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FIELD FACILITATION WORKING GROUP
WORKING PAPER

CYCLE 2: METHODS FOR IDENTIFYING AND SELECTING LEAD FIRMS

OCTOBER 2008

About this Document

This technical brief is the second in a series being produced by the FIELD Facilitation Working Group, an initiative to capture and share the knowledge of FIELD LWA consortium members on effective facilitation in enterprise development, particular in the context of dealing with lead firms. The report presents the collective response of working group members to the questions outlined within. It has been made public both to inform the work of others and to provide an opportunity for open feedback. Over the coming year the Working Group, with support from USAID and AED through the FIELD Support Leader with Associates, will periodically review and refine this resource before publishing a final version in November 2009. If you have comments, please direct them to facilitationwg@actionforenterprise.org.

Working Group members:

- Frank Lusby, Action for Enterprise (Facilitator)
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- Mike Field, ACDI/VOCA
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- Steve Londner, TechnoServe
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I. Introduction

This document presents the results of the second "cycle" of discussions of the FIELD Facilitation working group. The objective of this working group (see Appendix A for list of participating organizations) is to share experiences and identify best practices for facilitating value chain development projects – and more specifically how projects can best work with "lead firms" to accomplish their goals. In an effort to structure the work, a series of six "discussion cycles" has been developed that will take place over a one-year time period (see Appendix B for a list of these cycles). Each cycle takes place over a 2-3 month period and consists of preliminary tasks, a working group discussion, and a synthesis of results.

This second cycle is titled "Methods for Identifying and Selecting Lead Firms." It begins with an in-depth examination of criteria for selecting lead firms that includes:

- The rationale for the criteria,
- Possible indicators for determining whether lead firms satisfy each criterion
- Additional considerations when using these criteria and possible exceptions

Tools and processes for applying these criteria are then discussed and include links to resources used by member organizations of the working group. Lastly, this brief examines the factors that affect decisions about the number of lead firms with which a development organization can or should work.

II. Criteria to Apply in the Selection of Lead Firms

The following are potential criteria (identified by the WG) that could be used to determine the lead firms with which to work. Practitioners are advised to review this list and select those criteria that best meet their particular circumstances. In all elements of facilitation, judgment regarding which are the most important criteria will always be important.

Criterion 1: The Lead Firms have commercial linkages with large number of MSMEs[1] (i.e. the project's target group) as either a buyer or supplier of products and services

Rationale for the criterion

When lead firms have existing commercial linkages with a large number of MSMEs:

- Project resources to achieve benefits and impacts are used more cost-effectively and with greater leverage.
- There is greater potential to change the norms of an industry. Development practitioners can facilitate larger scale impact and behavioral adjustments on the part of market actors.

Indicators

☑ Number of MSMEs that the lead firm buys from or sells to
☑ Market share of the lead firm as a supplier to MSMEs
☑ Number of employees of MSMEs from which the lead firm buys or to which it sells. This represents an additional measure of the potential scale of project impacts.
☑ Nature of the relationship the lead firm has with the target MSMEs

Exceptions

A development project may opt to work with a lead firm that does not meet this criterion if:

- The lead firm has few commercial linkages with MSMEs but there is strong potential for them to expand and for a development organization to successfully promote MSME ties. (e.g. A new entrant to the value chain with a credible business plan that includes developing a supply base of MSMEs or a market for its products or services to MSMEs.)

[1] MSME: micro, small and medium enterprises

- The lead firm has few commercial linkages with MSMEs but its trading partners have many; for example, an air-freight company as a lead firm is linked to exporters who have numerous commercial relations with small producers. This may provide an ideal entry point in certain circumstances.
- The lead firm has few commercial linkages with MSMEs but its trading partners have large number of employees that could benefit as a result of project interventions.

