The purpose of this topical guide is to describe a decision making approach that utilizes financial analysis during the decision making process. The ability to incorporate financial analysis into decision making will ensure interventions are focused on financially sustainable actions.

As a market facilitator, your ability to use financial analysis when making decisions will help you assist your internal team members and external partners to make more informed decisions by understanding the financial constraints faced by market actors. In this topical guide, you will learn about three financial analysis tools—Break-even point, Cash Flow Analysis and Return on Investment—and how to use these tools on your value chain program.

Throughout the topical guide, you’ll be asked to reflect on your own abilities to make decisions considering financial analysis as well as your ability to build financial capabilities in beneficiaries and other partners.
Market Facilitation requires the ability to make confident decisions in a timely manner using available information, accepting that financial data and information sources may not always be complete before decisions need to be made. This topical guide focuses on how to use different financial analysis metrics in order to answer key questions to ensure an intervention is financially sound. This is required in order to answer questions such as:

- Will the intervention be financially sustainable in the long-term?
- How do the financial benefits of this intervention compare to the investment required?
- What level of sales is required to cover our monthly costs?

The ability to use financial analysis to drive action is an important skill for market facilitators. Capacity building starts by first understanding basic financial tools in order to then engage market actors across the levels in a value chain in financial discussions. This topical guide strives to increase your comfort with three basic financial metrics—cash flow analysis, break-even analysis and return on investment—in order for you to then increase your ability to transfer these skills to your internal and external team members. It is recognized that organizations will continue to have dedicated finance teams for complex budgeting, analysis and reporting. This topical guide will not attempt to build your capacity to that level, but instead focus on how to best apply financial analysis within value chain programs working with our partners.

In order to help gain additional insight into how to use financial analysis within a decision making process, the Professional Skills Focus highlights a five-step decision making process. Use this section to apply your learnings from the topical guide by considering both the financial results and non-financial factors that weigh into evaluating alternatives in a decision.

**TOPICAL GUIDE TERMINOLOGY**

Within this topical guide, you will see the following terms referenced. Review the descriptions below and ask your mentor if you have any questions on how these terms are used in Value Chain Programming:

- **Break-even Analysis**: A technique used to calculate the amount of sales needed to match (break-even) with costs.

- **Cash Flow Analysis**: The movement of cash in and out of a business or project. The goal of cash flow analysis is to identify cash flow issues when cash being spent cannot be covered by cash being received.

- **Return on Investment**: Compares overall benefits to overall costs. The result is expressed as a percentage or a ratio and can be used to compare different investment opportunities against each other.
CHAPTER 1:
What it Means to Put Analytics to Work

Summary:
This is the first chapter from the book Analytics at Work: Smarter Decisions, Better Results.¹
In the book, the author discusses how organizations can use data and analytics to make better
decisions for their businesses. In this opening chapter, the author argues “the unexamined
decision isn’t worth making”. She proceeds to explain the definition of analytical decisions,
where analytics apply across sectors and also where analytical decisions are not practical or
need additional scrutiny.

When reading this chapter, reflect upon how both the benefits of being analytical (page 3) as well as the typical decision making errors (page 13) apply to your current value chain programs.

To read the full article, open the PDF version in the course folder.


Mentee Reflection

From the article, reflect on the difference between logic and process errors in decision making.
Describe a time when facilitating decision making with partners that you experienced one of
these types of errors.
When financial analysis is required as an input into the decision making process during your program implementation, follow this step by step guide to identify and select an appropriate financial analysis tool. There will be three steps within this section:

1. Selecting Financial Analysis Tools
2. Using Financial Analysis Tools
   a. Cash Flow Analysis
   b. Break Even Analysis
   c. Return on Investment
3. Communicating Financial Results

1. SELECTING FINANCIAL ANALYSIS TOOLS

The first step in selecting a financial analysis tool is to understand the question the financial evidence is supporting. Based on your role in facilitating a financial-based discussion with partners, one or more financial analysis tools may be appropriate to provide the evidence to the question on hand.

