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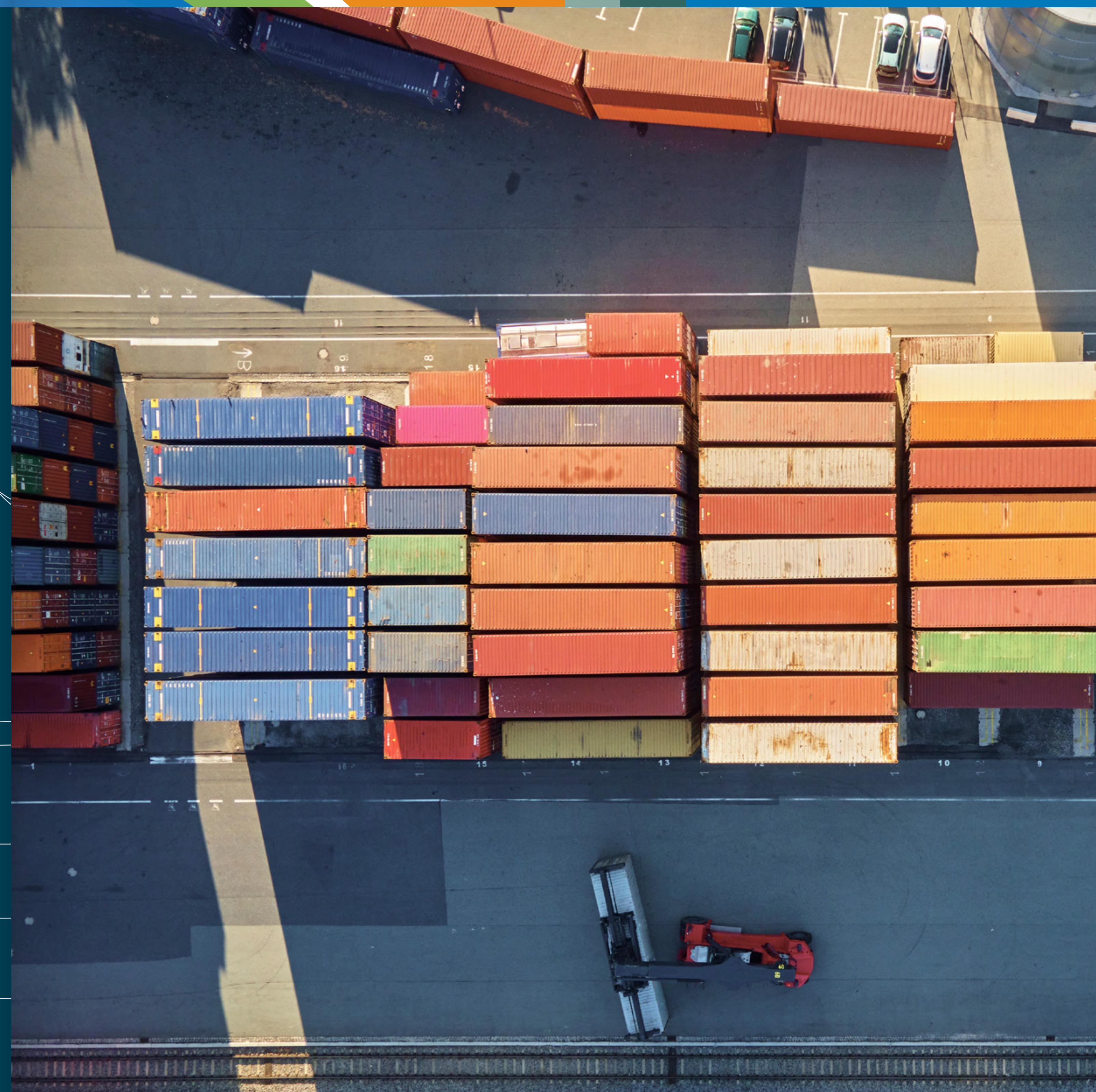
VBDO

Towards a responsible value chain

The role of investors and the CSDDD



About VBDO

VBDO stands for Vereniging van Beleggers voor Duurzame Ontwikkeling, which translates as the Dutch Association of Investors for Sustainable Development. VBDO was established in 1995 to help create a more sustainable capital market. With this goal in mind, VBDO undertakes benchmarking exercises, organises seminars and conferences, and engages with companies and financial institutions. VBDO has been actively engaging with the boards of directors of publicly listed companies in the Netherlands for 29 years. We attend annual general meetings (AGMs) to ask constructive, critical questions to encourage companies to improve their sustainability policies and practices. VBDO is funded by our members: almost 75 institutional investors and more than 375 private investors.

Dutch Association of Investors
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Utrecht, the Netherlands
February 2025

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Foreword

> ***The Rana Plaza disaster in 2013 brought global attention to the critical need for due diligence and responsible business conduct (RBC). This event marked a major turning point, demonstrating that companies bear great responsibility in minimising harm in their pursuit of resilient value chains.***

Dear Reader

Global supply chain disruptions have become an all-too-familiar challenge, underscored by recent events such as the COVID-19 pandemic and the Suez Canal blockage in 2021. These incidents serve as reminders of the vulnerabilities in our interconnected global value chains, which are continually exposed to dynamic forces. From climate change and demographic shifts to war and conflict, various factors pose significant risks to the stability of these chains. Climate change, in particular, has intensified these challenges, having an impact not only on the environment but also on communities and businesses worldwide. More frequent natural disasters such as droughts and floods disrupt operations and essential resources, often forcing companies to relocate or make difficult adjustments that affect local communities directly.

Beyond these indirect impacts, certain incidents have tragically highlighted the direct influence businesses can have on supply chain failures. The Rana Plaza disaster in 2013 remains one of the most sobering examples of inadequate and unsustainable value chains. The collapse of this eight-storey building, which illegally housed five garment factories, resulted in the deaths of 1,134 people and injured 2,500 others. International brands such as Benetton and Primark were among those sourcing from this location, which brought global attention to the critical need for due diligence and responsible business conduct (RBC). This event marked a major turning point, demonstrating that companies bear great responsibility in minimising harm in their pursuit of resilient value chains.

This wake-up call has shaped the standards for responsible value chain management. Still, many companies do not operate in line with principles of responsible business conduct (RBC). As we move forward, it is essential that companies, suppliers, consumers, and shareholders all contribute to creating more socially and environmentally sustainable value chains. This collective responsibility is not only vital for protecting businesses but also for fostering a sustainable world.

This focus is not new to VBDO, which has worked for years to assess and benchmark corporate progress in responsible value chain management. Our latest study builds on this foundation, providing an overview of both the opportunities and the remaining challenges that must be addressed collectively. While some progress has been made, a look back at VBDO's responsible supply chain benchmark (run from 2006 to 2014) reveals that alarmingly little has changed. The time for action has long come, and yet it is not too late to do more. One development we are happy to welcome is the introduction of the European Corporate Sustainability Due Diligence Directive. This directive introduces mandatory European regulation regarding due diligence. Seeing the development in the European legislatory field and the rightful attention that value chain due diligence is receiving, we want to use this report to shed light on the contribution of due diligence to responsible value chains and emphasise the crucial role investors play.

We thank all the respondents for filling out the questionnaire and our members for making this report possible by contributing to the VBDO Innovation Fund. Your input has been invaluable in shaping this study and driving meaningful progress towards sustainable value chains.

Warm regards
Angélique Laskewitz
Executive Director of VBDO

Executive summary

This report explores the opportunities for investors to address value chains. It provides guidance on topics that should be addressed by companies and investors when working on making value chains more responsible. The purpose is to guide investors in understanding their roles and responsibilities, emphasising the importance of integrating due diligence practices into their operations and decision-making processes. By providing actionable insights, this report seeks to support asset managers and other stakeholders in driving meaningful progress towards sustainable and responsible value chains.

The report is based on literature research, interviews with a variety of organisations, and a survey conducted with asset managers. Eight respondents representing roughly €0.6 trillion combined assets under management (AUM) filled out the questionnaire.

First, this report addresses the concept of responsible value chains and explores due diligence through the lens of responsible business conduct while considering the EU Corporate Sustainability Due Diligence Directive (CSDDD). The potential for the CSDDD is tremendous. It distinguishes itself from other sustainability directives as it goes beyond reporting and instead aims to enhance corporate accountability and transparency in addressing adverse impacts on human rights and the environment.

The CSDDD finds its roots in the Organisation for Economic Co-operation and Development (OECD)'s Due Diligence Guidance for Responsible Business Conduct and the UN Guiding Principles on Business and Human Rights (UNGPs). However, the CSDDD is less ambitious and comprehensive than the OECD guidance and the UNGPs. While the CSDDD offers a significant step forward, it represents only the starting point for achieving responsible value chains. This leaves room to discuss opportunities and complex issues that due diligence presents and how companies need to address their value chains, because companies cannot do this by themselves.

The report explores challenges such as the complexity of global value chains, supplier traceability, and the reliance on data for risk management. It emphasises the importance of transparency, collaboration, and the implementation of meaningful stakeholder engagement to address value chains. Meaningful stakeholder engagement requires moving beyond a limited understanding of stakeholders. Previously, the focus for companies has been on shareholders, but to address value chains a broader interpretation is needed. Engaging in dialogue with affected stakeholders or their representatives is imperative to responsible value chains. This is also beneficial to companies and their beneficiaries, as they will foster more sustainable relationships, which will ultimately help businesses, human rights, and the environment. Moreover, the report looks at implementation of codes of conduct, grievance mechanisms, remediation, and mitigation.

Furthermore, this report highlights how the financial sector plays a pivotal role in advancing sustainable business practices. Institutional investors are uniquely positioned to drive meaningful change through active engagement with businesses. The CSDDD will reinforce this by introducing compliance risks for companies failing to meet regulatory standards, further incentivising responsible business conduct.

VBDO calls on companies and investors to embrace the CSDDD as an opportunity to lead the transition towards sustainable and responsible business practices. By urging businesses to engage in comprehensive due diligence processes, stakeholders can mitigate risks, protect human rights, and safeguard the environment. We want businesses to move beyond mere compliance and take proactive steps to foster transparency, accountability, and collaboration across their value chains. Together, we can create resilient, sustainable systems that not only comply with regulatory requirements but also drive positive impact for people and the planet. Now is the time to act – let's lead the way in setting a new standard for corporate responsibility.

Recommendations

Based on the findings of this report, the recommendations consist of topics investors can address when engaging with portfolio companies and actions they can take for their own operations.