Other Key Points

- There is greater potential for a development organization to achieve quick-wins if linkages are existing as opposed to only potential, which is important for establishing credibility and trust between lead firms and development organizations

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Criterion 2: The Lead Firms have sufficient financial strength to make investments or dedicate resources to business operations that will result in improved and/or expanded relations with MSMEs

Rationale for the criterion

- Investments are often required to fuel company (and value chain) growth that result in improved and expanded relations with MSMEs. Ensuring lead firms have the necessary capacity to make such investments enhances the likelihood of project success as investments made by lead firms (as opposed to a development organization) increase the likelihood of sustainable change in the value chain and in benefits for MSMEs that result.

Indicators

☑ Profitability of the lead firm
☑ Available working capital and strong cash-flow
☑ Available convertible assets and/or savings
☑ Debt to equity ratio (Debt shows ability to access financing while excessive debt limits potential to access additional debt or have capital available for investments.)
☑ Percent of investments made for Research and Development relative to other investments
☑ Track record of investing in capital projects (This can be an additional indicator of managerial competence and potential of success in future investments.)

Exceptions

A development project may opt to work with a lead firm that does not meet this criterion if:

- A financial investment may not be necessary. For example, lead firms can use their dominant market position to drive upgrading of suppliers through incentives such as offering a guaranteed market or providing technical assistance, good quality inputs or credit, etc. This provides an alternate approach that could be pursued by the facilitator in certain instances.
- A lead firm may have insufficient financial strength, but a project may find it worthwhile to assist them to obtain financing (if the investment is strategically sound and promises a good, potential return).

Other Key Points

- Sufficient financial strength does not necessarily imply willingness to invest.

Criterion 3: The Lead Firms are willing to make investments in improved or expanded relations with MSMEs that may only show results over a longer period of time

Rationale for the criterion

- Many promising opportunities for value chains and their participants often require longer timeframes (e.g. 2 to 5 years) in order for benefits to materialize (e.g. return on investments, increased market share, increased productivity, etc.)
- Lead firms with a longer-term vision will be more patient and realistic about allocating time and resources over the longer period required for benefits to materialize

- When behavioral and attitudinal changes in inter-relationships (e.g. between MSMEs and buyers) are impediments to improving value chain competitiveness, longer timeframes are often necessary

Indicators

☑ Past examples of and lead firm experience in managing long-term capital investments or company initiatives
☑ Degree of strategic fit between a lead firm's business plan and strategy and the objectives of the development project
☑ Pronouncements by a lead firm of its willingness to pursue and belief in long-term investments
☑ Commitment by a lead firm to a particular long-term investment strategy as evidenced by, for example, internal budgeting, existence of current investments, etc.
☑ Existing long-term relationships with MSMEs

Other Key Points

- Long-term perspectives should be balanced with short-term results:
  - Even if the returns of a lead firm's investment are delayed, often quick results are needed to benefit MSMEs in order to strengthen the relationship between a lead firms and MSMEs
  - Quick results can be used to demonstrate the potential of a longer-term investment
  - Quick results or successes help establish the credibility of the development organization with the lead firm
- Development organizations are often under pressure from their donors to achieve short-term results that may be at odds with the long-term strategy of the lead firm. Balancing this tension is a challenge many projects will face.
- Some compromises or adjustments may be necessary between a lead firm and a development project to account for the project's timeframe.

Criterion 4: Strong demand exists for the products or services of the Lead Firms

Rationale for the criterion

- If there is strong demand for a lead firm's products, the lead firm will be less likely to cut back or stop purchases from MSMEs and may be able to expand the purchases they make from them
- A lead firm with strong demand for its products or services will likely be able to influence the actions of its suppliers and other market actors in the value chain; for example in getting MSMEs to produce to their specifications
- In the case of a lead firm that sells inputs or services to MSMEs, a strong demand means that there is likely a good opportunity to invest in improving the supply of those inputs or services
- Strong demand for the lead firm's products or services increases the chances that the development project will find a quick-win activity
- Strong demand means the project does not have to spend resources on market development for the lead firms

Indicators

☑ Analysis of a lead firm's sales trends and projections
☑ Confirmed future sales
☑ Existing lead firm share of the markets for their products or services
☑ Evidence of strong effective demand for a lead firm's products or services
☑ A lead firm has a ready market for its products but is unable to meet current demand
☑ Degree to which a lead firm's product or service satisfies the end market demand on a range of factors such as reliability, quality, adherence to standards, etc.