Refer to Figure 1 below for the three financial metrics that will be the focus of this topical guide and the questions they address:

**FIGURE 1: ANSWERING QUESTIONS WITH FINANCIAL ANALYSIS TOOLS**

<table>
<thead>
<tr>
<th>TOOL</th>
<th>DEFINITION</th>
<th>QUESTIONS</th>
</tr>
</thead>
</table>
| Cash Flow Analysis    | Estimates cash outflows (expenditures) and cash inflows (revenues) to calculate net cash available in future months/years | • Is there **sufficient cash to stay financially viable** while the business starts up and scales?  
• Will the cash inflows allow **debt to be repaid**?  
• Will this business become **self-sustaining** over time? |
| Break Even Analysis   | Estimates the volume of sales required to match or “break even” with costs   | • What is the **level of sales** required to cover costs?  
• At what point will **profits be made** from sales? |
| Return on Investment  | Compares overall benefits to overall costs.                                 | • How do the financial benefits of this project **compare** to the investment required?  
• How do the benefits from one opportunity **compare** to another opportunity? |
To further help you determine which type of financial analysis is required, use the checklist below to learn when these tools have been useful in past value chain programs.

- **Cash Flow Analysis**
  - Assisting Processors determine their cash balances to support the purchase of more efficient equipment
  - Training micro-entrepreneurs, such as agro dealer (input supply) shop managers, in managing their business
  - Working with a lead firm to assess the cash needs to set up operations in a new district

- **Break Even Analysis**
  - Helping small-scale farmers determine the volume of sales required for a new alternative livelihood crop
  - Working with a lead firm to assess alternative strategies for piloting a new technology or service

- **Return on Investment**
  - Facilitating a discussion with lead firms to compare opportunities that would create linkages with small-scale farmers in two different communities
  - Assessing alternative project investment opportunities and building a case for whichever option is ultimately selected by determining how best to use scarce project resources to spur innovation and achieve impact

**2. USING FINANCIAL ANALYSIS TOOLS**

Now it is time to use the financial analysis tool(s). Facilitating financial discussions will vary based upon your partners’ literacy level, financial knowledge and previous experience using financial data in decision making. Take these factors into consideration as you prepare to facilitate discussions. The ability to clearly communicate ‘why’ financial analysis is important and ‘how’ to use basic tools is an important element for sustainability in value chain programs.
In this step, you will be provided with instructions on how to use the following three tools. As you review, consider how you would use these tools to facilitate discussions with market actors across the value chain from beneficiaries to producers to lead firms.

- a. Cash Flow Analysis
- b. Break Even Analysis
- c. Return on Investment

**a. Cash Flow Analysis**

Remember, cash flow analysis is a financial tool to show the movement of cash in and out of a business or project. A cash flow statement compares ‘in flows’ and ‘out flows’ of cash to tell you whether a business is making or losing money in a given space of time. The goal of cash flow analysis is to identify cash flow issues when cash being spent cannot be covered by cash being received.

Here are a few additional terms that may be referenced when discussing cash flow analysis:

- **Operational Cash Flows**: Generated by buying input supplies or services and selling finished goods or services
- **Investment Cash Flows**: Generated by selling or investing in equipment, property (fixed assets)
- **Financing Cash Flows**: Generated by taking loans or paying interest

To calculate cash flow, a table format is most commonly used where the columns represent the time horizon (usually per month) and the rows represent individual cash movements such as sales of products, cost of input supplies and cash from financing or subsidies. When facilitating cash flow analysis with partners, use the appropriate tools based upon your partner’s literacy and education level. Collaborating on a flip chart or whiteboard may be appropriate for community organizations, while private sector market actors would use more sophisticated tools in Microsoft Excel.

Follow this guide to set-up a cash flow analysis. The Microsoft Excel template “Cash Flow Analysis” may also be used, this is available within the folder for this topical guide as a starting point.

**Step 1: Determine the Time Horizon (Column Headings)**

This is the period of time in which you want to run your cash flow analysis. Typically forecasts run for 1-2 years with periods of months. Title the column headings accordingly for each period the cash flow analysis will include.