Prioritise education on the CSDDD and engage with portfolio companies

Investors should prioritise educating themselves about the CSDDD and its implications for their portfolio companies. By developing a deep understanding of the directive, investors can better assess risks and opportunities related to sustainability and human rights within their investments. Proactively engaging with portfolio companies to ensure compliance with CSDDD requirements and promote responsible business practices will not only raise awareness among investee companies but also contribute to driving the positive change envisioned across the value chain by the directive.

Foster multi-stakeholder collaboration for knowledge sharing and inclusive solutions

Investors and companies should foster multi-stakeholder collaboration to build knowledge and share the responsibility for addressing sustainability challenges. Engaging a diverse range of stakeholders – including local communities and their representatives, such as labour unions – ensures the voices of those directly impacted by business operations are heard and considered. Such collaboration helps identify the most relevant risks, develop practical solutions, and promote shared accountability across the value chain. By incorporating the perspectives of these often-overlooked stakeholders, businesses can enhance the effectiveness of their due diligence processes and contribute to more sustainable and equitable outcomes.

Drive industry-wide change through sectoral collaboration

While multi-stakeholder collaboration is crucial, sectoral collaboration plays a pivotal role in developing effective, industry-wide solutions to common issues. By working together, companies within the same sector can align best practices and develop collective strategies to tackle pressing issues such as environmental impact, labour rights, and supply chain transparency. Sectoral collaboration also helps establish standards that guide individual companies towards more responsible practices, while fostering innovation and mutual support. This enables companies to amplify their impact and contribute to systemic change so sustainable practices are embedded across the entire industry.

Dare to be more ambitious and take a leading position when it comes to responsible value chains

The CSDDD set a minimum standard. Moreover, the eventual implementation is subject to the individual Member States within the EU. Instead, the OECD Due Diligence Guidance for Responsible Business Conduct, from which the CSDDD is inspired, provides an all-encompassing frame for due diligence. This report recommends staying close to the OECD Due Diligence Guidance and being ambitious in the approach for due diligence. Daring to be more ambitious and taking a leading position in responsible value chains requires companies to move beyond compliance and set the pace for systemic change. By proactively adopting innovative practices and raising the bar on sustainability, businesses can inspire their peers and shape industry norms. Leadership in this area involves addressing critical challenges, from mitigating environmental harm and improving labour rights to enhancing supply chain transparency. Companies which step forward as frontrunners demonstrate that responsible business practices are not only feasible but also drive competitive advantage and long-term value.

1. Due diligence and the EU regulatory landscape

Companies are increasingly expected to engage in responsible business practices, guided by both voluntary frameworks and binding legislation. Voluntary guidelines such as the OECD Due Diligence Guidance for Responsible Business Conduct[1] set a baseline for ethical corporate behaviour. However, legislative measures such as the CSDDD are also becoming more prevalent, requiring companies to consider the environmental and social impacts of their operations – not just locally but across their entire value chains.

The responsibility for addressing these impacts extends beyond a company's own operations, and, according to the OECD, should include all activities in its value chain. Any process or entity that adds value to a product can contribute to positive or negative impacts. Controversies in value chains, whether related to environmental degradation or human rights violations, are longstanding and persistent. It is essential to pay close attention to the value chain, because a significant portion of a company's potential to drive sustainability lies at the beginning of these value chains. To create a sustainable world that respects human rights and protects the environment, we need a system with responsible value chains. At the core of achieving this system is responsible business conduct (RBC), with due diligence serving as a critical component.

The following chapter will delve deeper into RBC and the concept of due diligence. It will also explore how the CSDDD can contribute to building responsible value chains while emphasising that this legislation is just the starting point for broader change.

Responsible business conduct and due diligence

Performing due diligence is a way to identify (potential) risks, prevent them, and minimise their impact[2] before engaging in a business relationship or making an investment. It is necessary to have insight into risks to make informed decisions for the business, but also to be able to mitigate any issues and violations that might occur in the value chain. Therefore, due diligence, when well performed, allows organisations to identify risks and address relevant impacts connected to their own activities and business relationships.[3] These risks include adverse impacts on human rights and the environment.[4]

Traditional due diligence, often understood as a risk check conducted before buying or investing in a new company, is not the same as the due diligence expected for responsible business conduct. The former is a one-off activity focused on identifying the risks posed to the business (inward looking). The latter refers to due diligence as a continuous process that addresses the risks a business poses to human rights and the environment (outward looking). This approach is being increasingly embraced and is now a key element of the 'double materiality' requirement under the Corporate Sustainability Reporting Directive (CSRD).

Several organisations have developed guidance on RBC and outlined a robust due diligence process. The OECD plays a key role in shaping policies to foster equality and well-being for all. In 2018, the OECD published its Due Diligence Guidance for Responsible Business Conduct.[5] The framework provided by the OECD to address due diligence in the value chain is shown in figure 1.[6]

The business case

First and foremost, addressing negative social and environmental impacts is important for protecting people and the environment. But research on the assessment of non-financial risks has also shown the necessity for economic viability to address these types of risks: "Experience has shown that neglecting non-financial risk areas such as environmental, socio-economic and sustainability performance may be problematic and, under extreme circumstances, potentially disastrous, particularly in a developing world context."[8] Non-financial risks can negatively impact businesses. For example, reputational risks, legislative risks (e.g. non-compliance with new EU regulations), physical risks (e.g. damages to assets, caused by climate change), and systemic risks can all harm profitability and hinder long-term value creation. Addressing non-financial risks in the value chains is thus a double-edged sword. On the one hand, addressing negative impacts helps mitigate risks to the business. On the other hand, it can have significant positive impact on environmental challenges the world is currently facing, and it would promote the opportunity for people to build stable livelihoods. This is not only important from a social and environmental perspective, but also from an economic one. Ultimately, how a company conducts its due diligence directly affects workers, business partners, investors – in short, the entire value chain. When performed effectively, due diligence not only reduces risk exposure but also enhances the potential for long-term sustainable value creation.

European regulatory landscape

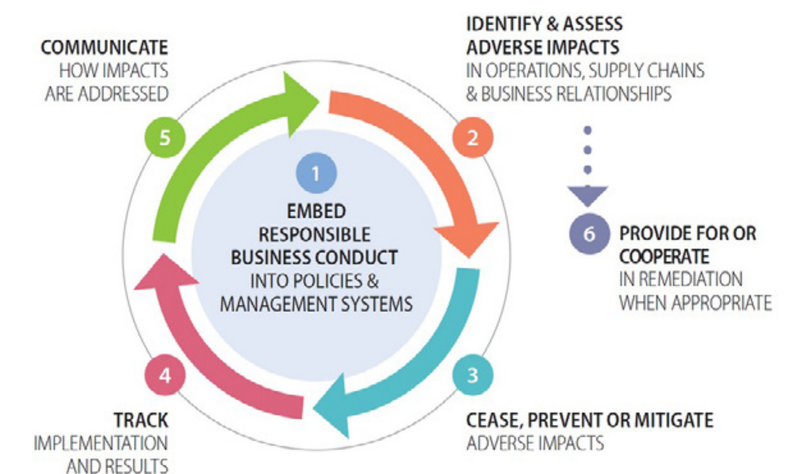
Getting insights into value chains and performing due diligence is perceived to be a demanding process, but that should not provide a reason to avoid working on responsible value chains. The legislator agrees and has formalised processes of due diligence by providing mandatory directives and regulations in the EU to enforce responsible business conduct. The most recent directive, and arguably the one with the most potential to be impactful, so far, is the Corporate Sustainability Due Diligence Directive (CSDDD).

Corporate Sustainability Due Diligence Directive (CSDDD)

Expectations for companies to take ownership of their entire value chain have been increasing. CSOs, consumers, and governments have increasingly demanding responsible business conduct, where measures are being taken to protect human rights and

Figure 1 | **OECD due diligence cycle**
(source: OECD, 2018)

The figure illustrates a continuous loop, emphasising that value chains are dynamic rather than static, with buyers frequently finding new suppliers. Consequently, due diligence should be an ongoing process of development, evaluation, and improvement. Performing due diligence mainly serves to address environmental and human rights impacts and can be used "to help enterprises observe their legal obligations on matters pertaining to the OECD Guidelines", according to the United Nations Development Programme (UNDP).[7] Carefully implemented due diligence enables companies to assess and, most importantly, address negative impacts in their value chains more effectively. Two key types of due diligence are identified: human rights and environmental. Human rights due diligence focuses on respecting and improving human rights, such as ensuring a living wage and preventing forced labour throughout operations. Environmental due diligence aims to enhance environmental performance and strengthen environmental protection. These two types do not exist in isolation, as most environmental and social topics are strongly intertwined and influence one another. For example, hazardous waste not only creates a potentially dangerous situation for workers if health and safety regulations are not properly enforced but can also harm the environment through leaks or contaminations.



Box 1 - Directives and regulations

The EU has published numerous directives and regulations in the past two decades concerning climate change and human rights. Some of these directives and regulations fall under the European Green Deal, which is the EU's strategy for reaching its 2050 climate neutrality goal. Alongside the Green Deal, the EU has created several directives and regulations that will be addressed in this report under the Sustainable Corporate Governance Initiative, which also aligns with the objectives of the Green Deal.[9] The Green Deal aims to help investors, CSOs, and consumers make informed decisions by granting them access to companies' sustainability performance so, as stakeholders, they can evaluate the outcomes.[10]

Before delving into the key directives and regulations related to sustainability, it is important to clarify two key legislative concepts.

Directives
The EU explains: "A directive is a legislative act that sets out a goal that EU countries must achieve. However, it is up to the individual countries to devise their own laws on how to reach these goals."[11] Examples of directives are the Non-Financial Reporting Directive (NFRD), which is the predecessor of the Corporate Sustainability Reporting Directive (CSRD), and the Corporate Sustainability Due Diligence Directive (CSDDD).

Regulations
"A 'regulation' is a binding legislative act. It must be applied in its entirety across the EU."[12] Examples include the EU Batteries Regulation, the EU Deforestation Regulation (EUDR), the Packaging and Packaging Waste Regulation (PPWR), and the Sustainable Finance Disclosure Regulation (SFDR). These specific regulations can also be used by companies to guide their business and provide data and information that feeds into the CSDDD and CSRD.

the environment. Companies are expected to recognise their role in society and in the environment's well-being. And rightly so, considering the impacts companies have on local communities, the economy, and the environment. However, progress has been slow and uneven in addressing existing or potential adverse effects of company actions on human rights or the environment.[13] The past decade has shown that voluntary guidelines have been insufficient to facilitate responsible business practices in value chains. EU research[14] argues that the voluntary actions taken by companies have often fallen short in addressing human rights and environmental impacts, because they typically focus only on the first tier of the supply chain. Meanwhile, most impacts occur further along in the value chain. Consequently, the voluntary nature of previous standards has not driven significant progress.

