Exporters, 2012

Rank	Country	Value (USD)
1	Netherlands	\$4,602,076,958
2	Colombia	\$1,270,007,459
3	Ecuador	\$771,290,266
4	Belgium	\$251,314,385
5	Ethiopia	\$165,644,011
	Others	\$1,236,867,257
Total		\$8,297,200,336

Source: Comtrade—United Nations Commodity Trade Statistics Database, 2013 (as defined by code HS 02, 0603 Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes).

Table 2. New Zealand Cut Flower Top Export Markets, 2012

Partner	Value (USD)
Japan	\$14,075,541
USA	\$4,223,922
China, Hong Kong, SAR	\$1,445,098
Australia	\$1,274,355
Canada	\$856,069
Others	\$3,345,589
Total	\$25,220,574

Source: Comtrade—United Nations Commodity Trade Statistics Database, 2013

The two key costs for the Netherlands are labour and other inputs (60–80%) and energy for the extensive greenhouse (glasshouse) system used there (20–40%) (Porter et al., 2013, p. 4). The combination of these two high costs gives new entrant producers, such as Colombia, Ecuador, and Kenya, elements of cost advantage over the Netherlands (and other cooler climate locations). Thus the industry has been characterised by shifting competition—with Europe increasingly challenged by low-cost producers in South America and South Africa. Production began to shift to South America in the 1990s to take advantage of year-round production, lower labour costs, and decreased energy costs.

While the Netherlands dominates all aspects of the chain, including through the provision of investment and technical advice for emerging economy producers (Porter et al., 2013), other players take specialist roles. The Dutch flower cluster is a

mature cluster which has constantly innovated, and there seems little question of its continued dominance. However, there is increasing disaggregation of the value chain, with the rise of specialist positions at every stage. Whilst the cut flower sector may be a commodity-based low-technology sector, wider industry factors influence internationalisation as they do in high-technology sectors, especially where there is high international demand and global integration (Evers, 2010, 2011).

4.2 The New Zealand Cut Flower Industry

In 2012, New Zealand exports of flowers earned NZD 25 million (approximately USD 20 million). Japan and the US are the key export markets followed by China and Australia (see Table 2). Key varieties of flowers grown for the export market are Cymbidium orchids, Calla lilies, Hydrangeas, and Paeonies. These four flowers make up 80% of the export industry. Calla lilies are popular for their rich vibrant colours. Renowned for their long-lasting flowers (up to one month), Cymbidium orchids come in various colours, shapes, and size, and there are in the vicinity of 100 varieties of Cymbidium orchids grown in New Zealand for the export market. Cymbidiums are popular flowers in the Dutch flower auctions and have been the leading orchid sold in Europe for many years (Ministry of Foreign Affairs of the Netherlands). New Zealand is the largest exporter of Cymbidium orchids outside of Holland.

4.3 Sampling and Research Procedures

There are some 341 flower growers in New Zealand, which belong to a wide range of specialist grower organisations (Floribase.com, 2014). New Zealand has a small and specialized flower industry, whose strengths include the quality of flowers and bulb exports, and which competes on high quality, with a focus on “vibrantly coloured, well-formed new generations of existing varieties” and the ability to supply the Northern Hemisphere during its off season (NZTE, 2014). The New Zealand Flower Exporters Association (NZFEA) which represents “the interests of all New Zealand flower and tuber exporters,” was established in 1994 and in 2014 had 8 members who handled over 95% of New Zealand flower exports (nzflowers.com, 2014). Since we were interested in the strategies of cut flower exporters, we approached (in 2013) all 7 members of NZFEA to participate in our study.

We gathered primary and secondary data and used an interpretive approach (Patton, 2002) to develop case studies that captured each firm’s position in the cut flower GVC, using a multiple embedded case research design with a single unit of analysis, the firm (Yin, 2009). Secondary sources included company and industry organization websites, reports, and published cases studies. After receiving ethical approval from our university’s Human Participants Ethics Committee, we approached all members of the NZFEA, in a census of the export industry players. Each firm was contacted by a telephone call, which was then followed up by an email with information about the study. Three firms agreed to participate and we

constructed a fourth case study from published secondary sources, which adds an element of purposeful sampling (Patton, 2002) and also offers an outlier to capture theoretical differences between the cases (Eisenhardt and Graebner, 2007).

