Chapter 4

Value chain research: identifying Decent Work deficits
Value chain research: identifying Decent Work deficits

Summary sheet: value chain research

Timeline and proposed actions:

- **Research framework**
  - Identifying key areas for research
  - Designing a research methodology
  - Workshop: 1/2 - 1 day

- **Value chain research**
  - Interviews
  - Focus group discussions
  - Secondary research
  - Time: 4 - 6 weeks

**Summary:**

Value chain research serves (1) the identification of underlying reasons for bottlenecks that are preventing the value chain from achieving certain economic targets; (2) helps to understand incentives of market players to contribute to a solution; (3) highlights pathways to sustainable change by focusing on market opportunities; and (4) helps to identify leverage points for interventions.

Value chain research as described in this chapter consists of two main modules:

1. **Developing a research framework:** before commencing research on a value chain, you should know your objectives and the key area that you want to analyse. This is crucial for formulating questions in interviews and focus group discussions. Rather than merely scratching the surface, value chain research goes deeper: it tries to identify the root of a specific problem. “Why?” is therefore the most important question to ask in value chain research.

1. **Value chain research** itself consists of several interviews and focus group discussions as well as observations and secondary research. It is recommended that about 4-6 weeks be allocated to the research (depending on the scale of the value chain initiative) - not any longer. Value chain research should not be seen as an academic exercise, but as a contribution to value chain development itself: by bringing together market players in workshops and interviews, the value chain initiative can already at this stage substantially contribute to better cooperation and coordination in the sector. A participatory approach within a limited time frame is therefore essential for creating momentum and generating support from market players.
4.1 What is value chain research?

**Defining value chain research**
Value chain research is about understanding the functioning of specific markets - e.g. services, information, knowledge and skills, innovation, etc. - within a value chain system, the role of specific market players (or groups) within this system and their relationship to others. Having started with a broader assessment of the value chain in the project setup phase (Chapter 2), we are now “zooming in” to look at some particular constraints for competitive performance and their underlying systemic roots.

**Focusing on relationships helps to understand incentives of market players**
The particular focus of value chain research on and analysis of relationships helps to identify bottlenecks that are preventing a sector from achieving certain economic and social targets as well as market players’ incentives to engage in transactions and contribute to Decent Work solutions\(^{31}\). We could find, for example, that the problems facing small enterprises in rural areas are often connected with other value chain levels: lack of knowledge and information provided by input supply companies and their local retailers, for example; or insufficient knowledge of market requirements and lack of embedded services provided by buyers in order to communicate these requirements. Contrary to other business development tools that focus on the internal performance of businesses (e.g. management), value chain research is about understanding the external networks in which businesses are embedded.

**Initial research (chapter 1): identifying symptoms of market failure**
During the initial research as explained in Chapter 1, we gained a more general picture of our target sector. Through this scoping of general opportunities and constraints within the sector, we identified **symptoms for Decent Work deficits** - for example: lack of knowledge and information about farming techniques; or poor working conditions of small producers and their employees; or occurrences of child labour in garment homeworker families; etc. The initial research was about getting the broad picture of a sector, identifying problems and deciding on core areas of concern for actions (that are in line with the organization’s overall objectives).

**Value chain research: moving from symptoms to underlying systemic constraints**
However, formulating intervention strategies based on the identification of symptoms alone will not be sufficient and will not address problems at the root. We need to go deeper and understand the underlying systemic reasons for Decent Work deficits (or market failure) within the value chain. We need to ask why things are as they are: why do farmers not acquire the skills and receive the information they need in order to increase productivity and enhance the quality of their produce? Why are small producers not aware of good workplace practices that are already used by others? Why are children used as cheap labour in homeworker garment manufacturing? “Why” is in fact the most important question we need to ask in value chain research.

\(^{31}\)In some cases and situations, labour relations and relations between suppliers and customers may be conflictual and national stakeholders may need to come together to establish an enabling business environment with regard to the labour market, inter alia.
Box 4.1: Moving from symptoms to systemic constraints in the value chain

Seeing constraints in the context of a value chain system
And by doing so, we must bear in mind that our target group is always part of a value chain system. It is part of upstream and downstream transactions within the value chain and is embedded in a business environment characterized by regulatory requirements and the presence of supporting institutions. However, we need to understand that relationships between market players are not only characterized by transactions through which a product/service is transferred from one market player to another in return for payment; relationships in value chains are also characterized by a vast exchange of information, knowledge, skills and various embedded services (e.g. loans provided by input suppliers to small producers, training sessions conducted by lead firms, quality control mechanisms, leasing arrangements, provision of equipment and manuals, marketing support, etc.).

Relationships matter!
The degree of cooperation and coordination along the value chain determines the competitiveness of a sector or individual market channel. The value chain research will therefore look in particular at the relationship between the target group and other market players.

Source: Taken from The Springfield Centre (2008): The M4P operational guide, DFID/SDC, Durham (UK)
Value chain research: identifying Decent Work deficits

Value chain research – complementary to the initial research – therefore goes into much greater depth, analysing the reasons for specific constraints in the value chain and looking for ways to realize market opportunities.

Value chain research therefore

1. serves to identify the underlying reasons for Decent Work deficits that are preventing the value chain from achieving certain economic and social targets (systemic constraints);
2. helps to understand incentives of private and public market players to engage in transactions and contribute to Decent Work solutions;
3. highlights pathways to sustainable change for Decent Work by focusing on market opportunities and relationships and helps to identify leverage points for intervention strategies.

A participatory approach a) generates local ownership, b) enhances networking amongst market players

The participatory nature of value chain research as proposed in this chapter is of utmost importance: when the target group as well as other market players within the value chain and supporting organizations are included in the research process, local ownership and support will help to bring the value chain initiative forward. In addition, a participatory approach to value chain research will also enhance cooperation between market players as well as the coordination of activities. The value chain initiative can thus already contribute to value chain development within the research phase. In various ILO value chain initiatives in Sri Lanka and Madagascar, project managers realized, for example, that some market players had never met each other before and that by bringing them together in workshops the initiatives enabled them to discuss common problems and find solutions to them. A participatory value chain research therefore also strengthens networking between market players!

Participatory research: interviews, focus group discussions, observations and facilitators

The participatory nature of value chain research is realized through

- **Interviews** with influential market players such as lead firms, government authorities, service providers, etc. but also selected small-scale market players whose position in the value chain we are particularly interested in;
- **Focus group discussions** with groups of market players that are easier to organize (e.g. small producers, SMEs or local service providers);
- **Observations** of business practices and transactions (e.g. workplace conditions, labour productivity etc.);
- **Use of local facilitators** to conduct interviews and focus group discussions and support the value chain research by other means (this would require a prior training session on the value chain approach).
Limitations of participatory approaches

Despite the above, it is also very important to be aware of the limitations of a participatory value chain research and analysis process:

- **Risk of lacking analytical depth**: participatory research approaches are often liable to get bogged down in symptoms rather than moving on to underlying systemic constraints. The danger is that too much attention is paid to the “needs” of the poor and disadvantaged and that solutions are formulated which address those needs directly rather than leading to sustainable systemic change with impact at scale.

- **Confusing ends with means**: although participation and ownership can be an important contribution to value chain development, they should not be confused with the purpose of value chain development. Overenthusiastic participation of the target group can even stand in the way of negotiating solutions with key market players.

- **Creating false expectations**: involving target groups always carries the risk of creating false expectations. False expectations eventually lead to disappointment and withdrawal of support if value chain initiatives do not show immediate results that are of direct benefit to the target group. This can be a dangerous development for initiatives that aim at long-term systemic change, and may induce project implementers to seek short-term gains that lack long-term sustainability.

Experiences with participation in Sri Lanka

Early experiences from the ILO Enter-Growth project in Sri Lanka showed that approaches to value chain development with overemphasis on participation can fail to address the incentives of key market players (such as large buyer or supplier companies), since analysis and solutions generally reflect the situation and interests of the target groups – i.e. the poor, and do not take adequate account of the realities of the broader market system. As a result, large companies find it difficult to join development initiatives unless their interests are addressed in upgrading solutions. This is particularly the case with initiatives that are restricted to a local economy (e.g. a district).

Avoid falling into the participation trap

Participation and ownership is therefore a tricky issue: efforts should be made to ensure that all of the relevant market players are involved. However, in order to avoid falling into the participation trap, a thorough stakeholder analysis identifying the incentives and roles of market players is crucial.

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32 The Springfield Centre (2008): M4P operational guide, practice note on participation
## Box 4.2: Some logistical aspects of value chain research

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who should carry out the value chain research?</td>
<td>The research should be carried out by the <em>core and support teams</em> (see Chapter 1). It is strongly recommended that local facilitators be used in the core team to create a sense of local ownership. This requires training them on the value chain approach in advance. The support team can assist by organizing focus group discussions or arranging appointments for interviews.</td>
</tr>
<tr>
<td>How long should research on a value chain take?</td>
<td>Research on a value chain should not exceed 4-6 weeks (depending on the degree of the initial, as well as the geographic, scope of the initiative). Keeping the value chain research short and concise will secure support by market players (the longer it takes, the more market players will wonder whether the value chain initiative is really useful).</td>
</tr>
<tr>
<td>What is the scope of research on a value chain?</td>
<td>Value chains are often part of markets with varying scope: export markets, domestic markets, or even more limited local and regional markets. It is therefore often hard to say where value chain research begins and where it ends. The research on and analysis of global value chains is often a very academic exercise that is remote from local market realities – although they provide useful information about market requirements and demand conditions. For most bottom-up value chain initiatives what is feasible ends at the national boundaries. Interviews and focus group discussions would therefore include market players up to the exporter level. Top-down value chain initiatives – e.g. by multinational companies seeking to improve their supply chains – have the advantage that they can cross national borders. Depending on the nature of your organization as well as your objectives, value chain research therefore varies in scope. Despite this rather vague advice, you should always keep the usefulness of information for your target group in mind.</td>
</tr>
<tr>
<td>How much do I need to travel?</td>
<td>Value chain research always requires some degree of travelling to conduct interviews and focus group discussions with market players. Most (if not all) travelling would be done within national boundaries. You therefore need to allow enough time and resources (vehicle) for this purpose.</td>
</tr>
<tr>
<td>What resources are required for researching a value chain?</td>
<td>The following resources are typically needed to conduct research on a value chain:</td>
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<tr>
<td></td>
<td>• Card equipment for focus group discussions (boards, cards, pins, marker pens, wall paper)</td>
</tr>
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<td></td>
<td>• Vehicle and fuel for transport to and from interviews / focus group discussions</td>
</tr>
<tr>
<td></td>
<td>• Probably contracts for local facilitators from partner organizations to conduct interviews / focus group discussions</td>
</tr>
<tr>
<td></td>
<td>• Communication and IT facilities: phone, fax, computer, Internet access</td>
</tr>
<tr>
<td>What do I need to prepare before starting my value chain research?</td>
<td>Before starting to research a value chain, the following is recommended as preparation:</td>
</tr>
<tr>
<td></td>
<td>• Designing a framework for VC research: key objectives and questions</td>
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<td></td>
<td>• Depending on the type of interview: questionnaires or guidelines for interviews with market players from different VC levels</td>
</tr>
<tr>
<td></td>
<td>• Guidelines for focus group discussions</td>
</tr>
<tr>
<td></td>
<td>• Making appointments for interviews and focus group discussions (though not all appointments need to be made before starting the VC research)</td>
</tr>
<tr>
<td></td>
<td>• A work plan for the next 4-6 weeks, with schedule and names of interviewees and participants in focus group discussions, as well as the persons/facilitators responsible</td>
</tr>
<tr>
<td></td>
<td>• A team meeting in which the core and support teams are briefed on the research methodology, and interviews and focus group discussions are practised</td>
</tr>
<tr>
<td></td>
<td>• Designing a documentation strategy to ensure that no information gets lost within the VC research</td>
</tr>
</tbody>
</table>
4.2 Developing a framework for value chain research

Essential questions to start with
The essential questions before starting with interviews and focus group discussions are:

- What are my primary interests within the value chain system (targeted Decent Work objectives)?
- Who are the relevant market players (target group)?
- What do I want to ask them (indicators)?
- And how (method)?

These questions set the methodological framework for researching a value chain and should be discussed at a team meeting before starting with interviews and focus group discussions for the research. The following section will take you through the process.

Box 4.3: Example from ILO projects in Madagascar and Sri Lanka

After conducting a start-up workshop (see Chapter 2) with key market players, in which main opportunities and constraints were identified for the selected sector, the core and support teams sat down in a separate meeting to discuss the further procedure.

Experiences with previous value chain initiatives had shown that rather than trying to cover a wide range of issues within the value chain, it was more important to focus on only a few key constraints, and identify their underlying causes, the incentives of relevant market players and leverage points for sustainable market interventions.

The start-up workshop gave the team an idea of the most pressing issues in the sector. They selected three of these issues, assuming that if these could be solved the sector as a whole would make enormous progress towards enhanced competitiveness and subsequently towards ensuring more jobs and income.

After deciding on the key areas for the value chain research, the team identified the relevant market players on the basis of their value chain map (see Chapter 3). These market players would play a significant role in finding answers to the underlying causes of the three key constraints. Some of these players were major lead firms, others were small and rural producers.

The team then discussed which questions it was important to put to the market players identified and how these questions should be asked. It was agreed that individual interviews would be conducted with managers from the lead firms and that focus group discussions would be held with the small producers (since they were easier to bring together). A semi-structured interview/discussion form was chosen for both cases.

Following this, the team set up a work plan for the next three weeks, in which each team member was assigned responsibility for several interviews or focus group discussions. It was agreed that they should always be conducted by two team members – never by one person alone, and that after every interview/discussion the responsible team members would write a summary report on their findings.

On the basis of this team meeting, the team leader sat down and prepared interview guidelines and formats for focus group discussions which would serve as a guide for team members. In the following three weeks the team conducted interviews and focus group discussions with the market players who had been identified and also met periodically to discuss and document the preliminary findings.
Step 1:

Deciding on specific Decent Work deficits (or markets) and relevant market players

So the first step is to identify key topics or areas for the value chain research. This means selecting some of the Decent Work deficits which you have identified in your initial research. The purpose of this step is to be able to “zoom in” on a specific market within the value chain system, understand how it works, and identify the underlying systemic causes for market failures, the role of market players and their incentives. Previous ILO value chain initiatives in various countries have shown that it is much more effective to select key topics for value chain research than to try to cover as many issues as possible.

What were the main constraints (symptoms)?

Go back to the findings of your initial research (see Chapter 2): Which were the constraints the key market players mentioned most? Constraints that are preventing the value chain from achieving its economic and social targets (five drivers for value chain development, see Introduction). Examples include: poor working conditions resulting in low labour productivity (labour market); lack of information and knowledge resulting in poor quality and low productivity (service and information market); low small producer incomes resulting in loss of opportunities for income and employment creation (core market between buyers and suppliers); insufficient access to financial resources resulting in lack of investment in new productive technologies; discrimination against women resulting in low family income levels; lack of skilled labour and recruitment of youth resulting in supply shortages on product markets (labour market); etc.

VC analysis is like a framework with different lenses

It is important to bear in mind at this point that value chain research and analysis is not a specific tool, but rather a framework into which you can put different lenses. You can look at value chains from a gender perspective, for example - i.e. try to identify the position of women in value chains and understand the underlying systemic causes of discrimination. The choice of key focus areas therefore determines the way you look at value chains.

Don’t try to find an answer to every problem!

All too often you will realize that sectors show signs of many different Decent Work deficits. However, bear in mind that you have limited resources and therefore cannot solve all of the problems! Select key areas where you think interventions can make a big difference in achieving Decent Work targets on a large scale (i.e. promising large-scale impact). Only by focusing on a few key areas can we move away from symptoms to an analysis of underlying systemic causes.
Value chain research: identifying Decent Work deficits

Box 4.4: “Zooming in” on specific markets within the value chain

The following checklist will help you to prepare a framework for value chain research:

**Box 4.5: Checklist – preparing a framework for value chain research**

<table>
<thead>
<tr>
<th>What is/are your focus area(s)?</th>
<th>What information do you need?</th>
<th>Who are the relevant market players?</th>
<th>Which method will you use?</th>
<th>Who in the team is responsible?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example: Poor working conditions resulting in low productivity and poor quality</td>
<td>Labour productivity, production costs, level of workers organization, good (low cost) workplace practices already applied</td>
<td>Employers (small entrepreneurs, company managers), workers, unions, industry bodies</td>
<td>Managers: semi-structured interviews; small producers: focus group discussions and observation</td>
<td>Names of team members for specific tasks (refer to detailed work plan)</td>
</tr>
<tr>
<td>Your turn...</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Taken from: The Springfield Centre (2008): Operational guide for M4P, see www.springfieldcentre.com
4.3 Focusing on specific Decent Work deficits and markets in value chain systems

**Step 2: Deciding on the contents of value chain research**

Once you have decided which lens to put into your framework (i.e. focus area) for value chain research, you need to think about relevant information for identifying underlying causes and market player incentives. The key questions for value chain research are therefore:

- What are the underlying causes of a market system’s underperformance?
- What are the primary obstacles to and opportunities for overcoming these problems?

To answer these questions, value chain initiatives need to go beyond the core of the market (i.e. transaction within the value chain), and explore the range of other functions which support and govern the market – i.e. rules and supporting functions. Decent Work deficits are often caused by underlying problems with supporting functions and rules – i.e. economic, social and political norms and institutions. Value chain initiatives therefore need to go beyond the symptom of the problem to understand the causes, from “what” to “why”.

**The importance of market player incentives**

At this level [value chain initiatives] should avoid simply describing specific market functions and the players that are currently performing those functions. It is essential to go deeper than that: to get insight into the players’ capacity and motivations for performing specific market functions and how well they are performing them. This means looking at:

- Incentives of players
- Capacity of players
- Relationships between players

[...] Incentives and capacity are critical. Value chain initiatives need to explore the reasons why players are acting the way they are and their motivations and ability to change. Assessments must help initiatives to understand the “political economy” of change, which is grounded in the incentives of market players in the private and public sector, whether formal or informal, large or small, national or international.

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33 The Springfield Centre (2008): M4P operational guide, Section 3B: Understanding market systems, Durham, UK.
34 ibid.
Value chain research: identifying Decent Work deficits

Box 4.6: Application example

The accessibility of retailers makes them the most common source of information for farmers. Farmers seek advice from retailers but are often suspicious of the value of information received—retailers are seen to “push” products rather than solve problems. Retailers in the main do not recognize the value of the information “service” they provide. For their part, they are reliant on large input supply companies for their information, but this information currently has a narrow focus geared to products—rather than vegetable cultivation practices per se. It is in the interests of input suppliers and retailers that farmers should be more successful; more and better information needs to be provided by the input supplier and retailers if this is to be achieved. The information problem is to a large extent a business model problem. The logical intervention focus is on working with input supply companies—which have the capacity and incentive to change—to improve the quality of information and advice available to farmers through retailers. This can enhance the reputation of input suppliers and their retailers, strengthen customer loyalty and increase sales.


Focus areas in VC research provide a basis for monitoring and evaluation

The decision on which particular Decent Work deficits to focus on also determines the choice of indicators selected for monitoring and evaluation during the implementation of interventions (see Chapter 7). The value chain research may in fact also contribute by collecting baseline data against which the progress of interventions can subsequently be measured.

If working conditions are your focus area, for example, and you plan to gather information on labour productivity, production costs and level of worker organization, then these indicators could also be selected for monitoring and evaluation as a basis for measuring progress.

Box 4.7: evolution of Decent Work indicators for monitoring and evaluation

The following sections of the guide reflect on some Decent Work focus areas within value chains—i.e. looking at value chains through an ILO lens. They may give you an idea of how to design the contents of your value chain research.
4.3.1 Social Dialogue in value chain systems: how market players cooperate

Definition of Social Dialogue
The ILO defines Social Dialogue as “all types of negotiation, consultation or exchange of information between representatives of governments, employers and workers on issues of common interest relating to economic and social policy”. Social Dialogue can be seen as consisting of three stages of dialogue intensity:

Three stages of intensity
1. **Exchange of information**: no real discussion or action on the issues concerned
2. **Consultation**: engaging in more in-depth dialogue
3. **Negotiation**: takes place at many levels; parties have to engage in a dialogue to overcome differences and reach an agreement; can provide a solid foundation for formal tripartite meetings and national level Social Dialogue.

**Box 4.8: Intensification of Social Dialogue**

![Diagram showing the three stages of Social Dialogue intensity: Exchange of information, Consultation, Negotiation.](source: Ishikawa (2000), available from www.ilo.org)

Using Social Dialogue as a tool for value chain development activities
Value chain development is about better communication and cooperation between value chain stakeholders - not only between large and small businesses along the chain, but also between government, employers and workers/employees. The participatory approach introduced in this guide is geared precisely to that goal. As the value chain initiative proceeds, dialogue between various stakeholders is strengthened - initially through joint workshops and interviews, then by forming a value chain steering group, and finally by negotiating the responsibilities for implementing proposed solutions.
Value chain development can only be successful if all stakeholders involved support the initiative; a value chain can only become more competitive and add more value if workers are also included with government and employers in the decision-making process; small enterprises in supply/retail chains can only be integrated more effectively if their voice is strengthened and communication with larger companies and government is enhanced. In summary: **value chain development is through Social Dialogue.**

**Assessing the degree of Social Dialogue in value chain research**

Dialogue between businesses in value chains in which other market players in the overall system are also included would usually take place within formal or informal frameworks: in (business) membership organizations, public-private partnership forums, steering committees, lobby groups, conferences, exhibitions and other events, round tables, etc. *The first step in researching a value chain would therefore be to identify these formal and informal dialogue platforms:* where do market players come together and exchange information? Where do market players negotiate and bargain for agreements? Using the market system model set forth in the introduction of this guide, this would mean identifying who is responsible for performing the **market function** of “dialogue between market players”.

**Understanding why existing dialogue mechanisms under-perform**

*The next step would be to understand how these market functions are performing and why, and whether all of the relevant parties are being included in the dialogue:* do the existing dialogue mechanisms and institutions sufficiently reflect the interests of all parties? Are workers and small producers involved in the dialogue? What about women? And how intensive is the dialogue? Does the dialogue address crucial bottlenecks in the industry and does it try to find common solutions, or does it merely serve as a forum for information exchange without resulting in action? What prevents market players involved in the dialogue from taking action? Does the dialogue address the incentives of key market players?

Value chain initiatives should never attempt to replace any existing dialogue mechanisms – irrespective of how weak and inefficient they are. They should instead focus on identifying the reasons for weaknesses and address these through appropriate actions that reflect market players’ incentives.

**Recommended reading on Social Dialogue**

4.3.2 Working conditions in value chain systems: more than just CSR

Bad working conditions are a symptom and cause of lack of competitiveness

Poor and disadvantaged people are part of value chain systems at various levels: as producers, service providers, workers and consumers. A symptom of poverty is poor working and living conditions affecting not only the health of people but also their social and economic status and recognition, their commitment to work and – most importantly – their productivity and loyalty to their employer, buyers or suppliers.

However, poor working conditions are not only a symptom of poverty but are often also a cause of system inefficiency and lack of product quality (see the five drivers of value chain development in Introduction and Chapter 5), resulting in the inability to compete on markets. Poor working conditions are therefore not only a social condition but become a serious economic factor determining income and employment opportunities for poor and disadvantaged people.

Poor working conditions perpetuate a vicious circle

The figure below tries to capture this point: poor working conditions (e.g. insufficient lighting and an unhealthy/unsafe working environment) affect labour productivity and product quality (e.g. through lost time due to injuries and illness). Since productivity and quality are weak, small producers – or firms employing workers in a poor working environment – are unable to meet requirements of higher value markets. Buyers become frustrated because suppliers are unable to meet demand, and as a result they shift their focus to other sources. This in turn means that income opportunities are lost for small producers, resulting in insufficient investment in productive technologies and better working conditions.

Box 4.9: Poor working conditions – a vicious circle
Value chain research: identifying Decent Work deficits

Poor working conditions undermine the ability of large companies to compete
Good working conditions are not only a matter for the CSR divisions of larger or even multinational companies; they also enhance the ability of companies to compete and respond to market requirements. One weak link in the chain can affect a business’s overall performance. The need to promote good working conditions in supply and marketing chains is highlighted by the following two points:

Increasing consumer/ market pressure
- **Changing consumer awareness and demand:** consumer associations, media and policy-makers are increasingly urging (multinational) companies to improve social and environmental standards in their supply/marketing chains, a fact that is underlined by the emergence and increasing popularity of fair trade standards and certifications. Unless companies are able to respond to this demand, they will lose markets to competitors who already have implemented good working conditions and control mechanisms.

Bad working conditions affect output and performance
- **Productivity and/or quality weaknesses** of suppliers/buyers also mean that companies face serious competitive pressure in terms of costs and quality structures. As shown in the circle above, weak supply also means that the buyer company will have problems meeting its own customers’ demand. Instead of cutting back on investments in more work-friendly production facilities, improving working conditions can enhance the competitiveness of companies on the market.

Example
This case is illustrated by an example of an ILO project in Sri Lanka, which also shows how value chain initiatives can approach this subject through initial research and then more detailed research on a particular subject within the chain.
The ILO Enter-Growth project conducted a value chain initiative for the coconut fibre (coir) industry in the North-Western Province of Sri Lanka. The coconut sector as a whole is an important source of income and employment in Sri Lanka and produces a wide range of products for the domestic market as well as export. Coir is the fibre product won out of the shell of coconuts, which again can be used to produce a wide range of value-added products: geo-textiles used for road construction and soil erosion prevention, machine-twisted fibre used as upholstery in car seats, twine for gardening and other purposes, coir pith for horticulture, etc.

The project together with the Industrial Development Board (IDB) of Sri Lanka started with participatory value chain research to identify general opportunities and constraints along the value chain and within the surrounding business environment. Trained facilitators conducted a number of focus group discussions and interviews with relevant market players: coconut plantation owners and managers, traders and collectors of coconut husk, coir millers, manufacturers and exporters of coir products.

The latter include some of Sri Lanka’s biggest conglomerate companies. Supply chain and marketing managers of these companies were complaining in particular about the unreliability of coir supply from millers as well as the lack of quality. Since coir supply is weak, companies are increasingly questioning their investments in the industry and some are also looking for other sources of coir supply. The largest company is even considering moving its operations in the coir industry to India – thus depriving thousands of people of job and income opportunities. Companies are also feeling the increasing competitive pressure from other countries: although Sri Lanka still contributes 24.7 percent of the total exports of the Asian Pacific Coconut Community (APCC), this share is rapidly declining as other countries such as Malaysia, Indonesia and Thailand enter the market with much higher productivity gains.

Having also spoken to coir millers and seen their mills, the ILO value chain initiative wanted to find the root cause of the problem and to understand the underlying reasons for low productivity and poor quality of mills. Millers for their part had been complaining about the inability to recruit skilled labour – especially young people. The team therefore suspected that poor working conditions were a major obstacle to higher productivity, and were the reason for poor quality and the lack of skilled labour.

The ILO then hired a reputed consulting firm with expertise in labour productivity and workplace environment. The firm put together a team comprising a medical officer, a labour and a skills specialist, and an engineer. Their task was to identify good workplace practices in coir mills – i.e. practices that were already in place and could be replicated by other millers without large investments. Small things that make a big difference.

The team then spent 4 weeks visiting coir mills all over the country, making observations, interviewing workers and millers and conducting focus group discussions. They also had further interviews with exporters in order to make sure that recommendations and guidelines reflected market requirements. Feedback discussions were also held with the steering group that the value chain initiative had temporarily set up to advise it on implementation.

The in-depth research of the consulting firm helped to identify many weaknesses in the working environment that were affecting the output of mills in terms of quantity and quality: serious health risks for workers working on rotating drums and retting ponds (amputations and fungal infections being common occurrences), low wages and lack of job security (workers had no health insurance and were not eligible for pension), incidences of child labour, alcohol abuse at work, unplanned factory layouts leading to waste of resources through inefficient handling, etc. The list is long.

However, the team not only pinpointed constraints but also identified many small, simple and inexpensive measures that millers could implement to improve working conditions – thus also improving mill output/income. The consulting firm put together a set of GWP (Good Workplace Practices) guidelines and conducted a training session for trainers to which BDS providers, supply chain managers from export companies as well as representatives of millers associations were invited. Using its authority as a UN agency for labour and working with the Employers’ Federation of Sri Lanka, the ILO also managed to get the large companies to endorse the GWP initiative and is hoping that the guidelines will be replicated throughout the industry – thus benefiting not only workers but also export companies and millers.

For more information see: www.entergrowth.com. Under “project library” you will find a report on “Developing the coir industry in North-Western Province”.
Value chain research: identifying Decent Work deficits

Understanding incentives and using the ILO’s authority
Better working conditions are not only a social objective, but have hard-nosed economic implications. All value chain research therefore needs to understand the incentives of market players to improve working conditions for men and women in value chains. Large companies can be an important leverage for wide-scale change. It is important, however, to understand their motivations for doing so. Appealing to social awareness alone will not suffice. Good working conditions implemented in cooperation with the ILO can be an excellent marketing tool, for example. This is also illustrated by the Ethical Tea Partnership example in Chapter 5.4.

How can one identify poor working conditions in value chains? Such conditions are those that fail to meet the expectations for working conditions in what the ILO defines as “sustainable enterprise” (see Box 4.11 below).

Box 4.11: Conditions of work in sustainable enterprise

“Sustainable enterprises offer conditions of work that provide a safe and motivating working environment and mutually beneficial flexible work organization. They adopt workplace practices that are free of discrimination, harassment and intimidation. They promote gender equality and equal opportunity and treatment of vulnerable groups. They apply workplace practices that maintain a sustainable balance between work, life and family and recognize the role of women in sustainable development. Good workplaces are safe and healthy and allow workers to contribute to changes and improvements. Sustainable enterprises also respect the relevant labour standards including minimum age for employment, reject the worst forms of child labour and, where relevant, address tuberculosis, malaria, HIV/AIDS and other chronic and life-threatening diseases.”

From indicators of symptoms to underlying systemic causes
Identifying poor working conditions in value chains only helps to identify symptoms, but not the underlying causes. But we need to identify the underlying systemic causes for poor working conditions if we want to formulate intervention strategies that will lead to sustainable systemic and long-term change. Identifying indicators for poor working conditions therefore always needs to be accompanied by the question: “WHY?” Why are small producers unaware of good workplace practices that would increase their profitability? Why are multinationals not ensuring that their suppliers introduce policies and practices in line with the spirit of the International Labour Standards?

The following questions could be asked when we consider our market system model:

• If poor working conditions are, for example, the result of lack of information about simple and inexpensive measures for improving enterprise output through a better working environment, which market player(s) would be responsible for this information function?

Value chain research: identifying Decent Work deficits

• Why is this function currently underperforming?
• Which market player(s) would have a real incentive to improve this market function?
• What is currently preventing them from taking action?
• etc.

The important thing is to understand what is behind the indicators; to understand systemic failures and the incentives of market players to overcome them. This might often mean exploring unconventional avenues: in our coconut coir case above, one could imagine, for example, that insurance companies have a clear incentive to make GWP part of their insurance policies with millers in order to reduce the costs that occur as the result of health and safety risks. Creative thinking is important.

Recommended reading on working conditions


4.3.3 Value addition in value chains: understanding who gains most

Objective: to add more value to local production for more jobs and higher incomes

Value addition is often mentioned in the context of value chain development, referring mainly to how local enterprises (especially SMEs) can generate more value within the local economy – thus creating more jobs and higher incomes. For example: instead of just producing and selling fresh tomatoes, local farmers could start adding value by processing the tomatoes into ketchup. You can imagine that this move would bring higher revenues to the local economy and that new job opportunities would be created.

One of the objectives of value chain research could therefore be to find out more about where in the value chain the most value is created. In order to understand the concept of value addition and how to calculate it, the following text (shaded in red) is quoted from the *GTZ ValueLinks Manual*. If you plan to look at value addition more closely within your value chain research, this will help you to design your research.

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Value chain research: identifying Decent Work deficits

**Definition of value addition**

*Value-added* is a measure for the wealth created in the economy. According to the definition used in systems of national accounting, total value-added is equivalent to the total value of all services and products produced in the economy for consumption and investment (the gross domestic product - GDP), net of depreciation. To arrive at the value-added generated by a particular value chain, the cost of bought-in materials, components and services has to be deducted from the sales value. Box 4.12 shows the calculation principle.

**Value is created through transactions in the value chain**

The sales value or revenue (price x volume) achieved by the value chain is divided between the value-added created by the operators constituting the value chain and the intermediate goods, inputs and operational services provided by suppliers who are not part of the core sequence of the value chain.

The calculation in Box 4.12 does not refer to an individual firm but to all enterprises in the value chain together and includes services and inputs provided by enterprises that are not part of the value chain. The growth of total value is a macroeconomic figure and a direct contribution to GDP growth.

**Box 4.12: Concept of value addition calculation**

<table>
<thead>
<tr>
<th>Components of total value generated by a value chain:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Value-added) = (total sales value) – (value of intermediate goods)</td>
</tr>
</tbody>
</table>

**TOTAL VALUE generated by the value chain**

- price x volume of final product sold

**VALUE ADDED**
- Wages
- Interests and rents
- Depreciation
- Direct taxes
- Profit

**INTERMEDIATE GOODS**
- Raw material, inputs
- Finished products
- Operational services

| Used to pay claims of the owners of production factors (capital, labour, land) + taxes |
| Transferred to suppliers of intermediate goods |


*Price x volume*
Calculating value addition
The calculation principle can be applied to each stage of the value chain as shown in the next box. The total value paid for and consumed by the final customers is split between value-added and intermediate goods. The latter are further divided between the semi-finished or finished (intermediate) products provided by the operators in the previous segment of the same value chain, and the (other) inputs supplied by external providers. The graph thus shows how the value-added is distributed:

- between the stages of the chain, and
- between the chain operators on one side and the external providers on the other.

Box 4.13: Concept of the distribution of value addition along the value chain

Creating more jobs and higher incomes by adding value
The sum of the five small blocks (‘Value added’ and ‘Other inputs’) indicating value-added is equal to the total value-added consumed. Income or profits make up only part of the value-added. A large share of value-added does not automatically imply high income. However, from a macro-economic point of view, the value-added is a more important parameter than the income of the chain operators. Eventually, the growth generated in related service sectors also counts in pro-poor growth.
Distribution of value addition can be shifted in favour of target group

Taking the graph in Box 4.13 as a starting point, different scenarios of value chain upgrading can be envisaged: the most obvious is “value creation”, i.e. higher sales volumes and/or prices – as a consequence of product improvement or cost reduction. Depending on the place in the chain where new value is being created, the distribution of the value-added changes. If, for example, traders manage to obtain higher prices by improving their marketing strategy, value is being created. The question is who receives (“captures”) the value-added. Since traders have to pay more to the product makers, part of the value-added will go to the previous chain segment. Product makers may have to purchase more, or more expensive, inputs, and this in turn shifts some value-added to input providers. It is certainly not easy to put numbers in the categories in Boxes 4.12 and 4.13. The absolute size of the value blocks in each stage of the chain can be determined by collecting data on the prices paid and the volumes traded. Box 4.14 shows price and thus value distribution in the milk example from Kenya.

Box 4.14: Distribution of value/revenue along the value chain

Capturing value through efficiency gains

“Value creation” and “value capturing” are interlinked: capturing value by improving the efficiency of input use increases the value-added of the chain stage concerned but reduces the purchase of inputs and thus the value-added of input providers. At the same time, the efficiency gain is likely to translate into improved competitiveness ensuring a greater market share and thus value creation.

The distribution between value-added and intermediate goods can only be derived from a detailed calculation of the average costs of the operators concerned.
Warning: knowing about value distribution is not enough!
Calculating the distribution of value over chains is certainly an interesting and revealing exercise. However, you should also know why you are doing this. The danger is that value calculation becomes a purpose in itself and results in paralysis through analysis. What do prices and value distribution at different value chain levels tell you about the underlying systemic causes of this particular value distribution? Why is value distributed in this way? Why do small producers get a relatively smaller share of the overall value than large companies? Knowing who gains most is therefore not enough; you also need to know why those who are gaining less are prevented from gaining more. Every calculation of value distribution must therefore be accompanied by efforts to seek the underlying systemic causes for unequal value chain distribution and to understand the incentives of market players to invest in higher-value-added activities.

Recommended reading on value distribution


4.3.4 Gender equity in value chain systems: understanding the position of women

Women work in various parts of value chains but face additional challenges

Women are part of value chains at different levels: as small producers, workers, service providers or consumers. However, they often face additional challenges that men do not face: balance between work and family life, discrimination in income and career opportunities, sexual harassment by male colleagues and superiors, lack of recognition due to cultural barriers, inability to buy and own property such as land, bearing and raising of children and the subsequent absence from work, etc. These challenges affect the way value chain systems work and compete. Fair and equal treatment of men and women alike (gender equity) is essential for exploiting the potential of human resources; it is essential for creating a productive and innovative working environment.

Value chain research and analysis can help to understand the position of women in value chains, as well as the underlying systemic constraints that prevent them from entering the mainstream economy or finding access to the same job and income opportunities as men. The following text is quoted from the ILOs guide for gender analysis and value chain development.37 It provides an idea of what is important to look at during interviews and focus group discussions, if gender is a particular focus of your value chain initiative.

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### Where women work in value chains

- Women who are working at different stages of the value chain but who are less visible, for example: in ancillary activities, temporary work, putting-out systems and homeworking. They are likely to be among the most vulnerable stakeholders. They may also be critical in attempts to improve quality and productivity.
- Women family members who are significant actors in ‘male-owned’ enterprises as managers, supervisors and unpaid family workers in production or reproductive activities. They may be not only vulnerable but also significant potential beneficiaries of management training and quality improvement measures.
- Women involved in enterprises or trading activities which might be displaced by certain types of upgrading strategies.
- Potential as well as actual female consumers who might be significant in market expansion at the local, national or international level.