Exceptions

- A lead firm, with no track-record of sales in a particular market segment, may have strong potential to access this market and therefore be worthy of project support in terms of, for example, adjusting an existing product to certain specifications, pricing a service more competitively, etc.

Criterion 5: The Lead Firms are able to compete successfully in end markets for their products or services

Rationale for the criterion

- If a lead firm is able to compete successfully in its end markets then it will likely need to continue or expand sourcing from its MSME suppliers
- The sustainability of benefits to MSMEs will be greater if the lead firm is able to compete in its end markets

Indicators

☑ Proof of ongoing sales or sales growth

☑ Evidence of particular competitive advantages of a lead firm vis-à-vis its competitors
  - The degree to which a lead firm's product satisfies the end market demand on a range of factors such as reliability, quality, adherence to standards, etc.
  - Advantages of a lead firm's operations and capabilities
  - The strength of linkages between a lead firm and its buyer(s) (e.g. duration of commercial relations, levels of collaboration, etc.)
  - The dynamism and entrepreneurial spirit of senior management

☑ The credibility of a lead firm's business plan and strategy

☑ A demonstrated ability to innovate or adapt products, services, or operations in response to changes in demand (including new opportunities), moves by competitors and the business enabling environment

Exceptions

- In value chains in which all lead firms have limited track-records in a particular market segment, but their potential to be competitive warrants support from a development organization

Criterion 6: The Lead Firms have potential to influence other lead firms and actors in the value chain

Rationale for the criterion

- The success of influential adopters of new strategies and approaches (e.g. new supply operations with MSMEs) has the potential to reduce the risk for later-adopters, create incentives for others to adopt similar practices, and serve as a model for others firms to learn from and emulate
- Harnessing the influence of a lead firm is more cost-effective for a project as the activity is better able to catalyze change throughout a market system through this relationship than by influencing one firm at a time

Indicators

☑ The lead firm plays a leadership role in business forums, professional associations, advocacy groups, etc.

☑ The number of different functions in the value chain (input supply, production, processing) with which the lead firm has commercial relationships

☑ The lead firm has a reputation as a successful innovator and first mover

☑ The lead firm's business practices are respected by its peers

☑ The degree to which a lead firm's own growth strategy depends on growth within the overall value chain, which will make the lead firm more likely to exercise its influence

☑ The lead firm plays a lynchpin or anchor role in the value chain as evidenced by its capacity to set rules or command significant volumes of the value chain's products

Other Key Points:

- Working through lead firms to create widespread change strengthens, rather than diminishes, a lead firm's leadership position

- There may be lead firms who are unwilling to exercise influence or serve as a model for others in the value chain in spite of, or perhaps as a consequence of their dominant role

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Criterion 7: The Lead Firms have an acceptable track record and reputation as businesses

Rationale for the criterion

- A lead firm with a shady or unreliable reputation will not gain the trust of other market actors, could discredit the development project and poses a higher risk of failure to achieve sustainable impacts

Indicators

☑ Availability of audited financial statements, which demonstrates transparency and is a possible indication of forthrightness

☑ Reputation for reliability in meeting contractual obligations with its buyers and suppliers

Other Key Points:

- Sometimes negative reputations are unwarranted, promoted by jealous competitors

III. Process and Tools to Apply when Assessing Lead Firms against Selection Criteria

The following presents some of the processes (presented and discussed by WG members) that development organizations employ in assessing lead firms against the above criteria. The most common approach is to conduct due diligence of lead firms when analyzing the value chain through in-depth interviews and with the aid of particular assessment tools. Other methods include the organization of stakeholder meetings and requesting "applications" from lead firms. These processes (which are not mutually exclusive) for assessing the degree to which lead firms meet selected criteria are presented briefly below:

1. Due diligence of lead firms, which can include:

- review of financial statements
- obtaining information and references from suppliers, buyers and/or service providers, financiers, competitors, business associations, etc.
- in-depth interviews with lead firms to ascertain if they meet criteria, their interest in collaboration, their willingness to share financial information, their attitudes about the project's target group, etc.