Our approach was exploratory as we aim to contribute to an emerging research agenda on phenomena which are unclear and not yet fully defined (Yin, 2009). We conducted qualitative interviews after some initial observations from a review of previous research, secondary data insights, and theoretical developments (Miles et al., 2014) in GCCs/GVCs and IB. We carried out in-depth semi-structured face-to-face interviews in October and November 2013 with the Managing Directors and one General Manager of three firms. Our interview guide contained questions pertaining to the firm, the cut flower industry, and participation in GCCs/GVCs with a particular focus on key concepts in SME export marketing, with a focus on products, product innovation and NPD, and markets, especially customer orientation and relationship building. Data from these three firms formed the basis for the analysis which follows. The data for Case Four, also a member of the Flower Exporters' Association, came from secondary sources. The interviews were digitally recorded and transcribed. We analysed the interviews as a team on a within- and then across-case basis (Miles et al., 2014; Yin, 2009) using the themes indicated by the interview questions. As the industry is so small we have taken care to protect the confidentiality of the firms. However, brief demographics of the four case firms are:

- Case 1 is approximately 15 years old, has five shareholders, including the General Manager who was interviewed, and two permanent employees. Its turnover is about NZD 2–2.5 million a year and its key markets are North America and Japan.
- Case 2 is a younger company, established in 2001 by the Managing Director, who was the interviewee. It has two shareholders and employs eight permanent full-time, three part-time, and two casual staff members.
- Case 3 has been in existence since 1992, beginning with exports to the US followed by Asia in 1999. The interview was conducted with the Managing Director.
- Case 4 was established in 1993 as a flower exporting company and has since diversified into a multi-functional firm within the floricultural sector.

We now discuss our interview findings from the three commodity-based exporting firms (Cases 1 to 3), in line with the four dimensions of the GVC analysis at the chain and firm levels. This is followed by an introduction to the fourth firm, which has upgraded to develop a specialised niche in the GVC. We then discuss our findings on critical export marketing concepts in the context of the GVCs.

5. Findings

We integrate the findings across Cases 1–3, from the export firms' perspectives on their own firms and the New Zealand and global industry. Case 4 is described separately as it differs markedly from the other three.

5.1 Markets and Customers

Strategically New Zealand firms focus their competitive advantage on seasonal market opportunities in the Northern Hemisphere and high-end luxury flowers. New Zealand traditionally enjoyed a niche export market season wherein flowers were harvested and exported between July and October or November. During this “niche” season, there were no major competitors in the export market. In recognition of market opportunities, growers extended harvesting and, by extension, exports from April to November to increase the season to close to six months. However, in recent years Dutch growers have also extended their harvesting season by three months, which has resulted in direct competition in key export markets such as Japan and the US. Today, New Zealand growers enjoy only a three-month window of opportunity.

Flower exports to the US are sold on a fixed price basis which provides a guaranteed price to the exporters. In contrast, flowers exported to Japan are sold on a consignment basis via the flower auction system. Excess flowers are also sold to Japan on a consignment basis. New Zealand exporters face intense competition from growers in developing countries including Kenya, South Africa, and Chile. In particular, New Zealand firms find it increasingly difficult to compete with South American producers growing Calla lilies, Paeonies, and Hydrangeas who pay their workers USD 1 per day—this “absolutely kills us” (Interview, Case 1). “We have to produce a product that is of better quality or carve a different niche in the market place” (Interview, Case 1). Competition in the US is particularly fierce for New Zealand exporters where Hydrangeas land in the market price for around a USD 1 a stem, whereas New Zealand’s best price is USD 2–2.50 a stem (Interview, Case 1). One interviewee commented: “If we didn’t have South America as our competitor, we would be exporting hundreds and hundreds of boxes of Hydrangeas a week up into the US” (Interview, Case 1). Likewise, for Paeonies New Zealand’s biggest competitor in the US and European markets is Chile. In order to maintain market share in Europe, New Zealand exporters are exporting top-grade Paeonies in contrast to lower grade exports from Chile.

