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# Case Study

## **Good Procurement Practices and SMEs in Supply Chains:**

Sodexo Local Community Supply Chain Inclusion Program

Impact of Procurement Practices on an SME in Peru



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## Introduction

Headquartered in France, Sodexo, a global “Quality of Life Services Provider” operating in 80 countries, and the world’s 18th largest employer, has received significant attention for its consideration of social and environmental concerns. Its recently updated Better Tomorrow Plan – outlining Sodexo’s “plan for the future”, establishes its overall approach to sustainability and priority areas of action as an employer; as an actor promoting nutrition, health and wellness; as a supporter of local economic development; and, as a protector of the environment<sup>1</sup>. As a result of this direction, the company recently committed to purchase \$1 Billion from 5,000 small and medium enterprises (SMEs) as part of its “Supply Chain Inclusion Program”<sup>2</sup>.

In the context of how Sodexo addresses local economic development through procurement practices in developing countries, this study presents an illustrative case from Sodexo’s local community supply chain inclusion program in Peru, where among other clients and activities, the company provides goods and services for mining operations of its clients. The study explores how good procurement practice can lead to economic and social upgrading for the local SME, and bring marginalized communities into the Sodexo supply chain, or the supply chain of its clients. As early learnings from Peru contribute to the company’s global program, the case is representative of the progressive journey companies undertake from CSR initiative to integrated business practice.

The study is based on secondary sources, company reports, and interviews with authorized representatives of Sodexo, input from its Peruvian client, Hochschild, a mining company, and a community-based fish supplier from the Arcata community. In assessing good practice and upgrading potential, the study draws on a Value-Chain analysis framework.

## About Sodexo

Sodexo, with some 422,000 employees and turnover of Euro 19.8 billion (2015), operates in 32,000 locations in 80 countries, and purchases goods and services from over 10,000 global suppliers. Sodexo provides food, cleaning, security, and maintenance services for private corporations, government agencies, schools, hospitals, military bases, and correctional facilities. Sodexo reaches 75 million consumers daily, with more than 95 per cent of its employees having day-to-day, direct contact with clients. As a contractor for such a wide range of private and public clients, the company’s operations are highly visible, requiring sensitivity to client and consumer needs and perceptions, as well as, intense public scrutiny and oversight due to the profile of its large public contracts<sup>3</sup>.

The company was selected for inclusion in the study on ‘good procurement practice’ in light of the Supply Chain Inclusion Program, announced in 2013, which by 2017 aims to source US\$ 1 billion in goods and services from 5,000 SMEs locally, of which almost one third are run by women. Other indicators of good practice were also considered in the selection. The company has received strong recognition for its environmental and social reporting<sup>4</sup> and has signed an international framework agreement (IFA) with the IUF in 2011<sup>5</sup>. Among its social commitments, Sodexo publishes that it adheres to the principles of the Universal Declaration of Human Rights; the ILO’s Tripartite Declaration of Principles of concerning Multinational Enterprises and Social Policy; and the United Nations Global Compact: Based on these principles, the company adopted its own policy on respect for

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1 <http://www.sodexo.com/en/corporate-responsibility/sustainable-development/better-tomorrow-plan.aspx>

2 <http://www.sodexo.com/en/corporate-responsibility/sustainable-development/local-communities/local-community-development/supply-chain-inclusion-program.aspx>

3 In past years, the company has faced a number of high profile controversies. See Wilke, R. 2013. Outsourcing America: Sodexo food service contractor siphons cash from kids and soldiers while dishing up sub-prime food. PR Watch. September 24, 2013. [<http://www.prwatch.org/news/2013/09/12221/outsourcing-america-sodexo-food-service-contractor-siphons-cash-kids-and-soldiers>]

4 In 2014, Sodexo was named Global Sustainability Industry Leader for the tenth year in a row in the Dow Jones Sustainability Index (DJSI), for its industry sector, Restaurants and Leisure Facilities. Sodexo was recognized at the UN Global Compact at the highest (“Advanced”) level for its commitment to report its economic, environmental and social performance within the framework of the GRI (Global Reporting Initiative).

5 <http://www.sodexo.com/en/media/press-releases/111213-agreement.aspx>



human rights<sup>6</sup>. Sodexo has previously been recognized by the ILO for its favorable work and reporting on inclusive employment of people with disabilities<sup>7</sup>, and in promoting health, nutrition and wellness in the workplace<sup>8</sup>.