Therefore, the EU has composed the Corporate Sustainability Due Diligence Directive (CSDDD). The goal of this directive is to promote responsible business conduct.[15] It is the most comprehensive attempt by the EU to regulate corporate sustainability and human rights due diligence on a large scale across multiple sectors. Prior to the introduction of the CSDDD, individual Member States had already enacted their own due diligence legislation. Notable examples include the French Loi de Vigilance (Duty of Vigilance Law) and the German Lieferkettensorgfaltspflichtengesetz (the Act on Corporate Due Diligence Obligations in Supply Chains), both of which set precedents for the CSDDD. However, the primary inspiration for the CSDDD is drawn from the OECD Due Diligence Guidance for Responsible Business Conduct, which serves as its foundational framework and forms the backbone of the directive.

The CSDDD does not stand alone. To better understand the relations between the CSDDD and other regulations and directives relevant to investors, the following table[i] provides a chronological overview of some of the EU Green Deal and the Sustainable Corporate Governance Initiative directives and regulations.[16] Moreover, the table provides insight into how each of these directives and regulations address due diligence. Investors should be aware of these directives and regulations, as they are related to sustainability reporting.

EU Taxonomy Regulation	Sustainable Finance Disclosure Regulation (SFDR)	Corporate Sustainability Reporting Directive (CSRD)	CSDDD
In effect: 2020 First disclosure: 2022	In effect: 2021 Regulatory standards adopted in delegated regulation entered into force: 2023	Entered into force: 2023 First reporting: 2025	Entered into force: July 2024 Will have to be transposed into national law: 2026 Rollout to take effect: 2027–2029 (reporting in the following year)
Scope Financial and real economy companies within the scope of the CSRD, Member States and the EU.	**Scope** All sustainable market participants, including banks, investment firms, pension funds, asset managers, and life insurers (in so far as they offer insurance-related investment products). The SFDR also applies to financial advisers with three or more employees who provide investment advice or advice about insurance-related investment products. The disclosure obligations following on from the SFDR apply to these market parties, irrespective of whether they offer sustainable financial products. However, there are differences in transparency requirements, of which some apply at company level and others at product level, depending on the products offered and on whether these are promoted as sustainable or green.	**Scope** Companies captured by the CSRD will be required to report on a staggered timetable as follows: • Companies subject to the NFRD will need to comply with the provisions of the CSRD from 1 January 2024 (i.e. reporting in 2025 on the basis of 2024 data). • Other large companies not currently subject to the NFRD will need to comply from 1 January 2025 (i.e. reporting in 2026 on the basis of 2025 data). • SMEs will need to comply from 1 January 2026 (i.e. reporting in 2027 on the basis of 2026 data). • Third-country companies will need to comply from 1 January 2028 (i.e. reporting in 2029 on the basis of 2028 data). Approximately 50,000 companies are expected to be in scope.	**Scope** **For EU Member States:** • 2027: Companies of 5,000 employees and a turnover of €1.5 billion • 2028: Companies of 3,000 employees and a turnover of €900 million • 2029: Companies of 1,000 employees and a turnover of €450 million **For non-EU Member States:** More than €450 million turnover in the EU. For direct sales within the EU where the combination of a non-EU parent company and the subsidiaries together go above €450 million turnover, both the non-EU parent company and the subsidiary have to report – even though they might individually account for <€450 million of direct sales. The EU expects 6,000 EU companies and 900 non-EU companies to be in scope.
What is it? The regulation applies to financial and real economy companies within the scope of the Corporate Sustainability Reporting Directive (CSRD) which are obliged to make entity-level disclosures, as well as financial market participants that are required to disclose to what extent the financial products they market meet the criteria set out in the EU Taxonomy Regulation. Member States and the EU are also required to use the Taxonomy Regulation, for example when setting up green labels or certification schemes.	**What is it?** The regulation aims to strengthen the disclosures of the financial services sector pertaining to investments promoted as having sustainability as an objective or as having environmental, social, and governance (ESG) characteristics.	**What is it?** The directive requires covered companies to include in their annual management reports "information necessary to understand the undertaking's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking's development, performance and position" (CSRD, Article 19a). It also specifies the reporting topics as they relate to environmental, social, and governance issue areas (CSRD, Article 29b).	**What is it?** Companies are required to undertake due diligence on their own operations, on their subsidiaries, and on their business partners in their 'chains of activities'. This entails the activities of upstream business partners that relate to the products and services of the company in question and specific activities of downstream business partners, including the distribution, transport, and storage of products, provided these activities are carried out for the company or on its behalf.
Relation to due diligence Alignment with the minimum safeguards clause (Article 18) is expected to entail the implementation of due diligence. The Platform on Sustainable Finance published its final report on the minimum safeguards in October 2022, yet it does not constitute an official Commission position.	**Relation to due diligence** The principal adverse impact statement requires financial market participants to describe their adherence to international standards for responsible business conduct due diligence.	**Relation to due diligence** Requires disclosure of the due diligence process implemented but does not itself require the exercise of due diligence or alignment with RBC standards. The European Sustainability Reporting Standards (ESRS) – the prescribing guidelines for CSRD reporting – refer to and apply the concept of due diligence as described in the OECD Due Diligence Guidance, while there are several examples of deviations from the approach in the United Nations Guiding Principles (UNGPs) and in the OECD Guidelines.	**Relation to due diligence** Contains due diligence requirements that broadly align with due diligence steps from the United Nations Guiding Principles (UNGPs) and the OECD Guidelines, though it deviates from these frameworks in some respects.

[i] This quotes from the paper 'How do the pieces fit in the puzzle?' by The Danish Institute for Human Rights (except for the box 'Scope' under 'SFDR'), which provides an overview of emerging and existing EU regulatory initiatives. It outlines how a specific regulatory initiative relates to business and human rights frameworks, due diligence, and alignment with other regulations. Information is sometimes added for clarification.

Obligations under the CSDDD

The CSDDD will become mandatory for the first group of companies starting in 2027. This means that the first reporting covering the financial year of 2027 will appear in 2028. The directive applies to only a fraction of the companies required to report under the CSRD. However, the CSDDD and the CSRD are expected to have implications for many companies outside of the initial scope. A trickle-down effect will occur when companies in scope of the directives request data from their supplier tiers to comply. This will add many companies to the original scope by association. The CSDDD guideline takes this into consideration and provides support and protective measures for SMEs which might indirectly be affected as business partners in the value chain.[18, 19]

Under Article 5 of the CSDDD,[20] companies are expected to start:

- **a** integrating due diligence into their policies and risk management systems in accordance with Article 7
- **b** identifying and assessing actual or potential adverse impacts in accordance with Article 8 and, where necessary, prioritising actual and potential adverse impacts in accordance with Article 9
- **c** preventing and mitigating potential adverse impacts, and bringing actual adverse impacts to an end and minimising their extent in accordance with Articles 10 and 11
- **d** providing remediation for actual adverse impacts in accordance with Article 12
- **e** carrying out meaningful engagement with stakeholders in accordance with Article 13
- **f** establishing and maintaining a notification mechanism and a complaints procedure in accordance with Article 14
- **g** monitoring the effectiveness of their due diligence policy and measures in accordance with Article 15
- **h** publicly communicating on due diligence in accordance with Article 16.

The CSDDD also obliges companies to adopt and put into effect a transition plan for climate change mitigation under Article 22. This transition plan should be in line with the Paris Agreement – limiting global warming to 1.5 °C – and include time-bound targets for 2030, with five-year steps until 2050, based on scientific evidence and a description of the key actions to achieve it, and an explanation and quantification of the investments and funding required to support its implementation. Lastly, it should outline the role of administrative, management, and supervisory bodies in its development and execution.

The CSDDD outlines a list of actions for companies, which should be checked by independent third-party verifiers to prevent potential adverse impacts. However, the specifics of how compliance will be verified remain open to interpretation. The guidance provided is that they "should act with objectivity and complete independence from the company, be free from any conflict of interests, remain free from external influence, whether direct or indirect, and should refrain from any action incompatible with their independence. Depending on the nature of the adverse impact, they should have experience and competence in environmental or human rights matters and should be accountable for the quality and reliability of the verification".[21] The CSDDD proposes industry or multi-stakeholder initiatives provide the independent third-party verification, for which the directive exercises a broad interpretation of what such an initiative is.

Guidelines will be issued about which adverse impacts should be addressed and how. These guidelines will be established in consultation with the European Union Agency for Fundamental Rights, the European Environment Agency, the European Labour Authority, and, where appropriate, with international organisations and other bodies with expertise in due diligence.

Currently, the directive is in the stage where Member States need to transpose and implement it in national legislation. This leaves much room for interpretation. The preliminary authority in the Netherlands to monitor CSDDD compliance, once implemented, will most likely be the ACM (Autoriteit Consument & Markt),[22] who will operate as the watchdog. Non-compliance incurs a variety of penalties, with a pecuniary penalty of up to 5% of the company's net worldwide turnover in the preceding financial year. Not seen before in such directives but

Box 2 - **Expert insight from the MVO Platform**

The MVO Platform is a network of Dutch civil society organisations and trade unions which are active in responsible business conduct. The MVO Platform was founded in 2002 to improve and strengthen cooperation between civil society organisations and to present a common voice in the political arena.[23]

The adoption of the CSDDD is ground-breaking. Yet, there is plenty of room for more effective implementation. Although the directive has taken inspiration from the OECD Guidelines, some important opportunities have slipped by not implementing aspects as described in the OECD due diligence cycle. Part of this should be accommodated by national laws implemented by Member States. However, it is important to emphasise that the arrival of the CSDDD is not a reason for national laws to be scaled down. This is prohibited by the directive (see Article 1). We see that the German government is aiming to soften their national supply chain due diligence act, because it is more ambitious in scope than the directive.