New Zealand exporters were heavily affected by the global recession and in particular sales to the US and European markets, in line with general trends. While some wholesalers in the US remained loyal to the case firms, others, who were more price sensitive, switched suppliers to purchase flowers from developing country exporters. The European market decreased sharply as a result of the global crisis and, for one company, remains a diminished market—only a quarter of pre-recession size (Interview, Case 1). In order to remain competitive, the New Zealand exporters addressed cost issues as “margins aren’t there that were there” (Interview, Case 1). They did this by, for example, consolidating shipments, absorbing costs, and paying all costs CIF in NZD (to combat the high value of the NZD). To address the high exchange rate, lower prices and “squeezed margins,” Case 2 reported “doing more and more for customers” in relation to coding, mixing, and shipping, and generally putting in “a lot more work and effort” compared with 10–20 years back (Interview, Case 2).

5.2 Product Innovation and NPD

The cut flower industry in New Zealand comprises breeding and propagating firms, growers, transporters, exporters, wholesalers, and distributors. Exporting firms in particular play a key role in developing the industry as they are engaged in innovative initiatives. In order to compete against lower cost growers in developing countries, New Zealand growers have become more innovative (although in recent years new product initiatives have been limited because of the time involved to get such products to market). Around 20 years ago, one of the interviewed firms (Case 1) discussed with growers the need for an extended growing season for orchids, as well as different varieties and colours. They recognised a premium market opportunity for flowers which could be harvested earlier in the season as well as later.

Over time, industry consolidation in New Zealand and increased international competition has led to a reduction in the number of varieties of flowers grown. Demand in export markets continues to shape production patterns. In contrast to 20 years ago, when Japanese buyers (flower auction) demanded 70% of white Cymbidiums, the demand today is for a premium mixed box comprising four colours (25% of each colour). Other innovations include: the shape of the flower has changed (from a star shape to a cup shape) and colours have become clearer with pure colours being grown (no colour in the lip)—these flowers are particularly popular for weddings and funerals. Over this same period of time, only yellow or cream Calla lilies were grown; today through hybridisation a range of colours are available: pinks, hot chocolates, oranges. As one interviewee noted “The flower industry is a fashion industry” (Interview, Case 1) and is responsive to market signals. For example, the export market for Hydrangeas to the US emerged from internal demand and in particular the use of Hydrangeas in floral arrangements by Martha Stewart.

5.3 Institutional Requirements

Cut flower exports are subject to a Phytosanitary Compliance Programme in New Zealand to ensure the flowers are pest and disease free. The programme is designed to meet the requirements for the export of cut flowers to the US. Similarly there are export requirements for other markets to ensure the flowers are disease free. For example, New Zealand has EU recognition of its high phytosanitary standards for pre-clearance. Phytosanitary inspections can occur at each stage of the value chain, from production to exporting. Meeting the requirements can be costly for firms both in terms of financial costs and market access. For example, New Zealand firms cannot export Hydrangeas to Australia due to disease (Interview, Case 1). Thus institutions help shape (or constrain) firms’ initiatives as they seek to achieve greater integration within the GVC.

5.4 Governance and Upgrading Opportunities

The interviewees perceived that there were no obvious lead buyers governing the cut flower value chain (Interview, Cases 1–3). The firms deal directly with wholesaler buyers and distributors, some of which they have worked with for a number of years and have built up long-term relationships. The original governance structure was representative of a market-driven commodity chain, though over time, as markets have changed, there has been the need for firms to build relationships in order to develop opportunities and maintain sales, leading to some relational dimensions. Our interviewees reported strong social ties (“fun with buyers”), customer loyalty, and relationship-based market interactions. Nevertheless, innovations were largely driven by the firms themselves in order to increase market share. While the key relationship for all the firms was with wholesalers, only Case 1 reported an initial move downstream towards a more direct relationship with one larger end-user buyer. Interviewees commented on the use of internet-based interactions: Case 1 developed its markets through its website, while Case 2 reported how the internet had changed flower exporting through greater price transparency, which was both a positive and a negative.