Sodexo's references to supplier inclusion in Peru, one of few developing countries actively mentioned by the company for its work with SMEs, inspired the researchers to seek out examples of its practices there. Among almost 300 local SMEs and micro-entrepreneurs<sup>9</sup> integrated into its supply chain in Peru, the Arcata community fish farming case was highlighted for this case study as representative of the full cycle of development investment required to help SMEs gain market access, and for the challenges related to reaching some of the world's most marginalized communities<sup>10</sup>.

## Supply Chain Inclusion Program Overview

Sodexo's new supplier inclusion program was introduced by the company in 2013 at the Clinton Initiative Global forum as a public commitment "to effective and measurable actions on behalf of sustainability"<sup>11</sup>. Its commitment to include 5,000 more SMEs in its supply chain by 2020 is based on the principle that SMEs have a key role in the creation of jobs and the development of local economies and the company estimates that the program should lead to the creation of more than 250,000 jobs.

Sodexo has established a number of performance indicators to monitor progress, with local entity customization, given that the Supply Chain Inclusion Program "benefits organizations as diverse as a small maintenance company in the US, a co-operative farm in Angola and organic vegetable farmers in France"<sup>12</sup>. An important element of the program is its "diversity" profile that gives priority to:

- Small and Medium Enterprises (SME's) including social and micro-enterprises;
- Suppliers from women-owned, minority-owned and other under-represented and/or protected groups;
- Major Sodexo suppliers demonstrating a diverse workforce composition, actively embracing diversity and inclusion and promoting local supply chain inclusion<sup>13</sup>.

Albeit the global program was launched in 2013, the company's SME local development initiatives have been active for much longer through various fair trade initiatives and programs. For example, Sodexo's work over the past decade developing indigenous SMEs and micro-entrepreneurs for inclusion in their supply chain in Peru has been identified as a model for other countries. The program investment is global and aims to help local Sodexo operations train and incentivize their internal supply teams to source from SMEs, make the supplier on-boarding process easier for SMEs to navigate, and support the development of SME partners with new training programs. These training programs are designed to help suppliers work more effectively with Sodexo and meet quality standards that aim to help them become more competitive in the marketplace overall. Suppliers that complete these training sessions become certified, making them a reference for Sodexo and other buyers, and giving these suppliers the possibility to broaden their potential market share.

To better reach groups such as small agricultural entrepreneurs and women-owned businesses, Sodexo in some cases works with intermediary organizations and cooperatives in efforts to expand opportunities for local

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6 <http://www.sodexo.com/en/corporate-responsibility/business-commitments/human-rights.aspx>

7 ILO, 2014. Disability and Corporate Social Responsibility Reporting: An Analysis of company reporting practices of 40 selected multinational enterprises.

8 ILO, 2015. Comprehensive approach to improving workplace nutrition in Chile: Public-Private Partnership

9 In Peru, SMEs are companies with less than 100 employees; while micro-entrepreneurs have 10 or less employees.

10 Sodexo also works with local farmers in the community who supply potatoes and carrots.

11 Michel Landel, Sodexo CEO at OECD Forum 2015 <http://www.oecd.org/forum/oecdyearbook/towards-more-human-economy.htm>

12 Ibid.

13 <http://www.sodexo.com/en/corporate-responsibility/sustainable-development/local-communities/local-community-development/supply-chain-inclusion-program.aspx>

suppliers<sup>14</sup>. For example, working with an NGO, the company has developed tracking mechanisms to identify women-owned SMEs around the globe, to better understand sourcing patterns and opportunities to work with new and existing suppliers.<sup>15</sup>

To measure its overall progress, Sodexo is deploying a system for tracking global spend with SMEs, and to roll out “best practices” in SME sourcing to new countries. Sodexo reports the program will be deployed in 42 countries by 2016 and have targeted deployment in all 80 countries in which the company operates by 2020<sup>16</sup>. As of July 2015, the Supply Chain Inclusion Program had been deployed in 32 countries where Sodexo operates.

### *Supply Chain Inclusion Program milestones and buyer business case (drivers)*

The company launched the supply chain inclusion program based on a three-year phase-in plan to scale up the program internationally. Taking into account national differences in development needs, customs and regulation, the program allows for local subsidiary customization. In the first year, local program guidelines were established, including incentives for supply management teams to engage with SMEs, to enhance tracking of SME sourcing and develop tools and resources along with guidance on streamlining the integration of SMEs into the Sodexo supply chain.

