

Corporate social responsibility pays off

CSR policy of The Netherlands

Introduction and summary

Corporate social responsibility (CSR) is an important part of running a business. CSR pays off, for businesses and for society as a whole. Businesses that practice CSR play an active role in society and society is keen to work with them to promote sustainable development.

It is up to businesses to weigh up opportunities, dilemmas and challenges in terms of 'people, planet and profit'. At national level, legislation provides the basic framework, while CSR is about what businesses do over and above what the law prescribes. At international level, CSR relates to international standards on issues like human rights, working conditions and the environment, as laid down in the Organisation for Economic Co-operation and Development's (OECD) Guidelines for Multinational Enterprises.

Businesses do not engage in CSR on their own: it is advisable for them to involve their shareholders and stakeholders in their deliberations as transparently as possible.

The government continues to focus the attention of the Dutch business community on the importance of practising CSR, while making every effort to minimise the additional administrative burden this entails, especially for small and medium-sized enterprises (SMEs). The same applies to working with civil society and other stakeholders, where the emphasis lies on preventing social risks in worldwide production chains. The government will support the combined efforts of businesses and NGOs where action is required that exceeds their joint capacity.

CSR helps to make society sustainable more quickly and makes an important contribution to the government's social and environmental sustainability objectives in many areas.

Why do we need corporate social responsibility?

According to the Social and Economic Council of the Netherlands (SER), corporate social responsibility comprises two elements:

1. consciously focusing business activities on creating value in three dimensions (people, planet, profit), thus contributing to society's prosperity in the long term;
2. maintaining relations with the various stakeholders on the basis of transparency and dialogue, so as to provide answers to reasonable questions from society as a whole.¹

CSR is a 'business case', but seen from a social rather than a corporate perspective; for example, saving on natural resources and energy, which reduces costs. Reducing the consumption of natural resources and energy is an important step forward towards 'green' economic growth. Businesses that practise corporate social responsibility are much more aware of social challenges, operate innovatively and with a view to the future, are supported by their stakeholders (loyal customers and motivated employees, as well as investors, civil society organisations and the general public) and therefore have a stronger competitive position in the long term. That is good for the quality and growth prospects of business. CSR also increases society's trust in the business community, therefore increasing social support, which is essential for a healthy business climate.

A large group of Dutch companies work on the basis of this perspective. The Confederation of Netherlands Industry and Employers (VNO-NCW) has embraced CSR as a basic principle for business practice in its vision of sustainable business.² CSR Netherlands currently has some 2,500 businesses affiliated as partners, including around 70 branch organisations. Dutch companies score well on the Dow Jones Sustainability Index and in international comparisons of transparency.^{3,4} The eight Dutch businesses united in the Dutch Sustainable Growth Coalition have decided to address this challenge on their own initiative and have incorporated CSR into their core business. They believe that sustainable business models are crucial to their growth in the future. Friesland Campina, for example, is promoting the development of the dairy sector in Nigeria, Vietnam, Thailand, Indonesia and Malaysia by supporting 40,000 small farmers. Last year, Unilever presented its Sustainable Living Plan, which aims to achieve absolute reductions in the total environmental impact of its products.

¹ SER, Corporate Social Responsibility: Part of the core business, 2000.

² VNO-NCW and MKB-Nederland (2012). 'Onze gemeenschappelijke toekomst: integrale visie op duurzame ontwikkeling en maatschappelijk verantwoord ondernemen.' [An integral view on sustainable development and corporate social responsibility.]

³ KPMG: International Corporate Responsibility Reporting Survey 2011.

⁴ Transparency International: Bribe Payers Index Report 2011.

More and more businesses are aware of the importance of CSR. In recent years, partly as a consequence of the policy pursued on the basis of the government's CSR strategy for 2008-2011, CSR has become a much more familiar concept in the Netherlands and is being practised increasingly by Dutch businesses. This is illustrated by the growing number of partners affiliated to CSR Netherlands and new initiatives like *De Groene Zaak* and the Dutch Sustainable Growth Coalition. Since 2008, the social partners in the SER have been working through their International CSR initiative to raise awareness of the concepts of international CSR and supply chain responsibility.

There has also been an enormous increase in attention for corporate social responsibility internationally, as demonstrated by the European Commission's 2011 Communication on CSR and the update of the OECD Guidelines which, since 2011, have been completely in line with the UN's Guiding Principles on Business and Human Rights, drawn up by Professor John Ruggie. Annexe 1 presents a detailed overview of the international CSR framework.