Keep in mind that the CSDDD does not speak of the term 'value chain', but of 'chain of activities'. This is an incomplete interpretation of the value chain, because it only addresses the upstream supply chain. Unfortunately, this can result in companies applying limited scope when implementing due diligence. Companies are not required to carry out due diligence aimed at preventing harmful negative impacts on human rights and the environment in the downstream value chain, such as addressing health damage related to company use of pesticides and human rights abuses related to surveillance software or weapons exports. Lastly, the directive is limited in addressing gender sensitivity and vulnerable groups. Negative impacts mostly affect those who are more vulnerable, and more attention should be paid to these groups to refrain from leaving them unseen or unheard. Even though the financial sector has an exceptional position in the CSDDD, they have a crucial role in engaging on these topics and in influencing the sustainable economy.

included in the CSDDD is civil liability. A company may be held liable if it can be established that the company intentionally or negligently failed to comply with the obligations to prevent and mitigate potential adverse impacts and that a person's interest was damaged.

Beyond the CSDDD

The CSDDD marks important steps towards responsible value chains. However, the implementation of the CSDDD remains subject to uncertainty, as Member States will implement it in national regulation. Besides, certain aspects of the OECD due diligence cycle have been incorporated but only in a simplified form.

OECD Watch has published a paper highlighting opportunities to further align with the OECD due diligence cycle.[24] Some of the key opportunities for alignment which they highlight are related to the limited scope of the directive. Figure 2 provides an overview of the alignment between the OECD guidelines and the CSDDD.[25]

Figure 2 | **Overview of CSDDD and OECD alignment**
(Source: OECD Watch, 2024)

OECD GUIDELINES	ELEMENT	EU CSDDD
	PERSONAL SCOPE	
✓	Covers companies of all sizes	✗
✓	Covers all sectors	✓*
✓	Covers companies of all forms	~
	VALUE CHAIN SCOPE	
✓	Covers all upstream business relationships	✓
✓	Covers all downstream business relationships	✗*
	MATERIAL SCOPE	
✓	Covers all human rights	~
✓	Covers all environmental impacts	~
	CLIMATE	
✓	Covers climate change as an environmental impact	~
✓	Requires implementation and monitoring of climate covering scope 1, 2 and 3	~

It is crucial that companies – especially investors – begin taking proactive steps and demonstrating ambition to create a positive impact within value chains. The following chapter will delve into how these ambitions can be translated into concrete actions. It is important that companies and investors do not remain stagnant or limit themselves to mere compliance with laws and regulations. There are significant opportunities to address negative impacts and make meaningful impact. As emphasised in a recent CDP report,[26] it is essential that businesses and the financial sector do not wait for governments to act. By taking responsibility and implementing forward-thinking measures, companies and investors can begin contributing to more sustainable and responsible value chains.

Interview Fairtrade

Karen Bouwsma – Senior Policy Advisor at Fairtrade

Fairtrade is an international social movement and a certification scheme aimed at changing the way trade works through better prices, decent working conditions, and a fairer deal for farmers and workers in agrifood supply chains. Unique elements in the standards are the Fairtrade minimum price and on top of that the premium price. The minimum price functions as a safety net for producers to ensure basic costs for sustainable production are met. The premium price provides additional funds for farmers and/or workers to invest as they see beneficial. This contributes to the livelihoods of farmers and workers. Moreover, by providing local support, Fairtrade is a visible and practical partner to farmers and workers. The support also helps them prepare for upcoming European legislation, invest in addressing climate change, and stay commercially relevant. This strengthens their position in global markets and promotes social and environmental sustainability in value chains.

WORKING TOWARDS RESPONSIBLE VALUE CHAINS

There is nothing wrong with profit, but not at the cost of exploitation. Everyone in the value chain should be able to earn a decent living from the work they do. The word 'value' in value chains must become a reality. All parties involved in a supply chain should add and receive value for delivering their part. The most important aspect is that the social and environmental costs are not placed solely at the beginning of the chain but are fairly distributed throughout. This is a balancing act. Therefore, transparency is key. At Fairtrade, we aim to know where each part of the process occurred, what costs are involved, what values are transferred, and under what conditions. Transparency is crucial in all parts of the trading, and these steps need to be certified and audited.

Sustainable purchasing practices are a critical component of responsible value chains. The following example illustrates this. In the banana sector, retailers aim to contribute to living wages for workers on banana plantations. To do so, sustainable purchasing practices are needed. This can, for example, be assured through long-term contracts, long-term commitments, and the payment of an additional amount to close the wage gaps, such as the Fairtrade living income reference price. We encourage buyers to consider multi-annual contracts so that plantation owners and workers know what to expect and stand to gain a stronger position.

It is important to ask companies to study their current purchasing practices. Could it be that they directly or indirectly contribute to human rights violations and/or environmental damage in their supply chains? In a constructive dialogue, these practices can be discussed and directed towards more sustainable purchasing practices. This way, companies increasingly meet their due diligence obligations.

CURRENT APPROACH TO SUSTAINABILITY

At Fairtrade, we notice that while companies recognise the need for more sustainable practices, they sometimes still struggle to embrace their responsibilities, as it may interfere with the way they have been doing business for many years. Although frontrunners are genuinely trying to make a difference, there are signs that others are trying to shift part of their due diligence responsibility onto other companies in the supply chain.

Companies are discussing and negotiating sustainability criteria with their suppliers, which is a positive step. However, the question remains: what are they themselves contributing to ensure those sustainability goals are achievable throughout their supply chain? Without meaningful changes in purchasing practices, there is substantial risk of farmers bearing the social and environmental costs – and the cost of sustainability ambitions at the other end of the supply chain. Companies should enable sustainable production, via their purchasing practices, and acknowledge that this comes with a price.

THE IMPACT OF LEGISLATION SUCH AS THE CSDDD

Legislation such as the CSDDD could benefit value chains, though positive impact will depend on the implementation of the directive. Overall, Fairtrade warmly welcomes this legal framework. We hope that the Dutch implementation of this law will benefit workers and farmers via effective company due diligence processes. However, we are careful not to be too optimistic. There's still a risk that companies see this legislation as merely a tick-box exercise to develop a due diligence process without impactful implementation. The danger is that they may limit themselves to write sustainability requirements in supplier contracts without any real value transfer or improvement in their own purchasing practices. This practice of (partly) outsourcing responsibilities may unfortunately lead to farmers paying for the implementation of the CSDDD without being compensated for it. It is important that the new legislation leads to improvements in the value chain where most needed and adds value to the livelihoods of workers and farmers.

Now that the CSDDD is approved, we also encourage investors to engage with companies on their due diligence obligations and to be aware of the potential adverse environmental and human rights impacts of their activities and the necessity to act on them via their purchasing practices.

AMBITION IS NEEDED TO PROGRESS ON THE TOPIC

Initiatives such as Platform Living Wage Financials (PLWF) use engagement as an important tool to encourage companies to take next steps in enabling living wages in their supply chains. This should lead to concrete sustainability improvements in the supply chain. Very interesting in this regard was ASN Impact Investors pulling out of clothing companies due to lack of progress after many years of engagement. This escalation strategy will hopefully result in a more powerful form of engagement, moving company perspective on sustainability from a 'nice-to-have' to a 'must-have'.

Pressure like this, and from the CSDDD, will reveal that most impactful sustainable practices do not take place where only a box needs to be ticked, but in joint supply chain efforts from parties and stakeholders – and where parties realise that a sustainable supply chain is a value chain, where value distribution is key for long-term sustainability and profitability. It is about sharing both the responsibilities and the rewards.

2. Unlocking Opportunities in Responsible Value Chains

The previous chapter examined the evolving European regulatory landscape. Yet, while regulatory frameworks provide an essential foundation, ensuring a responsible value chain extends beyond mere compliance. The way companies choose to engage with these frameworks often reflects their level of ambition. While the regulatory environment offers room for manoeuvre, this flexibility can lead companies down different paths. On the one hand, some businesses may take a minimalist approach, doing just enough to meet legal requirements without addressing the deeper systemic issues within their value chains. On the other hand, forward-thinking companies see these frameworks as a baseline – an opportunity to go beyond compliance and drive real, transformative change. Ambition is a necessity as a lack of focus on responsible value chains could expose companies to greater supply chain disruptions and other risks, which in turn could affect the stability of investments. Investors play a critical role in driving responsible value chain management. They can address companies to encourage them towards sustainable improvements that go beyond compliance.

There is a clear business case for responsible value chain management. Companies that prioritise responsible value chains often benefit from stronger risk management. Investors should increase their awareness of these dynamics, to not only understand the risks but also identify opportunities for encouraging companies towards positive actions. There is a variety of approaches that can be used, for example by sharing good practices among portfolio companies and setting clear expectations for progress. The responsibility for advancing these practices does not rest solely on companies; it should be championed by governments, financial institutions, and other stakeholders.

Either way, the road to a responsible value chain is not without its obstacles. Companies must grapple with complex global supply networks, diverse stakeholder expectations, and the complexities of ensuring transparency across regions and sectors. This is not simple. Over half of the respondents to our questionnaire indicated they felt limited in their influence over portfolio companies' value chain practices. At the same time, addressing these challenges present opportunities to foster innovation, strengthen relationships, and build resilience in the face of growing environmental and social pressures.

Building on academic literature, the OECD due diligence cycle, survey results, and interviews, this chapter explores the key opportunities that arise as companies strive to ensure responsibility across their value chains. These opportunities and insights can be used by investors as guidance for their own operations and as topics to address when engaging with portfolio companies and other stakeholders. Each of the following sections highlights areas of opportunity, both where further progress is expected and where ambition could be heightened. This chapter aims to build understanding of what companies and investors can do and identify opportunities investors can leverage for long-term impact.

'Chain of activities'

It is not a given that companies address value chains. Many do not engage with their supply chain to improve sustainability and responsible business conduct. Unfortunately, the CSDDD has opted to use the term 'chain of activities' instead of addressing the value chain. This limits the scope of where due diligence is required, because 'chain of activities' refers only to the upstream supply chain, and it is crucial to consider the entire value chain. That includes downstream activities. Moreover, a value chain perspective is broader than a supply chain perspective, because it includes more activities that add value to the product. Although upstream is a great place to start due diligence, downstream activities that add value to the final product should not be overlooked. Investors engaging with portfolio companies on the extent of their value chain consider due diligence and why they have chosen the extent of this scope. More ambitious companies will consider including more than the 'chain of activities' in their due diligence processes.