During the second year, Sodexo created SME supplier training resources for deployment. The tools and resources are to augment existing local SME development programs in 26 countries, and embed new standard operating procedures to make it easier for SMEs to join the Sodexo supply chain. From the third year through 2020, the focus is on geographic expansion to systematically roll out to all countries where Sodexo operates, beginning with operations in Africa, Asia and Latin America<sup>17</sup>.

### *Local Community Supply Chain Inclusion Program - The Business Case*

Sustainability is increasingly a lever of competitive advantage and for a large multinational in the services industry, there is a strong business case for a Local Community Supply Chain Inclusion Program. Important drivers for undertaking this initiative publically are the reputational and commercial advantages for Sodexo<sup>18</sup>.

From a reputational perspective, the program can generate a positive public image for the company, as it may be seen as creating opportunities for local communities, recognizing local diversity and inclusion issues, and living up to public commitments that the company has made to positively engage and influence stakeholders on social and economic responsibility throughout the supply chain. In some cases, the company acknowledges that it needs to demonstrate its competitive advantage with its clients who already support supply chain inclusion and require evidence from suppliers such as Sodexo. In some jurisdictions, Sodexo is required to demonstrate inclusion to meet the requirements of government or local authorities. In short, a supply chain inclusion program is becoming an important factor in a large MNEs license to operate.

In terms of commercial advantages for Sodexo, as defined by the company, the business case for working with local SMEs also includes the potential for:

- Better service delivery, increased market share and improved client and consumer satisfaction: Clients and consumers are becoming more diverse in profile and needs, so engaging with new profiles of business

14 Opening the Door for SMEs. Footprint, September 17, 2015 [<http://footprintintel.com/uncategorized/opening-the-door-for-smes>]

15 Among these it partners with WEConnect International, which helps women-owned businesses connect with and succeed in global value chains.

16 <http://www.ohchr.org/Documents/HRBodies/HRCouncil/WGTransCorp/Session1/Panel6/TomMackall.pdf>

17 **Sodexo Recognized at 2014 Clinton Global Initiative Annual Meeting for Supporting Small to Medium Size Enterprises with \$1 Billion in Purchases of Products and Services By 2017** [<http://3blmedia.com/News/Sodexo-Recognized-2014-Clinton-Global-Initiative-Annual-Meeting-Supporting-Small-Medium-Size>]

18 Reputational and business case described in Sodexo Position Paper: Local Community Supply Chain Inclusion Program, March 2015. (Source: Sodexo Paris).

improve the company's understanding of these new potential markets; Better knowledge of diverse markets potentially can lead to better access to or service delivery to under-represented customers. Bringing in more SMEs expands the pool of potential suppliers and potentially suppliers that can best meet the local needs; SMEs may be more innovative, more agile and operate in niche markets not previously accessed.

- Better Cost Control: Cost savings can be achieved through the use of local suppliers with potentially lower transport or travel costs; a larger pool of suppliers further diversifies risk; and, small local suppliers may be more loyal if given improved access to the supply chain. Sodexo also anticipates that goodwill generated with other stakeholders may also lead to a more favorable view in tenders and contracts.
- Social and environmental benefits: By stimulating growth and indirect jobs in local communities, the company aims to create goodwill and expanding potential customer base; and the company hopes to reduce its carbon footprint as a result of the use of local suppliers requiring less transport distance.

### *Procurement Policy and Local community development in Peru*

Sodexo's procurement program commits the company to procure products and services in the regions where it operates. In developing countries, The Sodexo Association for Sustainable Development identifies local entrepreneurs and producers and helps them move forward through training and technical assistance in hygiene, health and business management. Once a supplier's products meet Sodexo standards, the supplier is certified to sell their products to all Sodexo sites and in other markets. In 2009, Euro 1.4 (USD 1.5) million in supplies was sourced from local communities in Peru and by 2015 this amount had risen to Euro 13.2 (USD 14.5) million.

The Local Community Supply Chain Inclusion Program management responsibility resides in the Supply Chain function, which places it within company operations, a positive indicator of company engagement and embedded business practice (versus programs situated in CSR units). A team approach, including Diversity and Inclusion (human resources), Sustainable Development and CSR, Operations, and Senior Management are required to provide support to the Supply Chain function to establish relevant local processes to address the various training and business growth needs of the SME. Where necessary, third parties are engaged to assist in that process.