CSR is both an opportunity and a responsibility. Dutch companies operating internationally have to be aware of the potential positive and negative effects of their activities around the world, both directly and through their chain of suppliers and clients. They have a responsibility to assess risks, and be alert to signals from stakeholders and how they can use their influence to bring about improvements.

A good example of this is the recent developments in Bangladesh, which illustrate the globalisation paradox. The textile industry is of crucial importance in generating employment and prosperity in the country. Wages are low in Bangladesh: around 37 dollars a month. That makes the country attractive to buyers and fashion brands looking to reduce their production costs. After China, Bangladesh is the second largest exporter of clothes to Europe and the United States. That is good for the economy, but by no means everyone benefits. Working conditions in the textile industry, for example, are often wretched, so that the sector presents an unacceptable threat to the lives of vulnerable individuals. It has become painfully clear that growth without attention to the safety and welfare of individuals leads to unacceptable risks.

Consumers are often unaware of how a T-shirt or a pair of jeans is made, because the information is not available. Yet, by continuing to buy these products they unintentionally ensure that bad working conditions in Bangladesh persist.

Closer analysis shows the great complexity of problems in supply chains. Responsibility for protecting people and planet lies in the first instance with governments in the countries concerned. Businesses wishing to invest in good working conditions abroad sometimes find themselves faced with a poorly functioning local government, with legislation leaving much to be desired and little or no enforcement. As a result, potential clients see positive inspection reports that they would like to have confidence in, but that confidence is often betrayed. That might be because an inspector is not sufficiently equipped to do his job properly or a factory owner does not make much of an effort to comply with the rules. Or perhaps a fashion company does not take account of the consequences of its discussions on working conditions when negotiating the cost price of the clothing.

If the stakeholders in the textile sector in Bangladesh fail to take these factors into account, the world may turn its back on them. That would be bad for development and employment in the country. The Netherlands' strategy is to support the efforts of the Bengali government, businesses and civil society organisations to improve working conditions in the textile sector. The Dutch government makes businesses aware of their responsibility to comply with the OECD Guidelines for Multinational Enterprises, which means doing their best to identify, prevent and minimise poor working conditions, child labour, environmental damage, corruption and human rights violations in their production chains. This is referred to as the 'due diligence' principle. The Dutch textile sector has adopted the OECD Guidelines as the starting point for its CSR action plan. Together with the sector, the government is exploring where it can provide support in implementing the Guidelines in relation to chain responsibility in Bangladesh and elsewhere in the world.

The approach chosen to address the problems in the Bangladeshi textile industry demonstrates how similar problems can be tackled in production chains around the world. It shows that globalisation creates new responsibilities for entrepreneurs. Improvements depend on robust and results-oriented cooperation between companies, NGOs and governments, here and in the producing countries. It is this cooperation that enables businesses to achieve their ambitions to make a real contribution to society, in line with the SER's definition.

The government's role

National CSR policy focuses on the contribution that businesses can make to sustainable development over and above what the law obliges them to do. International CSR policy focuses on the conduct of Dutch businesses operating in countries where local legislation is inadequate or not effectively enforced. This dilemma is known as the global governance gap (see annexe 2). The Minister of Economic Affairs is responsible for national CSR policy and the Minister for Foreign Trade and Development Cooperation for international CSR policy.

Within our borders the government can ensure that businesses comply with Dutch law. Beyond those borders, it is a matter of affecting the conduct of subsidiaries and ensuring responsibility throughout the chain. As the Dutch government has no direct authority outside our national borders, it focuses on strengthening international agreements between governments in multilateral bodies like the European Union, the World Trade Organization (WTO), the International Labour Organization (ILO), the United Nations (UN) and the OECD.

Within Europe rules and their enforcement can be addressed through Brussels. The government will therefore continue to push the European Commission to continue to explicitly encourage the member states to follow-up on the recommendations in the CSR Communication and to monitor their progress. Within the OECD Western countries can make agreements about maintaining a level playing field. To promote this and also to enhance the international authority of the OECD Guidelines, the government has provided the OECD with a special representative for the Guidelines for the coming four years, who chairs the OECD working group on CSR.

Outside Europe and the OECD it is more difficult for the Dutch government to exercise influence on Dutch businesses involved (through their chains) in irresponsible activities.

The memorandum on foreign trade and development cooperation states that international corporate social responsibility (ICSR) is a condition for sustainable and inclusive growth.⁵ Businesses have a responsibility to society and government monitors their activities to ensure that they fulfil it. The government expects businesses to operate according to the OECD Guidelines to prevent violations relating to working conditions, child labour, the environment, corruption and human rights in their production chains as much as possible.