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### Box 4.15: Understanding women’s role in value chains

#### Equality of opportunity

Are gender inequalities in the value chain perpetuated by:

- Gender segregation of tasks/markets/products?
- Gender discrimination within the production process?
- Gender discrimination in markets?
- Individual differences in skills, resources, time between men and women?
- Gender constraints at household/family/kinship level? e.g. lack of control over income, unpaid household work, restrictions on movements outside the home and relations with men.
- Gender constraints at community level? e.g. social sanctions and violence, withdrawal of social support, lack of business networks.
- Gender discrimination within development institutions? e.g. business development services, training, financial services.
- Gender discrimination in national legislation and policy-making?
- Gender discrimination in international agreements? e.g. on trade, aid and development programmes.
- Gender blindness/bias in the underlying conceptualization of issues and policies?

#### Empowerment analysis

- What are women’s own strategies for coping with constraints and maximizing opportunities?
- How far do these perpetuate or challenge inequalities at the different levels?
- What are women’s priorities for change?
- How do these compare with those of men?
A gender equity focus requires a research process that gives equal opportunities to men and women. Ultimately, in Gender Equitable Value Chain Action Learning (GEVCAL) both are participatory processes which involve women and men and where interpersonal dynamics and power relations will be considered in the designing of the process. Gender issues will also be relevant in deciding the appropriate mix of participatory, quantitative and qualitative methods. Some issues will be investigated more cost-effectively through specifically designed participatory workshops designed to give women confidence and also to give them an opportunity to discuss things with other women which they have not discussed before and also to explore differences of opinion and conflicting interests. This may include areas generally considered very sensitive like sexual harassment and domestic violence. Other issues such as income levels may require individual interviews if very specific details are required.

**Box 4.16: Women in Smallholder Dairy Farming in Zambia**

![Membership in Smallholder Dairy Cooperatives in Zambia](image)

**FIG 1:** An analysis of the membership of smallholder dairy milk cooperatives in five rural districts in Zambia’s Southern Province. Source: A Gender Analysis of the Dairy Sub-sector Local Value Chain for Smallholder Farmers in Zambia. Zambia Association for Research and Development (ZARD) for the ILO BDS Project. Available from the ILO Lusaka Area Office. www.ilo.org/lusaka or www.bdszambia.com

Most of the members of smallholder dairy cooperatives are women but their share of key responsibilities in the management of milk cooperative centres is minimal. Women have very little representation in the milk centre management team and therefore very little influence over key issues such as access to markets and negotiation of better milk prices with processors and milk hawkers.
The ILO ZARD Report reveals that there are also inequalities in access to business support services, including formal business entry and licensing, which adversely affect women entrepreneurship development and business prosperity.

What is more, access to micro-credit and micro-insurance is a key constraint facing women and youth in Zambia’s smallholder dairy sub-sector. This problem is compounded by the lack of collateral reportedly due to difficulties connected with their limited access to land and property rights, access to formal courts, and justice in informal courts in the various chieftaincies in Zambia, for example.

The report suggests that further research is required on the extent to which the current formal regulatory and legal systems in Zambia support gender equality and women’s economic empowerment in order to determine exactly what revision and improvements are necessary.


NOTE: This example illustrates that where gender equality is a cross-cutting theme or main issue for development, there is a need for specific and separate analysis of the Value Chain from the gender perspective in order to accurately reflect the issues specific to women. The first VCA conducted by the BDS project did not highlight these issues in a manner that warranted specific upgrading solutions targeting women.
Box 4.17: Gender issues in the investigation process

- Does the research team have the appropriate gender balance to carry out the investigation? Do they have sufficient training in gender-sensitive questioning?
- Are women stakeholders from different backgrounds adequately represented? Are there any specific methodological issues which need to be considered?
- What are the likely key areas of sensitivity which will need to be taken into account? Might this require a strategy for the progressive introduction of particular questions? Should individual qualitative methods be used rather than participatory methods? What sort of preparation might be needed?
- Given the particular areas of sensitivity, vulnerability and vested interests identified, might this require a strategy for phasing the participation of certain stakeholders? What sort of preparation might be needed?
- How is representation of the most vulnerable women to be ensured? For example, are separate workshops and investigations planned for these groups? Are their specific needs in terms of timing and location of meetings taken into account?
- How can sustainable networks amongst women and between women and men be progressively built in the course of the investigation?


The participatory process needs to be complemented by a gender research framework

It is important to stress that the participatory process may not suffice alone for raising and identifying gender inequalities, even where they are important for women themselves. Even a well-facilitated participatory process will therefore need to be complemented by use of some version of the ‘gender lens’. This gender lens provides a framework within which the outcomes of the participatory process can be situated and which can then be used to pose further questions beyond those which occur spontaneously. This framework can also be used to help design statistical surveys and qualitative interviews in all types of VCA.

Several considerations for interviews

In individual interviews it is important to bear in mind the gender of both the interviewer and interviewee. The sex of the researcher is likely to influence the types of responses given\(^{38}\). In general, where possible, male researchers should talk to men and women researchers to women when gender issues are being explicitly discussed. In many societies, it will not be possible for women to openly discuss their gender-related problems with men, even where men are allowed to talk to women on other matters. It will therefore be very important to ensure a gender balance on the research team, and also to take the relative genders of interviewer and interviewee into account when analysing the responses.

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\(^{38}\)Research by Cloke, J. (2001) with entrepreneurs in Nicaragua, for example, found very different responses from both women and men from the same households to the same simple questions about ownership and decision-making in the household depending on whether the interviewer was male or female.
4.3.5 Calculating costs in value chains

Are higher labour wages a threat to competitiveness?

Competitiveness can be achieved through quality or cost leadership. Emerging market generally enjoy a cost advantage (e.g. cheap labour and land) over developed markets, which in turn focus on high-tech quality research, production and services. However, emerging markets also compete against one another with similar products and services and therefore also underlie pressure on cost structures and system efficiency, as the benchmarking example in Box 4.17 below illustrates. Interestingly, the example also shows that higher wage costs for labour do not necessarily pose a threat to competitiveness: labour costs need to be seen in relation to labour productivity.

The following section again quotes from the *GTZ ValueLinks Manual*39, which provides useful guidance for calculating costs in value chains.

**Box 4.18: Example – Benchmarking costs per T-shirt between Kenya and Honduras**

<table>
<thead>
<tr>
<th>Sourcing</th>
<th>Production</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import dependence</td>
<td>Raw material costs</td>
<td>labour costs / shirt</td>
</tr>
<tr>
<td>Kenya 65%</td>
<td>$2.30</td>
<td>$0.40</td>
</tr>
<tr>
<td>Honduras 80%</td>
<td>$0.80</td>
<td>$0.25</td>
</tr>
</tbody>
</table>

High tariffs:
- Honduras = 9.6%
- Kenya = 21.9%

High cost of logistics:
- Honduras = $658 / TEU
- Kenya = $1475 / TEU

Lengthy customs clearance for imports:
- Honduras = 4 days
- Kenya = 15 days

Lower wages:
- Honduras: $12 / man-day
- Kenya: $9.40 / man-day

Lower labour productivity:
- Honduras: 45-50 shirts/day
- Kenya: 20-25 shirts/day

Lengthy customs clearance for exports:
- Honduras = 1 day
- Kenya = 2 days

High incidence of rejects:
- Honduras: <1%
- Kenya: >3%

Source: Presentation by Uma Subramanian, FIAS, in Vienna to Donor Committee Working Group on Linkages and Value Chains, 2006

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Value chain research: identifying Decent Work deficits

Competitiveness depends on production costs along the VC

[...] Corporate accountancy data are also relevant for the economic analysis of value chains as a whole, because overall chain competitiveness depends on the cost of production in each of its segments. Calculating production costs in value chains involves:

- aggregating the costs of enterprises in a particular segment to arrive at average figures for the value chain or for the sector as a whole
- relating the data to the functions in the value chain. Here, it is not the firm that is the accounting unit but the sequence of production and marketing operations defining the value chain.

Singling out operations that cause high costs

In order to achieve this, the functional sequence of the value chain has to be broken down into minor steps. Next, the unit cost of each operation is measured (or estimated). The procedure comes close to “Activity-Based Costing” (ABC) analysis in which costs are assigned to business activities. ABC analyses incorporate causal relationships between production activities and costs or output. Those operations which are likely to cause exceptionally high costs are of particular interest and can be singled out for a more detailed analysis. The cost calculation of a relatively short chain is shown in Box 4.18 on the basis of an example of export rice production in Cambodia.

Box 4.19: Example – Cost calculation related to the rice value chain in Cambodia

<table>
<thead>
<tr>
<th>Costs of performing functions in the production of Neang Mali Rice for export, Cambodia (in US dollars/ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rice production</strong></td>
</tr>
<tr>
<td>• Land preparation</td>
</tr>
<tr>
<td>• Seeding</td>
</tr>
<tr>
<td>• Transplanting</td>
</tr>
<tr>
<td>• Fertilizing</td>
</tr>
<tr>
<td>• Harvesting</td>
</tr>
</tbody>
</table>

Costs FOB 129.13

Calculating unit costs
The unit cost calculation for each operation includes the direct costs in the first place, i.e. the cost of bought-in material and services, energy consumption, wages, variable costs of machinery and the like. Fixed costs, e.g. interest charges or administrative costs are calculated for entire segments of the chain. The series of cost calculations is compiled along the chain.