Specific Sodexo procurement policy considerations for SMEs include:

- Making sure that SMEs have the same ability to find opportunities as other suppliers via improved access and portals or platforms;
- Having a clear process on how suppliers are identified and selected, including SMEs;
- Considering the role of Sodexo's logistics network in the support and development of SMEs;
- Implementing a process for capturing comments and feedback from SMEs and removing the barriers faced by SMEs.
- Making the requirements for insurance and non-critical certifications relative to the size and the risk of the contract;
- Making requirements for the management reporting relative to the size and risk of the contract and consistent with the vendor governance protocol.

- Validation against client contracts to ensure the company is not carrying exposure beyond an SME to a company client
- Ensure SMEs are signed up for prompt payment code and being transparent with SMEs about the payment process.

### *Local Community Supply Chain Inclusion (Peru) – Hochschild Mine - Arcata*

Sodexo's Supply Chain Inclusion Program in Peru aims "to strengthen production capacities in rural communities, exploiting their comparative advantages in order to improve the product's quality standards, [and] business management" in order to be part of Sodexo's supply chain in an effort to enhance the community's quality of life<sup>19</sup>. According to Carolina Rouillon, who heads the Better Tomorrow Plan in Peru, when Sodexo enters into a service agreement with a local company, it makes a commitment to purchase inputs from within the zone of influence where the client does business. The standards for the local suppliers are agreed together with the local client. In Peru, local supplier development is "a continuous process of mutual learning and helping to create spaces for dialogue, education and training with the aim of strengthening the relationship between the community and the company".

To date, Sodexo Peru has worked with 57 local rural communities in the areas where they support clients, and have provided integrated crop management training to more than 2,000 local agriculturalists, and has integrated 292 local SMEs and micro-entrepreneurs (family farmers) into its supply chain as of 2015, accounting for almost 30 per cent of all suppliers<sup>20</sup>.

Sodexo has been providing diverse services to the extractive industry in Peru since it entered the country in 1988 and the industry accounts for 70 to 75 per cent of the company's business there. Due to the remoteness of the majority of the mining sites and the lack of adequate transport to these sites, local suppliers are an important source of food inputs, and Sodexo began working with local farmers early on. In addition, the sensitive relationship between mines and local communities necessitates positive community engagement in order to maintain a social license to operate. A recent example of this experience involves Sodexo's support for trout farmers in the community of Hochschild Mining's Arcata Mine in Arequipa. Whereas Sodexo and Hochschild work with other community farmers, particularly for the provision of potatoes and carrots, the case of the trout farmer is highlighted here as it exemplifies the step by step engagement required to develop a supplier relationship from a single local community entrepreneur to a successful SME with expanded national market opportunities. The characteristics of the remote rural environment are more characteristic of a developing country, whereas Sodexo Peru's work with SMEs in urban areas is considered more characteristic of the program in developed economies.

### *Arcata*

Hochschild Mining's Arcata unit is located in the Department of Arequipa in southern Peru, approximately 300 kilometers from the city of Arequipa, on a 47,000 hectare site, at an altitude of 4,600 meters above sea level. The Company began developing and preparing the Arcata mine in 1961 and the first concentrate was poured in 1964. The underground mine structure extends over 29 kilometers, and its epithermal vein deposits are a rich source of silver, gold, and base metals. Sodexo serves 2100 miners 6300 meals per day at the mine.

The local community of Arcata is within the zone of influence of the mine. It was agreed that Sodexo would identify local products that it could source for its food service operations at the mine. To do, Sodexo first undertook a mapping exercise to identify the prospective suppliers in the community. The Arcata community had established trout farms, and Sodexo and Hochschild saw the opportunity, with the right quality standards, to incorporate