⁵ What the World Deserves: A new agenda for aid, trade and investment, Parliamentary Papers 33 625, no. 1, April 2013, p. 33.

Civil society is an indispensable partner in bringing about improvements in production and supply chains. NGOs and trade unions are the eyes and ears – and often the helping hand – of businesses and governments wishing to operate according to the principles of CSR. They play the same role for international organisations concerned with addressing global social problems. They have to be critical of parties who do not take their responsibility and draw attention to abuses.

The government has the following tasks:

- ensuring that the frameworks for CSR are as clear as possible and that businesses are fully informed about them;
- promoting a level playing field for Dutch businesses;
- making other governments aware of their responsibilities, for example through economic diplomacy;
- promoting transparency and stakeholder dialogue;
- setting a good example, for instance by pursuing a sustainable procurement policy. It should investigate the extent to which CSR, also at international level, can play a more emphatic role as a criterion for the government's procurement policy. The Minister for Infrastructure and Environment will inform parliament on this issue in early 2014.

We can achieve the most if parties with different interests and target groups have a shared agenda and work together. Where the government can offer added value, we want to bring parties and interests together. That added value can exist in four areas: sector risk analysis, information, transparency and monitoring.

1. Sector risk analysis

As mentioned above many Dutch businesses and sectors operating abroad take CSR as their starting point. The work of Professor John Ruggie, as laid out in the UN's Guiding Principles on Business and Human Rights, has made it clear that this should include exploring the impact of their actions in the production and supply chains and reducing risks. This can ensure that measures are not taken before abuses have been identified or incidents have occurred, which often also entails higher costs. Prevention recovers its own costs, but individual businesses in many sectors are not yet aware of that or are unable, because of their scale, to oversee the risks or the opportunities to do something about it.

The government has therefore taken the initiative to conduct a risk analysis of Dutch sectors. In this way it aims to set the agenda for CSR issues that require urgent attention and encourage businesses to take a pro-active approach to risks in their production and supply chains. Ruggie advises businesses to apply 'due diligence' to their chains and processes; the Netherlands is doing this in the various sectors in its business community.

The goal of this sector risk analysis is to identify sectors in which production-related social risks are high and to give priority to strengthening company policies relating to those risks. The sector risk analysis will cover the operation of Dutch sectors at home and abroad, taking the themes in the OECD Guidelines as a starting point.

Based on the analysis the government will consult with the sectors identified to explore ways of improving the situation: the focus will be on structural solutions. In principle, this should be done through a joint effort by businesses, NGOs and other stakeholders. The government can offer a platform for this cooperation. It will support the combined strength and effort of businesses and NGOs where action and influence is required that transcends their reach. Other levels of government may also be involved in forging a solution.

The Ministries of Foreign Affairs and Economic Affairs are responsible for conducting the sector risk analysis with care. The business community, civil society organisations and other ministries will be involved closely at various stages of the analysis. Where necessary, organisations like the SER, CSR Netherlands, the Sustainable Trade Initiative (IDH) and NL Agency will be called upon to contribute their specific knowledge.

The analysis has to be completed by the spring of 2014. The government will then announce which priority sectors it wishes to speak to about a voluntary agreement on CSR. In these agreements businesses commit themselves to specific results or efforts. The government pledges to provide support that will help the businesses to fulfil these commitments, for example, economic diplomacy, addressing obstructive legislation or facilitating multi-stakeholder consultations. The details of the agreements will depend on the results of the analysis and the opportunities for improvement identified by the parties involved. Although the sectors have not yet been selected, this approach will in any case be initiated in the textile sector. The outcome of the dialogue on coal that is due to be completed this summer may also provide sufficient reason for raising the concept of a CSR agreement with the energy sector.

The government will inform the House of Representatives about the progress of the sector risk analysis in early 2014.

2. Information

Research by CSR Netherlands shows that nearly all Dutch businesses are familiar with the concept of corporate social responsibility.⁶ Developments in the field also hold promise: 84% of SMEs say that they intend 'to do something with CSR'. This percentage is probably even higher among larger companies. When businesses start operating internationally it can be difficult for many of them to gain a grip on their supply and marketing chains. The percentage of companies that also intend to take action on ICSR is therefore a little lower.

That is why information on corporate social responsibility is of great importance, not only about the value of and need for CSR, but also about how to put it into practice. Businesses need support in implementing CSR. It is not always easier for SMEs to navigate through the guidelines, sector codes and other information provided by NGOs and other experts. To help them in this, the National Contact Point (NCP) has asked CSR Netherlands to set up a website, CSR Navigator, which relates all these sources of information to the OECD Guidelines.

