ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE COMPARATIVE ANALYSIS OF INSTITUTIONAL COMPETENCE OF FLORICULTURE EXPORT COMPANIES: IN THE CASE OF FOREIGN OWNED AND LOCALLY OWNED FIRMS IN ETHIOPIA.

BY

MULUALEM MESSERET

A Project Submitted to the Department of Business Administration Information System for the Partial Fulfillment of the Requirement for the Award of Degree of Master of Arts in Business Leadership.

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Statement of Declaration

Mulualem Messeret, declare that this project entitled: "**Comparative Analysis of Institutional Competence of Floriculture Export Companies: In the Case of Foreign Owned and Locally Owned Firms in Ethiopia"** is my original work under the guidance and supervision of **Teklegiorgis** A. (Ast/Prof.) and has not been presented for a degree in any other university. I also declare that all sources of materials used for the thesis have been duly acknowledged.

Name: Mulualem Messeret

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Date: _____

Statement of Certification

This is to certify that Mulualem Messeret has carried out this research project work on the topic entitled "**Comparative Analysis of Institutional Competence of Floriculture Export Companies: In the Case of Foreign Owned and Locally Owned Firms in Ethiopia"** under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the requirements of the award of Masters of Art in business Leadership.

Name: Teklegiorgis A. (Ast/Prof.)

Signature: _____

Date: _____

ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE

Comparative Analysis of Institutional Competence of Floriculture Export Companies:
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By

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God bless you all!

Mulualem Meseret

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List of Abbreviations and Acronyms

DCV – Dynamic Capability View

EHDA – Ethiopian Horticulture Development Agency

ETI–Ethical Trade Initiatives

FDI – Foreign Direct Investment

FFP – Fair Flowers Fair Plants

FLO – Fair Trade Labeling Organization

FLP – Flower Label Program

Global GAP – Global Good Agriculture Practice

MPS – Milie project sierteelt

MPSSQ – Milie project sierteelt Social Qualified

MOTI –Ministry of Trade and Industry

RBV – Resource Based View

GVC –Global Value Chain

Abstract

Two decades have elapsed since flower began to be produced in Ethiopia for commercial purpose. The report of some studies shows that locally owned floriculture firms exit from the sector. However, foreign owned firms assumed dominance in this industry. Therefore, the objective of this project is to examine institutional competitiveness between local owned firms and foreign owned firms by assessing their investment capability, production capability, linkage capabilities and marketing capability.

In order to achieve this quantitative and qualitative data was collected, in which ten managers or owners of flowers firms answered the questions on questionnaires as well as key informants from EHPEA were interviewed as per the questions on semi-structured questionnaires. Moreover, export volume and value of each flower firm was collected from Ethiopia custom office.

Questionnaires were prepared for flower firms to collect quantitative and qualitative data focused on firm's investment capability, production capability, and linkage capability and marketing capability.

The result of the project showed that foreign owned firms are more competitive than locally owned firm in terms of investment capability.

Similarly, the result of this project showed that locally owned firms are less competitive than foreign firms regarding production capabilities.

The result also indicated that foreign firms that more competitive than locally owned firms in terms of linkage capabilities.

Moreover, the result reveals that foreign owned firms are more competitive than locally owned firms regarding marketing capabilities.

This implies that foreign owned firms are more competitive than locally owned firms on major four capability indicators.

The finding of this project is used to make recommendation for locally owned firms to improve their competitive related to investment, production and product, linkage and marketing

capabilities such as establishing managerial strategies related to set up their own marketing department to acquire and utilize their own marketing information build their financing capabilities such as establishing managerial strategies related to set up their own marketing department, to acquire and utilize their own marketing information build their financing capabilities to get access to foreign and other local financing institutions, build relationship with foreign firms to get knowledge spillover, hire consultants and industry experienced managers from abroad.

Key words floriculture firms in Ethiopia (locally owned and foreign owned firms) Competitiveness in floriculture industry (investment Capabilities, product and production capabilities, linkage capabilities and marketing capabilities).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The culture of using flowers good gestures and gifts to express emotions, beautify environs, conduct rituals and commemorate observances has existed for many countries. However, the emergence of floriculture as industry has been driven largely by consumption habits of the ruling nobilities and upper class people in urban centers of western European the 19th century. In the first half 19th century, Floriculture was started in England where flowers were grown on large scale basis on vast estates (Goody, 1993). The Netherlands then emerged as main procedures in Europe by early 1990's due to its flat and fertile land, and proximately to the growing market in continental Europe (Horth-wise flower watch, 2012).

Over the last few decades, notable changes occurred in the cut flower industry in relation to demand, production and distribution (van uffelen & de Groot, 2005) van lent in the 1980's and 1990s made the consumption of flowers grow steadily, flowers have regularly demanded by middle and upper-income homes.

With respect to production patterns, the industry chain was traditionally structured close to major markets, European and US flower markets, with Netherlands being not only the main trade hub but also the major producers in the world.

However, in a slowly but steadily growing manner, developing countries such as Colombia, Kenya, Ecuador and Ethiopia are growing market share in place of traditional producers (Rikken, 2010).

Nowadays, the flower industry is truly global. International production and trade is largely organized along regional lines. It is determined by South-north flowers with Europe and North America housing the world's largest consumer markets while the major producing countries are situated in low latitude countries. In line with this, African and European countries are the principal suppliers to the main European markets; the North-American cut flower markets is mainly supplied by Columbia and Ecuador, and Asian markets source primarily from Asia-pacific countries (Hortiwise, Flower watch, 2012).

Although only 14 years old, Mechanized horticulture production has shown a remarkable growth. Currently there 126 investments in Ethiopia in export of flower, fruits, vegetables, and herbs Farm ownership is made up of local investors (76). Joint venture partnership (3) and development bank (1).

Currently, the flower, fruit, vegetables and Herb farms occupy 10,597.21 hectares. The sector provides employment opportunity for 199,640 person and in2017/18 generated earnings of about 307.04 million USD. This makes the sector the fourth largest foreign revenue generator for the country.

Suitable climate, availability of arable land and the incentive package provided by the Government have all contributed to phenomenal and successful growth of the floriculture sector in the last 14 years.

The country is noted for high quality flowers. In additions to the rose farms, 6 farms are engaged in production of cutting and 17 farms produce variety of other flower varieties, including carnations, Hypercom, Veronica, Alstromeria, Gypsophila and a range of other types

The Ethiopian floriculture industry was started in 1990s by one local business man by exporting summer flower in1992 according the interview with owner of meskel flower and rapidly emerged as one of the largest industry in the world. Currently, Ethiopia is the second largest floriculture exporting country to European market next to Kenya. The success was driven by local investors coupled with foreign direct investment and actively supported by targeted industrial policy from the government as well as development cooperation particularly from Dutch government. The Ethiopian government has also devised a policy of export diversification and in line with this provides different incentive for sector. In 2001 there are five floriculture exporting companies three local and two foreign owned companies(Ayelech, 2019).This figure rises to 72 active companies in 2019 out of this 72 firms 14 had local ownership and 58 are foreign owned. (EHPEA,2019)

The floriculture industry is a continuous important source of foreign exchange per annum between 2006/07 and 2018/19 and employed about 55,000 people. Currently, Ethiopian flowers are exported to Netherland, Saudi Arabian, Norway, Belgium, United Arab Emirates, Japan, Germany, USA, France and Italy (EHPEA, 2019).

Both local and foreign firms have been operating in Ethiopian floriculture industry. However, overtime foreign assumed greater dominance. The flow of more foreign investment in floriculture industry created a critical mass in Ethiopian industry.

Global modern large floriculture industry is technology and knowledge intensive sector. To enter this international market and remain competitive in international business, companies should acquire and posses industry specific institutional competitiveness.

According to scholar of this sector, this competitiveness is cluster of skills, knowledge, attitude and experience that are required for superior performance in a given roles. Competitions in floriculture global value chain depend on technological capabilities, product and production process capabilities, Linkage capabilities Market information and standard compliance. Technological capabilities helps firm to innovate and conduct research on products and breed new varieties that is key to be competitive in floriculture. Moreover, equipping the firm with state-of art production facility is paramount signification to remain competitive in international market. Having sustainable relation with input supplier and knowledge of international procurement procedure enables firms to be competitive.

Acquisition of market information the way the information processed and stored enables firms to get first hand information about price, client preference of the right varieties and quality, and adjust the product accordingly.

There are different conformity certificate for floriculture depending on the country of origin and destination. In Ethiopia, for instance, EHPEP sets standard such as Silver level, Bronze level and Gold level. There are also international standard such as MPS-ABC,MPS-ABC SQ, Global GAP ,Fair-trade… etc .To be competitive the product of one's firm should acquire certificate standard and meets the standards of end market country.

The other challenging factor that holds back the sector is its market destination. Though there had been ambitious plan into diversity market destinations, the effort to realize is not satisfactory, according some observers. Since 70% of the export destined for the Netherlands, it was not able diversify it in the wider market across the global market. Some observers are of the view that the flower sector is 'fenced by Dutch' Preventing local producers from exploring alternative and competitive markets.