Difficulty in accessing corporate cost data
The data will most probably have to be obtained indirectly, either as estimates derived from cost calculations in comparable enterprises elsewhere, or through model calculations of specific operations. For obvious reasons, the potentially best source of data - books kept by typical enterprises - is the most difficult to access. The data used in the example above have been obtained through interviews.

Other measures of economic performance: time, productivity, waste rates, etc.
Apart from the cost figures for chain functions, business activities can also be assessed in terms of the time needed to perform them. Other measures of economic performance are productivity indicators, e.g. the number of T-shirts produced per worker per day, the utilization of production capacity in percent, waste rates or the yield of agricultural products per hectare of irrigated land. Such indicators are good proxies for the unit cost of production and can serve as a basis for competitive benchmarking.

Important: identify underlying causes behind cost drivers (interpretation)
Whatever the methods and results of cost analyses in value chains, the decisive question is how to interpret the data. Cost analyses can be used to:

- identify cost drivers across different stages of the chain and thus the cost reduction potential of typical firms operating at the same stage
- assess the position of the value chain vis-à-vis competitors, comparing unit cost with those of competitors (benchmarking).

Transparent calculation of production and processing costs also has a direct benefit for chain upgrading, as it helps to build trust between the partners in the value chain and provides a reference for negotiations. The following additional analyses set the basis for an interpretation of cost data thus providing the link to strategy formation.

Identifying cost drivers by calculating cost distribution
Identification of cost drivers
Using the type of cost analysis presented in Box 4.18, major cost components can be identified by calculating the cost distribution in percent. The example shows that the cost of fertilizers and the cost of transplanting constitute the two major cost items and therefore
might offer a substantial cost reduction potential. In fact, closer analysis reveals that fertilizers in Cambodia are of lower quality and are not being used effectively. The higher transplanting cost can be explained by low labour productivity. By analysing important cost components in detail, cost drivers such as high waste rates, underutilized economies of scale or underexploited opportunities for using co-products can be identified.

Understanding transaction costs within the value chain

Identification of excessive transaction costs
A type of cost that is particularly relevant in value chain analysis is “transaction costs”. Transaction costs result from activities for (a) searching market information and screening market opportunities (b) negotiating contracts, (c) handling the produce (e.g. storage, transport, administrative costs and claims) and (d) monitoring and enforcing contracts (e.g. quality control costs, insurance premiums). Transaction costs cannot be avoided but their amount depends to a large extent on the availability or lack of information, market transparency, appropriate legal regulations and trust. Typical examples of important and tangible transaction costs are the costs of handling produce in a seaport, local taxes and the administrative burden on road transport or the average rate of supplies that have to be rejected.

Comparing the cost structure to those of competitors (benchmarking)

Competitive benchmarking
Competitive benchmarking compares the value of key indicators of the economic performance of the value chain in question with the value of the indicators in other comparable value chains in other countries. Benchmarking can refer to the unit cost of production, labour productivity or indicators of technical efficiency. For example, the international benchmark for labour productivity in the production of basic shirts is 18-25 pieces per day, while the respective figure in Ethiopia is 8-10 pieces per day.

Besides these economic parameters, benchmarks can be established for any other quantitative or even qualitative aspect of the value chain, including, for example, growth rates, investment in technology, research or staff training, existence of market regulations and standards etc. Benchmarking allows comparing the value chain in question with an industry average or best practices of competitors. The comparison helps to identify upgrading needs and potential and to identify new market opportunities.

From cost distribution to cost drivers to underlying reasons
As mentioned in the text above and in Section 4.2.3, calculating costs is not enough: it is essential to interpret the data collected! This means identifying the cost drivers and understanding the reasons behind them - the underlying systemic constraints that prevent enterprises from entering a more cost-efficient production strategy. Every cost analysis therefore needs to be accompanied by efforts to seek the underlying causes. Bare numbers will not suffice for formulating intervention strategies that lead to sustainable Decent Work outcomes.
4.3.6 Lead firms in value chain systems: understanding power relations

Understanding value chains is about understanding relationships

Dealing with value chains requires an understanding of how the value chains are organized (or coordinated) and in particular, who has the say in the chain (power relations). This is what is meant when referring to value chain governance. Value chains display a variety of different “governance structures”, and the recognition of different forms of governance in global value chains has important implications for the question of upgrading, that is to say, how enterprises can move into higher value-added activities.

The figure in Box 4.19 illustrates different types of governance that can occur in value chains. The degree of power asymmetry increases from left to right. Loose connections between enterprises are indicated by a thin arrow, as in market-based relationships. The stronger the relationship between enterprises, the thicker the arrow.

Hierarchical relationships

1. Many chains have a dominant player who determines the overall nature of the chain. The powerful players are often called lead firms, who seek to govern the chain. Lead firms often set and/or enforce terms under which other actors in the chain operate. When a lead firm has extensive control or even takes over direct ownership of parts of the value chain, we speak of hierarchical relationships. A central concern of value chain analysis is to understand the relationships between global lead firms and local producers – and the opportunities and constraints that result from entering such relationships.

Recommended reading on cost calculation in value chains

Network-type relationships

In other chains there is intensive interaction, but the relationships between the enterprises are uneven. We would speak of more network-type relationships. These relationships include: a) modular relationships, where suppliers make products or provide services to a customer’s specifications, and tend to be highly competent with an ability to provide “turn-key” or “full-package” services; b) relational relationships, which are often complex interactions between buyers and sellers and often create mutual dependence and asset specificity; and c) captive relationships, which are typical of situations where small suppliers are transaction-dependent on much larger buyers. Suppliers face significant switching costs and are therefore “captive”.

Market-based relationships

Not all chains are governed by powerful lead firms. In some chains there is buying and selling (transaction) but little exchange of information and learning from one another (interaction). This type of value chain governance consists of market-based relationships, because the conditions of exchanging goods and services are negotiated daily on the basis of the market price.


Recommended literature on value chain governance:


4.3.7 Business services and value chains

Putting services into the core of market systems

It is coming to be recognized that the key determinants of improved productivity and competitiveness lie in improved knowledge, information and skills. Services are a critical means through which industry-specific information and knowledge is generated and transferred. However, the mechanisms by which these services are delivered and the market players who deliver them vary. Value chain research needs to identify these mechanisms and market players in order to provide the basis for informed and effective intervention strategies around knowledge and information.

In terms of our market system model, we see services as a supporting function of a given value chain, and in a second step we take these services and put them into the core (as illustrated below), i.e. “zooming in” on the transaction between service providers and customers/users of services and looking at the market system for services.

Box 4.21: Putting services into the core of market systems

Example: From vegetables value chain  

![Diagram showing the integration of services into a value chain]

Adapted from: The Springfield Centre (2008): M4P operational guide, for DFID and SDC, Durham (UK).

*Elliott, David (2006): 14
VC research: understanding different delivery mechanisms for services

Typically, a distinction can be made between three different types of service categories:41

**Transactional services: “stand-alone” fee-for-service**

1. **Transactional services** are provided on a “stand-alone” basis by specialized service providers. Often services are bundled together with other services or products – for example when assistance in adopting new technologies is combined with design and training services. Service in this case is the product that is being traded from provider to user usually on a fee-for-service basis.

When one looks at a particular value chain (such as vegetables), transactional services are not necessarily part of the chain itself, but rather part of the supporting functions that enable the value chain to function efficiently. One could say that transactional services facilitate transactions within value chains. However, they constitute a value chain on their own, Extending from market research and the development of new services to the training of service providers, the provision of services, the customer/user of services and then a feedback process feeding back into the development of new services. They generally do not cater for specific sectors but provide services to a wide range of other sectors.

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**Examples of transactional services:** financial services, insurances, transport services, communication services, training and information, management advice, etc.

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**Embedded services: part of commercial transactions in value chains**

2. **Embedded services** are services packaged within or bundled around commercial transactions between a buyer and seller, and are therefore part of core transactions within value chains. They are typically not as visible or as tangible as other service delivery mechanisms and therefore often receive less attention. It is found that lead firms are often the drivers behind embedded services, thereby ensuring that operations along the chain are cost-efficient and effective (i.e. that business partners meet market requirements) and that the competitiveness of the overall value chain is guaranteed. Embedded services are especially characteristic for business models such as franchising42, sub-contracting and licensing.

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41See Elliott (2006) and Tanburn et al. (2001)
42See Henriques and Herr (2005)
Embedded services compensate for limitations of other service mechanisms
Interest in embedded services as a credible mechanism for service delivery is growing, particularly as the limitations of other mechanisms become clear:

- Failing public services in general, particularly in rural areas;
- Areas with thin markets and low economic activity limiting incentives for fee-for-services;
- Information within social networks that is growing stale and is not reinvigorating;
- Tightly controlled media reducing competition for innovation.\(^4\)

Embedded services as a precondition to competitiveness
In the context of value chain development, embedded services are a crucial factor for understanding relationships between businesses as well as the ability of chains to compete on the world market. Embedded services are an essential mechanism by which knowledge and information is passed on along the chain. The better this mechanism functions, the more the value chain will be able to react to changing market realities and remain competitive.

The risks and dangers of embedded services
Providing embedded services however is often a tricky issue for lead firms – particularly if the recipients are small and informal enterprises. The informal nature of relationships – i.e. the absence of legally binding contracts between buyer and supplier – allows small enterprises to take advantage of services provided by lead firms and to disappear (i.e. switch to another buyer/supplier) once the services have been provided. As a result, many lead firms are reluctant to invest in embedded services, despite the economic advantages it provides. But not only the lead firm looses: small enterprises switching from one buyer/supplier to another deprive themselves of a reliable and continuous source of knowledge and information, and, as a result, productivity, quality and income remain low.