⁶ CSR Netherlands, IMVO thermometer [ICSR thermometer], June 2013

CSR Netherlands plays an important role in networking role and providing knowledge. Thanks to cooperation with its partners, CSR Netherlands can offer a wide range of information, resources, and specific branch support in the field of corporate social responsibility. It also promotes the application of ISO 26000, the international standard that offers businesses a step-by-step plan for dialogue with stakeholders, setting priorities and goals, and translating CSR into their strategy and operational processes. The government has supported the Netherlands Standardisation Institute (NEN) in recent years in promoting ISO 26000 and in developing a self-declaration for businesses to show that they apply the ISO standard. The SER's International CSR initiative also helps businesses meet their CSR commitments. In 2013 the SER is focusing on 'due diligence' in the field and is developing a handbook for businesses on the issue, including examples and instruments.

The OECD Guidelines and the UN's Guiding Principles on which they are based led to a renewed the framework for chain responsibility in 2011, so extra attention will be devoted to providing information on ICSR in the coming period.

Large businesses can be expected to perform better on ICSR than SMEs. Given the scale of their operations and their potential impact on production chains, we expect internationally active large enterprises to be aware that they should apply the OECD Guidelines as the reference framework for their ICSR policy. A qualitative study conducted for the Ministry of Economic Affairs in 2010 shows that SMEs active on the international market generally need practical information.⁷ The aforementioned survey by CSR Netherlands showed that many SMEs act in the spirit of the OECD Guidelines, even though they may not be aware of them as such. Internationally active SMEs also refer to the guidelines when they have questions about how to do business abroad.

⁷ Good Company (2010) Evaluation report on the promotional tasks of the NCP 2007-2010. Parliamentary Papers, 26 485, no. 101.

The government's information strategy is aimed at three target groups:

1. Businesses falling under the target group of the European Commission's proposal to change the legislation on annual reports with regard to reporting on CSR

The European Commission's proposal, published in May 2013, to change the legislation on annual reports applies to businesses that fulfil two of the following three criteria: more than 500 employees, total assets of more than EUR 20 million and a net turnover of more than EUR 40 million. In the Netherlands this applies to around 600 businesses.⁸ Under the proposal, businesses will have to indicate in their annual social reports whether they use international or other guidelines for their CSR policy, and if so, which ones. The government's aim is for 90% of these businesses to specify in their annual reports that they explicitly endorse the OECD Guidelines as the reference framework for their international activities. To achieve this, the main information instrument used by government will be events focusing on the Guidelines, including seminars, conferences and NCP stakeholder meetings. The Ministry of Economic Affairs will ask Statistics Netherlands (CBS) to include a survey of these 600 businesses as part of its annual transparency benchmark. In addition, organisations like the NCP, NL Agency and CSR Netherlands can invite this target group to participate in activities providing information on application of the OECD Guidelines. Lastly, in the information it distributes on the legislative changes and the transparency benchmark, the government will draw specific attention to the OECD Guidelines.

2. Businesses with more than 250 employees and/or substantial assets and net turnover

This group of businesses falls under the existing criteria for social reporting, and includes companies that fulfil two of the following criteria: more than 250 employees, total assets of more than EUR 17.5 million and a net turnover of more than EUR 35 million.⁹ This group of large, internationally operating businesses, which includes multinationals and listed corporations, consists of around 1,400 businesses. Given their scale, these companies can be expected to be internationally active. They can have an impact within their sector and can show other businesses how they apply the OECD Guidelines.

⁸ Statistics Netherlands, *Uitsplitsing aantal ondernemingsgroepen naar werknemers, omzet and activa* [Number of business groups by employees, turnover and assets], September 2012 and supplementary study May 2013, for the Ministry of Economic Affairs.

⁹ CBS study, September 2012.

These businesses will be approached by sector, for example through the social partners in the SER, branch organisations, the IDH, CSR Netherlands, Top Sector programmes, or through the sector risk analysis. The goal is to ensure that large businesses active in sectors identified by sector risk analysis as having CSR risks are familiar with the OECD Guidelines. Instruments that can be used to achieve this include thematic meetings, to which company CEOs will be invited by the ministers concerned, the conference on due diligence to be organised in December 2013 with the SER, NCP and Global Compact, seminars, updated information material from the NCP on the OECD Guidelines (brochure, information film, website) and CSR meetings organised by embassies.