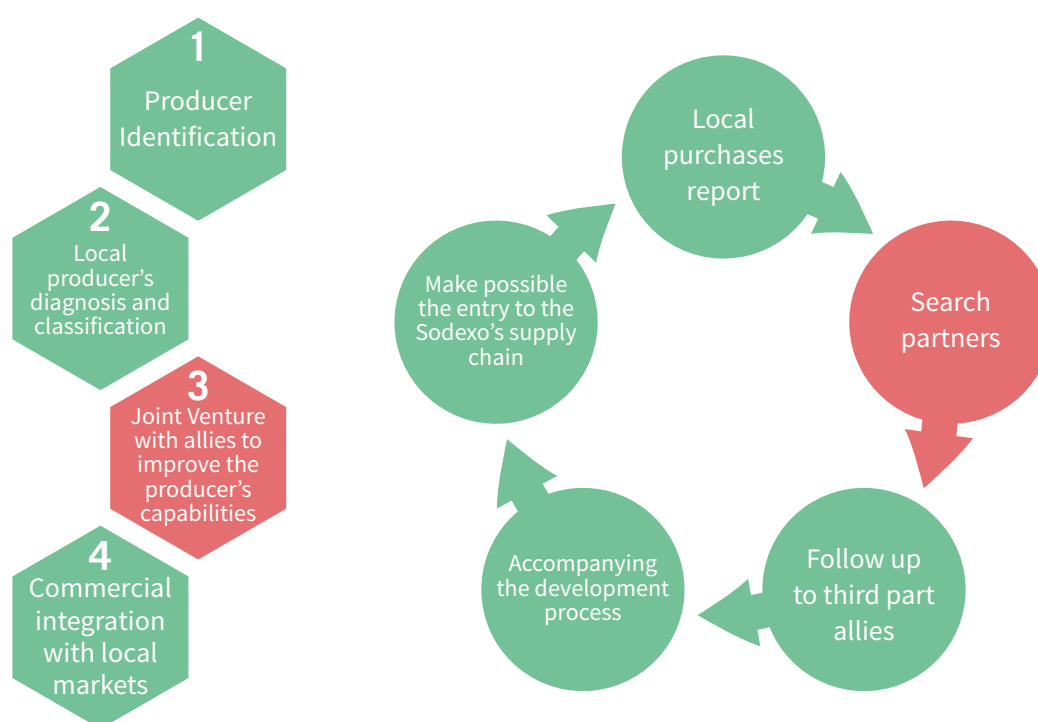
<sup>19</sup> Sodexo, 2015. Asociación Sodexo por el Desarrollo Sostenible: Presentation, September 2015, (Source: Sodexo Peru).

<sup>20</sup> Ibid.



these farmers into the supply chain servicing the mine. Among the community members, Sodexo identified in 2011 a micro-entrepreneur, Cesar Yauri, who was interested in the aquaculture activity at a commercial level. If Mr. Yauri could expand his business and formalize it, he would also be able apply for local government grants that would allow him to invest and expand the business further.

For Mr. Yauri's trout to be admitted to Sodexo's supply chain it would have to meet Sodexo's food safety and quality standard similar to GlobalG.A.P. standards.<sup>21</sup> Additional value could be added to the catch if the farmers would deliver the fish gutted and deboned. Sodexo, through its own technical experts, would need to work with Mr. Yauri and his team to upgrade the production process in order to upgrade the product. It would take almost three years to bring the standard of production to the accepted level, but it was achieved through a cycle of training, testing, and undertaking corrective handling on water management, trout breeding, feeding and care, water flow, handling, safety, hygiene and logistics. As Mr. Yauri's business grew, production doubled, employment grew to 10 associates and 6 employees (from micro-entrepreneur to SME)<sup>22</sup> and he achieved supplier status in December 2014, initially delivering between 190 and 300 kilograms per month to Sodexo.



**Figure 1: Sodexo Peru Supply Chain Inclusion Process (Source: Sodexo Peru)**

In developing local suppliers, Sodexo seeks to ensure that a local supplier's business is sustainable for the long run, and not solely dependent Sodexo. It works closely with suppliers like Mr. Yauri to establish a forecast of its own demand and to identify other markets for a supplier's product. Variations in volume requirements occurred depending on the mines activities, particularly around holidays. In the case that fish supply outstripped Sodexo's needs, the company assists its supplier to sell its fish in local markets. Over time, several super market chains (e.g. Metro, and Wong) learned of the quality fish from Arcata and also sought to source supply.

One of the obstacles in the region is the lack of a cold chain (refrigerated transport) for exporting the fish out of the local area. This would also require Mr. Yauri to expand the business beyond the mine. By helping Mr. Yauri to formalize his business, he became eligible to apply for government funding and support as well. While Sodexo assisted Mr. Yauri in the acquisition of certain minimum infrastructure to support the processing center, additional

<sup>21</sup> The GLOBALG.A.P. Aquaculture Standard sets criteria for legal compliance, for food safety, worker occupational health and safety, animal welfare, and environmental and ecological care.

<sup>22</sup> In Peru, micro-entrepreneur is the classification for a business with 1-10 employees, and SME is 10-100.

local government support would help the business to potentially obtain sustained resources to serve the broader community and to expand. The mining company and the government support new enterprises in these regions to reduce its dependence on the unpredictable and volatile revenues from mining.

## Challenges

Local Community Supply Chain Inclusion is challenging under the conditions of Andean mining. Poor infrastructure and access limits the number of suppliers available, and inhibits the wider opportunities for potential suppliers. Formalization is difficult given that there are barely any formal services available such as banks or public agencies to assist with formalization requirements such as a tax registration or an identification number.

Traditional associations (“Asociatividad”) are another challenge for developing suppliers to international standards. In many cases, groups of producers may not agree as to how to distribute revenues. As per an association’s legal framework, members may be obliged to reinvest benefits a certain way as stipulated in the agreement or collectively decide on how to reinvest. As a result, the model often raises trust issues among participants in the business that can delay or adversely impact the supply chain integration process. For this reason, the Sodexo Association is working with communities to create new hybrid models, where a representative may be nominated from an association to establish and register an independent business. It still may engage the community members, but the new model allows for greater flexibility in management and decision-making.

There are also inter-cultural challenges, implying that training needs to be adapted to the local environment, accommodating differences in education, beliefs, and culture. For example, in the case of Arcata, there are producers with very limited formal education. Where producers are illiterate, Sodexo adapts material to use graphics as opposed to text.

Building trust in a region where there is a high-level of distrust of government and outside communities can be difficult. In the case of Arcata, Sodexo is privileged to have earned this trust over time. When Cesar Yauri took the chance to start a business engaging with Sodexo to deliver trout, community members were initially sceptical. However, as they watched him succeed in growing his business, and improve his income, he became a model in the community for others to join him in an association and to follow suit.

An independent impact assessment of the entrepreneur’s business, working conditions, and community was not possible in this case. However, according to information obtained from Sodexo, the trout supplier had increased his income by 30 per cent and had grown from a sole proprietor providing for his family, to a business with 10 associates and 6 employees supporting 16 families. Today, a new association started with Mr. Yauri’s initiative is partnering with others in the region to form the “Trout Producers Federation of Arequipa”. To increase production, they have invested in fish eggs to boost production to 10 tons in preparation for delivery to the supermarket

chains. Mr. Yauri’s association now provides advisory services to other farmers in the community, and the fish processing facility established with Sodexo’s help is being used full time to capacity by the community producers.

## Overall Assessment and Lessons Learnt from the Sodexo Perspective

While the relationship with a micro-entrepreneur type of supplier requires a deeper level of engagement and commitment than may be foreseen in the wider Supply Chain Inclusion Program, Sodexo finds the experience in Peru to be a positive and progressive learning experience for all stakeholders involved. Among lessons learnt suggesting positive outcomes for Sodexo’s mining client, the suppliers and their communities:

- **Participative profile:** Beyond the commercial opportunities that open up to the suppliers and the communities, there is an important learning curve for the members of the community participating in initiatives that require a high-level of involvement and joint decision-making.

- **Community empowerment:** Understanding social dynamics in the local communities, the Arcata community case has shown that leadership in local communities comes from diverse individuals willing to engage in the development of their communities, beyond formal roles of authority. As reported by Sodexo, it is believed that the supplier inclusion program has had an empowering impact for the local community.
- **Multi-stakeholder involvement as an accelerator:** Local governments can benefit from participating in public-private partnerships, as these Programs contribute to local economic development. Likewise, local governments may be able to provide technical and financial support (through grants similar to the one extended to César Yauri). Other local entities may be able to provide a support system of services available to entrepreneurs (including those necessary for formalization), as in many geographically remote areas, SMEs are underserved, limiting their growth.

## Potential Areas to Strengthen

From Sodexo's early experiences in Peru, there are general lessons learnt to consider when rolling out and implementing the Supply Chain Inclusion Program globally, in addition to "core practices" such as water management, environmental protection and yield improvement. Important success factors include:

- **Seamless coordination:** The Peruvian case has shown that there is a phase of adjustment at the beginning of the relationship, which can be shortened with more tailored training and alignment processes. As the network and variety of suppliers integrated into the Program and clients' grow, it is necessary to set up efficient joint-processes and methodologies adapted to the needs of the suppliers to better enable them to meet specifications. This is a continuous process throughout the engagement.
- **Systematic Mapping:** An up front, systematic mapping of producers in the region of interest is fundamental to understanding the potential within the region and how the buyer can best support it.
- **Comprehensive Program monitoring:** While this is an area in constant evolution, Sodexo recognizes that through a joint effort with local government, there is an opportunity to measure SME development impacts over time, even if Sodexo's clients are no longer operating in a community.
- **Qualitative metrics:** The current program is monitored largely through quantitative metrics. Sodexo executives believe that the next step should be to expand metrics to include qualitative indicators that allow understanding human development factors that cannot otherwise be measured.
- **Initiating and maintaining active communication with local governments:** Government can take an active role in promoting growth opportunities to entrepreneurs and create support programs to facilitate faster integration into supply chain opportunities.
- **Additional SME Support:** To promote SME sustainability and strengthen community relations, local Supply Chain inclusion programs can assist suppliers through such initiatives as « Gastronomy » Fairs, where supplier products are showcased and sold and, in the case of Peru, participants attend conferences on nutrition.