**Step 2: Determine the Cash Movements (Row Titles)**

These will be organized into three groups – Cash Inflows, Cash Outflows and Totals. Add rows accordingly based on the specific inflow and outflows of cash movements. Make sure you consider the cash movements from operational, investment and financing cash flow activities. An example of a cash flow analysis template is shown in Figure 2.
When using the cash flow analysis template, consider of examples shown in the checklist below:

**Cash Inflows**
- Cash from sales of products or services
- Cash from loans or subsidies

**Cash Outflows**
- Cost of goods sold (input supplies)
- Purchase of equipment, property (fixed assets)
- Purchase of supporting services
- Interest payments
- Loan re-payments

**Totals**
- Calculate the total of the cash inflow rows minus the total of the outflows rows for the month. This shows you your profit or loss for the month.
- Underneath this, add a row for a cumulative “running” total. In this row add your profit or loss for the period to the previous running total. This shows your cumulative financial position at the end of the period.

---

**FIGURE 2: CASH FLOW ANALYSIS EXAMPLE**

**Table Cash Flow Analysis Worksheet**

<table>
<thead>
<tr>
<th>TIME HORIZON (MONTHS)</th>
<th>JANUARY</th>
<th>FEBRUARY</th>
<th>MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Inflows</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Receipts)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash From Sales - Product/Service 1</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Cash From Sales - Product/Service 2</td>
<td>50</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>Cash From Loan</td>
<td>200</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Cash From Subsidy</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Other (add rows as needed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Inflows</strong></td>
<td><strong>350.00</strong></td>
<td><strong>175.00</strong></td>
<td><strong>0.00</strong></td>
</tr>
<tr>
<td><strong>Cost of Input Supplies (Cost of Goods)</strong></td>
<td>50</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td><strong>Purchase of Services</strong></td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td><strong>Purchase of Equipment (Fixed Assets)</strong></td>
<td>100</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Cost of Staff Salaries</strong></td>
<td>20</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td><strong>Interest Paid</strong></td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td><strong>Loan Re-Payments</strong></td>
<td>0</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td><strong>Overhead (rental fee, other costs)</strong></td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Other (add rows as needed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Outflows</strong></td>
<td><strong>195.00</strong></td>
<td><strong>120.00</strong></td>
<td><strong>0.00</strong></td>
</tr>
<tr>
<td><strong>Net Cash Flow (Per Month)</strong></td>
<td><strong>$155.00</strong></td>
<td><strong>$55.00</strong></td>
<td><strong>$0.00</strong></td>
</tr>
<tr>
<td><strong>Cumulative Net Cash Total</strong></td>
<td><strong>$155.00</strong></td>
<td><strong>$210.00</strong></td>
<td><strong>$210.00</strong></td>
</tr>
</tbody>
</table>
Step 3: Populate the estimated cash inflows and outflows per time horizon
Fill in the estimated cash inflows and outflows for every column of the time horizon. Calculate the totals per period and cumulative either manually or using the automatic calculations created within the “Cash Flow Analysis” template.

You now have completed a basic cash flow analysis. Use this information to answer questions and inform decisions accordingly.

b. Break-even Analysis
Remember, break-even analysis is a tool used to determine when a business will be able to cover all its expenses and begin to make a profit. For value chain actors, it is very important to understand the estimated expenses relating to their business in order for them to calculate the sales needed to pay for the ongoing expenses and make a profit.

Follow this guide to calculate break-even analysis.

Step 1: Calculate Fixed Costs
- **Fixed Costs** are expenses that do not vary with sales volume, such as rent or insurance. These expenses must be paid regardless of sales, and are often referred to as overhead costs.
  ✓ Calculate the fixed costs for a given month or year by adding together all expenses that must be paid regardless of sales. For example, if a dressmaker pays $450 to rent store space and $50 for insurance, the fixed costs would be $500 per month.

Step 2: Calculate Profits
- **Average Gross Profit for each Sale** is the cash left over after you subtract the cost of the input supplies from the sale price.
  ✓ Calculate the average gross profit for sale by subtracting the cost from the sales price. For example, if the dressmaker sells a dress for $10 and the fabric cost $6, the average gross profit would be $4 per each dress sold.

- **Average Gross Profit Percentage** is the percentage of how much of every dollar in sales is profit.
  ✓ Calculate the average gross profit percentage by dividing your average gross profit figure by the average selling price. For example, the dressmaker makes an average gross profit of $4 on each dress sold for $10, the gross profit percentage (4 divided by 10) would be .40 OR 40%

Step 3: Calculate Break-even Point for Sales Revenue
Once you have fixed costs and profit numbers calculated, you can figure out the break-even point for sales revenue. **Sale Revenue** is the total cash from sales activities each month or year. This will tell you how much revenue from sales you need to generate in order to cover your fixed costs. Use the equation in Figure 3 below. The example of the dressmaker is shown as well.
Step 4: Calculate Break-even Point for Sales Volume
Once you have the target sales revenue, you can then calculate the sales volume required to break even. Sales volume is the total number of sales required. It is calculated by dividing by the sales revenue by the average sale price. Use the equation in Figure 4 below.