3. Small and medium-sized enterprises with direct commercial contacts abroad

This is a large and varied group of businesses. The CSR Netherlands survey shows that almost a quarter of Dutch SMEs are active in developing countries and emerging markets: 12% directly and 12% indirectly, for example through European wholesalers. Of the businesses with direct contacts in developing countries, 28% say that they are aware of the OECD Guidelines. A large percentage operates in the spirit of the guidelines, for example by making agreements with business partners on anti-corruption policy, good working conditions and environmental protection, while more than half assess the conduct of their fellow entrepreneurs as 'reasonable' to 'good'. This also came to the fore in the abovementioned qualitative study of the NCP's promotional tasks,¹⁰ which emphasised SMEs' need for practical information. The CSR Netherlands sample survey does not provide a complete picture, but it does show that it is necessary to continue to encourage Dutch SMEs to operate according to CSR principles, as laid down in international frameworks like the OECD Guidelines. Monitoring will take place through the ICSR thermometer, an annual sample survey of SMEs by CSR Netherlands. Information policy for this target group focuses on offering practical information on the topics addressed by the OECD Guidelines through the existing information channels of NL Agency, CSR Netherlands and embassies:

- NL Agency's goal is for CSR to be addressed in all relevant contacts with clients. It offers CSR factsheets, tips on how businesses can approach CSR in their contacts with business partners, information on the OECD Guidelines, CSR in missions, news releases and getting CSR on the agenda at regular business seminars ('challenges').

¹⁰ Good Company (2010), Parliamentary papers 26485 no. 101.

- CSR Netherlands is working on a programme financed by the Minister for Foreign Trade and Development Cooperation to encourage, together with leading businesses in a number of sectors, sustainable trade and investment relations in low-income countries and emerging markets. Central to this programme are social and technical innovations, testing new sustainable production methods and models, and better cooperation with suppliers and other partners in the chain. One component of the programme is the CSR Risk Checker, with which companies can conduct a free online indicative risk analysis for their trade chain. SMEs can also get a discount if they want to hire a consultant to advise them on ICSR by cashing in 'ICSR vouchers'.
- Embassies have an important role to play in providing information on CSR to Dutch and local entrepreneurs. To support the missions in this role, a brochure is being produced on CSR in English, which will explicitly address the OECD Guidelines, human rights and due diligence. Embassies will be able to modify this basic information to suit the local context and expand it using examples of Dutch businesses.

To reach SMEs we will seek to cooperate with other parties, including those who have signed the SER ICSR statement (VNO-NCW, MKB-Nederland (national SME organisation), the trade union federations FNV, CNV and MHP, and LTO Nederland (the Dutch Federation of Agriculture and Horticulture). The government will call on them to continue to encourage and inform their members on international CSR.

3. Transparency and stakeholder dialogue

Transparency and stakeholder dialogue are substantial elements of CSR. Businesses that make it known how they create value for the organisation and society as a whole and consult on this with their stakeholders invest in their reputation and in good relations with their shareholders, stakeholders and society. In addition businesses that involve their stakeholders often perform better.¹¹

¹¹http://www.mckinseyquarterly.com/Strategy/Strategic_Thinking/Beyond_corporate_social_responsibility_Integrated_external_engagement_3069

Many large and smaller Dutch businesses acknowledge the importance of providing transparency about their actions and the results they achieve. AkzoNobel, DSM, Philips and Unilever are seen as international leaders in this respect. Businesses like the Royal BAM Group, the Telegraaf Media Group and branch organisations like VNCI in the chemical sector organise stakeholder dialogues together with the Dutch Association of Investors for Sustainable Development (VBDO), and many businesses are ensuring their products qualify for sustainability quality marks like Fair Trade, Fair Wear and UTZ.

Informing and consulting stakeholders can be valuable at various stages:

- in advance, when formulating company policy, identifying risks and opportunities, weighing up and setting priorities, and building support for policy;
- when implementing company policy, finding inventive solutions to dilemmas and challenges;
- afterwards, when presenting and accounting for results, it can provide important feedback that can be used as input for new policy.

Businesses can publicise their CSR policies in various ways, for example through websites, annual reports, quality marks and brochures, by organising stakeholder dialogues and using new media. The form in which a company presents its information must be tailored to the information needs of the target group: the public, consumers, employees, investors, local residents, civil society organisations, suppliers, buyers, etc.

Investors want a clear picture of a company's CSR policy, how it creates value and the risks involved; civil society organisations want to know if a company is fulfilling its responsibilities with regard to child labour, human rights violations, etc.; and more and more consumers want to know if a product has been produced in a people and planet-friendly way.

The government believes that the business community must be clear about what is happening in their production and supply chains. