

1 Executive summary

1.1 Context and research question

In the summer of 2020, the Minister for Foreign Trade and Development Cooperation wants to communicate whether renewal of the policy on International Corporate Social Responsibility (ICSR) is necessary, and if so, how new policy could look like. This research into voluntary and compulsory measures is one of the sub-studies within the umbrella project "ICSR measures in perspective". Possible (new) measures should focus on how the Dutch government can contribute to increasing awareness in the field of ICSR and the better application of the aforementioned principles by companies. An important question here is how voluntary and compulsory policy instruments relate to each other in a so-called 'smart mix'. The aim of this research is to provide an insight into the optimal relationship between voluntary and compulsory measures in the policy on ICSR.

1.2 Research accountability

We conducted the research in three steps. In the first step, we drew up a memorandum in consultation with the ministry of Foreign Affairs. This initial memorandum included a research framework and a proposal for a number of policy areas and sectors to be investigated (the 'case studies'). In the second step, we inventoried and studied information. We started by drawing up a theoretical framework based on literature review. This formed the basis for the elaboration of five case studies with the aim making the theory more concrete. The case studies were also based on desk research, supplemented with insights from several interviews. In the third step, we combined the insights from our theoretical framework and the five case studies into ten best practices. We have also drawn up conclusions and incorporated them into a final report.

The limitations of this research mainly relate to the abstract character of the literature and the limited availability of information about the effectiveness and efficiency of a policy mix in practice. In this context, the selection of the five case studies should primarily be regarded as a practical colouring of the theory. However, these case studies also have their limitations. First of all, these are mainly based on desk research. The interviews we conducted in this context mainly serve to illustrate different points of view and are by no means a representative sample. We also did not conduct interviews for every case study. In addition, the case studies differ from each other in completeness and depth, due to the difference in available data and information. Little to no research (or evaluations) are available that

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consider the full spectrum of policy instruments within a sector or domain. Available studies are either very patchy about it or more in outline.

1.3 Main conclusion

Individual policy instruments can be placed on a continuum

The literature consulted in Chapter 3 shows that there are different ways of organizing government policy instruments. These organizations largely overlap in the goals that the government tries to achieve with the different policy instruments. That is why in this chapter we present a continuum in which the various tactics that the government uses with policy instruments are represented: **Inform**, **Facilitate**, **Seduce**, **Setting conditions** and **Oblige**. In Chapter 5, we place the policy instruments that we identify in our five case studies on this continuum.

Various factors play a role in designing a policy mix with a combination of policy instruments.

Policy instruments are usually combined in a policy mix. In Chapter 4 we clarify what must be taken into account when designing a policy mix. In doing so, the government must first pay attention to the assumptions underlying both its objectives and the assumptions it has with regard to its target group. What do we know about the attitude, knowledge and economic position of the group of front runners, the peloton and the laggards?

It is also important that thorough research is conducted into the context of a policy problem before (a combination of) policy instruments are chosen. This context consists of different layers at (1) the level of the policy sector (2) the national level and (3) the international level. Within these layers, there are various context factors that influence the choice of a mix of policy instruments. Examples include the specific and unique nature of the policy area and the existing system of policy instruments. In addition to these **context factors**, there are factors inherent in the (mix of) policy instruments themselves. These are so-called **instrumental factors** and relate to the policy instrument and the problem to be solved. This includes factors such as the complexity and visibility of the policy instrument and the development phase of the policy problem.

The theory in Chapter 4 teaches us that there are no perfect models for "an optimal mix" of policy instruments and that, moreover, all theoretical assumptions about the functioning of individual and combined instruments say little about the extent to which a policy mix is effective. The aforementioned factors that must be strongly taken into account when designing policy can certainly influence the ultimate effectiveness of the policy mix. However, how effective the combination of instruments works in practice is highly dependent on the given context.

Against this background, the case studies offer a practical colouring of the theory

To illustrate the theory in Chapter 5, we use practical experiences in various policy areas and sectors with respect to the relationship between voluntary and compulsory instruments. In the selection we took into account whether policy goals have been set with regard to behavioural changes of companies, whether there is a mix of instruments that can be placed on the continuum and whether there are already (measurable) results. In addition, we have differentiated in this choice to the extent to which policy areas and sectors are considered risky in the context of ICSR. Based on this, we have come to the following selection of case

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studies: [dairy farming](#), [circular economy](#), [energy transition within built environment](#), [conflict minerals](#), [clothing and textiles](#).