✓ Try adjusting the sales price higher or lower and see how the total sales volume required to break-even changes. Will the market support higher prices to reduce the amount of sales required? Or will a lower price generate the required volume to break-even?

You now have completed a basic break-even analysis. Use this information to answer questions and inform decisions accordingly.
c. Return on Investment

Remember, return on investment (ROI) is a financial tool used to compare the overall benefits to the investment. It represents the number of times an intervention returns the initial investment and can be used to compare two or more opportunities to determine the best option for returns over the useful life of the intervention. See Figure 5 for the formula to calculate.

Keep in mind that the calculation for return on investment can be modified to suit the situation since it is flexible in how you define and calculate the benefits and investment costs. There is also an element of ‘art’ to deciding what the useful life of the investment is so assumptions must often be made. Therefore, when using this financial metric, make sure you understand what inputs are being used in order to accurately communicate the assumptions and financial results.

Let’s start with a simple example of depositing cash into a bank. If a small-scale farmer was able to save $1,000 into a bank account and with interest had $1,030 by the end of the year, the Return on Investment would be 3% ($1030 - $1000 / $1000). Without comparing this percentage to other opportunities or benchmarks, the calculation is not as valuable. **Is this a good rate of return? Are there better opportunities that would have a higher rate of return?** Therefore, remember to use this ratio to compare opportunities in order to determine the best option for returns.

Follow this guide to calculate Return on Investment.

**Step 1: Calculate the Benefit**

The benefit is the total amount of money earned from the investment. If using more complex models, the benefit should be calculated for each year and discounted to the current value of money. However, for this topical guide, we will use a simplistic example.

Remember the Return on Investment metric can be modified to match the needs of the situation. Therefore the definition of “benefit” can be different which is why it is important to use the same inputs across comparisons and communicate the assumptions made. A simplified example is shown below:

- Calculate the benefit by understanding the additional gross profits after the investment has been made. For example, a dressmaker is able to sew apparel more efficiently with the purchase of a new sewing machine. As a result, sales grow from an average of 30 dresses to 35 dresses per month, which increases gross profit from $120 to $140 (assumption that gross profit is $4 per dress from break-even analysis example). Therefore, the benefit would be an additional $20 per month or $240 per year.
Step 2: Calculate the Investment

The investment is the total amount of money required to fund the opportunity.

✓ Calculate the Investment by adding together the sum of money that will be needed to fund the intervention. This could come in the form of cash and/or resources (time, expense). For example, the dressmaker’s sewing machine may cost $200 with maintenance costs averaging $50 per year. Therefore, the total investment would be $250 per year.

Step 3: Calculate Return on Investment

After calculating the benefit and the investment, proceed to calculate the return on investment using this equation shown in Figure 5: (Benefit – Investment) / Investment

✓ Calculate by first subtracting the benefit from the investment and then dividing by the investment. For example, the yearly return on investment for the dressmaker’s additional income of $240 per year would have a negative return of -4% in the first year (240–250 / 250). However, if the time horizon was expanded to two years, the additional investment needed would be $50 for the additional maintenance (total $300) but the original equipment cost would not be incurred again. Therefore, the ROI if two years was used as a time horizon would be 60% (480–300 / 300).

You now have completed a basic return on investment. As you can see from this example, it is very important when facilitating the use of return on investment to clearly document the assumptions made on sales, prices, etc as well as the time horizon used as large investments will often have multiple year periods required prior to seeing a positive return on investment. Also, remember to use this as a comparison tool between multiple opportunities or other benchmarks in order to help partners understand if the return is at a “good” level compared to other options.