According to the chairman of the association, the issue of management and banking services is also other factors that cause local investors to go out of the business. Reports indicate that producers, mostly local ones, have been leaving the sector in recent years. According to the information obtained from the association, around 13 local producers have already abandoned the sector. Mean while, over 12 companies were sold on auction or are in the pipeline to face the same doom to be auctioned due to bank debt (Market insider, March 2014).

The flower farm typically appears in clusters and located at 170 km radius from Addis Ababa. The clusters are commonly named after the closet town such as Zeway, Debrezeit, Holeta and Koka. Most of floriculture firms are located around the above town.

1.2. Statement of the problem

Investment, product and production, linkage and marketing capability should lead to the greater competitiveness in floriculture global value chain (Staritz and Whitfield,2017). However, considering this capabilities there exist a gap between locally owned floriculture firms and foreign owned floriculture firms as over time foreign owned firm's assumed greater dominance in the industry. Although the floriculture industry in Ethiopia has a success story despite its infant stage, more than thirty floriculture investments have failed and seek rehabilitation process according to report Market insider magazine published on March 2014 by citing chairman of the industry association. A good number of them are firms owned by Ethiopian investors. However, sufficient research has not been done on analyzing the comparative institutional competence between local owned firm and foreigner owned firm. So this research will find out the effect of these capabilities on competitiveness between locally and foreign owned firms to give recommendation for flower firms to improve their capabilities

1.3 Research Questions

To this end, the researchers intended to answer following research questions.

- What are differences in capabilities of utilizing of market information and their relation with their buyers between local and foreign firms?
- What are variations on use of modern technologies in production facility, product varieties and investment capabilities between local and foreign firms?

- How is the gab in prior experience in this specific industry of both local and foreign firms, their relation with other firms and institution?
- What is the most common market for both local and foreign export firms?
- What are the differences between the local and foreign firms in sourcing of inputs particularly their flower varieties and source of finance?

1.4Objective of the study

1.4.1 General Objective

The overall objective of this project is to investigate and analyze the comparative institutional competitiveness between local owned and foreign owned floriculture firms in Ethiopia.

1.4.2 Specific Objective

- To explore and compare the trend of market information of local and foreign floriculture firm in Ethiopia.

- To examine and compare the investment capability of local and foreign owned floriculture firms.

- To assess and compare the level of linkage capabilities of both local and foreign owned firm.

- To identify and compare the major common end market regions of both local and foreign owned firms.

- To compare the major technological advancement of investment production facility of both foreign and local firms.

-To show the market channels of both foreign and local firms to sale their products

1.5Significance of the Study

There are little studies that focus on comparative institutional competitiveness between local and foreign owned floriculture firm in Ethiopia. Therefore, this study sheds light on comparative intuitional competitiveness between local and foreign owned firms of the Ethiopian floriculture industry. More importantly the outcome of this paper is expected to provide insightful information and valuable implication to policy makers and other industry players in devising

appropriate policy. In addition, it will be helpful to both Ethiopian and foreign firms which have an interest to enter floriculture industry in Ethiopia by providing concrete information of the sector's comparative institutional competitiveness. Furthermore, the paper could invite different researchers to conduct further study on similar topic. It can also serve as an empirical data for further studies.

1.6. Scope of the Study

There are 72 active floriculture companies in Ethiopia. Out of this 58 are foreign owned firms while over 14 firms are Ethiopia owned firms. It would have been more comprehensive and plausible if this study had included all foreign and local owned floriculture firms in Ethiopia; nevertheless, due to shortage of time to conduct this research, and global pandemic COVID19 lockdown and financial constraint. It was impossible to include all floriculture firms in Ethiopia. For this study competitiveness in floriculture sector can be indicated using different categories of capability. However this study is delimited to only investment, production and product, linkage and market capabilities rather than dealing with all other competitiveness issues due to time, skill, reference and financial constraints.

This study also tried to identify institutional competiveness between local owned and foreign owned Ethiopia floriculture firms without taking in to consideration the location of the firms' farm.

At the same time, the scope of the study was delimited with top managers, and sources from industry association. Finally all the findings in this study are based on respondents' response

1.7 Limitation of the Study

The existence of limited reference materials and research works in relation to competitiveness in floriculture industry is limitation to this study. On the other hand, data collection might be difficult because of potential work load of the farm managers or owners.

In the course of Information search, in adequate time might restrict the desire to seek Information from several sources. Also almost all firms unwillingness to provide financial data in related their financial position, and profit and loss statements to compare economic of scale, amount of investment and other financial comparison was also a limitation to this study.

1.8 Definition of Terms

Locally owned firms are floriculture exporting firms in Ethiopia whose owners are Ethiopian Nationals and inclusive of Diaspora.

Foreign owned firms are floriculture exporting firms in Ethiopia whose owners are non Ethiopian Nationals exclusive of Diaspora.

Horticulture is the science and technique of production, processing and merchandising fruits, vegetables, flowers, species, plantation medicinal and aromatic crops.

Floriculture or flower farming is a discipline of horticulture concerned with the cultivation of flowering and ornamental plants for commercial purposes.

Green house is a structure with walls and roof made chiefly of transparent materials, such as glass, in which plants requiring regulated climate conditions are grown.

Irrigation is the artificial application of water to land for the purpose of agriculture.

Fertigation is the injection of fertilizers, used for soil amendments, water amendments other water soluble products into an irrigation system.

1.9Organization of the Paper

The paper will be organized into five main chapters with important concepts related to study chapter one consists of introduction part which includes: background of the study, the statement of the problem and research questions that will be assessed in the study, the general and specific objective, significance of the study, and finally the scope of the study which shows limitation and delimitation of the study. This chapter will be followed by chapter two which is the review of literature. Literature review will cover all four major competitiveness indicator in floriculture Global value chain. Chapter three will be concerned with research design and methodology, describing the research type, the population and sampling technique used source of data, data collection tools, and method of data analysis and presentation. The fourth chapter will provide presentation of collected data analysis and presentation. Finally, the fifth chapter, which will be closing chapter, will contain the summary, conclusions and recommendations that will be drawn after the major findings.

CHAPTER TWO

REVIEW OF LITERATURE

2.1. Theoretical Literature

2.1.1.The Concept of Institutional Competence of the Firm

The notion of organizational institutional competence is in line with basic thinking on the resource based view (RBV) (Barneg,1991) of the firm and dynamic capability view (DCV) of the firm (Tesse etal, 1997). The RBV posits that the firms can only achieve sustainable competitive advantage if they posses valuable, rare, inimitable, and non substitutable (Barney 1991), As the work on this view has progressed, if has become clear that RBV extends not only to the physical and financial assets of the organization but also to its competencies (Hendroon and Cockham, 1994) organization competence represents an organization's intangible resource i.e. those knowledge intensive and performance enhancing business activities at which company has become particularly skilled at (Murry et al, 2011, Wuetal 2007 and Teceeetal, 1997)

According to Prahalad and Hamel (1990) "An important aspect of firm compliance is the notion that these are not fixed structures but dynamic capabilities that can be improved through learning efforts and experiences.

The DCV address such dynamic nature of organization competence (Barrales et al, 2014 Helfat and Peteraf, 2003 Eisen hard and Martin, 2000). According to this view, not only organization external environment, but also the competence that enables them to respond effectively to their changing environment is conceptualized as being dynamic and Tlexilde (Vogeland Giillel, 2013, Eisen hardt and martin 2000 Tecc.et al, 1997). The concept of competence therefore not only includes a stable asset but also continently changing skills or even process (Helfat and pelent 2003, Montealgre, 2002)

2.1.2 Company's Competence in International Business Arena

A model of competencies relevant for international business is found in the above discussed approaches and the concept of competence in general and organizational competency in particular when applied to international business, competence can be comprehend as organizations fundamental capabilities that account for international business, success (knight

and Kim, 2009, Autio etal, 2000 and Kabagambe ,2011) suggested that firm compelling on the following competencies have positive impact on the export performance.

A) Production Capabilities

The development of production capabilities is also related to the dependency on new methods and ideas, in the process production and manufacturing in terms of exports, the production capability enable the organization to develop, integrate, convert resources and create value in export market (Moorgan, 2004). This indicates that production capabilities help firm to achieve level of market demand develop the expected demanded their products to meet export orders and export fancily and to have available opportunities.

B) Marketing

Ritler (2006) conceptualization of marketing as critical ingredient in consumer value-creation process of firms. It is commonly made based on perception that marketing as critical combination in the value creation for customers in the firm. Notable instances of them are: marketing planning, market analysis focused marketing, the ability to obtain information managing the distribution and development of obtain, pricing, distribution and practicing personal marketing (Cavusgil, 1994 and Kuppusamy, 2008)

C) Technological Capabilities

Focusing on innovation, learning process and acquisition of technological capabilities as major source of export advantage in the firm level(Lall, 1981, 1997; Enst etal, 1998; Nelson. 2008). Technology has been described as “the systematic application of scientific and other organization knowledge to practical tasks (Gallbrait 1971, P.31). Technological capabilities are the information and staff-technical, managerial and institutional capacity that allow productive enterprise to utilize equipment and technology effectively.