2. Stakeholder meetings with multiple value chain actors that can be used for the following purposes:

- share the findings of the value chain analysis
- discuss priorities for the industry and the value chain
- allow lead firms to emerge as leaders in improving industry competitiveness and exerting influence on other stakeholders

3. Requests for applications, which includes the following:

- hold meetings with potential lead firms to communicate the process and criteria for collaborating with the development project
- distribute requests for applications that describes the criteria and requirements for participating in the development project
- following due diligence, hold detailed discussions with applicants to make the final selection

Links to illustrative resource materials for carrying out these processes can be found in Appendix C.

Whatever process is employed to identify and select lead firms, it should be as open and transparent as possible. It should allow all qualified lead firms that meet established criteria to participate in the development project (either immediately or at a later date) should project resources and time-frame permit. This aspect is important as a development project might not be able to work with multiple lead firms at the start (possibly due to a lead firm's concerns regarding intellectual property, encroachment on its supply-base, etc). In addition, a transparent process helps maintain and ensure the neutrality and credibility of the development project that is facilitating the process.

IV. Factors to Consider when Determining the Number of Lead Firms with Which to Work

It was the general consensus that development organizations should work with as many lead firms as possible (depending on project capacity) in order to expand the outreach and impact of their interventions, to increase MSME options, to increase opportunities for replicating approaches, and to ensure project continuity if some lead firms drop out. However, projects also need to understand the trade-offs of working with few versus many firms.

The following discusses factors to consider when determining the number of lead firms with which to work. These factors reflect industry considerations, project considerations and the strategic fit between lead firms and the project.

Industry Considerations

- The dynamics between lead firms in a value chain may create challenges or sensitivities to working with multiple lead firms (firms might be uncooperative and mistrustful of one another, protective of their competitive advantages, etc.). A project might adapt different strategies for working in such an environment, such as supporting lead firms in different technical areas, working with lead firms with operations in different locations, etc.
- The perceptions and reaction of other stakeholders to the process used to select lead firms may engender animosity or undermine potential collaboration between the project and other lead firms in the future. This argues for a transparent and inclusive selection process.

Project Considerations

- In general, working with more lead firms minimizes the risk of not achieving project objectives should some lead firms drop out or fail to fulfill commitments.
- The availability of project resources such as staff, budget, and timeframe for achieving results can limit the number of lead firms with which a project works. However, projects employing proper facilitation practices are often more cost-effective than projects that provide direct services to MSMEs. In addition, the timeframe required to achieve project objectives often varies, depending greatly on i) the degree of initial trust between lead firms and the project and ii) the degree to which a lead firm satisfies the selection criteria.
- If a lead firm requires a high degree of support in overcoming immediate issues, then the project will be able to work with fewer lead firms.

Strategic Fit between Lead Firms and the Development Project

- More innovative or ambitious objectives of a lead firm or lead firms (e.g. lead firm proposes innovative changes to operations, new products, markets, etc.) may argue for testing the innovation with one lead firm before replicating with others.
- A lower degree of strategic fit or alignment between the lead firm and the development project objectives argues for working with more lead firms as their interest and participation over time may fluctuate. It must be noted, however, that a lower degree of strategic fit or alignment may also present the development project with unacceptable levels of risk in achieving its objectives (within a set timeframe) and therefore interventions in that sector might arguably be avoided. *Sometimes the correct number of lead firms with which to work is zero.*

V. Conclusion

In this brief the working group addressed the topic of identifying and selecting lead firms. Criteria for lead firm selection were examined, along with their rationale, indicators, and considerations. Tools and processes for applying these criteria were then discussed as well as factors that can affect decisions about how many lead firms to work with. In the forthcoming brief, the working group will address the topic of structuring and managing collaboration with lead firms.