Supplier traceability and mapping[27]

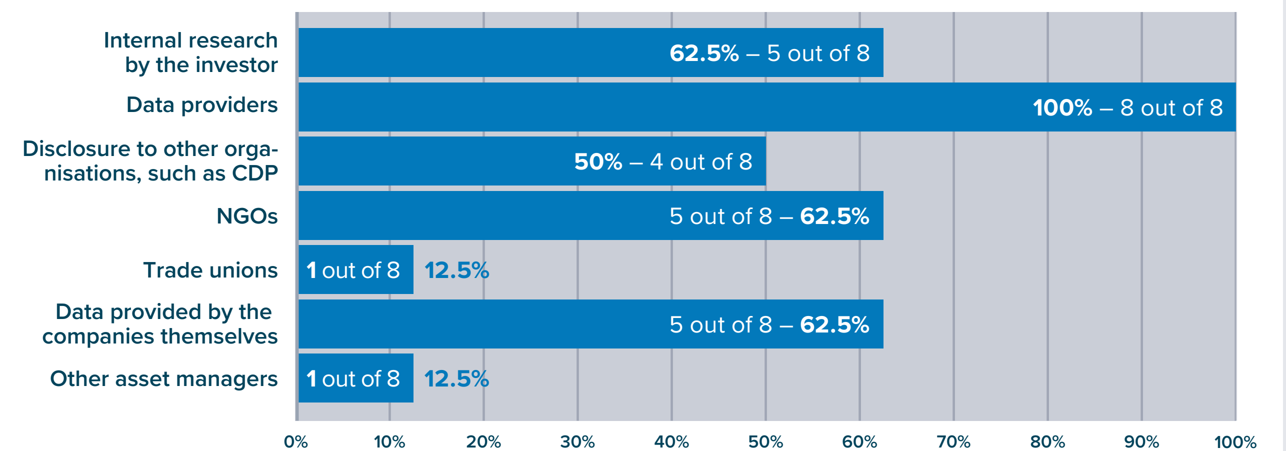
An essential aspect of responsible value chains is tracing suppliers across multiple tiers within the value chain. This creates an intriguing paradox: effective value chain management relies on supplier traceability, while traceability itself only improves through robust value chain management. For large multi-national enterprises (MNEs) – which often work with thousands to tens of thousands of suppliers across the globe – the task of mapping suppliers is a highly complex exercise. However, mapping suppliers and establishing a system of traceability is still key to addressing adverse impacts.

Traceability and mapping are especially relevant because the process of adequate due diligence requires companies to have knowledge about their value chain, which means going beyond tier 1 suppliers, which is usually the extent to which supply chains are mapped or traceability is in place. Tier 3 or beyond requires great effort, though acquiring information is not impossible. Moreover, not dealing with what is happening in further tiers increases exposure to unaddressed risks. The less knowledge available, the more blind spots there are for the company. Therefore, it is in everybody's best interest to work on due diligence in their entire value chain.

The relevance of supplier engagement is captured in the 'Big Challenges, Simple Remedies' report of CDP and BCG. They say: "Corporates can leverage their purchasing power to kick-start a feedback loop and cascade change across their supply chains."[28] Furthermore, the report discloses that corporates that engage with suppliers are 6.6x more likely to have a 1.5°C-aligned transition plan with a Scope 3 target. Such transition plans are mandatory under the CSDDD. This illustrates that engaging with suppliers is key, to reduce non-financial risks, especially legislative risks through non-compliance. The report further emphasises that only 21% of corporates currently engage with suppliers on climate change.

Collaboration is the way forward, and several initiatives have already improved traceability. This is also reflected in the interview with CNV Internationaal further along in this report. These initiatives require support from value chain actors such as governments, CSOs, data

Figure 3 | **How investors collect data from portfolio companies, regarding value chain practices**

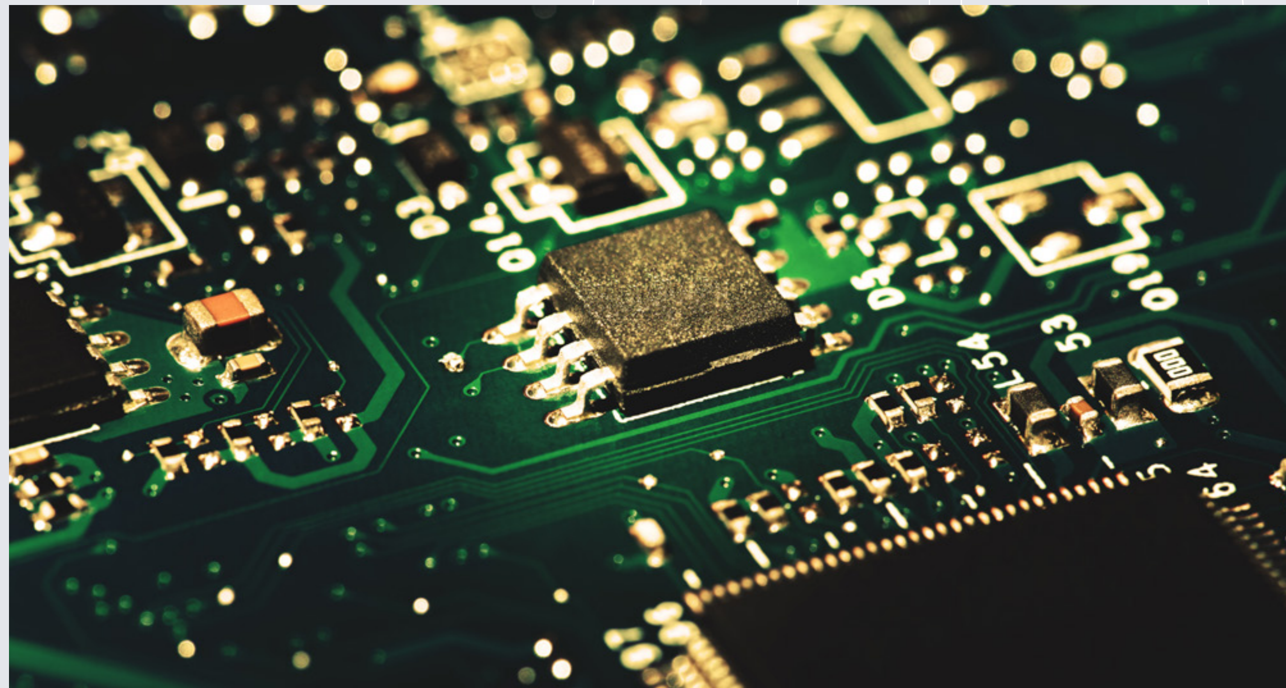


providers, companies, and investors. Investors can address this topic by engaging with portfolio companies and emphasising the need for collaborations with other stakeholders.

Data use

Tracing and mapping of suppliers is a first step, however to have better insight in value chains in-depth insight into potential and actual social and/or environmental risks in the value chain is required. Data has an important role to play here. The questionnaire respondents indicated that they all retrieve data from data providers and that they already retrieve a lot less data from their own research, from contact with NGOs, and through self-reporting of portfolio companies. This is closely followed by disclosures to organisations such as CDP and UN Global Compact. This firmly highlights investor reliance on data providers' data collection.

Data providers use data to map and monitor risks in value chains. They do not only look at European legislation but also at international legislation, which increasingly provides regulations to companies. Their approach to data collection relies heavily on international databases where issues such as human rights violations are officially documented, as well as media reports and NGO reports. Thus, collaboration between these stakeholders is essential to improve quality, transparency, and accessibility of data for understanding the risks that occur in value chains. This is also reflected in the 'No News is Bad News' publication by ABN AMRO, APG, ING, Robeco, and Morningstar Sustainalytics,[29] which highlights the need for collaboration to advance human rights. We cannot measure what we cannot see, is often said. And that is exactly the risk of not exchanging data with a broad group of stakeholders. If there is no negative news it does not mean that there are no grievance or controversies taking place. It might just mean it has not become public information. One of the key insights from the publication is therefore the need to "build a body of risk information that is more closely sourced from affected people and establishes the quality of the risk information". This will help to improve transparency and quality of the data.



When it comes to data, there is so much available. The data gap we are facing is mainly one of quality, transparency, and accessibility. When data is only obtained from portfolio company self-reporting, it provides a limited picture. It is therefore important to rely on the context and input of a variety of stakeholders, including NGOs, other investors, and local communities or their representatives. This is also reflected in box 3 on meaningful stakeholder engagement. This supports the process of investigating both existing and potential risks. Furthermore, this might also expose grievances and controversies. Accessibility is beneficial for investors' informed decision-making and for keeping companies accountable by the broader public. Moreover, region-specific data related to environmental impacts and human rights can also be greatly beneficial to companies, investors, the broader public, and data providers, who also largely depend on publicly available data.

Data availability does not automatically lead to responsible value chains. If we keep using the same systems of measuring and ranking but only increase the quantity of the data, the results will be the same across the value chains. As an investor, engaging with portfolio companies on data transparency and data accessibility facilitates progress. The outcomes of ESG ratings– which many asset managers are already using – could support investors to gain knowledge and have the tools available to further engage with companies on topics such as remediation. Improved quality, transparency, and accessibility of data will also ensure financial institutions limit risks and can make informed investments. These are only a few examples of the benefits of proper data.

To support the risk analysis, using data from a variety of stakeholders is vital for a better understanding of what is happening in the value chain. There are already tools available which address different risks, for example the CSR Risk Check[30] and the WWF Wood Risk Tool.[31]

Codes of conduct

Getting into more specific tools companies are required to have for responsible value chains – and which still hold room for improvement – are codes of conduct. The CSDDD requires companies to integrate due diligence into their policy and risk management systems (Article 7), and prescribes containing a code of conduct. Codes of conduct are a practical way to implement ethical guidelines and promote responsible practices within the supply chain. Many companies already rely on supplier codes of conduct to facilitate proper working conditions in the workplace. These codes typically outline expectations for suppliers around issues such as labour rights, environmental protection, and anti-corruption measures.

However, while they are an important starting point, these codes alone are often insufficient for driving real sustainable change in global value chains. One major limitation of codes of conduct is that they tend to focus on compliance rather than the root causes of issues in supply chains. While this focus on compliance is understandable – given the complexity of committing suppliers to deal with deeper systemic problems – a code of conduct that does not include mechanisms for enforcement or improvement can lead to a gap between a company's stated goals and the reality on the ground. Striking a balance between addressing root causes and clearly defining attainable, auditable expectations for suppliers is a significant challenge.

Furthermore, when non-compliance is identified, some companies will choose to terminate their relationships with their suppliers. While this may seem appropriate to uphold standards, it will have unintended consequences for the most vulnerable actors in the supply chain – the workers. Cutting ties with a supplier without offering support for improvement can lead to factory closures, mass layoffs, and increased instability in already precarious working conditions. In low-cost production countries, where jobs may be scarce, this can leave workers without income and push them into even more exploitative working environments.

Instead, companies should prioritise a more collaborative and supportive approach by partnering with their suppliers to help them meet the required standards. This could include offering technical assistance, training, and financial support. This constructive approach not only addresses observed violations of the code of conduct but also helps realise long-term improvement, moving beyond short-term fixes or severing ties at the first sign of non-compliance. It is not exceptional that a workplace is subject to multiple codes of conduct from different companies. Industry alignment prevents conflicting information, enhances a level playing field and sets straight the expectations for factories. This

provides uniformity and clarity for adequate codes of conduct to improve working conditions in the workplace.

Freedom of association

An efficient way to facilitate abiding to human rights is by addressing the right of freedom of association (FoA). FoA is "the right for workers and employers to form and join organisations of their own choosing"[32]. It is an enabling right to many human rights, particularly those related to labour and social justice. In the context of this report it is especially relevant that workers can join labour unions to advocate for their rights. By empowering individuals to come together and advocate for their collective interests, FoA fosters equality, dignity, and the protection of basic human rights in workplaces and beyond. It facilitates collective bargaining so that workers can organise themselves into unions to negotiate fair wages, safe working conditions, and reasonable working hours. These are essential rights which are still not guaranteed in many places around the world. Considering the CSDDD, freedom of association allows employees and buyers to monitor and report on corporate practices that may violate human rights or environmental standards, and it fosters transparency and ethical behaviour. Companies which require their suppliers to have FoA in place are more likely to adhere to human rights standards and facilitate progress in responsible value chains.

Grievance mechanisms, remediation, and mitigation

Grievance mechanisms are an important tool for grasping a better understanding of what is happening in the workplace of a certain supplier within the value chain. Grievance mechanisms are part of the CSDDD under Article 14: "Companies should provide the possibility for persons and organisations to submit complaints directly to them in case of legitimate concerns regarding actual or potential human rights and environmental adverse impacts."[33]

These mechanisms are not always operationally sound. As with codes of conduct, it is not likely that a factory or a plantation is only supplying to one (multinational) enterprise. Therefore, workers might be exposed to multiple grievance mechanisms which they do not

even have access to. There are several reasons for this. In many cases, workers are unaware the grievance mechanisms exist. If a grievance mechanism is only available in English and not in the local language(s), it's not accessible. And when workers do make use of the grievance mechanisms, their safety is not necessarily guaranteed, even though this should be the absolute priority when designing a grievance mechanism. The interview with CNV Internationaal provides more context about this.

The CSDDD provides little further guidance about how grievance mechanisms should be implemented.[34] A sectoral approach would be beneficial to overcome these barriers. This would prevent workers from being subject to a wide variety of grievance mechanisms that distort safety and accessibility to complaint filing.

When a grievance mechanism is in place, it should lead to action. Analysis on the effectiveness of the mechanism requires careful consideration and should be informed by engagement with stakeholders on adverse impacts. If no grievances are addressed, it is most likely that people don't know how to use the mechanism or have limitations in using it. This is therefore a continuous process of learning and of being informed by stakeholders how to improve such mechanisms – work which is never finished. The Netherlands Enterprise Agency collected case studies on effective grievance mechanisms in a handbook,[35] which may serve as a solid foundation for further development of grievance mechanisms.

Summarising, discretion, and trust are key to adequate grievance mechanisms. Companies need to ensure grievance mechanisms are accessible and safe. Safeguarding grievance mechanisms requires stakeholder engagement. Stakeholder engagement can provide short-term and long-term gains to shareholders and stakeholders who are, or who can be, adversely impacted by companies.[36] However, not all stakeholder engagement is effective. The way engagement is designed and executed greatly determines the quality of the outcomes.

meaningful stakeholder dialogue

Meaningful stakeholder dialogue can improve mitigation strategies. Mitigation refers to proactive measures taken to reduce or minimise potential for adverse impacts before or as they occur. The CSDDD expects companies to adequately mitigate adverse impacts. This requires collaboration and knowledge on the risks and impacts that could take or are taking place. Still, it is unavoidable that actual adverse impacts occur.

Box 3 - Meaningful stakeholder dialogue in (international) value chains

Meaningful stakeholder dialogue is the process for companies and other organisations to engage in a conversation "to exchange insights, identify and balance mutual interests, set common goals, and strengthen the relationship".[37] It is a theory that exists in academic literature, which the Social and Economic Council (SER) of the Netherlands has developed into an actionable approach that can be applied to any business. The theory is supported by self-assessment, training, and tools to conduct meaningful stakeholder dialogue.[38] Meaningful stakeholder engagement is expected through the OECD Guidelines and should be part of all six steps of the OECD due diligence process – and part of any company's process for due diligence. The CSDDD requires companies to show they have made sufficient effort to engage with their stakeholders, and the guidance provided by the SER can help companies do so.

Stakeholder dialogue is essential for a healthy business. Strong and stable business relationships with suppliers create more reliable supply chains. For example, long-term partnerships with suppliers can reduce risk and provide greater transparency and cost saving. But suppliers are only one of the stakeholders. Other important stakeholders are investors, suppliers, governments, CSOs, and NGOs. Perhaps the stakeholders who are most impacted are workers and (local) communities, who are at the frontline of the business.

Time has proven that it is not self-evident to include workers and local communities in stakeholder engagement. However, engaging in dialogue with affected stakeholders or their representatives is imperative to responsible value chains. More conversations and dialogue are necessary to improve working conditions and prevent or mitigate adverse impacts. Moreover, engaging in meaningful dialogue helps build trust, enhances transparency, and helps identify and mitigate risks that could impact on business operations.

However, stakeholder dialogue is a means to an end, not the goal itself. Companies must integrate the insights and outcomes of these dialogues into their policies, strategies, and actions. As a stakeholder, it is important to use your voice. Investors are one of the stakeholders in a company, so this is an opportunity to address sustainability issues you would like to see the company working on. Likewise, investors can ask the company about their stakeholder engagement and encourage them to develop meaningful stakeholder dialogue principles.

This means there should be adequate provision or cooperation for remediation. Remediation is the act of restoring a situation to the way it was before the adverse impact occurred. The OECD Due Diligence Guidance for responsible business conduct elaborates: “The type of remedy or combination of remedies that is appropriate will depend on the nature and extent of the adverse impact and may include apologies, restitution or rehabilitation (e.g., reinstatement of dismissed workers, recognition of the trade union for the purpose of collective bargaining), financial or non-financial compensation (for example, establishing compensation funds for victims, or for future outreach and educational programmes), punitive sanctions (for example, the dismissals of staff responsible for wrongdoing), taking measures to prevent future adverse impacts.”[39] This in turn should also present lessons learned so that similar incidences do not happen again. Remediation to this extent is not yet common practice, especially when it comes to including affected communities in the process through dialogue, albeit via representatives.

Bright and Buhmann (2021) explain further that due diligence is not limited to the original adverse impacts that occurred, but that due diligence is also required when considering mitigation strategies. They state: “Risk-based due diligence also requires companies to identify and address the adverse impacts that may arise out of such mitigation strategies in order to contribute to the fair transition.” They later continue: “The risks of impacts on humans that result from climate change mitigation are covered by terms such as fair transitions, climate justice and energy justice. Scholars and other actors within these fields claim that mitigation practices should not pose imbalanced harm or risks or leave those affected unable to fully participate in the decision-making or planning that impact their communities. The basic idea is that the transition should be fair in not creating disproportionate burdens on some individuals or groups, in particular those that are already vulnerable.”[40] Here, it is also recommended that companies engage in meaningful stakeholder engagement to ensure careful consideration of mitigation strategies.

Company transparency

Transparency is essential for responsible value chain management, because it empowers companies to address risks proactively, facilitates trust and accountability, and strengthens relationships across the value chain, all of which contribute to long-term business success and sustainable impact.

It is also one of the main issues investors addressed in the questionnaire. Responsible value chains need more than just data collection. Company transparency is key to understanding what is happening in the value chains. It also requires data to be available to interpret and make comparisons so that it can drive action. When traceability improves, there is still a need for improvement in transparency, and companies should be open about the struggles and the opportunities they have encountered. Workers are often only included in 10% of the risk assessments, and companies barely disclose any evidence.[41] Investors must ask for transparency. At the same time, transparency can make a company vulnerable. If negative impacts become known, they might fear divestment. Therefore, it is also important to keep engaging with companies and question them about their intentions to remediate and improve. It is necessary to take a constructively critical approach to engagement.

Moreover, when addressing transparency, increasing attention is being drawn to divergence between companies' own lobbying and advocacy practices and those of industry associations and trade organisations they belong to. Previous work from VBDO[42] has revealed that when it comes to responsible lobbying, 13% of companies have now developed a responsible lobbying policy. Last year, there were none. Although this is already a great increase, there is room to be more ambitious. At the same time, only 20% of companies disclose their membership to industry associations, compared with 39% last year. Yet, there is an increasing interest in companies' industry memberships and trade associations. Transparency of memberships and the lobbying activities of those organisations is essential for understanding the contradiction between some of these lobbying practices and responsible business conduct.

Interview CNV Internationaal

Alien Huizing – Responsible Business Conduct Advisor at CNV Internationaal

Suzan Cornelissen – Programme Manager Indonesia at CNV Internationaal

INSIGHT INTO THE VALUE CHAINS
Company products should respect people and nature. To support this, CNV Internationaal works to strengthen local unions and improve working conditions by promoting social dialogue at the local level.

Local unions, for example in the mining sector, have the deepest understanding of working conditions and know best which issues should be prioritised. We support these local unions in their negotiations for collective bargaining agreements (CBAs). However, freedom of association is not self-evident and can pose issues in countries such as Indonesia. Union busting is a common issue, with union leaders facing dismissal or intimidation when they recruit new members or speak out on important issues.

Progress on these value chain issues varies widely across sectors but should become more visible. Meanwhile, multi-stakeholder initiatives must raise the bar; progress stalls if organisations remain in the discussion phase. Collaboration is essential, first to gain supply chain insights, and second to increase leverage with suppliers. This encourages suppliers to negotiate high-quality collective bargaining agreements that align with International Labour Organization (ILO) conventions.