D) Managerial Capabilities and Technical expertise

While Becker (1964) and subsequent analysis (Brudel et al, 1992: Brudel and Preisedoter, 200) makes an important distinction between general and specific aspects of human resources,

theories of human capital tell us relatively little about which aspects of human resources are relevant at different stage of process of International business.

Specific human capital also has an important role to play. Functional experience – commercial and managerial contributes directly to the improvement of expectation and to the reduction of risk perception in exporting (Bantel and Jackson, 1989; Tihanyi etal, 2000).

Finally managers with prior managerial experience are typically more confident in decision making and more likely overcome perceived barriers and take action to exploit identified opportunities (Usbasaran etal, 2008).

2.2 Empirical Evidence

Although there are a limited number of empirical evidences are found for this study, this few empirical studies have examined institutional competitiveness between local and foreign owned floriculture firms on export performance. Allthe studies focus on the floriculture sector. This empirical evidence can be grouped into four categories: the first comprises product and production capabilities; the second includes the technologies capabilities of firm; the third refers to market information and the fourth groups concerns with managerial experience and labor expertise level.

2.2.1 Product and Production Capabilities

Productivity is defined as the ratio of a volume measure of output to a volume measure of input use (OECD, 2001, P. 12). It measures how efficiency Input of production such as labour and capital, are used to produce a given level of output. Also, productivity is an essential measure of firms competitiveness and, provide information on how is the firm performing (OECD, 2001). Ayelech, (2017) used five indicators to measure the product and production process of firms in the floriculture industry as follows (1) number of varieties (2) number of export day per week (3) internal reject rate (4) average labor turnover and certification. Other researchers for instance (Tall man & Li 1996) attributed product capability to product diversification which is focusing on related to product markets. The research suggests that there are ample opportunities to achieve synergies. In contrary (Geniger et al 1989; Rumelt, 1974) suggests that firms with more narrow scope can perform higher if they are able to capture the potential synergies between their business. When such firms also diversified internationally they

have increased opportunities to achieve. Productivity and thus an integration of product and international diversification help firms' synergies.

In support of these arguments (Kim, Hwang and Burgers 1989) found that an integrated related product and International diversification strategy helped achieve profit stability.

There is also empirical evidence that associate production capabilities to ability to comply with standard certification. Study also demonstrated that the certification process required the firms to make various adjustment (for example, organization change and skill improvement, construction of additional facilities purchase of new equipments, improvement in waste management and ICT facilities) entailing significant investment and recurring costs (Mulu Gebreeyesus, 2014).

Some scholars' research put that compliance to standard is related to firm's size. Previous empirical studies provide evidence that firm size have positive impact on standard adoption (Herath et al, 2007, Hudson and Orviska 2013and Antle, 1995).the cost of compliance with standard is largely fixed. Hence, average cost per unit of production is higher for small firms large firms stand to benefit more from certification and are better able to spend cost of adoption (Holleran et al, 1999). The presence of scale of economies could thus act as incentive for large firms but as a disincentive for smaller firms (Tuner etal, 2000).

There are also other empirical evidences that the type of ownership determines the firm's compliance to standards. In other words foreign owned firms are more likely to comply with International standards (Hundson and Orviska, 2013, Herath etal, 2001). This might be due to the fact that foreign controlled firms are more likely to be aware of the international standards or having a greater exposure to a wider range of technologies (Gourlay and Pentcost, 2002); perhaps they face greater international pressure to seek certification (Pekovic, 2010).

Finally, there are empirical studies that show production capabilities are directly related to sale volume or export size. For instance, the quantity of flowers exported increased amongst all categories of firms. Ethiopian growers had an average annual growth rate of 51.4% which is below the average growth rate of the sector and also much below the export performance by Dutch FDI which is (584%). That is the highest rate as compared to all other groups of producers. This clearly shows that domestic producers have to improve their productivity.

According to calculation based data obtained from MOTI. Ethiopian owned farms account for 37% of the land under cultivation and 25% of the total export volume. FDI uses 49% of the land under flower cultivation but provide 57% of the export volume.Showing that on average, Ethiopian firms have much lower productivity than FDI ones (Ayelech and Helmising 2010).

2.2.2Market Capabilities

Well established international markets exist for export products access to a big challenge for developing country firms (Gebreyesus and Lizulca, 2010). Timely and accurate access to market Information is profoundly important to reduce risk and remain competitive in flower production and marketing (Kovalli and Whitaker, 2006).

Flower Growers need important market information sufficiently that is the amount of flowers of certain type or color that will be needed at certain time, potential new markets and uses, expected and historical prices as well as amount and origin of export to develop their marketing strategy (Pizano, 2005).

Market Information can be gathered from a wide variety of sources, including company records, professional journals, book, census and registration data, industry reports, monographs, publicly circulated reports of Individual projects and marketing research (Walker etal, 1994).

There is virtually no domestic market for roses and other flowers in Ethiopia. The cut flowers, mainly roses, are sold on the world market, where market prices of high end flower varieties particularly fluctuate following the lead taken by international prominent flower designers. (foosten, 2007). The major international market of Ethiopian cut flower include Europe, the middle East and Japan, where only high quality flowers are traded and consumers are willing to pay substantial premium (Wilnands, 2005).

The cut flowers penetrate these markets initially the world's largest auction market held in Holland. But they are gradually shifting towards direct contracts with international buyers allowing generally more stable and high prices (Hughes, 2000).

According to Wifand et al (2006) direct marketing requires more marketing personnel (resources) than the auction. This is because unlike the direct sales the auction accepts each

volume of flowers and price is determined by clock thus fewer marketing personnel's are required, on contrary, direct sales involves promotion and frequent interaction with each client. .

In the auction market Information is easily accessible, prices and quality requirements are transparent gathering update marketing information is more vital for competency and success in international business. Hence, firms in the direct sale markets have to develop their own Information and use Informal technology of their own. Furthermore, the supermarket coordination on logistic such as track ordering and sales, Identifying customer base and organizing storage and delivery has an implication for firms to develop IT systems at supply base. For instance, In Kenya and Zimbabwe, exporters who have adapted electronic Integration have experienced significant cost saving over those who still rely on faxes or telephone communication(Dolan and Humphrey, 2000).

The Ethiopian floriculture industry consists of domestic and foreign investors who have different knowledge and experience in different level of global value chain of floriculture. Moreover, Dutch firms are the dominant actors in global value chain of Ethiopian floriculture. Prior to arriving in Ethiopia they had already built trademark and reputation in the international markets. Contrary to this domestic growers have only limited knowledge and might acquire potentially market access from the spillover of Dutch growers (Ayelech and Helmsing 2010).

The other important factor on marketing is marketing channel. Besides internal incentives, external factors such as the market of customers and the degree to which they have leverage to enforce the requirement and regulation might impact to adopt standards (Hellerou etal 1999). The flower in Ethiopia and SSA at large are produced mainly for export, the EU being the major destination. They are supplied to this market through two channels. The auction (mainly Dutch) and direct sales the later being closely controlled by supermarket and retailers (Riisqaard, 2009) argues that the level of demand for social and environmental standards differ significantly between direct sale "standard" and the Dutch Auction "standard" supermarket and large retail buyers have strong sense of imposing standards. However strict standard requirement is not barrier to access the Dutch auction market. However, the Auction Center adopts the standard to access new market. It is imperative; therefore, there is a vested interest to force firms to comply with the standards. Hence, firms mainly supplying to the direct sales channel are more

likely to adapt international private standards (than those supplying through Auctions, but all local owned firms sale their products only through Auction (Ayelech, 2017).

2.2.3 Technological Capabilities

Oruwar, Jevand Owel (2002) defines technological capability as the capability needed to acquire assimilate, use, adapt, change or create technology. The firm's investment in Research and developments reflects a commitment in innovation. Innovation can confer competitive advantage derived from cost and differentiation to the firm (Rose 2004). Investment in R & D can drive the firm to produce more unique products to fit customers taste and to produce higher quality products and hence that higher quality product can lead to success in the export markets (William 2009).

According to Netherlands flower study center Technological capability required in floriculture includes breeding their own verities that are peak in certain season and fit customer's need. Further, some literatures on Innovation argue that there is a relationship between firms' age and Innovation. Innovative spirit could be associated with age of the firm in sense that firms have higher innovative capacity in the firm stage of life cycle (Burns and Stalker, 1961and Tomposon, 1967).

In contrast firms age could represent accumulated resource on market knowledge and developed network thus older firms are more likely to involve in innovative activities (Hadjmanolis, 2000), In this regard, All local owned floriculture companies in Ethiopia are not longer than 20 years in this sector (Ayelech, 2019).

Another literature explains diverse Input are often required to develop innovation, international diversification provide the opportunity for new and diverse technological ideas of market and culture perspective. This suggests that internationally diversified firms have greater chance to learn increasing knowledge than do purely domestic firms. Moreover, new knowledge can lead to innovation (Miller, 1996).