APPENDICES

APPENDIX A: WORKING GROUP MEMBERSHIP AND STRUCTURE

The FIELD Facilitation Working Group draws on the collective experience of a number of leading organizations working in this area including: ACDI/VOCA, AED, Action for Enterprise (AFE), CARE, MEDA, Save the Children, TechnoServe, and WOCCU. The group is chaired and facilitated by AFE with support from AED through the USAID FIELD LWA.

Working Group members include:

- Frank Lusby, Action for Enterprise (Facilitator)
- Eric Derks of Action for Enterprise (Co-Facilitator)
- Mike Field, ACDI/VOCA
- Bob Fries, ACDI/VOCA
- Tim Nourse, AED
- Christian Pennotti, AED
- Farouk Jiwa, CARE
- Ann Gordon, MEDA
- Jay Banjade, Save the Children
- Steve Londner, TechnoServe
- Stephanie Grell, WOCCU

APPENDIX B: CYCLE TOPICS FOR FIELD FACILITATION WORKING GROUP Y1

CYCLE 1 (June '08)

- Definitions and terms
    - Key principles of Facilitation
    - Lead Firms
    - Sustainability

CYCLE 2 (Sept '08)

- Methods for identifying/selecting lead firms/market actors to work with
    - Identification within value chain context
    - Selection criteria / factors that lead to success
    - How many to work with

CYCLE 3 (Nov '08)

- Structuring and managing collaboration
    - Types of agreements / smart subsidies
    - Ensuring commitment
    - Establishing credibility and trust / balancing interests

CYCLE 4 (Feb '09)

- Types of interventions / capacity building activities
    - [TBD] Links to fin institutions, staff training/TA, buyer visits, demo plots, QM initiatives, exploration/ learning visits, links to input supply companies, trade shows, etc.

CYCLE 5 (April '09)

- Addressing weak/nonexistent functions in VC
    - Strategies for addressing weak/nonexistent functions in VC
    - Options/best practices (improve existing lead firms, create new, indigenous organizations, co-investments, etc.)

CYCLE 6 (June '09)

- Ensuring sustainability / exit strategies
    - Building exit strategies into project design
    - Factors/ principles for ensuring sustainability
    - What happens after project activities

APPENDIX C: QUICK REFERENCE TABLE – LEAD FIRM SELECTION CRITERIA

<table>
<tr><th>Rationale for Criterion</th><th>Indicators</th><th>Exceptions and Other Key Points</th></tr>
<tr><td colspan="3">Criterion 1: Lead firms have commercial linkages with large number of MSMEs[2] (i.e. the project's target group) as either a buyer or supplier of products and services</td></tr>
<tr><td>When lead firms have existing commercial linkages with a large number of MSMEs:
• Project resources to achieve benefits and impacts are used more cost-effectively and with greater leverage.
• There is greater potential to change the norms of an industry. Development practitioners can facilitate larger scale impact and behavioral adjustments on the part of market actors.</td><td>☑ Number of MSMEs that the lead firm buys from or sells to
☑ Market share of the lead firm as a supplier to MSMEs
☑ Number of employees of MSMEs from which the lead firm buys or to which it sells. This represents an additional measure of the potential scale of project impacts.
☑ Nature of the relationship the lead firm has with the target MSMEs</td><td><u>Exceptions</u>:
A development project may opt to work with a lead firm that does not meet this criterion if:
• The lead firm has few commercial linkages with MSMEs but there is strong potential for them to expand and for a development organization to successfully promote MSME ties. (e.g. A new entrant to the value chain with a credible business plan that includes developing a supply base of MSMEs or a market for its products or services to MSMEs.)
• The lead firm has few commercial linkages with MSMEs but its trading partners have many; for example, an air-freight company as a lead firm is linked to exporters who have numerous commercial relations with small producers. This may provide an ideal entry point in certain circumstances.
• The lead firm has few commercial linkages with MSMEs but its trading partners have large number of employees that could benefit as a result of project interventions.