The textile industry seems a step ahead. Transparency on suppliers has increased through initiatives such as the Open Supply Hub, an open-source supply chain mapping platform. And they are showing gradual progress on issues such as living wage. In contrast, living wage remains an unaddressed topic within the Roundtable on Sustainable Palm Oil (RSPO) and within the palm oil industry in general. More structural approaches are needed to advance living wages and drive systemic change in value chains.

Furthermore, to address issues in the value chain, you should not operate in silos. Environmental and social impacts are closely intertwined. In the nickel sector, particularly in Morowali (Indonesia), living conditions are especially dire. In a short period, 80,000 people have moved to the fishing villages to work at new mining smelters. Living conditions are terrible, airborne dust poses health risks, and waste of the smelters is being dumped into the sea. Additionally, workers face unsafe working conditions. We encourage unions to collaborate with the international community, as well as local and national government, to consider these social and environmental perspectives simultaneously and work on integrated solutions.

THE CSDDD WILL REQUIRE ACTION
We already had the OECD Guidelines, but the voluntary nature has led to limited progress. Many companies were hesitant to address value chain issues. They are reluctant about the potential short-term investments, because they are afraid it undermines their competitiveness. For many, a level playing field is essential – something the CSDDD aims to establish.

The CSDDD will require companies in scope to identify and address negative human rights and environmental impacts of their actions inside and outside Europe, which may prove challenging, especially initially. One of the challenges, in the case of palm oil plantations, is that companies often source from suppliers in remote regions. Therefore, collaboration is essential. On top of that, consultations in producing countries will support accurate implementation of CSDDD requirements so the right measures are taken. Companies need to support suppliers so they do not end up with the (financial) burden.

WHAT COMPANIES CAN ADDRESS
While this is not an exhaustive overview, there are several practical steps companies can take to start contributing to more responsible value chains.

1. **Use certification as a tool and do not make it the end goal.** Certifications are a great place to start, but company responsibility does not end there. Many certification schemes, such as RSPO, still need to drastically raise the bar before positive impact can be made. Certifications are an instrument in the due diligence process, but keep looking for what you can do beyond certification schemes.
2. **Collaboration in obtaining data is fundamental to change.** In many cases, companies rely on audits to gather data for risk assessments. However, audits alone are often insufficient for capturing social aspects such as working conditions in factories or on plantations. Audits are often announced visits, and we have observed that management will take measures specifically for the audit. Additionally, auditors are not (yet) always trained or equipped to grasp the sensitivities that take place. Interviewing union representatives on-site can hinder open dialogue due to management presence and potential repercussions for union leaders once the auditors have left. CNV Internationaal has developed the Fair Work Monitor, which allows local unions to gather data directly from workers for a more honest perspective. Companies can also contribute to the beforementioned Open Supply Hub, which enhances transparency by mapping supplier relationships and fosters collaboration on improving working conditions.
3. **Make structural change.** Short-term projects lack the capacity to drive structural change. To achieve systemic progress, we must work towards ensuring every worker earns a living wage. A way to do this is by establishing a robust procurement policy. This policy should be signed off by the CEO and supported and complied to by the entire organisation. Each department – purchasing, HR, sustainability, and finance – has a critical role in this integrated approach.
4. **Improve stakeholder engagement.** Stakeholder engagement is a key pillar in the CSDDD. Labour unions – which represent workers' voices – can be a valuable source of information for companies throughout each step of the due diligence process, particularly in risk identification and prevention, mitigation, and remediation of negative impact. Because, to make real impact, companies need to address the right issues in the right way.

THE ROLE OF THE INVESTOR
Investors can also contribute to improvements of RBC. By understanding where companies can do better, investors can provide support, for example in setting standards. We conducted a project in the palm oil sector, where we collected all CBAs in a particular region. This required visiting plantations in person to assess whether each CBA met ILO standards. Since each plantation with a CBA has a union, we were able to create an overview for investors and companies, highlighting which supplier adhered to which labour rights.

If investors and companies express interest in this, it will signal to suppliers the importance of strong CBAs and encourage improvements. While more data is needed to reach that level, there is a real opportunity here.

Interview Prosus

Prajna Khanna – Global Head of Sustainability – Vice President at Prosus Group and Naspers Limited at Prosus Group

APPROACH TO DUE DILIGENCE
First and foremost, it is key to have insight into your value chain. Currently, we are working on a report for the World Economic Forum (WEF) Good Work Alliance, from a value chain perspective, which will help us gain a better understanding of our value chains. One of the driving forces behind this report is incorporating the worker perspective. Working conditions, workers' rights, and remuneration in Europe are very different to those in India, (South) Africa, and South America – the Global South. The current regulatory approach often attempts to fit diverse situations into a one-size-fits-all framework, which can overlook the unique complexities involved. In our approach, we want to highlight the contextual and regulatory requirements as well as the differences between our business models. This will help us identify where value is added, both to the business and to the (local) economy. In doing so, we are exploring the nuances of value chain workers within the on-demand platform business model.

HOW TO ADDRESS THE VALUE CHAINS
As investors, we establish best-practice guidelines to help companies improve their practices. While companies may not initially meet these standards, we provide guidance and encourage them to adopt and build towards best practice over time. The company has to decide on the strategies and cascade those guiding principles further. We make sure they are regularly reporting data on topics such as minimum wage requirements and health and safety issues and that they are ensuring the voices of their workers are heard. In the first year of establishing these guidelines, a key outcome was assessing how many companies had adopted and tailored these guidelines to fit their specific context. We published these outcomes to ensure accountability and demonstrate our intentions and commitment. We continuously monitor the companies to see how they are doing. Companies remain cautious about sharing data publicly, fearing repercussions from regulators or customer groups for making bold claims. What we need is more engagement on best practice to allow development and learning.

EXAMPLE FROM PRACTICE
In our extended value chain, we have a meaningful footprint of on-demand platform workers. This workforce demographic varies from traditional businesses, with regional and business model differences making it even more complex to apply simple definitions and categorisation. It is important to understand the nuances of the business models and their value chains to be able to engage and drive best practice. Our approach is to start with putting effort where we can have the most influence. For example, we can influence our subsidiaries, such as iFood in Brazil, more than a company, such as DoorDash, where we only have a small minority investment.

iFood has been a leader in our group in their approach to value chain workers. They started with understanding the worker perspective through focus groups to assess the experiences of the workers themselves. The focus groups and sample surveys enabled iFood to learn about some of the most critical issues their employees were facing: harassment, discrimination, and violence linked to racism and classism towards the delivery partner in some parts of the country. iFood also formed a permanent working group to discuss operational problems and improvements and created a channel for delivery partner leaders to submit collective demands. iFood also recently started up a women's lab to identify demands specifically raised by women, which has met with over 60 women driver groups around Brazil. They also rigorously monitor safety and are working to establish additional rest stops with refreshment and toilet facilities. Furthermore, as part of its social impact strategy, iFood helps drivers obtain high school diplomas, to address Brazil's high dropout rates. These drivers can then qualify for other employment opportunities. The goal is not to confine them to their delivery roles but to empower them with the skills to pursue the best possible livelihoods.

Within our Group we collaborate across businesses so we can make progress and learn together. For example, for the companies with a delivery footprint, we have two working groups that enable cross-learning and collaboration. One is focused on fleet electrification and the other on worker welfare. Creating a space for sharing and developing is key to growing understanding and improving practices. We can only get these insights when we go beyond the third-party provider for a deeper understanding of drivers' experiences and then make improvements.

HOW REGULATION CONTRIBUTES TO CHANGE
Legislation such as the CSDDD will likely have a significant impact on due diligence processes. These changes may be beneficial in the long term but are likely to create considerable stress within supply chains in the short and medium term, particularly outside of Europe, as many value chains extend into the Global South.

Some tech firms are engaging lower supply chain tiers, but there remains a gap in training and support, because it requires considerable investment to gather data on a consistent basis to facilitate due diligence processes. As an African company with roots in the Global South, we have a deep sense of justice for the Global South. Because we want our companies to succeed, we spend a lot of time with them to build capacity as fast as possible down our value chains. One way we would like to see capacity building being addressed is through industry collaboration. When companies adopt a unified methodology, suppliers can report their data through a single, streamlined process rather than via multiple formats. Such collaboration benefits both parties, so investors need to align their asks.

It comes down to who will bear the brunt of the resource burden. Capacity building is not inherent to the CSDDD and requires companies and investors to take action. When we apply these regulations, we need to think about what we want to achieve. We want to enforce uniform application of standards to ensure sustainability and put safeguards in place to avoid harm in the value chains. It is critical that the voices of the supply chain in the Global South are embedded in both legislation and in its implementation.

Some companies maintain a strict stance towards their suppliers: either you comply or you're out. However, this means you're then walking away from the opportunity to drive change. While engagement for improvement and facilitating progress is more challenging and time-consuming, it benefits society in the long run.

We are committed to actively engaging with our companies. When we acquire companies, they may still be building their ESG strategies. We implement a maturity plan to work with these companies and assess their progress annually. We will not solve their issues the very next day, so walking away is not the right strategy. Instead, continuous engagement is the key to unlocking a more sustainable and equitable future.

3. Future perspectives

The previous chapter discusses opportunities to address responsible business conduct in value chains. These are not stand-alone topics, but are strongly related to one another. With better traceability and mapping, companies can navigate deeper into the supply tiers. When you have meaningful stakeholder engagement, a code of conduct, grievance mechanisms, and remediation can be improved. When it comes to responsible business conduct, the bar is raising – and rightfully so. On the same note, legislation on this topic is only expected to increase.

Three aspects can advance development of the topics in the previous chapter:

Going beyond the CSDDD

Support from financial institutions on top of legislation will push companies in the right direction of a transition towards responsible value chains. Every stakeholder has a role to play. Although the CSDDD guides the way and can lead companies in the right direction, it is still subject to the level of ambition that each Member State presents.

The survey we send out to asset managers recognises uncertainty about what implementation could look like. We asked them the question 'how are you anticipating the CSDDD requirements to impact on your investment strategy with portfolio companies?'. The majority of respondents are unsure about if and how the implementation of CSDDD will impact on the strategy. Uncertainty surrounding CSDDD requirements and implementation still overshadows the potential it might have. This is all the more reason to not rely on Member State implementation but to demonstrate ambition and raise the bar on sustainability and due diligence. The CSDDD is in that sense a minimum standard, and those who are leading in due diligence should focus on the OECD Guidelines, which are more comprehensive.