Proponent of the resource based view of the firm (Conner, 1991) further argues that the ability to encourage innovation may be important to achieving strategic competitiveness. Hence one can conclude that firms invested more resources on R and D would likely perform better over long term. This indicates that strong investment on Research and development is

particularly important in internationally diversified firms if they are to gain competitive advantage in highly competitive global market (Michael etal, 1997).

The Important, aspect of technology in floriculture sector is breeding its own varieties. In this regard Dutch firms dominate breeding of roses in the world. Five out of six companies which together are responsible for 70-80% of world breeding output are Dutch owned. This firms work closely with Dutch growers and thereby Dutch FDI in Ethiopia areprivileged over Ethiopian growers to get different varieties. For instance, they release Specific varieties for a specific period of time for selected clients so that the price of those varieties can remain higher. Some Ethiopian growers during interview about their difficulties in getting access to those top varieties(Ayelech and Helmising, 2010).

In study conducted in Kenya comparing Technological capabilities between Kenyan owned and foreign owned floriculture, Kenyan owned firms have less technological capabilities than foreign owned floriculture firms (Francis, 2017).

(Ayelech & Helmsing, 2010) have also found that technological capacities of Ethiopian entrepreneurs are week compared to Dutch owners furthermore, this Dutch breeders adopt restricted practices in licensing and distributing new varieties, giving priority to established international clients over local entrants (Ayelech, 2017).

2.2.4 Management Experience and Labor Technical Expertise

Management export experience can be defined as a general willingness to aggressively gap after export market opportunity, avoid international threats and undertake 'effective' marketing strategies which improve export success (Julian & Naht, 2007).Managerial international experience is one factor that has a direct Impact on firms export performance (Hossein and Mahnnard, 2011).

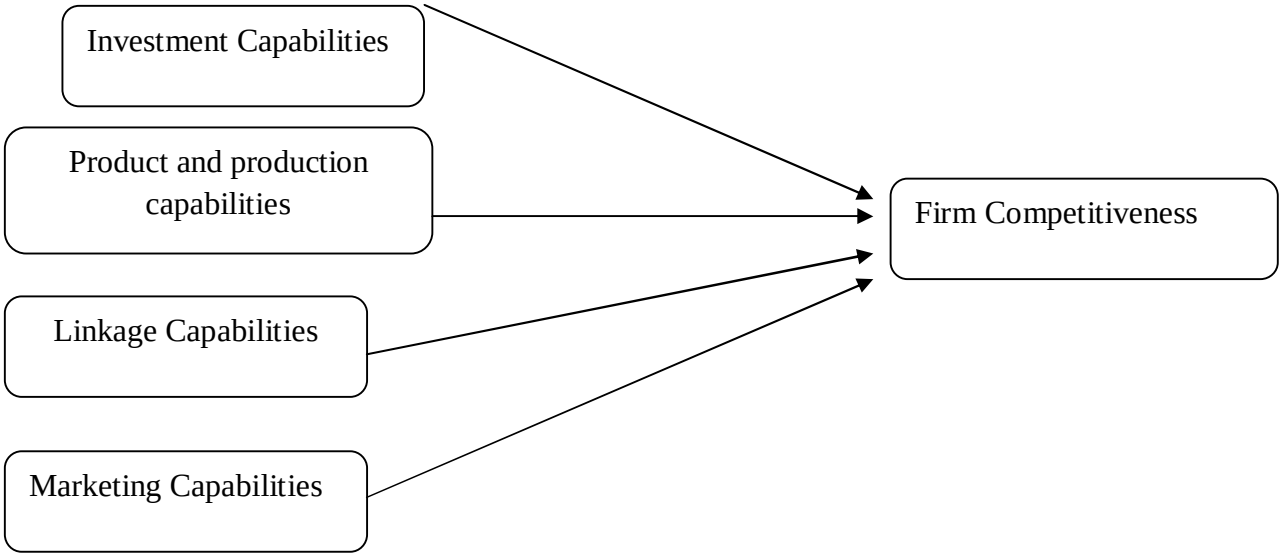
The foreign owned firms are found to have superior knowledge and experience than locally owned firms in terms of productivity (Behailu 4, 2015). The role of knowledge and expertise in sector also played paramount Importance. Empirical evidence indicated that government requirement increases when developed country producers have difficulty in meeting the requirement for development country market. This might be due to the fact that procedures from developing countries have characteristic of "late comer" firm (i.e technologically behind)

and expected the product frequently do not (yet) apply to their domestic market (Humphrey and Schmitz, 2004, Kessing and Lall, 1992). They further argue that the domestic market for cut-flower in country Ethiopia is almost non-exist which about 97% is sold abroad. They showed that the implication is that there is gap the existing and the required experience and level of expertise in the sector. This trend replicate itself on global value chain of floriculture in part due to lack of knowledge on the standards and procedures and lack of know how to grasp product diversification in global value chain.

Hence, it is indicated that the sector is suffering from lack of trained labor expertise and experience to execute the task.

The main challenge in Ethiopian owners is many are attracted by growth and profitability of the industry and lack technical compliances to meet the growing completion in the industry which is central to creating dynamic competitive advantage in floriculture sector (Ayelech & Helmising 2010). On the other hand, FDI companies from Dutch are embedded with the physical and Information resources that are important for doing in foreign markets. They generally have a relative abundance of resources, managerial experience that their decisions makers need to undertake for export success (Covin & Miller, 2003)

2.3 Conceptual Framework



CHAPTER THREE
RESEARCHMETHODOLOGY

Schwardt (2007) defines research methodology as a theory of how an inquiry should proceed. It involves analysis of the assumption, principles and procedures in a particular approach to inquiry.

This chapter describes the research design and methodology; which includes the type of the research, the population and sampling techniques, used source of data, data collection tools, and method of data analysis and presentation.

3.1 Research approach.

The researcher adopted quantitative descriptive and comparative analysis to describe institutional competitiveness between locally owned and foreign owned floriculture firms. The research closed this approach to compare the capabilities of the firms as it exists. In addition the researcher has prepared semi structured questionnaires for data collection.

This questionnaire included closed and open ended questionnaires. The closed questions were analyzed using quantitative method while open ended questions were used for gathering information that needed discussion.

3.1 Research Design

In order to achieve the objective of this study, it is designated to be both comparative qualitative and quantitative analysis method. The qualitative method was used to analyze open ended questions and quantitative method is used to analyze closed ended questions. Apart from this, to broadly describe the issue in more credible way, data from as many as possible should be pooled for making insightful analysis. To this effect the study employed a mixture of methodologies with aim of triangulation in line with this one way methodological triangulation that relates that relates the collection of data from different sources such as government organization, Ethiopian flower producers export association and Ethiopian custom office is employed with the aim of uncovering plurality not observable when using a single source.

3.2 Population and Sampling

A survey from the already existing seventy two floriculture firms in Ethiopia was targeted. The lists of these firms were obtained from Ethiopian Horticultural producers and exporters

association (EHDA).Since, this project focused on comparing institutional competitiveness between local and foreign owned floriculture firms. The researcher used purposive or judgmental sampling technique. Accordingly, the researchers purposely selected ten local and ten foreign owned floriculture firms in Ethiopia depending on their size which includes number of employees, total land holding and export volume, and the second criteria is year of establishment which have remained for 10 years and above in Ethiopian floriculture industry so that the objective of the study can be achieved.

3.3. Data Sources and Data Collection

Both primary and secondary data sources were used for this study. to this end, semi Structured questionnaire was used to collect primary data intended to generate necessary information along floriculture firms investment ,product and production, linkage, marketing capabilities of both local and foreign owned firms in Ethiopia under consideration. Data collection therefore required visiting different firms along the floriculture industry.

The questionnaires were distributed to top managers or owners of the floriculture firms sampled for this study to acquire the detailed and complete information of the specific firm. Regular contacts had been maintained in order to extract and clarify more details from them via phone. Face to Face interview was also conducted with pioneer of floriculture firm owner to get the general picture of the industry.

EHPEP was the major source of secondary data especially for firm's number of employee, land holding and year of establishment .Ethiopian Customs office was also source of secondary regarding export volume and sales of export. In addition articles, journal, reports website were used for reviewing related literatures.

3.4 Method of Data Analysis

The collected qualitative data was analyzed using explanatory comparative analysis and discussion was made. Furthermore, the similarities and difference between local and foreign owned floriculture in Ethiopia was explained. Similarly, the obtained quantitative data was analyzed using tables, percent and pie chart.

3.5 Data Reliability and Validity

To ensure this study's data reliability and validity, I used one way methodological triangulation that relates the use of different data sources to enhance the credibility of the study. with respect to the dependability, all phases of the study ranging from methodological choice and selection of sample cases to distribute questionnaires and data analysis procedures have not only sorted out but also strictly followed as much as possible.

3.6 Ethical Issues

The researcher attempted to get personal consent from each respondent prior to conducting the project. Moreover, the researcher promised the firms only to report the finding accurately and also ensured the data would not be used for purpose other than this project.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

The objective of this chapter is to examine and analyze locally owned and foreign owned floriculture firms institutional competitiveness. The result is organized under key competitiveness indicator of floriculture sector specific. As it was indicated in unit two these are investment capability, production capabilities, Linkage capability, end Market capabilities.

4.2 Response Rate

For this purpose the researcher delivered questionnaires to ten managers from locally owned firms and also to ten managers from foreign owned firms. All the firms answered the questionnaires and returned it.

4.3 Investment Capabilities

Based on literature of floriculture Global Value Chain (GVC), Comparison of investment capabilities between local and foreign owned floriculture firms in Ethiopia was made based on four indicators. This includes conducting feasibility study prior to entering to business, types of Green house used by the firm, types of irrigation and fertigation system

4.3.1 Feasibility Study

Conducting feasibility study prior to entering any business has paramount Importance to be successful in international markets. Hence, Floriculture sector is not exception.

4.3.2 Types of Green house

Commercial floriculture investment is a technology intensive industry. The firm that posses state-of-art Green house performs better in the sector. There are different types of green houses used for production of different cut flowers. These are Green house with shedding nets: Green house with plastic cover with light diffusing properties; Green house with mechanical ventilation system, Green house with flexible window opening; Green house with fixed window opening and Green house with climate registration and sensors.

4.3.3 Types of Irrigation and Fertigation

The kind of Irrigation system used by floriculture industry greatly affects the competitiveness of the firm. Infrastructure of Irrigation in the sector can be broadly categorized as Drip, overhead and houses. The other infrastructure that displays investment capabilities of floriculture firm is the type's fertigation. There are three types of fertigation which is industry specific. From less to more advanced are drip system with fertigation at fixed time interval and no automatic adjustment, Drip system with computerized fertigation automatically adjusted based on climate and drip system with computerized and automatically regulate fertigation with addition sensors.

Table 1 Investment Capabilities of Sampled Firm

Ownership Structure	Feasibility study				Green house types										Types of Irrigation and fertigation						Finance Access								Owners/managers		Prior Experience	
	Yes		No		Shedding nets		Plastic cover with light diffusing		Mechanical Ventilation system		Flexible window opening		Fixed window opening		Climate registration and sensor		Fertigation at fixed time interval and automatic adjustment		Computerized fertigation automatically adjusted based on radiation		Computerized and automatically regulate fertigation with additive censor		Local government Bank		Foreign Bank			Other Sources		Yes		No	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Locally owned firms	10	100%							10	100%													10	100			7	70%			10	100%
Foreign owned firms	10	100%													10	100					10	100%	10	100%	10	100%	10	100%	10	100%		

As indicated in the above Table 1, all sampled local firms conducted feasibility study prior to enter the business which was also required to access finance. Similarly, all sampled foreign firms conducted feasibility study. Regarding type of Green house, Irrigation and fertigation system, all sampled local firms had similar modern plastic green house with steel frame that were furnished with drip irrigation and semi-automated computerized fertigation system where as, all sampled foreign firms had similar technological advanced Green house with climate registration and censor that were furnished with drip irrigation and wholly computerized fertigation system.

4.4 Production Capability Competitiveness

The Competitiveness of production capabilities of floriculture firms can be broadly grouped under the following categories. These are the number of varieties produced by the firm, number of export day per week to the market, certification of International Standard of the sector, Internal reject rate, average labor turnovers rate and type of End market product.

4.4.1 Number Verities

Breeding play a pivotal role as the right verities is decisive for productivity. Through licensing or by propagating generic material by them. Breeders make their product available to growers. In addition to formal mechanism breeders in an effort to protect their verities conduct strict informal control mechanism by excessively avoiding, selling to those growers accused of avoiding, selling to those growers accused of undermining breeders right. They sell their varieties only to specified selected growers which comply with their property right. Therefore, it is very challenging to get varieties that meet consumer need if the firm is not breeders itself. Furthermore, current trends suggest that global buyers including retailers and auction houses are putting. Increased pressure on supplying firms to increase the number of their varieties and develop new varieties.

4.4.2 Number of export days per week

In the floriculture sector, the number of export days per week indicates firms competitiveness in international markets. Exporting for more days indicates high Capacity of firms in planning their production and shipment. It also shows greater market presence which is very important in finding new buyers and establishing a good position in a market.

4.4.3 Certification of International Standards

Sustainability initiative and certification are important in floriculture Global Value Chain (GVC) there are various types of environmental and social standards but MPS – ABC and Global GAP, which are business to business standards are the most widely adopted their primary concern is good agricultural, practice and environment protection but MPS has incorporated Social issues through MPS-SQ (Socially qualified). The other standards are commonly known as consumer labels to imply that, unlike B2B, they are communicated to consumers and these include labels such as Fair flower fair plants (FFP), Flower Label Program (FLP), fair trade labeling organization (FLO), and Ethical trade initiative (ETI).

Hence, adopting International Standards, their certification and audit procedures have significant effect on floriculture firm production capability. Moreover certifying for such standard is assumed to reflect firms' ability to differentiate their product and reach niche markets to later socially and environmentally conscious segments of the society.

Table 2 Production Capabilities of Sampled Firms.

Number of varieties	Locally owned firms		Foreign owned firms	
	No.	%	No.	%
1-10	2	20%	-	-
11-20	7	70%		
21-30	1	10%	3	30%
31-40	-	-	6	60%
41-50	-	-	-	-
50-70	-	-	1	10%

As it is evident from the above Table 2, 70% of sampled local firms' product varieties ranges from eleven to twenty, 20% sampled local firms flower varieties were below ten and 10% of sampled local firms flower varieties ranges from twenty one to thirty. On the other hand, 60% sampled foreign firms' product varieties ranges from thirty one forty and 30% of sampled foreign firms' flower varieties ranges from twenty one to thirty. In addition, 10% sampled foreign firm grow sixty five flower varieties.

Table 3 Certifications for International Standards of Sampled Firms.

Types of certification	Ownership structure			
	Foreign owned firms		Local owned firms	
	No	%	No	%
MPS-ABC	9	90%	5	50%
MPS-ABC SQ	10	100%	3	30%
Global GAP	7	70%	-	-
FFP	10	100%	2	20%
FLP	8	80%	-	-
FLO	6	60%	-	-
ETI	4	40%	-	-
Fair trade	10	100%	1	10%

As it can be seen from the above table 3, half of sampled local firms adopted international standard MPS-ABC, 30% adopted MPS-ABC, SQ and 10% were certified for fair trade .None of the sampled local firms adopted International standard such as Global GAP, FLP, FLO and ETI. On contrary all sampled foreign firms were certified for MPS-ABC, MPS-ABC, FFP, Fair trade. Furthermore 90%,70%,, 80% , 60% and 40%of sampled foreign firms were certified for Global GAP, FLP, FLO and ETI respectively..

4.5 Linkage Capabilities

Four Indicators were selected to compare the linkage capabilities of floriculture firm in Ethiopia based on previous literature of the sector. These indicators include linkage with other firms, Linkage with industry association, linkage with national institution and linkage with input suppliers.

4.5.1 Inter-firm Linkage

Linkage with other firm is very essential for firms especially in sharing knowledge, which take place outside the formal institution of industry associate. It is also very important for Research and Development spillover, market competition spill over imitation and skill acquisition spill over.

4.5.2 Linkage with Industry Association

Membership of Industry association is also another key indicator of competitiveness in floriculture industry. The industry association in Ethiopia focuses mostly on general services that are relevant and can be available for all members a long side lobbying the government for interest of its members. It also tries to secure cooperation among floriculture producers, assist promotion of floriculture exports to international markets, represent and promote the entered of its member, collect and circulate statistics and other information, and arbitrate and settle disputes between its members (EHPEA, 2014). Furthermore the association trains its member employee to equip them with skill necessary in the floriculture industry.

4.5.3 Linkage with National Institution and Government Agency

Maintaining good relationship with national institution such as universities, research centers and government agency is significant for floriculture firms. It is because institution is capable of providing trained human power for the sector; conduct various researches on development and improvement of quality of their products.

4.5.4 Linkage with Input Suppliers

The flower industry uses a range of inputs. The primary inputs used in flower production are chemicals, packing's, fertilizers and pesticide. The input linkage refers to a firm's capability to source input by itself, Thus if a firm is capable of importing directly a large share of its inputs rather than buying from independent importer, it indicates a firm's stronger financial, logistical as well as technical capabilities in supply chain management.

Table 4Table of Linkage Capabilities of sampled firms

Ownership structure	Inter firm Linkage		Linkage with industry association	Linkage with institution	Linkage with input supplier			
	Local firm	Foreign firm			Not Good	Discriminating	Good	Own
Local firms (No)	6	2	10	-	5	4	1	
%	60%	20%	100%	-	50%	40%	10%	
Foreign firms (No)	-	10	10	-	-	-	2	8
%	-	100%	100%	-	-	-	20%	80%

As indicated in the above Table 4, in terms of linkage with other firms, 60% of sampled local firms have reported that they have close association with local firms and 20% of them have linkage with foreign firms. On contrary all sampled foreign firms have good contact with other foreign firms.

Concerning firms' linkage with industry association (EHPEA), all sampled foreign and local firms have good relationship with the association. In addition all of them are members of the industry association. None of the sampled foreign and local firms have any linkage with industry institution.

In relation to linkage with input supplier, half of sampled local firms have not good relationship with input supplier, 40% them even reported that their relation with input supplier is discriminatory and the rest 10% responded that the relation with input supplier as good. Unlikely 80% sampled foreign firms responded that they used their own input supplier. However, 20% of sampled foreign firm responded their relation with input supplier as good.

4.6 Market Capabilities

The end-market competitiveness category refers to the overall competitiveness of firms to meet the needs and want of several buyers in different markets, their capability to establish stable relation with those buyers and their market knowledge and promotion skills. According literature on floriculture market, there are four indicators of End-market competitiveness in the sector. These include number of end-market regions, number of direct buyers (in direct sales or auction) auction-direct stable relations with buyers and marketing skills.

4.6.1 Number of End-market Regions

Floriculture exporting firms might target multiple end-markets and market channels as strategic of end-market diversification, which relates to diversifying end markets-or products. Firms might enhance their bargaining position vis-à-vis their European buyer. If they have alternative markets, firm might also make more profit if they sell to other end markets where the marketing and transport cost and lower. Diversifying end markets can be also pursued as strategy of stabilization when firms face a crisis of meeting a requirement of certain consumer. Thus, having high number of end-market regions can be viewed as a strategic more in terms of getting better deal, which can be part of learning process in building market capabilities.

4.6.2 Market Channels

There are two distinct ways flower producers can take their product to market the auction system (auction and auction direct sale) and through direct sale.

4.6.2.1 Auction System

Although there are several floriculture auctions across the world, the Dutch Royal Flora Holland auction plays the most Influential role. It is the largest flower auction in the world with annual turnover of 4.6 billion Euros and trading around 60 percent of the world cut flowers and 40% living plants in its four auction houses in the Netherlands (Flora Holland, 2019).

In the Dutch auction, the price is determined by the so-called auction clock system, which is a pressure game where the clock begins at the highest price and then starts counting down. Buyers have only a few seconds to stop the clock in order to buy specific amounts of the auctioned flower. The exporter, therefore, can sell different butches of the same verities of flower at different prices to various buyers.

4.6.2.2 Direct Sale.

The floriculture literature generally sees the direct sales as predominantly conceptualized from perspective of supermarkets in western countries. In a direct sale the supplier and buyer can negotiate on price and varieties of flowers. Generally selling via the direct sales channel is perceived by many in the industry as indictor of firm market capabilities and upgrading.

4.6.3 Relation with Buyers

To remain competitive, floriculture firms not only need capabilities to find buyers but also build good relation with them. This process typically involves issues beyond meeting product requirement such as regular communication, negotiation, commitment and trust. It includes accessing various end markets and establishing stable relation with buyers and largely influenced by overall marketing capabilities of firms, which are defined as the ability of firms to develop clear marketing strategy and implement coherent marketing activities such as marketing intelligence, promotion and branding.

4.6.4 Market Information and Other marketing Activity

The ability of a firm to develop a clear marketing strategy and proper strategy implementation is strongly needed, and should generate their own marketing information through market research, market Intelligence, as well as personal observation, and also other marketing activities such as promotion and branding plays a significant role for the firms to stay competitive in international market of flowers. Acting sporadically and lack of market strategy, consistency and commitment might cost the firm a lot its competitiveness.

Table5 End Market Capabilities of Sampled firm

Firms ownership structure	Number of end market regions				Marketing channels			Relation with buyers			Marketing activity			
	2	3	4	≥ 5	Auction (Auction direct)	Direct	Others	Stable	Some what stable	Adhoc	From EHPEA	From Auction	Other firm	Companies marketing research
Local owned in number	1	7	2	-	10	2	1	2	3	5	10	-	-	-
%	10%	70%	20%	-	100%	20%	10%	20%	30%	50%	100%	-	-	-
Foreign owned (No)			4	6	10	10	10	10	-	-	-	-	-	10
%			40%	60%	100%	100%	100%	100	-	-	-	-	-	100%

As it can be observed from the above Table 5, most of sampled local firms about 70% were selling their product to three market regions, 20% of them were selling their flower to four market regions and the remaining 10% were selling to two end market regions. In the same manner 40% of sampled foreign firms were selling their products to four end market regions and the rest 60% had more than five end market destination. Moreover, all sampled local firm sale their products via auction and 20% of them sale their product through direct sale in addition to

via auction. On top of the direct and auction 10% sampled local firm' sales their product through other means such as online. Conversely, all sampled foreign firm's sale their product using all market channels.

With respect to the firms' relation with buyers 20% of all sampled local firms established stable relation with their buyers 30% of them have somewhat stable relation and the remaining 50% have adhoc relation with their buyers. Nonetheless, all sampled foreign firms have established stable relation with buyer.

In matter pertaining market activities, all sampled local firms obtain market information from the industry and none of them have their own marketing Research center. Conversely all sampled foreign firms obtain market information from their marketing research center.

Table 6

2015/16 Volume of Export and Income Generated, Export day per Week, Total Landholding (ha), Harvested Land (ha), Years of Establishment, Location of the farm

Firms	Locally owned		Foreign owned		Export Day per week		Harvested land (ha)		Land holding total H		Number of Employees		Location of Farms		Years o f establishment	
	Qty in kg	Value (in USD)	Qty in kg	Value	Locally owned	Foreign owned	Locally owned	Foreign owned	Locally owned	Foreign owned	Locally owned	Foreign owned	Locally owned	Foreign owned	Locally owned	Foreign owned
ROSE A	518236.86	2067888.34	2217432	8699214.10	6	7	22	40	29.7	40	540	1200	Sebeta	Zeway	2005	2006
ROSE B	929457.94	3687260.65	385765	5177628.70	6	7	23	16.5	29	70	720	1225	Debrezeit (awash)	Merti	2003	2007
ROSE C	429048.78	1667298.81	267928.40	1063391.71	6	7	15.5	23	21.7	26	420	850	Debrezeit	Zeway	2006	2006
ROSE D	661424	2576229.72	256751.58	1525668.59	6	5	20.5	49	31	70	650	800	Debrezeit	Sebeta & Bahrdar	2006	2006
ROSE E	34446.90	146679.70	165424	1611605.72	3	4	14	18	24.3	89	420	750	Holeta	koka	2005	2006
ROSE F	202689	7822543	2782478.2	10940252	6	7	20	38	20	40	250	1200	Gelgela (west shoa)	Zeway	2009	2006
ROSE G	956559.40	3716656.15	1700814.8	68965262.20	7	7	31	560	38	595	700	12500	Wolkite	Zeway	2009	2007
ROSE H	1278856	4961371.63	90805.50	3138657.39	5	3	95	15	120	23	950	750	Bahir dar	Koka	2006	2004
ROSE I	279564.64	1085338.65	2793695	10911635.4	6	7	12	65	20	83	256	1450	Holeta & Bahar	Addisalem	2008	2010
ROSE J	542004.41	2133482.6	2272243	9611811	7	7	5	42	50	42	300	1250	Sebeta	Zeway	2006	2005
Total	22825109.1	5835290	28242700	121645127	58	61	258	866.5	383.7	1078	5206	21975				

The above shows that foreign owned firms cultivated 80.38% of their land acquired when compared to local firms which cultivated only 67.24% leased during initial investment.

Table 7 Average export Quantity, Value, Unit price, Number of Employee, Harvested Land, Export per Worker, Export per Harvested Area

Firm	Average export value in USD	Average export Qty in kg	Average unit price	Average number of employee	Average harvested land	Quantity exported per worker	Quantity exported per harvested area.
Locally owned firm	2282510.91	583529	3.91156	520.6	25.8	1120.88	2261.74
In %	15.79918%	17.1234%	-	-	-	-	-
Foreign owned firms	12164512.70	2824270	4.3071356	2194	86.65	1287.30	3259.40
In %	84.20082%	82.876658%	-	-	-	-	-

Custom office, EHPEA

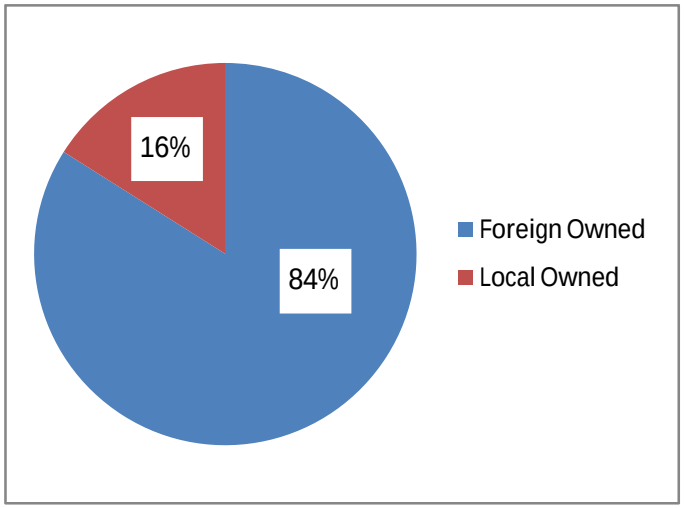
As can be seen from the above Table 7, foreign owned firms out perform in exporting performance 84% of all exported flowers of Ethiopia is share of foreign owned firms, where as locally owned firms export share is 16%. In terms of earning foreign owned firms share is 82.88%. However locally owned firms share is limited to 17.12%. When compared based on average unit price, the foreign owned firms flower much better than that of locally owned firms almost by 9.18% similarly, regarding quantity exported per worker and quantity exported per harvested land area shows that foreign owned firms are more productive than the local owned firms which is foreign firms surpass local firms by 13% export per worker and 30.6% per harvested land.