<u>Other Key Points</u>:
• There is greater potential for a development organization to achieve quick-wins if linkages are existing as opposed to only potential, which is important for establishing credibility and trust between lead firms and development organizations</td></tr>
<tr><td colspan="3">Criterion 2: Lead firms have sufficient financial strength for making investments or dedicating resources to business operations that will result in improved and/or expanded relations with MSMEs</td></tr>
<tr><td>• Investments are often required to fuel company (and value chain) growth that result in improved and expanded</td><td>☑ Profitability of the lead firm
☑ Available working capital and strong cash-flow</td><td><u>Exceptions</u>:
A development project may opt to work with a lead firm that does not meet this criterion if:</td></tr>
</table>

[2] MSME: micro, small and medium enterprises

Rationale for Criterion	Indicators	Exceptions and Other Key Points
relations with MSMEs. Ensuring lead firms have the necessary capacity to make such investments enhances the likelihood of project success as investments made by lead firms (as opposed to a development organization) increase the likelihood of sustainable change in the value chain and in benefits for MSMEs that result.	☑ Available convertible assets and/or savings ☑ Debt to equity ratio (Debt shows ability to access financing while excessive debt limits potential to access additional debt or have capital available for investments.) ☑ Percent of investments made for Research and Development relative to other investments ☑ Track record of investing in capital projects (This can be an additional indicator of managerial competence and potential of success in future investments.)	• A financial investment may not be necessary. For example, lead firms can use their dominant market position to drive upgrading of suppliers through incentives such as offering a guaranteed market or providing technical assistance, good quality inputs or credit, etc. This provides an alternate approach that could be pursued by the facilitator in certain instances. • A lead firm may have insufficient financial strength, but a project may find it worthwhile to assist them to obtain financing (if the investment is strategically sound and promises a good, potential return). <u>Other Key Points</u>: • Sufficient financial strength does not necessarily imply willingness to invest.
Criterion 3: Willingness to make investments in improved or expanded relations with MSMEs that may only show results over a longer period of time		
• Many promising opportunities for value chains and their participants often require longer timeframes (e.g. 2 to 5 years) in order for benefits to materialize (e.g. return on investments, increased market share, increased productivity, etc.) • Lead firms with a longer-term vision will be more patient and realistic about allocating time and resources over the longer period required for benefits to materialize • When behavioral and attitudinal changes in inter-relationships (e.g. between MSMEs and buyers) are impediments to improving value chain competitiveness, longer timeframes are often necessary	☑ Past examples of and lead firm experience in managing long-term capital investments or company initiatives ☑ Degree of strategic fit between a lead firm's business plan and strategy and the objectives of the development project ☑ Pronouncements by a lead firm of its willingness to pursue and belief in long-term investments ☑ Commitment by a lead firm to a particular long-term investment strategy as evidenced by, for example, internal budgeting, existence of current investments, etc. ☑ Existing long-term relationships with MSMEs	<u>Other Key Points</u>: • Long-term perspectives should be balanced with short-term results: - Even if the returns of a lead firm's investment are delayed, often quick results are needed to benefit MSMEs in order to strengthen the relationship between a lead firms and MSMEs - Quick results can be used to demonstrate the potential of a longer-term investment - Quick results or successes help establish the credibility of the development organization with the lead firm • Development organizations are often under pressure from their donors to achieve short-term results that may be at odds with the long-term strategy of the lead firm. Balancing this tension is a challenge many projects will face. • Some compromises or adjustments may be necessary between a lead firm and a development project to account for the project's timeframe.