In contrast to Cases 1–3, Case 4, Flowerzone, has internationalised production and has engaged in product and functional upgrading. In the 1990s, Flowerzone began to engage in plant breeding in order to develop new varieties of Calla lilies that would give it a competitive advantage in the export market. The firm imported new varieties and propagated the bulbs, which were then sold to growers. Faced with competition from lower labour cost countries engaging in bulk production and sales internationally, Flowerzone sought to decrease production costs by internationalising. After considering different locations in the Southern Hemisphere, Chile was seen as the ideal location for the production of Calla lily bulbs. Importantly, Chile had a favourable business environment and climatic conditions. In 2003, Flowerzone entered into a joint venture in Chile and established Novazel. By 2006, Novazel was 100% owned by Flowerzone, and the company began to diversify into exporting Chilean plants (Flowerzone, 2009). Novazel aims to expand “Chile’s reputation as a key exporter of exclusive quality season and protected varieties of flowers” (Novazel, 2014). Importantly it seeks to take “advantage of the geographical characteristics of the growers found at different latitudes in order to provide a longer production period” (Novazel, 2014). Within five years, the company had grown from being a bulb breeding operation to the largest flower/foilage exporter in Chile. Novazel has been engaged in projects to identify the commercial potential of native plants and in developing propagation protocols, has established nurseries for commercial supply, and has identified market opportunities for native flowers (Flowerzone, 2009).

6. Discussion, Implications, and Future Research Directions

The cut flower industry in New Zealand developed in parallel with the global industry led by the Netherlands. In contrast to the Netherlands and Colombia, two countries which dominate the cut flower GVC (Riisgaard, 2009; Patel-Campino, 2011), the New Zealand industry is characterised by market-based relationships. The export marketing strategies pursued by New Zealand cut flower exporters have been niche approaches focused on differentiation through high quality, product innovation and NPD, and increasing customer service, communication, and relationship-building. They are increasingly cost-focused, however, and seeking efficiencies as their time-based strategies based on seasonality are eroding. New Zealand's position began to erode in response to both increased competition from South American firms and further innovation in the Netherlands, and New Zealand growers and exporting firms were forced to identify ways to reposition themselves within the cut flower GVC. The first three firms are characteristic of a market-driven governance arrangement GVC. Importantly, the case study firms were part of the industry changes in New Zealand in response to the market. In contrast, Case 4 actively promoted and undertook upgrading initiatives. Patel-Campillo (2011) states that "the positioning of commodity chains in world markets does not exclusively depend on competitive niches and upgrading strategies *within* production networks, as the GVC approach suggests" but instead "hinges upon the strategies of actors and regulatory context within which firms operate" (p. 85).

To explain how SMEs from non-traditional locations build positions in GVCs we have identified multiple opportunities and structures, and there is no one size which fits all. The chain level may not be the appropriate level of analysis, however. We have identified the changing export marketing strategies that such SMEs use but have shown how the ability to change or shape the chains and enable them to upgrade can be eroded by competition from new entrants. Again, we identified multiple strategies, but Cases 1–3 did not seem able to adapt, whereas Case 4 went further and took a proactive approach to upgrade. As to the factors which explain the long-term sustainability (or not) of these strategies, the determinants of a small player's upgrading capabilities remain far from clear using a GVC analysis. One critique of the GVC literature is its neglect of corporate strategy or "what goes on inside the firm" (Hess, 2008, p. 456). Despite the firm being the central actor, the firm in reality is "treated as a *black box*" [emphasis in the original] (Coe et al., 2008, p. 277). Within GVC analysis, the firm is considered to be either the lead firm or the supplier firm but in reality firms can, and do, belong to several types of production networks and assume different roles in these networks. Furthermore, the GVC literature focuses on inter-firm relationships to the detriment of intra-firm relationships (Coe et al., 2008).