Table 8 Total Industry Export Volume and Export Volume Share of locally owned and foreign owned firms

Industry Export		Locally owned firms		Foreign owned firms	
Quantity (in mill stems)	Value (in mill USD)	Quantity (in mill stems)	Value (in mill USD)	Quant (in mill stems)	Value(in mill USD)
50036.42	225.32	8567.83509	35.5987079	41468.1649	189.721292

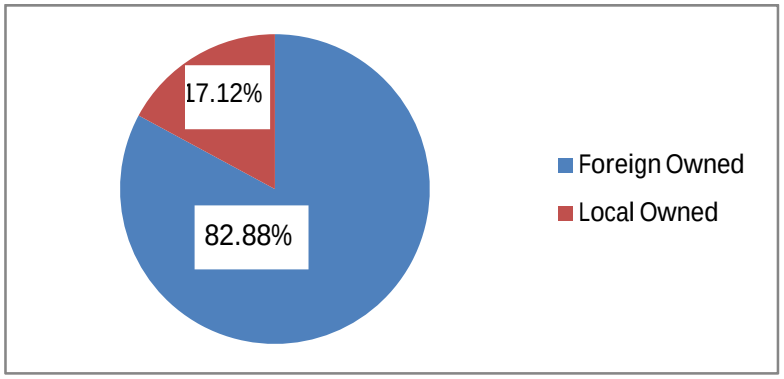
Source; EHPEA and Ethiopian Custom office

Export Volume (USD) Share



Source: EHPEA, Custom Office

Export Volume (Qty) Share



Source: EHPEA, Custom office

CHAPTER FIVE

SUMMARY, CONCLUSSIONS AND RECOMMENDATIONS

This chapter comprises summary of the major findings, conclusions drawn from the findings and recommendations.

5.1 Summary of Major Findings

- Most locally owned firms (10%) product varieties ranges from eleven to twenty.
- Majority of foreign owned firms (60%) varieties ranges from thirty to forty.
- Half of locally owned firms are only certified for MPS-ABC.
- All of locally owned firms are not certified for standard such as Global GAP, FLP, FFP and ETI.
- All foreign owned firms are certified for MPS-ABC, SQ, FFP and fair trade.
- Most of foreign firms (90%) are certified for MPS-ABC.
- A great number of local firms (80%) do not have any relationship with foreign firms.
- All foreign firms have close relationship with each other.
- Most of locally owned firms don't establish good relationship with input supplier.
- Majority of foreign firms (80%) supply inputs by their own.
- Majority of locally owned firms (70%) have three end market regions.
- A good number of foreign owned (60%) have more than five market destination.
- All locally owned firm's sale their product via auction.
- All foreign owned firm's sale their product via direct sale.
- A small number of locally owned firms (20%) have stable relation with their buyers.
- All foreign firms have stable relation with their buyers.
- All locally owned firms acquire market information from EHPEA.
- All foreign firms have their own marketing research.
- Foreign owned firm's industry export share is 84%.
- Locally owned firms industry export share is 16%.
- Foreign owned firms industry earning share 82.88%.
- Locally owned firm industry earning share 17.12%.
- Unit price of the product of foreign owned firms surpass the product of locally owned firms by 9.18%.

- Foreign owned firms outperform locally owned firms by 13% in terms of export per workers.
- In terms of export per harvested land foreign firms surpass local firms by 30.6%.

5.2 Conclusions

The primary objective of this project was to examine and compare institutional competitiveness between locally owned and foreign owned floriculture firms in Ethiopia by assessing their investment, product and production, linkage and marketing capabilities.

From the above major finding, the researcher concluded that in all the used capabilities categories: investment, product and production linkage and marketing foreign owned firms have more competence than locally owned firms. The absence of these capabilities has affected locally owned firms on their export performance.

- Foreign owned firms have more number of product varieties.
- Foreign owned firms have certified for various international standards.
- Foreign owned firms have close contact with each other.
- Foreign owned firms supply their own input varieties.
- Foreign owned firms have marketing research center where as none of locally owned firms have.

5.3 Recommendations

In line with major finding and conclusions made on institutional competence between locally owned and foreign owned floriculture firms in Ethiopia, the researcher has made the following recommendations.

- Locally owned firms should diversify their product varieties by establishing research center or by integrating with national institution to breed new varieties and in house-propagation since having more product varieties is decisive to meet consumer needs.
- Compliance to international standards has paramount significance to meet the need of conscious segment of society. Hence locally owned firms ought to be certified for various international standards by adopting their audit procedures.
- Locally owned firms have to build close relationship with foreign firms to get spill over knowledge from experienced foreign owned firms by forming business partnership with foreign firms.

- Locally owned firms should diversify their end market region by searching new market destination and promoting their products to create and strengthen their price bargaining capacity.
- Locally owned firms should also try to sale more of their product via direct sale to negotiate on price.
- Locally owned firms should build and maintain stable relationship with buyers by meeting their standards and consistently providing products as per their need.
- Government should set up Export promotion agencies to avoid locally owned firms competitive bottlenecks.
- Locally owned firms should establish marketing departments and marketing specialist to be employed supported by consultants to advice on collecting, analyzing and disseminate the market information to them.
- EHPEA should play role of facilitator both foreign owned firms and locally owned firms to come together, to share experience and spillover effect since both of them are member of the association.
- Locally owned firms should look for international financial institution for financial access.
- Locally owned firms should hire experienced manager from abroad.

Finally, I recommend other researchers to carry out further study on the result of these recommendations.

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Annex Floriculture Sector Locally owned and Foreign Owned Firm Survey Questionnaire

PART I: FIRM PROFILE

Name of firm	
Address (cluster name) Website	
Name of interviewee Job title Duration of employment	
Ownership structure/nationality	a) Locally owned b) Foreign owned
Date of establishment Date of production/export	
Total size of land holding(ha) Cultivated land size (ha)	
Number of employees Development currently	
Product type today (%)	a) cutting b) cut flowers: Rose varieties Summer flower other flower varieties Bouquet flower
Name main product: **# of varieties of main product(s)**	
Export destinations (%)	a) Europe -auction -direct b) Middle east c) Japan d) Other
# of export days per week to/via	a) Europe -auction -direct b) Middle East c) Japan Other

Total annual export (volume) In USD Starting, 2010, Now	
Certificates Year of certification	a) ETH. silver b) ETH bronze c) ETH gold: d) MPS: e) Global GAP f) fair trade e) other (specify)

PARTII: INVESTMENT

Was a feasibility study carried out before the initial investment?	a) No b) Yes By whom?
Had the owner/GM experience in the sector or in business?	a) No b) Yes Explain:
How did the firm get managerial expertise and skilled labor in the beginning?	a) Buy it from abroad (foreigners). From where? b) Employ nationals with previous work experience in flower farms. From which firms? c) Trained workers and/or managers
How was location selected?	a) Allocated by govt b) Based on feasibility study/market research c) Other
How were varieties selected?	a) Just following g what other firms do(neighbors) b) Amount of royalty fee c) Based on product life cycle analysis d) Experimenting what is best on the location e) Producing what buyers demand/ based on market research f) Other
With how many varieties of roses the firm started exporting?	
How was the investment finance raised?	a) Local government bank b) Foreign financial institution /BANK c) Locally owned private bank d) Sister company

How was working capital raised?	a) Joint venture-PSOM or other subsidies b) Sister company c) Other
How did the firm get its first buyer?	*auction:* How did the firm access auction? *Direct sale:* How did the firm access/establish contact to buyers in : - Europe? middle east? Japan? Other?
How much info did you have & did you conduct analysis before initial investment?	a) Little b) Medium c) High
Equipment	
What are the main features of your greenhouse?	a) Shedding nets; b) plastic cover with light diffusing properties; c) mechanical ventilation system d) flexible window opening e) fixed window opening f) Climate registration and sensors
Why you select the specific type of greenhouse?	
Have you changed your greenhouse since first time? If yes, when and why?	
What kind of irrigation system do you have?	a) Drip b) Other
How does the fertigation system work in the greenhouse?	a) Fertigation at fixed time interval and no automatic adjustment b) Computerized fertigation automatically adjusted based on climate data(radiation) c) Computerized and automatically regulate fertigation (amount and proportion) with additional sensors
Do you do regular maintenance of fertigation/irrigation system/greenhouse?	a) Yes b) No