Rationale for Criterion	Indicators	Exceptions and Other Key Points
Criterion 4: Strong demand for the products or services of lead firms		
• If there is strong demand for a lead firm's products, the lead firm will be less likely to cut back or stop purchases from MSMEs and may be able to expand the purchases they make from them • A lead firm with strong demand for its products or services will likely be able to influence the actions of its suppliers and other market actors in the value chain; for example in getting MSMEs to produce to their specifications • In the case of a lead firm that sells inputs or services to MSMEs, a strong demand means that there is likely a good opportunity to invest in improving the supply of those inputs or services • Strong demand for the lead firm's products or services increases the chances that the development project will find a quick-win activity • Strong demand means the project does not have to spend resources on market development for the lead firms	☑ Analysis of a lead firm's sales trends and projections ☑ Confirmed future sales ☑ Existing lead firm share of the markets for their products or services ☑ Evidence of strong effective demand for a lead firm's products or services ☑ A lead firm has a ready market for its products but is unable to meet current demand ☑ Degree to which a lead firm's product or service satisfies the end market demand on a range of factors such as reliability, quality, adherence to standards, etc.	<u>Exceptions</u>: • A lead firm, with no track-record of sales in a particular market segment, may have strong potential to access this market and therefore be worthy of project support in terms of, for example, adjusting an existing product to certain specifications, pricing a service more competitively, etc.
Criterion 5: Ability to compete successfully in end markets for their products or services		
• If a lead firm is able to compete successfully in its end markets then it will likely need to continue or expand sourcing from its MSME suppliers • The sustainability of benefits to MSMEs will be greater if the lead firm is able to compete in its end markets	☑ Proof of ongoing sales or sales growth ☑ Evidence of particular competitive advantages of a lead firm vis-à-vis its competitors - The degree to which a lead firm's product satisfies the end market demand on a range of factors such as reliability, quality, adherence to standards, etc. - Advantages of a lead firm's operations and capabilities - The strength of linkages between a lead firm and its buyer(s) (e.g. duration of commercial relations, levels of collaboration, etc.) - The dynamism and entrepreneurial spirit of senior management	<u>Exceptions</u>: • In value chains in which all lead firms have limited track-records in a particular market segment, but their potential to be competitive warrants support from a development organization

Rationale for Criterion	Indicators	Exceptions and Other Key Points
	☑ The credibility of a lead firm's business plan and strategy ☑ A demonstrated ability to innovate or adapt products, services, or operations in response to changes in demand (including new opportunities), moves by competitors and the business enabling environment	
Criterion 6: Potential to influence other lead firms and actors in the value chain		
• The success of influential adopters of new strategies and approaches (e.g. new supply operations with MSMEs) has the potential to reduce the risk for later-adopters, create incentives for others to adopt similar practices, and serve as a model for others firms to learn from and emulate • Harnessing the influence of a lead firm is more cost-effective for a project as the activity is better able to catalyze change throughout a market system through this relationship than by influencing one firm at a time	☑ The lead firm plays a leadership role in business forums, professional associations, advocacy groups, etc. ☑ The number of different functions in the value chain (input supply, production, processing) with which the lead firm has commercial relationships ☑ The lead firm has a reputation as a successful innovator and first mover ☑ The lead firm's business practices are respected by its peers ☑ The degree to which a lead firm's own growth strategy depends on growth within the overall value chain, which will make the lead firm more likely to exercise its influence ☑ The lead firm plays a lynchpin or anchor role in the value chain as evidenced by its capacity to set rules or command significant volumes of the value chain's products	Other Key Points: • Working through lead firms to create widespread change strengthens, rather than diminishes, a lead firm's leadership position • There may be lead firms who are unwilling to exercise influence or serve as a model for others in the value chain in spite of, or perhaps as a consequence of their dominant role
Criterion 7: Acceptable track record and reputation as a business		
• A lead firm with a shady or unreliable reputation will not gain the trust of other market actors, could discredit the development project and poses a higher risk of failure to achieve sustainable impacts	☑ Availability of audited financial statements, which demonstrates transparency and is a possible indication of forthrightness ☑ Reputation for reliability in meeting contractual obligations with its buyers and suppliers	Other Key Points: • Sometimes negative reputations are unwarranted, promoted by jealous competitors