Based on the five case studies, we have formulated 10 best practices for determining the optimal policy mix.

In the sub-conclusion of Chapter 5, we explain these best practices in detail with various examples from the case studies. We briefly summarize them below.

1. Formulate clear, operational objectives in consultation with actors

In order for a policy mix to actually be effective and efficient, objectives must be formulated clearly, measurably and in consultation with actors from the field.

2. Ex-ante research into the needs of the target groups is helpful

Ex-ante research into the needs of the target group helps in choosing the optimal policy mix. It is important to take into account the economic consequences of the behavioral change that is being pursued, the attitude and knowledge of the target group.

3. Make a conscious choice for a policy mix

The choice of a specific combination of instruments is not always made explicit. It is unclear whether policy makers are aware of the differences that occur between policy mixes in (sub)sectors and whether these differences contribute to effectiveness.

4. Information and facilitation go well together

A combination of information and facilitation works well. Especially for the front runners, this combination of instruments leads to voluntary behavioral change.

5. In addition to educating and facilitating, seduction is sometimes necessary

However, it cannot be assumed that the peloton and the laggards in the sector will adopt the best practices from the front runners. Seduction through subsidies and other financial instruments is also necessary.

6. The absence of obligations promotes a climate of non-committal

The lack of financial incentives or a big stick in the form of compulsory regulations at national level promotes a climate of non-committal for citizens and companies. This climate often hinders the speed with which objectives are achieved.

7. Seduction does not always work for the entire sector.

Subsidy schemes and other instruments that lead to more sustainable entrepreneurship must be carefully monitored to see whether they offer sufficient (economic) incentives to encourage actual behavioral change.

8. Providing information helps with compulsory or seductive instruments.

The more complex seductive or compulsory instruments are, the more informative tools that inform the target group about the grants, the conditions that ought to be met or the implications of new regulations will help.

9. Covenants effectively limited without mandatory instruments.

In practice, covenants can provide a platform for the exercise of nuisance. It is then advisable to supplement covenants, that have few sanctions for insufficient fulfillment of agreements made or a total lack of complying, with compulsory instruments.

10. A policy mix must be continuously monitored.

When using individual policy instruments or a policy mix, it must be monitored that these continue to support the correct behavior

1.4 Answering the research questions

- 1. When are voluntary and compulsory measures (aimed at businesses) complementary and when not? Which factors ensure that they are complementary or even reinforce each other?**
- 2. How does a combination of voluntary and compulsory measures lead to achieving the set policy goals?**

On the basis of the available information from the literature and case studies, we combined the first two sub-questions and interpreted them as: what should be taken into account when designing a policy mix with an optimal ratio between compulsory and voluntary measures.

The theory shows different design factors for a policy mix. When composing an optimal policy mix, both context factors and instrumental factors must be taken into account. The context consists of different layers at (1) the level of the policy sector, (2) the national level and (3) the international level. This could include international laws and regulations, the national policy style and the size and interconnection of the networks on which the policy mix focuses.

Instrumental factors are inherent in the (mix of) policy instruments themselves, such as the development phase in which the policy problem is, the nature and complexity of the target group involved in the policy problem in terms of homogeneity and size, and the costs of a policy instrument for designing, implementing, monitoring and enforcing a policy rule, and in connection with this, the capacity of the government to use its own authority, money and organization to achieve policy objectives.

- 3. What can be said about the cost-effectiveness of the combination of voluntary and compulsory measures for companies and the government?**

Little is known, both in the consulted literature and in practice, about the effects and costs of the policy instruments used individually or as a combination. It is often only known how much use has been made of a policy instrument, but not to what extent this instrument has provided the incentive. The study does show that simple instruments save costs for monitoring and enforcement. These often do not have to be combined with another policy instruments because they speak for themselves and are easy to deploy. Both the theory and the case studies show that more complex policy instruments such as subsidies that come with all kinds of conditions, require an extensive exchange of information between the government and individual members of the target group. This will cost the government more capacity and the effort to provide information and targeted guidance to companies.

- 4. What are the advantages and disadvantages of using voluntary initiatives to help implement compulsory measures for companies?**

The literature and case studies provide little concrete insights about the use of voluntary initiatives as a tool of achieving compulsory measures for companies. In general, it is striking that the case studies have in common that predominantly voluntary initiatives have started in some policy areas. Many policy areas are now on the eve of the introduction of compulsory laws and regulations, or are now threatening to do so as a big stick.