Understanding market functions that support embedded services
Looking at embedded services within value chains therefore requires an understanding of the market functions and preconditions that support these services. Embedded services require a relationship built on trust and mutual understanding. Formalization of informal enterprises – or at least formalization of business relationships in the form of legal contracts – is an important precondition. Value chain research then needs to go on and ask: which market player is responsible for registration, formalization, legal enforcement of contracts, etc.? Why is this function currently underperforming (underlying constraints)? Who has the incentive to provide a solution? etc.

\(^4\)Elliot, David (2006): 14
Value chain research: identifying Decent Work deficits

Box 4.22: The benefits of embedded services – an example from Sri Lanka

<table>
<thead>
<tr>
<th>Cargills Food City</th>
<th>The open-market value chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cargills Food City is a major supermarket chain in Sri Lanka. The company supplies fruit and vegetables from a large number of small farmers throughout the country. To offer consumers products of high and consistent quality at competitive prices (i.e. below market average), the company collaborates closely with its suppliers, offering a wide range of services from training on new production technologies, supply of irrigation systems and loans, to quality control mechanisms, etc. The investment in embedded services, not only pays off for Cargills, but also for farmers (win-win): • low costs due to short distances and careful handling • higher incomes due to fewer intermediaries • higher quality and productivity due to the training system, embedded services &amp; quality control system</td>
<td>The open market value chain for fruit and vegetables in Sri Lanka consists of a large number of intermediaries, and is characterized by • high costs in terms of price and waste (post-harvest losses between 40 and 60%) • low incomes due to numerous intermediaries • low quality due to inadequate handling • low productivity due to inadequate access to technology, information &amp; services. There is also a clear mismatch between consumer demand and supply, since farmers lack access to market information that gives them planning security.</td>
</tr>
</tbody>
</table>


VC research needs to understand the market systems behind services in order to address underlying systemic constraints

Distinguishing between the three above-mentioned service categories helps to understand various delivery mechanisms for services, as well as to identify the market players that provide these services; it also helps to understand the incentives of market players to provide services – whether these are economic (as in fee-for-service or embedded services) or in the public interest. In order to understand gaps in the delivery of services, value chain research needs to understand the market system behind those services – i.e. the nature of relationships between service providers and recipients, their incentives as well as the supporting functions and rules that are behind service markets. Based on this focus on service markets, value chain analysis then needs to look at underlying systemic constraints that result in the target group being disconnected and isolated from information and knowledge distribution mechanisms.
4.3.8 Star diagrams: measuring sector performance against buyer requirements

Definition: Star diagram as performance indicator
The star diagram is a useful tool for assessing a sector's performance against its competitors on the basis of market requirements. The assessment reflects the views of large buyers supplied by small producers. The assessment would be part of interviews conducted with the managers of companies which buy from the target sector.

The outcome of this performance comparison in the form of a star diagram is a potentially powerful tool for highlighting competitive weaknesses and areas that need improvement. It also can help to prioritize interventions according to areas in which the sector faces the highest risks. When shown to market players, it often functions as an ‘eye-opener’, pointing to specific problems that enterprises have in fulfilling market requirements. It also points to necessary and specific changes.
Step 1:  
Requirements of buyers with regard to their suppliers  

What are the most important requirements that buyers have towards their suppliers? The main requirements can often already be established after initial research on the target sector (for example after the start-up workshop, see Chapter 2). You could also ask the buyer himself during the interview: “What are your five main requirements with regard to your suppliers (e.g. dairy farmers - i.e. your target group in the value chain)?”.  

Examples for buyer requirements are: fast delivery, low price, high quality, modern design, freshness, reliability/regularity of supply, fast response time to orders, flexibility, hygienic packaging, labelling, traceability, compliance with international standards, good customer services, product information, etc.  

Try to limit the selection of requirements to about five. If you have pre-selected the requirements prior to your interview with the buyer, you could reassure yourself during the interview, by asking whether the requirements have been identified correctly.

Step 2:  
Identifying competitors  

Who are the main competitors of your target sector? From which other regions (within the country if your value chain initiative focuses on a specific local economy, or another country in the case of national sectors) does the buyer source his products? Ask the buyer during the interview to give the names of his 3-6 main sources. If you interview several buyers, it is better to pre-select some sources in order to summarize all interviews in one star diagram later.

Step 3:  
Assessing buyers' confidence  

Now ask the buyer to evaluate the performance of your target sector and that of its competitors on a scale of 1 (very bad) to 5 (very good) by going through the main requirements.  

For example: “With regard to delivery time, how would you estimate the performance of T-shirt manufacturers in Kenya compared to China, India, Mauritius and Thailand - using a scale of 1 to 5?” Note the answers down as shown in Box 4.22 below.
Value chain research: identifying Decent Work deficits

Box 4.23: Constructing a star diagram

<table>
<thead>
<tr>
<th>Questionnaire</th>
<th>Star diagram example</th>
</tr>
</thead>
<tbody>
<tr>
<td>On a scale from 1 to 5, how do you assess the performance of your 4 most important suppliers* from different regions with regard to the following business criteria (mark your answer with a cross):</td>
<td>The answers on the left can be put into a diagram as done for two countries below. This can easily be done either in PowerPoint or Excel.</td>
</tr>
<tr>
<td>1  2  3  4  5</td>
<td></td>
</tr>
<tr>
<td>Innovative design</td>
<td>A**</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>C, D</td>
</tr>
<tr>
<td>Regular and reliable product quality</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>D</td>
</tr>
<tr>
<td>Price</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>B, C</td>
</tr>
<tr>
<td>Delivery time</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>C, D</td>
</tr>
<tr>
<td>Flexibility: coping with small orders</td>
<td>A, B</td>
</tr>
<tr>
<td></td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>D</td>
</tr>
<tr>
<td>Flexibility: coping with changes in large orders</td>
<td>A, D</td>
</tr>
<tr>
<td></td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
</tbody>
</table>

* Even if your local target sector is not one of the most important suppliers, include it in this list!
**India: A; Italy: B; Brazil: C; China: D. Could be done for competing national sectors or international sectors (as in example)

Step 4:
Evaluating information and constructing the star diagram

A star diagram is easily constructed with an Excel or PowerPoint programme. If you have interviewed several buyers, asking them the same questions above, you need to calculate the average mark for every performance criteria.

The star diagram provides very useful information. From the diagram above you can see, for example, that the local target sector can compete with India in terms of flexibility, but loses heavily in the other areas (especially in quality and price). The target sector therefore needs to improve its design and production functions in order to increase quality and reduce the price. The price and delivery time can also be further improved, for example, by avoiding unnecessary intermediaries along the value chain (direct marketing).
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Different versions of the star diagram
Star diagrams can also be used in a slightly different way:

1. **Buyer preference and actual performance of suppliers:** Instead of asking buyers to compare different and competing suppliers with one another, it might often be easier to ask the buyer to rate the importance of criteria on a scale from 1 to 5, and then to assess the performance of your target group against the same criteria. For example:
   - “How important is delivery time for you? Please rate on a scale from 1 to 5.”
   - “In terms of delivery time, to what extent do dairy farmers from … (your target region) meet your requirements? Please rate their performance on a scale from 1 to 5.”
   - The result can be used to assess, for example, to what extent small producers meet buyers’ requirements. This version of the star diagram has proved to be more useful where buyers have been reluctant to compare the performance of their various suppliers with one another.

2. **Instead of suppliers, use other target groups:** the same procedure explained above can of course also be used for different target groups: for example, small retailers in the marketing and distribution channels of large manufacturers, service providers supplying services to small enterprises (their performance could be assessed collectively, for example, by small producers in a focus group discussion), workers working for large companies as well as small enterprises (this could be done to assess the quality of the available workforce, for instance).

In past ILO projects, it has often proved difficult to obtain exact ratings by buyers. However, the efforts pay off, as the star diagram provides highly useful information for an intervention strategy. Managers of buyer companies might be more cooperative when the purpose and benefits of the whole exercise are explained.

**Further reading on Star diagrams**

**Mc Cormick and Schmitz (2001):** Manual for value chain research on homeworkers in the garment industry, Institute for Development Studies, University of Sussex, UK (available from www.global-valuechains.org)
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4.4 Methodology: Interviews and focus group discussions

Step 5:
Selecting a methodology for value chain research

Value chain research usually consists of a mix of interviews and focus group discussions with various market players as well as observations and secondary research – all of which require careful preparation if the objectives are to be achieved. Once you have developed a framework for value chain research (Section 4.2) and decided on specific Decent Work focus areas (Section 4.3), you then need to think about the methodology for collecting the required information.

Preparation for interviews and focus group discussions

Interviews and focus group discussions require careful preparation and monitoring during their implementation; documentation is also essential in order not to lose crucial information in the process. Preparation is important for various reasons:

• to extract the information needed to identify underlying systemic constraints
• in order not to waste people’s time (they have businesses to run and work to attend to!)
• to create a professional image with market players in order to secure their support and initiative.

Planning meeting with team

It is therefore recommended that a team meeting be held with the core and support teams before starting with interviews and focus group discussions for value chain research, (see Chapter 2) to discuss methods as well as practice them. The following questions should be asked at this meeting:

Guiding questions for preparation

• What are our focus areas, and what kind of information do we need? (see Sections 4.2 and 4.3)
• With whom do we need to hold interviews?
• How do we want to conduct these interviews?
• What kind of information do we expect from the interviews?
• With whom do we need to hold focus group discussions?
• How do we want to conduct focus group discussions?
• What kind of information do we expect to get from participants?
• What kind of rules do we need to apply for interviews and focus group discussions?
• How do we organize the documentation of interviews and focus group discussions in order to ensure that information is not lost in the process?