3. COMMUNICATING FINANCIAL RESULTS

The final step is to communicate the financial results once the appropriate financial metrics have been calculated. Remember to articulate the assumptions that were made throughout the financial analysis process. Consider using a combination of text, graphics and other visuals to support your financial results. This is particularly important when facilitating with a lead firm, as it will communicate results in a business-like manner that type of audience is most familiar with. For more information on how to different tools – slide types, chart types and visuals—in your presentations, review the Professional Skills Focus “Presenting Executive Summaries”.
PROFESSIONAL SKILLS FOCUS: DECISION MAKING PROCESS

This Professional Skills Focus will walk you through a structured decision making process that will enable you to deal with the complexity of value chain issues, identify and analyze alternatives and make an informed decision. While decision making is already part of your day-to-day activities, this topical guide will highlight the value chain-specific factors that should be considered throughout the decision making process.

An additional benefit of using a structured approach is to minimize common errors when making decisions. Common errors include:

- **Narrow Perspective**: Taking into consideration only a short-term time horizon that is unsustainable in the long-term; Addressing a symptom of an issue without targeting the root cause
- **Filtering**: Screening out challenging findings or those that do not support the original decision
- **Over-confidence**: Making decisions based on personal assumptions instead of the issues and facts

A structured decision making approach comprises five steps prior to making an informed decision. During this focus section, you will walk through these steps and learn important value chain financial factors to consider along the way.

1. Frame the Issue and Decision
2. Understand the Context
3. Generate Alternatives
4. Evaluate Alternatives
5. Select the best Alternatives

1. FRAME THE ISSUE AND DECISION
The first step in decision making is to understand the decision at hand. Ask yourself and your team what needs to be accomplished by defining the goal and the outcome of the decision. Be cautious of how individual perspectives weigh into the issue by highlighting the biases of you and your team may have and coaching others to focus on the facts. Structure the goal and outcomes into brief one or two sentence statements as a way to summarize the decision.

• “The goal of the decision making process is to...”
  • The goal of this decision making process is to determine how to overcome the current lack of funding available for the scaling of a new product solution into the marketplace.

• “The outcome of the decision making process is to...”
  • The outcome of this process will be to identify the one or two best options to investigate further over the next two weeks through in-depth market analysis, interviews and financial analysis.

During the decision making process, select the right diverse group of people that need to be included which may include both internal and external subject matter experts across multiple levels of the value chain. Although you should make sure you include all important parties, also strive to keep the group to a manageable size as too many people may unnecessarily slow down the decision making process. Also consider the dynamics and governance within the value chain as you determine who should be involved given the power and influence of different parties.

With the group selected, determine the roles and responsibilities participants will play. A popular tool to use is the RACI model:

• R – Responsible The individual responsible for driving the decision making process
• A – Approve The final decision maker to approve the decision of the group
• C – Consult The individual(s) consulted throughout the process to provide expertise
• I – Inform The individual(s) informed of the decision making process and outcome

Once the decision making group is constituted, facilitate discussions and encourage participation between all parties as you continue onward.

2. UNDERSTAND THE CONTEXT
Once you understand the parameters of the issue and required decision, the next step is to ensure your decision making group understands the impact of the surrounding environment. During this step, it may be useful to revisit the Value Chain Map completed during the design phase of the value chain project for a visual representation of the environment and market actors.

To make an informed decision, identify the environmental factors that need to be considered across the value chain. Use Figure 6 to prompt you to consider factors across the different relationships and factors within the value chain map. A few considerations are listed below:

• Vertical Relationships – how does information, knowledge and financing flow today between input suppliers, producers, wholesalers, retailers, exporters and consumers?
• **Horizontal Relationships** – how does information, knowledge and financing flow across informal and formal horizontal groups, for example, cooperatives, associations?

• **Cultural context** – are there any cultural norms or gender-specific factors to consider, for example, the lack of women’s rights to secure loans or inherit land inhibiting sustained economic development in an area?

• **Political context** – what favorable and unfavorable political barriers exist impacting the issue and decision?

• **Economic Factors** – what emerging trends in the local, regional or internal market need to be considered?

**FIGURE 6: VALUE CHAIN MAPPING EXAMPLE**

![Value Chain Mapping Example](image)

NOTE

This list is not exhaustive. Depending on your situation, the context may need to consider a broad set of factors or a very specific targeted set of considerations.