PARTIII: ENDMARKET

Do you know your buyers in auction? **If Yes, How many are they?**	
Do you have direct contact with the auction buyers?	
If YES, How did you establish that? If NO, why?	a) Via Flora Holland direct b) Other
If YES, Do you negotiate and determine price outside auctioning process?	a) Yes b) No
How stable are your relationships with your auction main buyers?	a) Stable b) Somewhat stable c) Adhoc
In direct sale, who are main buyers?	**How many in:** **-Europe? Middle East? Japan? others?**
How stable are your relationships with your main buyers?	a) Stable b) Somewhat stable c) Adhoc
What are the minimum requirements of non-auction channels?	a) quality b) quantity c) #varieties d) Certificate
Who sets the requirement?	a) Individual buyers b) Dubai flower center c) Other
What are main challenges to meet different requirements? **And what do you do to meet them?**	

Have demands & capabilities expected from top buyers increased in the last 10 years? **How do you deal with this? What are main challenges in fulfilling buyers' demands/capabilities?**	a) No b) Yes
Does firm negotiate with buyers?	a) No b) Yes How? On what issues?
How does price is determined in direct sale to: Europe, Middle East, Japan, other	a. Supply and demand(auction) b. Cost-price plus c. Negotiation based on cost price d. Negotiation based on auction e. Other(specify)
Which end market offer best price margin?	a) Europe b) Middle East c) Japan d) Other
Which market channel offer the best price?	a) Auction b) Direct sale
How often is payment settled in the channels you use?	a) Auction and auction-direct b) Middle East c) Other
When and Why did you diversify end market?	
Why do you choose auction or direct sale as your major selling channel? *Elaborate*.	
What is your future plan in using market channels/end market? *Explain* why.	a. auction b. direct sales c. other regions than Europe d. new markets e. Other(specify)
Has the firm engaged in market intelligence and market & buyer research?	a) No b) Yes Info from where? How? i. other firms (specify by nationality) ii. From association iii. From auction iv. Other(specify)

PARTIV: PRODUCT

Describe the main products & portfolio? (%): ***Development (10 years)?***	a) Sweethearts-small b) Intermediate and T-hybrid c) Large flower d) Other
Average annual production instem/kg? **Average annual internal rejectrate? Market place reject rate** ***Unit price of main products?*** ***Average unit price?***	
How often buyer returns product?	a) Often b) Sometimes c) Rarely
Have you introduced new products/varieties in the past 10 year?	a) No b) Yes
Have any products been dropped?	a) No b) Yes Which ones? Why?
What did you do to improve quality?	a) Reduce number of touches b) Other
From where or from whom do you get advice to improve product quality?	a) Auction b) Local firms (in a formal/informal settings) c) Foreign firms (in a formal/informal settings) d) Hired consultants e) breeders f) EHPEA (growers' association) g) EHDA (government agency) h) Other (specify)NGO?
Do you promote your products?	a) No b) Yes How? a. Via website b. Participating in trade fairs (local and international) c. Printing logo on packages d. Through Corporate Social Responsibility in community development e. Other(specify)

Has the firm invested in product development & improvements/ adaptation?	a) No b) Yes Explain:
PRODUCTION PROCESS	
What do you do to prevent and cure diseases?	a) Chemical spray, b) Integrated pest management(IPM) c) Both (a and b) d) Other(specify)
Have you reduced number of touches during harvesting and post-harvest? If yes, How?	a) Yes b) No
At what stages do you monitor quality? And How?	
How do you deal with production during seasonal market fluctuations (low/high seasons)?	a) Destroy b) Fill the gap or share surplus from/with neighbour/friend farm c) Other
How do you deal with labor during seasonal fluctuation?	a) Hire casual labor b) Engaging them in other work internally c) Sending them temporarily to other firms d) Layoff e) Other
Do you record data? **On what issues do you record data? Why?**	a) Yes b) No
Do you intend to upgrade to Silver? Or to get other (higher) labels?	i) Why? ii) If yes, what preparations you started

PARTV: PRODUCTION

EFFICIENCY & PRODUCTIVITY	
Annual profit before tax (how many times have u incurred loss?) Development (10 years)	

Labour productivity GH and PH Development (10 years)	#of workers per area: # of worker per stem
Unit cost of production of main product (raw material cost, labor cost, overhead costs) & market price	Unit costs: Market price:
LABOUR MANAGEMENT	
Share of management to total labor strength%: Respective educational background?	
Share of expatriate workers? **In which positions?** **Development (10 years)?**	
Have locals increased their share in management, technical jobs, supervisors?	a) No b) Yes
Which group of workers do you often hire from other farms?	a) General workers b) Supervisors and other staff c)Managers, d) Other
How often do you pay wage for general workers?	
Do you provide pay slips?	a) Yes b) No
Labour turnover? **Absenteeism?** **Unrest downtime?**	Average per year: Average per year: Average per year: Is there a seasonality component?
Does the firm have a labor retention strategy?	a) No b) Yes What is it?
How is supervision of workers organized?	

Are there any bonuses/benefits for workers?	a) Time and productivity based b) Discretionary (with bonuses and fines) c) Other:
Is training regularly offered to workers?	a) No b) Yes Which type? Provided internally or externally?
Expenditures on training as % of payroll Development in last 10 years?	
Does the firm have an HR department and policy?	a) No b) Yes

PARTVI: SUPPLY CHAINLINKAGES

Where does firm get information from on markets, buyers, products, technology, production, etc.?	a) Local firms b) Foreign firms c) Buyers d) Hired consultants e) Industry association f) Relevant ministry/public institution g) Other:
Is the firm a member of an industry association?	a) No b) Yes Which? How often does it meet? Main benefits for your firm?
Does the firm participate in collaborative schemes or informally with other firms? Horizontal/competitors or vertical/suppliers? If so, what kind of schemes (training, input sourcing, etc.)?	a) Limited links with other firms b) Medium links c) Close networks d) Local firm e) Foreign firm
How often does the firm seek knowledge or advice from other firms on how to improve production and marketing?	a) Not very often b) Sometimes c) Very often d) Which firms?
COOL-CHAIN	
Do you have cold room at farm? If yes, How many hours do flowers stay in cold room?	a) Yes b) No Min_____Max__

Do the firm own cold truck? If no, where do you get the service? Name provider	a) Yes b) No
Do you have a cool-chain management protocol? If yes, describe the general objective and content?	a) Yes b) No
If yes, name	
Who handles the flowers until loaded on a plane? Specify the company.	
Are there challenges related to cargo booking and handling services? If yes, explain How does it manage challenges with transport and logistics providers?	a) Yes b) No
Who is receiving and handling flowers at end market until it reaches the buyer? Name the company.	
What is your relation with the handling agent/distribution center at end market?	a) Buying the service b) Joint venture c) Other(specify
Do buyers have responsibility in relation to logistics and cool-chain management? If yes, what?	a) Yes b) No
INPUTS	
From where does firm source varieties? Name provider	a) Local b) Imports c) Both
How is your relationship with breeders? Explain	a) Not good, unable to get certain varieties b) Discriminations in accessing certain varieties c) Good, able to access varieties as wanted d) Other

What kinds of planting materials do you use? Why?	a) cutting, b) rootstock c) other(specify)
Where do you get planting materials? Name provider	a) Local firms b) Foreign c) Both
Do you propagate (Seed multiplication) plants at your	
farm? If yes, do you sell for others? if no, why?	
How do you source inputs (chemical, fertilizers and packaging)? Name provider	a) buy it from local importer/supplier% b) Import it internally% c) Other
What are the main challenges in managing input sourcing?	
Have you faced production or quality loss due to inputs? If yes, how often?	a) Yes b) No
For how long do you have to keep stock?	

PART VII: FINANCE & SUPPORT

Does the firm have relationships with external public & private institutions? Which are most important institutions?	a) Limited links with institutions b) Medium links c) Close networks
Does the government (Ministry of Industry, industry-specific agencies) provide support services to the sector? Does your firm participate in those services?	a) No b) Yes What kind of support services? a) No b) Yes Which? Are they useful?
Does the firm have access to sufficient investment and working capital? Does the firm access finance through state-owned banks at special rates?	a) Yes How? b) No Why not?
Does the firm have access to foreign exchange?	a) No b) Yes How?
How effective is export permit service?	a) Very effective b) Effective c) Not very effective Why?

How is the quality of utility provision? How do you deal with poor utility?	a) Very good b) good c) poor
Does the firm interact with any education or research institute?	a) No b) Yes
	Which ones? How?
Does the firm buy management, technical or administrative/IT consulting services?	a) No b) Yes, Which areas? From whom? a) Foreign firms b) Domestic firms How often?

PARTVIII: PRODUCT DIVERSIFICATION and SHIFTING

PRODUCT DIVERSIFICATION (HORTICULTURE)	
Where and how do you sell the new products?	
What changes did you make to deal with new products?	a) Investment b) Production c) Supply chains and linkages
What are advantages & challenges of working in different products and market?	
FULLY SHIFTED TO NON-FLOWER HORTICULTURE	
When did you shift fully?	
Why did you shift away from flower? Explain	
Which technologies and knowledge did you transfer from flower to horticulture? Explain	a. Investment b. End market c. Production d. Others
What new technologies and skills did you need to get for the new business?	a. Investment b. End market c. Production d. Others