Using the value chain map as orientation

The value chain maps constructed earlier (see Chapter 3) can be a great help in identifying relevant market players for interviews and focus group discussions. Keep in mind that it is not always necessary to interview all market players of a value chain system, but that whom you interview depends on the kind of information you are interested in finding out.
The following two sections are in no way intended to give a detailed introduction to research methodologies, but rather try to briefly outline available options for interviews and focus group discussions in value chain research. It is assumed that the reader will have sufficient background experience in research or will otherwise make use of existing literature on research methodologies.
4.4.1 Interviews

Purpose of interviews in value chain research
During the value chain research you will conduct a wide variety of interviews with different market players such as the business managers of lead firms and small enterprises, representatives of organizations, business service providers, policy-makers, government authorities and extension officers, etc. The interview form is particularly useful when gathering information from market players that are located outside of your target area, or for obtaining more detailed and specific information from individual members of your target group (information that they would not share in a focus group discussion, for example).

Interview combined with observation for identification of Decent Work deficits
Conducting interviews with market players from different value chain levels will require a certain amount of travelling on your part - i.e. do not invite people to your office; go and visit them in their working environment. The interview thus combines audio with visual information through observation. Observation is particularly important in understanding Decent Work conditions of workers, small producers, women, youth and other target groups in the value chain.

There are various forms of interviews, ranging from open to closed and structured to semi-structured to unstructured. Which to choose depends on many factors: local communication culture, experience of the team members, available time and other resources, intended depth of research, etc. It therefore is not possible to give definite answers here; these need to be discussed within the project team. However, there are some general choices to be made, which are described below:

Definition of open interviews
An interview with an open form allows your interviewee to freely formulate his answers without restriction. As the interviewer, you will have prepared a guideline for the interview (a list of important questions for which you seek an answer), which, however, leaves the answer open to your interviewee.

An example: “What do you think of the new government policy on livestock import regulation? Does this have a negative impact on your business?”

An open interview form is appropriate if you want to gather as much information as possible. It is often easier to get information this way, rather than pressing your interviewees into a format that does not allow them to express themselves freely.

Definition of closed interviews
A closed interview would be based on a questionnaire limiting the interviewee to a set of answers. This form is particularly useful if you intend to bring the answers of several interviewees (who have all been asked the same questions) into a statistical format.

Example: “If you evaluate the performance of your suppliers on a scale of 1 (very bad) to 5 (very good), what mark would you give them for quality?”
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Box 4.25: Example of interviews and focus group discussions from Madagascar and Sri Lanka

Two ILO projects in Madagascar and Sri Lanka used an approach which combines a participatory local economic development approach known as PACA 44 with the value chain approach. After conducting their start-up workshop (initial research, Chapter 2), to which the project team had invited many different market players from the target sector to assess general opportunities and constraints, the team held a planning meeting in order to discuss further procedure.

During the initial research and start-up workshop, the team had identified various issues that were affecting the overall performance of the sector. Keeping their objectives (Pro-poor growth through promotion of Decent Work) as well as their organizational capacity in mind, they decided to select issues to which market players gave priority.

They then discussed how interviews and focus group discussions should be conducted with a view to finding out more about the priority issues and understanding underlying systemic constraints. Questions that guided the discussions were:

- Whom should we interview?
- How should we conduct the interviews?
- What kind of information do we want from the interviewees?
- With which market players should we conduct a focus group discussion?
- How should we conduct the focus group discussions?
- What kind of information do we want from the focus group discussions?

It was decided that open interview formats would be used, allowing enough flexibility to adapt interviews to specific contexts. However, a guideline would be prepared with lead questions that would give interviewers a clear orientation. Also, the team leader would develop a format for focus group discussions. Examples of interview guidelines and focus group discussion formats are given in the annex to this guide.

Clear documentation rules for interviews and focus group discussions were established: 1) interviews and discussions were always to be conducted by two people, 2) after every interview and discussion the interviewers would immediately sit down and write up the main findings to a summary report as well as provide copies of the interviewer’s filled-out question guidelines. Reports would then be collected by the team leader.

Having decided on the method of the value chain research, an action plan was drawn up for the next 6-8 weeks, in which the time frame and responsibilities were specified. Appointments for interviews and focus group discussions were subsequently filled into the action plan.


44 Further information on PACA is available from www.mesopartner.com, or: Meyer-Stamer, Jörg (2003): Participatory Appraisal of Competitive Advantage (PACA) – effectively launching local development initiatives, Mesopartner, Duisburg (Germany).
4.4.2 Focus group discussions

Bringing together market players with the same business background

For your value chain research, focus group discussions will be particularly useful when gathering information on local target groups. Small-scale market players with the same business background – i.e. the same value chain level – are much easier to bring together in such a workshop format than large buyers, suppliers or exporters from outside the target region.

Why focus group discussions are useful

Focus group discussions are particularly useful in understanding the dynamics of a particular value chain level: its perceptions about other market players, the relationships amongst group members as well as the nature of relationships with other market players, common constraints faced by the group, etc. It is therefore important not to design the focus group discussion as a question-answer session, but rather as an open discussion with lead questions that allow the participants to express themselves freely. Interviews are recommended for more specific information and should therefore be conducted in addition to focus group discussions.

Definition of focus group discussion

A focus group discussion is a group discussion that gathers together people from similar backgrounds or with similar experience to discuss a specific topic of interest to the researcher. The group of participants are guided by a moderator (or group facilitator), who introduces topics for discussion and helps the group to participate in a lively and natural discussion amongst themselves.

A focus group is not a group interview where a moderator asks the group questions and participants individually provide answers. The focus group relies on group discussion and is particularly successful when the participants are able to talk to each other about the topic of interest. This is important as it allows the participants the opportunity to disagree or agree with each other. It can provide insight into what a group thinks about an issue, the range of opinions and ideas, and the inconsistencies and variation that exist in a particular community in terms of beliefs and experiences and practices.

The discussion is usually “focused” on a particular area of interest. It does not usually cover a large range of issues, but allows the researcher to explore one or two topics in greater detail.

Focus groups are also “focused” because the participants usually share a common characteristic. This may be age, sex, educational background, religion, or something directly related to the topic. This encourages a group to speak more freely about the subject without fear of being judged by others thought to be superior, more expert or more conservative. For example, young women may not be as forthcoming with their ideas and opinions in the presence of their mothers or mothers-in-law as they might be if they participated in a group that excluded older women.

Source: Dawson, Manderson and Tallon (1993): A manual for the use of focus groups, UNDP, World Bank, WHO, published by International Nutrition Foundation for Developing Countries (INFDC), Boston, MA, USA (see www.unu.edu/Unupress/food2/UIN03E/uin03e00.htm)
It is suggested that you use a mix of card and question-answer exercises. Annex 3 provides you with an example of a focus group discussion format that has proved to be useful in previous ILO value chain initiatives in Sri Lanka and can serve you as guidance for your own focus group discussion. The combination of card exercises, Q&A and discussions should keep the workshop lively and interesting for participants. Maximum duration should be one and a half to two hours.

**Box 4.26: Checklist preparation for focus group discussions**

<table>
<thead>
<tr>
<th>Checklist</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Before the first session:</strong></td>
<td>Done</td>
</tr>
<tr>
<td><em>Membership</em> - Focus groups are usually conducted with 6-10 members. Select members who are likely to be participative and reflective. Try to select members who don't know each other. Select the members of your Focus Group carefully in order to have a representative group for the sector (see Checklist 2.4).</td>
<td></td>
</tr>
<tr>
<td><strong>Identify the major objective for the meeting</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Plan your session:</strong></td>
<td></td>
</tr>
<tr>
<td><em>Scheduling</em> - Plan meetings to be 1 to 1 1/5 hours long.</td>
<td></td>
</tr>
<tr>
<td><em>Setting and refreshments</em> - Hold sessions in a conference room, or other setting with adequate ventilation and lighting. Arrange the chairs so that all members can see each other, and also provide nametags for members. Provide refreshments, especially box lunches if the session is held over lunch.</td>
<td></td>
</tr>
<tr>
<td><em>Ground rules</em> - It is essential that all members participate as much as possible. It is useful to have a few, short ground rules that sustain participation. Consider the following three ground rules: a) keep focused, b) maintain momentum and c) get closure on questions.</td>
<td></td>
</tr>
<tr>
<td><em>Agenda</em> - Consider the following agenda: welcome, review of agenda, review of goal of the meeting, review of ground rules, introductions, questions and answers, wrap-up.</td>
<td></td>
</tr>
<tr>
<td><em>Plan to record the session</em> - Don't rely on your memory. If this is not practical, involve a co-facilitator who is there to take notes (alternative: audio or video recording).</td>
<td></td>
</tr>
<tr>
<td><strong>Call (potential) members to invite them to the meeting.</strong></td>
<td></td>
</tr>
<tr>
<td><strong>About three days before the meeting, call the members individually to remind them to attend.</strong></td>
<td></td>
</tr>
</tbody>
</table>
### 4.5 Further reading on value chain research topics

<table>
<thead>
<tr>
<th>Source</th>
<th>Title</th>
<th>Description</th>
<th>Website</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raphael Kaplinsky and Mike Morris (2000)</td>
<td>A handbook for value chain research</td>
<td>IDRC, pages 66-75</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>The M4P operational guide</td>
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<td>A synthesis of the M4P approach</td>
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<td></td>
<td>Perspectives on the M4P approach</td>
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</table>

This tool book – written in collaboration with the ILO PRISED project in Vietnam – provides further sets of value chain research tools:
Value chain research: identifying Decent Work deficits

Websites:
- M4P network: www.m4pnetwork.org
- Global Value Chain Initiative (GVCI), www.ids.ac.uk/globalvaluechains