**Considerations for Self Check**

- Do you understand the financial constraints of market actors and its impact to the decision at hand?
- Are there barriers to finance for value chain actors due to the environmental factors that are impacting the decision making process?
3. GENERATE ALTERNATIVES
The next step is to generate a list of alternative decisions. One popular way to generate a list of potential alternatives is to facilitate a brainstorming session with your team. When brainstorming, establish ground rules for how the session will be conducted, focusing on the importance of listening to one another and showing respect for ideas. Write down as many possible alternatives without judging or criticizing ideas as a way to stimulate additional ideas. Also, it is smart to use different facilitation techniques to ensure you encourage ideas from all participants; such as allowing individuals to write on Post-It notes and stick up on a common board. Think about the social styles of the participants prior to the meeting so you are prepared with ideas for gaining the best level of participation. For additional information on facilitating creative brainstorming sessions, refer to the Professional Skills Focus “Creative Brainstorming”.

4. EVALUATE ALTERNATIVES
Once you have a list of alternatives, it is time to evaluate your options against your original goal and desired outcome. The objective in evaluating alternatives is to weigh the risks and benefits inherent in any decision.

There are several tools available to weigh alternatives, but a simple tool we will use in this topical guide is the ‘Trade-Off Table’ worksheet. The table lists the alternatives that will be considered down the left hand column and compares them against selected criteria that have been defined across the top. The example on the next page is meant to help you with the process of putting together a ‘Trade-Off Table’ for your decision.

In order to use the ‘Trade-Off Table’ Worksheet, follow these steps. An example has been provided on page 12 in this topical guide:

   a. First, populate the goal and outcome section on the template. This should have been determined during the first step when you framed the issue and decision.

   b. Next, determine the 3-5 key criteria that will be used to compare the alternatives. Populate these in the given boxes across the horizontal axis. Sample criteria may include:

1. Cost / Budget
2. Complexity of implementation
3. Timeline to implement
4. Benefit to impact group
5. Resources required

Financial Analysis Check Point

For financial criteria selected above, complete the financial analysis before you proceed.
At this time, use the financial analysis tools—cash flow analysis, break-even analysis or return on investment—to compare alternatives.

c. With the vertical and horizontal boxes completed, fill in the matrix accordingly with your best rationale for how the different alternatives match up against the criterion. Once the boxes are completed, the worksheet will provide an informative picture of the important factors to consider when making the decision.

1. If needed, you can add a weight to the different criteria to have criteria prioritized according to importance. For example, cost / budget is most often the deciding factor owing to limited resources. Therefore, you could weight this option more heavily by applying a simple calculation across the criteria. However, this mathematical equation is not built automatically into the ‘Trade-Off Table’ at this time.

2. If needed, you can shade in the boxes a given color to represent the best answer within each respective criterion. This simple measure will help your audience visually see how the alternatives compare against one another.

5. SELECT THE BEST ALTERNATIVE
The final step is to select the best alternative based on the evaluation. With the facts in front of you, proceed to make the decision that aligns with your initial goal and purpose statements. As needed, the decision may require an approval process according to the RACI model that was designed in the first step of framing the issue and decision. Follow the approval systems in place to acquire the appropriate approval.

Once you have an approved and financially sustainable decision, it is important to communicate the decision to the internal tem and external partners that have participated in the decision making process. In the communication, be sure to explain the rationale and next steps for the decision and create a feedback loop for participants to ask questions.

By using this structured decision making approach, you will ensure financial analysis is considered as part of the evaluation process and the best financially sound decision can be made. As a market facilitator, it is important that you value the use of financial inputs in the decision making process and coach partners to do the same.
Decision Goal and Outcome:

The goal of this decision making process is to determine how to overcome the resource gap that currently exists in delivering post-harvest processing training to community based organizations. Three additional trainers are needed over a 4-week period.

The outcome of this process will be to select the best resource alternative in order to continue post-harvest training in two weeks.