## The Local Community Supply Chain Inclusion as example of 'Good Practice'

Value chain diagnostics (UNIDO, 2011) are applied in the analysis of this case to examine the potential of the Supply Chain Inclusion Program to lead to economic and social upgrading for the local SME, and bring marginalized communities into the Sodexo supply chain, or the supply chain of its clients. In doing so, this study has examined the governance approach of Sodexo procurement practices for SME suppliers, and the parameters it has set for its supply chain. The relationship between Sodexo and its SME trout supplier in Peru can be categorized

as semi-hierarchical with strong hierarchical tendencies during the initial phase of engagement due to the remote geography and overall community dependence on the mine (Gereffi et al, 2005)<sup>23</sup>. However, Sodexo recognized the importance of developing sufficient capacity of the supplier to enable it to build alternative supplier relationships, which after several years of product and process development the fish farmer achieved.

In analysing the Local Community Supply Chain Inclusion Program procurement practices, the research finds the following features as indicators of good practice:

- **Strong focus on local circumstances, including marginalized communities and women:** Sodexo specifically aims to include SMEs led by ethnic minorities, women, and in this case, indigenous populations. It adapts its strategy to accommodate local conditions. In this case, the company has had to customize training materials to accommodate the literacy level of the supplier and community. Often communities where suppliers are based receive similar training on related topics in order to sensitize them to what Sodexo is doing with the supplier. This helps to upgrade community skills and to provide for greater harmony in the community about new practices.
- **Supplier management strategy and supplier administration:** Acknowledging that SMEs can be excluded due to onerous administrative requirements, the procurement policy provides specific guidance to enable SME participation through improved access to portals and platforms, clear processes on supplier selection, making insurance and non-critical certifications appropriate to the size and risk of the contract, establishing 'prompt payment codes', and being transparent with SMEs about the payment process.
- **Training:** Significant focus is on bringing SMEs up to international standards, and any process standards to render the SME competitive with larger competitors. In this case, Sodexo brought its internal experts in aquaculture, quality, and business management to train the local producer, and to follow-up with corrective measures to help the producer meet the international level standard.
- **Quality assurance:** Food safety is critical in the processing, handling and transport of fish. Hence there are a number of process upgrades that have been made by the supplier in order to meet Sodexo standards. As per those standards, samples of supplies are subjected to regular inspection and testing by Sodexo. Achieving the level of quality demanded by Sodexo also requires setting up the infrastructure needed to safely conduct the various processes involved in cleaning, deboning and packing of the catch, in the right conditions for transport to the client's location.
- **Pricing:** The results obtained in terms of product and process upgrades by the supplier have led to an opportunity to command a higher price per kilogram of trout, as the quality of the processing adds significant value for the client and end consumer. In this case, a good part of the value created can be captured by the supplier.
- **Purchase planning:** Given the difficult environment for production and transport, Sodexo and its client Hochtief would work to develop advance schedules in order to notify the supplier of upcoming needs. Sodexo would ensure that if it had over forecast, it would help to facilitate the sale of excess stocks through the organization of local fairs or facilitating sale to other local clients, where applicable.

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23 See indicators in UNIDO, 2011, p 55, based on Humphrey and Schmitz, 2000; Gereffi et al, 2005 and Bazan and Nanas-Aleman 2004.