In terms of export marketing, while all four case firms faced the same chain conditions and positions, an international entrepreneurial focus of the Case 4 owner-manager would explain its growth and relatively higher success. While Cases 1–3 pursued incremental growth, and thus fell behind, Case 4 was more radical and risk-taking. Whilst the SMEs had engaged with product innovation and NPD, Case 4

showed more innovativeness in the face of the dynamic competitive conditions of the cut flower industry and was more able to meet changing customer needs and preferences, and its strategies focused on structuring its organisation to enable more of this. The cases all show some evidence of networking but we found support for Boso et al.'s finding (2013b) that "the positive effect of firm innovativeness on export performance is amplified when channel networking capability is stronger" (p. 81).

Small firms which internationalise gradually in a traditional staged approach can pursue innovation, an entrepreneurial orientation, and commitment (Deakins et al., 2013) to sustain a position in export markets. It is not only a feature of new dynamic technology firms; it can also characterise SMEs in traditional industries. Our exploratory study found that the level of analysis should encompass the chain, the firm, and individual decision-makers since: "Society and business is characterized by information heterogeneity due to the specialization of people and firms in different types of activities, industries, and locales" (Chandra et al., 2009, p. 39). Our interdisciplinary objectives were to investigate a multi-level set of international export marketing issues. The case firms in this study and indeed in many parts of the cut flower GVC are small, perhaps entrepreneurial firms. Given that the research context is one encompassing relational interactions and competition from new emerging economy players, we concur with Kiss et al. (2012) who call for more multi-level research in a global context "to achieve a fuller understanding of the interconnections among individual, network and institutional level variables and entrepreneurial processes and outcomes across countries" (p. 279). The multiple levels of the chain and firm context are important since the individual firm's scope for action will depend on the levels of power, influence, importance, and control the firm has (Gadde et al., 2003; Sarasvarthy, 2008), and this is especially so for a small player in a remote geographical location in the context of a GVC.

The managerial implications of this study highlight that managers in small firms from small countries need to be aware of the opportunities and challenges of exporting within the context of market-based value chains dominated by a large player. Product innovation and building relationships are important capabilities on which they can focus their efforts. However, managers and/or individual decision-makers must assess the trade-offs inherent in export marketing strategies between their strategic flexibility to differentiate and how much innovation is actually required in their markets.

Limitations of the study relate to the fact that our findings are not generalizable, and the small country focus meant that we had to be cautious in protecting the confidentiality of our participants. We suggest further research to incorporate managerial resources and decision-making into the GVC analysis to fully understand and explain firm strategies. While there are strong arguments that firms develop similar strategies (Whittington, 1988), we identified a case which differentiated itself from its peers to insert itself more fully in the industry GVC (Case 4) to upgrade. In contrast, the other three firms remained as commodity traders though struggling to maintain their position at the premium and high-end niche of the chain.

The GVC analysis does not currently help us to fully explain why one of the case firms displayed opportunity-seeking behaviour in building a new international position in Chile and why the others did not. Future research should bring the individual decision-maker, and the activities and processes which both influence them and are enacted by them (Sarasvarthy, 2008), into the GVC analysis, adding depth to the framework. Also, on size, the scale of the country context needs further attention in GVC research; it is not merely a matter of the level of economic development but also of the scope of the resources available to the firms in small countries (Casey and Hamilton, 2014). Such research outcomes would contribute to extending GVC analysis by identifying the capabilities (and at what level) that enable such developments. These issues have important implications for public policy to encourage the growth of SMEs to add to employment and prosperity.

Notes

1. In 2011 97.2% of New Zealand firms had fewer than 20 employees and only 1% had more than 50 employees (Statistics New Zealand, 2012, http://www.stats.govt.nz/browse_for_stats/businesses/business_characteristics/BusinessDemographyStatistics_HOTPFeb12.aspx).

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