WORKSHEET: TRADE-OFF TABLE

<table>
<thead>
<tr>
<th>LIST OF ALTERNATIVE OPTIONS</th>
<th>CRITERIA</th>
</tr>
</thead>
</table>
| 1 Hire External Consultants      | **COST**
|                                  | Expensive Hourly Rates. Would need 3 consultants for 4 weeks to complete training.
|                                  | = 480 consultant hours x consultant bill rate
|                                  | **EASE OF IMPLEMENTATION**
|                                  | Medium – Would require a hiring and screening process of local consultants. Timing would be based on external consultant availability.
|                                  | **SUSTAINABILITY**
|                                  | Low – Consultants would not be available for service after 4 week period

| 2 Conduct Train the Trainer with Local NGO to Deliver | **COST**
|                                                       | Low Rates for 3 local NGO trainers for 4 weeks of training. Would need 3 days for staff to delivery TTT
|                                                       | = 480 local hours x local rate
|                                                       | = 48 hours x staff rate
|                                                       | **EASE OF IMPLEMENTATION**
|                                                       | Medium – Would require scheduling the trainer session for local NGO trainers. Timing would be based on NGO trainer availability.
|                                                       | **SUSTAINABILITY**
|                                                       | High – Local NGO could continue to offer the training as a service

| 3 Pay Overtime for Current Staff Resources | **COST**
|                                          | Medium Rates for 9 staff trainers to conduct 1.5 weeks each of training. Each would require 2 expert staff to deliver TTT
|                                          | = 480 hours x staff rate
|                                          | = 48 hours x 3 sessions x staff rate
|                                          | **EASE OF IMPLEMENTATION**
|                                          | Complex – Due to scheduling conflicts of staff, we would need to bring in 9 additional trainers to share the full-time responsibility of the 3 needed trainers. All 9 would require training as well.
|                                          | **SUSTAINABILITY**
|                                          | Medium – project implementation teams would be available for additional training
APPENDIX: DECISION MAKING STYLES

In the Professional Skills Focus above you learned the need to understand the goal and outcome of the decision process. You also learned that you need to select the right group of people to include, and determine the roles and responsibilities within that group to enable you to reach the outcome that you need. When thinking about decision making, it can be helpful to match the context of the situation where you need a decision to the style of decision making most appropriate to make that decision in a timely manner.

Approaches to decision making can be categorized into four distinct styles:

1. The authority or expert style
2. The consultative style
3. The traditional majority or voting style, and
4. The consensus style

We will explore each style in turn. Work with your mentor to discuss where these types of decision making are most relevant to the different situations you have encountered in your role as market facilitator. Perhaps you have had to lead a project team to make a fast decision. Which style best suits that situation, and why?

It could also be helpful to think of categorizing the four decision styles based on whether they are authoritative or democratic in their approach. The ‘authority or expert’ style falls into the first category, whereas the remaining three styles fall within the democratic category.

1. THE AUTHORITY OR EXPERT STYLE

The authority or expert style is used most in a business environment. You can think of it as the “I decide” style. For example, a manager simply makes a decision and expects all staff to abide by it. Or a specialist makes an independent decision because others lack the expert knowledge on which a decision must be based.

Using the authority or expert style:

**How to use this style:** You should discuss your decision with the people who are affected by it. Clearly explain how you reached your decision, and the impact it will have on those people and (if appropriate) on the organization as a whole. **Advantage: you can make decisions quickly. Disadvantage: others aren’t involved**
Take care: you need to avoid creating a situation where the people affected feel alienated and unappreciated. This style of decision making may create the impression that the opinions of others do not count, and that you are operating unfairly.

When others use this style: keep in mind that the partners and stakeholders you interact with may be accustomed to using this style. If a lead firm executive made decisions this way, how would you need to change the way you approached interacting with them in order to enable your impact groups to engage with them in the value chain?

2. THE CONSULTATIVE STYLE
You use this style when you incorporate input from others in order to make your decision. You still have the deciding vote, but you make the decision based on information you have gained from others.

Using the consultative style:

How to use this style: discuss the decision you have to make with those who are involved, selecting a critical mass to ‘consult’ with. Collect the information you receive from these people together, evaluate the information and make your final decision by incorporating these views. Advantage: you involve affected parties in the decision making process. Disadvantage: the consultation process can be time-consuming

Take care: you need to avoid spending too long making this decision, particularly if it is affecting productivity or project deadlines. Think about whom the critical group of people is before beginning your consultation, rather than consulting absolutely everyone – perhaps you can focus on the project managers rather than all of their direct reports to cascade the views of the wider group more efficiently.