## Potential Role for the ILO

The Peruvian case identifies areas in which the ILO may have a role to play as buyers scale up Supply Chain Inclusion Programs:

- *Multi-stakeholder platforms and stakeholder engagement.* As these types of programs grow and supply chains become more complex, there is a role to play locally in providing tools to SMEs, buyers and governments on how to structure effective public-private partnerships.
- *Labour practices.* The provision of customized training tools for buyers, SME suppliers, and other stakeholders on ILO core labour standards, working times and wages, and occupational health and safety is needed, including for illiterate populations.
- *Impact measurement.* Monitoring and evaluating a growing Program will demand effective economic, social and environmental metrics.
- *Gender and diversity.* In order to strengthen the inclusive profile of the Sodexo Program, there is a need to create the awareness and provide tools to facilitate the integration of more isolated social communities and women into SMEs, both as managers and workers.
- *Market access.* SMEs could benefit from advice and training on meeting minimum social compliance required to access new markets.
- *Support services for formalization of new businesses:* Cooperation with appropriate government authorities to provide access to services for formalization is critical to scaling the businesses and connecting them with global supply chains.

## Conclusion

This study identifies procurement practices related to Sodexo's *local community supply chain inclusion* program in Peru, where among other clients and activities, the company provides goods and services for the mining operations of its clients. The study explores how the program, even when faced with significant geographic and infrastructure challenges, can potentially lead to economic and social upgrading for local SMEs, and bring marginalized communities into the Sodexo supply chain, or the supply chain of its clients.

The researchers relied on secondary information from the MNE and did not have the opportunity to observe working conditions nor measure the direct impact of the intervention on the trout farmer and therefore cannot certify to what degree the interventions have resulted in economic and social upgrading<sup>24</sup>. From purchasing data received over a three year period, and second-hand feedback there is early indication that the Arcata fish farm intervention has contributed to farmer income and employment. Whether working with individual micro-entrepreneurs is a financially sustainable model for the wider Supplier Inclusion Program is questionable, yet, as suggested in this case, such engagement can be critical to triggering entrepreneurship and economic engagement in the local community. For Sodexo Peru, highlighting the importance of qualitative metrics, the company reports that it has benefited from the supply chain relationship established with the trout farmer at the Arcata Mining Community. The relationship had demonstrated good will in the community and supports the company's social license to operate in a sensitive mining area, where civil unrest can cause major disruption to its business and services.

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<sup>24</sup> The buyer reported that through Sodexo's Country Survey conducted annually as part of the Sustainability Reporting data collection process (based on the Global Reporting Initiative Framework), which is not a publicly available document, the company has initiated efforts to integrate detailed indicators and data that over time, will help measure impact in Peru.

Experience gained in implementing such a program, even at small scale, when rolled out at a national and global level can have a significant impact. *The case is representative of the progressive journey companies undertake from CSR initiative to integrated business practice.* Today Peru has 292 such suppliers and the company purchases more than EURO 13.2 (USD \$ 14.5) million from them, and Sodexo has committed to purchasing US \$ 1 billion from 5,000 SME suppliers worldwide. Whereas a single project working with one supplier may be deemed as a CSR initiative, the commitment to formalize the practice globally indicates a migration to embedded procurement practice. As large companies are beginning to adopt Supply Chain Inclusion Programs as a new approach to local economic development, additional research to establish a solid baseline and assist companies in refining metrics to capture meaningful development data can contribute optimizing the economic, social, and environmental impact of these important investments.

## Methodology Statement

A case study methodology is adopted in this study to illustrate how the procurement practices of large companies from small and medium enterprises (SMEs) can support the development and growth of these enterprises (SMEs) by improving their market access and increasing their added value. The case was selected for its capacity to meet a significant number of the criteria sought by the ILO, including that the practice is intended for mainstream application (and not a pet project), and on the basis that the practice has been positive in areas of key interest. Data collection was conducted between December and January 2015 using multiple methods: Secondary sources, company reports, email exchanges and interviews with authorized representatives of Sodexo in Paris and Lima. It was not possible within the scope of this study to speak directly with Sodexo's Peruvian client, Hochschild, a mining company, and Mr. Cesar Yauri, a community-based fish supplier from the Arcata village. However, following an initial telephone interview with Carolina Rouillon, Sodexo Better Tomorrow Champion, Lima, on December 21, written questions were provided to Sodexo Lima, and the company (Carolina Rouillon and Luis Vildoso, Sodexo, Peru) provided responses on behalf of Sodexo Peru, Hochschild (Sodexo's client) and Mr. Yauri (the entrepreneur) in interviews with the researchers on January 19 and 20, and February 5, 2016.

This study provides an overview of key components of Sodexo's Supply Chain Inclusion Program and a narrative on how it is applied in the case of engaging a micro-entrepreneur trout farmer in Peru, its strengths and challenges in implementation. It is intended to provide useful insights and is not intended as a critique or endorsement of any of the companies or actors involved.

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