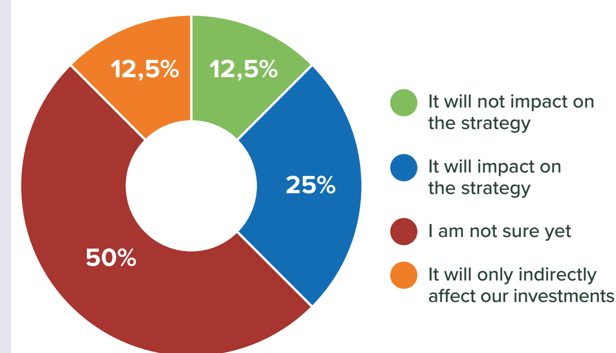
Setting out for collaboration

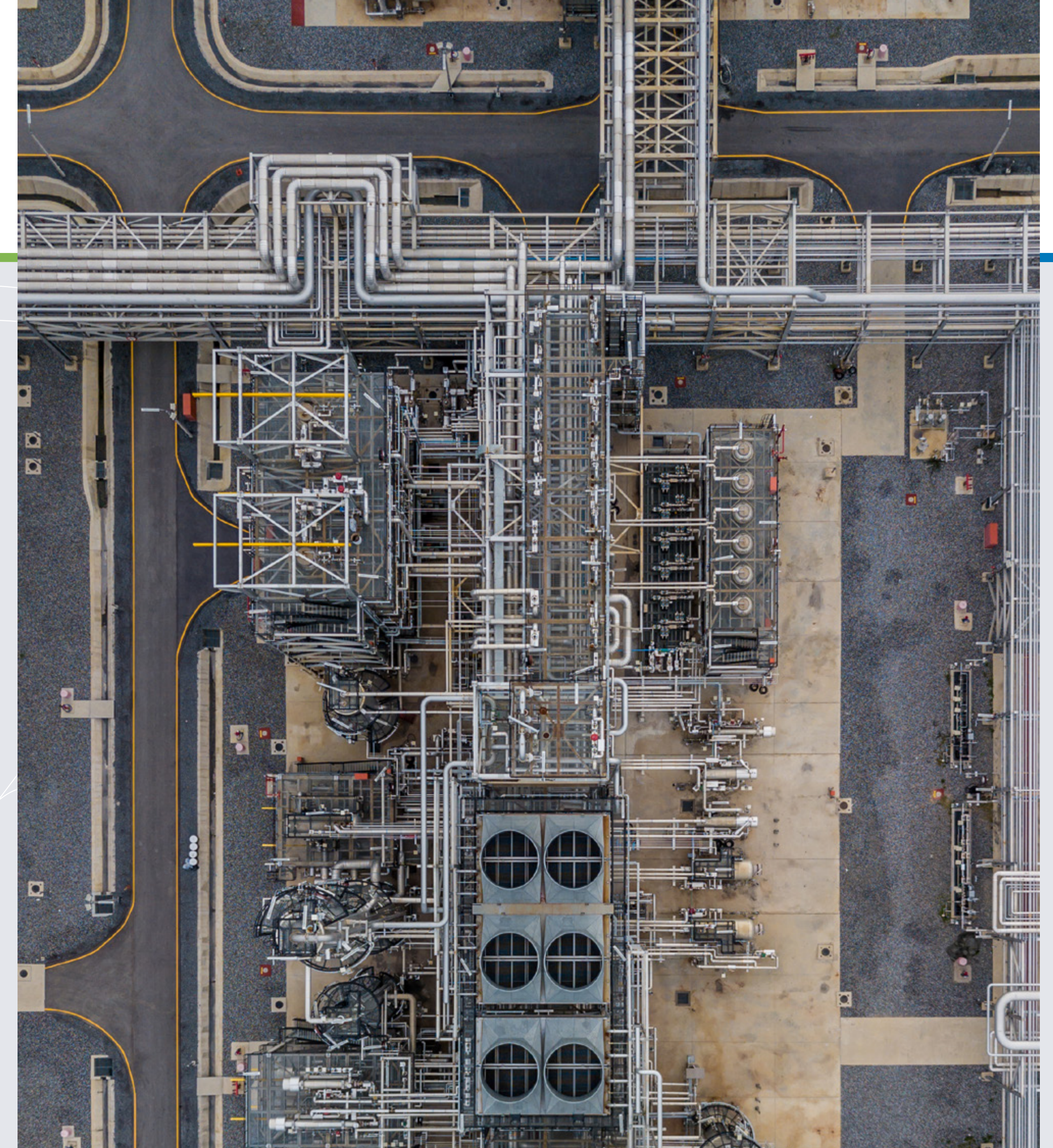
There are many lessons still to be learned, and a long way to go before responsible value chains are achieved. The enormity of the task cannot fall onto companies' shoulders alone. Key to this are multi-stakeholder initiatives where due diligence is discussed and improved through sharing data, best practices, and knowledge. This facilitates extensive learning.

Initially, this should happen within sectors and lead to sector-specific learning outcomes. However, there are ample opportunities for intersectoral learning. For example, when it comes to living wage, some sectors are already more advanced than others. Also, grievance mechanisms are of universal relevance for each sector. Being open to learn from and participate in meaningful engagement with stakeholders will advance responsible value chains.

Responsible value chain management asks for a holistic approach. Several gaps need to be bridged in the challenge to sustainable global chains; namely, geographical, informational, communication, compliance, power and legitimacy gaps (Boström et al., 2015).[43] The article from Boström et al. outlines the need for developing

Figure 4 | **How asset managers expect CSDDD requirements to impact their investment strategy**





multi-stakeholder coalitions; flexibility to adapt global governance to local social and ecological contexts; supplementing effective monitoring and enforcement mechanisms with education and other programmes to build compliance capacity; and integrating reflective learning to improve governance arrangements over time.

Collaboration can and should take place between investors. In the questionnaire, many of the asset managers indicated they feel they have little leverage because of limited stakes in their companies. This can be overcome through collective engagement, which provides a useful tool to address companies or sectors together. CSDDD requirements can then inform these engagement activities. Companies and investors have indicated in the collective engagement work by VBDO that they find collective engagement beneficial because it is resource-efficient. Moreover, aligning the asks for the company creates clarity of expectations.

From risk to impact thinking

More focus should go on impact assessments; this will help the organisation understand the risks and impact and help towards understanding how they can be dealt with. This, however, requires the input of a variety of actors. Not only the business and its suppliers, but also rating agencies, investors, and government NGOs/CSOs have an important role to play in motivating and keeping one another accountable. It is not about blaming but looking at solutions. That requires collaboration. What should not be forgotten is that due diligence is a

continuous feedback loop. The circumstances in which businesses operate are continuously subject to change, even more so when considering the effects of climate change. All adverse impacts arise from foreseen and unforeseen consequences, so a rigid conventional risk management system does not address the issues adequately.[44]

This also calls for an integrated and holistic approach. It no longer suffices to view ESG as separate 'pillars'. An integrated approach considering the interactions and connections of the E, S, and G is necessary and should include all three elements. Adverse impacts will cross both the borders of these domains and physical country borders. Real-life impact does not restrict itself to only one area or domain. The CSDDD provides an opportunity to make this connection and address environmental abuse, human rights violation, and a need for better governance systems to mitigate these adverse impacts.

Bright & Buhmann (2021) also encourage companies to pay close attention to the relation between human rights impacts and climate change. They emphasise the findings of the 2020 Corporate Human Rights Benchmark, which states the need for a holistic view in which the "interdependence between climate change, social issues and human rights" is recognised – especially when adverse impacts are disproportionally felt by those who are already vulnerable, such as the poor, women, children, migrants, persons with disabilities, minorities, Indigenous people, and those in geographically vulnerable countries in the Global South.

Due diligence should not limit itself to a company's sustainability department. It should at least extend to finance, purchasing, and HR. Responsible value chains will not become a reality if every department and organisation operates in silos. Diversification in knowledge, information, and skills is necessary to progress on this topic and to understand the extent of incredible nuance.

Concluding remarks

The growing demand for environmentally and socially responsible value chains highlights the pressing need for transformative action across industries. Performing due diligence is crucial to ensuring these responsible value chains. The findings from due diligence processes must lead to concrete, measurable actions that prevent and mitigate adverse human rights and environmental impacts. The goal is to create more responsible value chains through a system that prioritises sustainability, equity, and resilience at its core.

The CSDDD presents opportunities to progress towards responsible value chains. The implementation of the CSDDD will still take a while, but we should not wait for this. There is an urgent demand for companies and other stakeholders to adequately respond to adverse impacts in value chains. Companies can be more pro-active, ensuring not only future compliance but also leading and raising the bar of current value chain standards and promoting responsible business conduct. The financial sector can support this by addressing the topics mentioned above through active engagement and prioritising sustainable investments. As investors, it is important to activate portfolio companies and to engage with them to ensure companies do their due diligence. This means going beyond reporting, and taking (collective) action.

Other stakeholders, besides shareholders, such as local communities and CSOs, are essential to this process and should be included through meaningful stakeholder engagement. It is necessary to advance existing, and engage in new, sectoral collaborations through multi-stakeholder platforms. By fostering collaboration between companies, investors, stakeholders, and regulators, the potential for meaningful change becomes more attainable. Responsible value chains are not just about reducing harm – they are about creating systems that uplift communities, protect the environment, and let businesses thrive. The CSDDD provides a guiding framework, but the real change comes from the ambition, creativity, and collaboration of everyone involved.

Appendix I – Questionnaire participants

The study design

This thematic study aims to provide insights into complex due diligence processes to identify opportunities for investors to contribute to responsible value chains. VBDO approached a variety of organisations to gather their insights. The report is supported by interviews and dialogue with civil society, businesses, data providers, labour unions, and investors.

We conducted a survey focused on how asset managers consider due diligence and legislative developments in responsible value chains. Data derived from this survey was self-reported and has not been validated by VBDO. Responses have been aggregated and processed anonymously. The response rate for this study is 36%. The respondents represent €0.6 trillion in combined assets under management. For more information, please contact VBDO at info@vbdo.nl.

Survey topics:

- Application of the concept of 'responsible value chains'
- Engagement
- Perceived impact and understanding of the CSDDD

The following survey respondents agreed to be listed:

- ING Investment Office
- Athora Netherlands
- a.s.r. Asset Management
- Stichting Pensioenfonds IBM Nederland
- Coöperatie Menzis
- Achmea Investment Management

The following people also contributed to this report through dialogue:

- Clara Bovens, policy advisor at MVO Platform
- Jules Beelen, policy advisor at the Social and Economic Council (SER) of the Netherlands

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