When others use this style: you may need to account for more time to hear back from a stakeholder/stakeholder group which favors this method of decision making, but remember the benefits: the consultative approach to decision making takes longer than the authority or expert style but generally results in better, more informed decisions being made

3. THE TRADITIONAL MAJORITY OR VOTING STYLE
Using an approach where the most popular decision is selected as final is called the traditional majority or voting style. This style is used quite often—sometimes just to get an idea of people’s feelings on a particular matter. Making decisions in this way is a quick process, where the final decision is taken based on what the majority feels.
Using the traditional majority or voting style:

How to use this style: Make sure everyone you are asking to vote understands the decision to be made, and has access to the information which will enable them to make an informed choice. Decide on how you will collect the votes (via an email, with a quick ‘hands-up’, and count the results. Advantage: you make decisions quickly using this simple method. Disadvantage: unless voting is secret there may be peer pressure to vote with the majority

Take care: There is a risk that you may create an atmosphere of ‘winners’ and ‘losers’ in the room when using this style. If the voting process is not carried out anonymously, you may find that peer pressure leads people to vote with the majority, regardless of their real views. This means you will not have a true representation of the views of those voting, and the ‘losers’ have not had a chance to air their views about the decision.

When others use this style: Keep in mind the advantages and disadvantages of this decision-making process: you may get an answer quickly, but it will be more of a challenge to analyze results of a decision taken in this way.

4. THE CONSENSUS STYLE
The consensus style is a “we all decide” approach. It involves including all affected parties in the decision-making process and adopting a final decision only when everyone agrees that it’s the best one. The consensus style incorporates the different opinions and perspectives of all individuals. The aim is to reach decisions everyone is happy with, although this can be time consuming.

The consensus style is often the best style to use if you really want all individuals concerned to be involved. Bear in mind though that because it’s a time-consuming process, it’s critical to ensure you use it only to decide key issues. If you choose this style but find that you are running out of time because it is taking too long, you can switch to a “back-up” style. After sufficient discussion you may, for example, put the decision to a vote.

Using the consensus style:

How to use this style: Give everyone involved the opportunity to voice their opinions and perspectives. This is the best style to use if you really want to involve all the individuals concerned. Advantage: you can involve all the individuals involved. Disadvantage: It can be very time consuming

Take care: Bear in mind that because this is a time-consuming process, you need to ensure you use it only to decide key issues. If you choose this style and find yourself running out of time, you may need to put the decision to a vote, or take a consultative approach.
When others use this style: Keep in mind the advantages and disadvantages of this decision-making process: you may get an answer quickly, but it will be more of a challenge to analyze results of a decision taken in this way.

When you use the consensus style, it’s not necessary that everyone agrees completely. However, once a decision is made, everyone must be able to answer yes to two important questions:

✓ “Can I live with the decision made?” – For consensus to exist everyone involved must feel able to accept a final decision—even if it is not necessarily the one they had reach independently. So, the decision that is chosen can not infringe on anyone’s beliefs or ethics, or violate anyone’s personal values.

✓ “Will I be able to support the decision that’s made?”—Once a decision has been reached, those who participated should feel that they can support and uphold that decision when others question them about it, through their attitudes and conduct. They should not leave the room feeling that they simply went along with a decision others made for them.

Remember that no one decision-making style is always best. The most appropriate style often depends on the situation you are facing. As value chain programs involve a wide range of actors, situations and contexts, you should ensure that you fully understand the situation you are in before you begin the decision making process. In a crisis that requires an immediate response, for example, it can make the most sense for one person to make a decision and impose it on others—because this will be the fastest. In another case, it may be vital to consider everyone’s opinions and ask for their input so that a final decision is perceived as fair.
1. Describe two or three challenges you have faced in your value chain programs that are barriers to utilizing financial analysis to drive economically sound decisions?

2. Explain actions you have either done in the past or will do in the future to build the financial analysis capacity of your internal project team members and/or external partners.

3. Choose a specific example where you have engaged one or more audiences with a message. Record a short account of the situation. Now reflect: what challenges did that specific audience pose to you when presenting? What might have prevented this audience from receiving your message? Was the audience resistant to change? Or might they have doubted your ability to meet their needs? Did they find you a credible authority on the market you are engaging with them upon? Try to overcome potential barriers by addressing them in your supporting messages.

4. How will you introduce a gender focus into the slides you present to lead firms, even when you are focusing on a value chain initiative from the perspective of the benefits to lead firms of engaging, rather than your own organization’s mission?
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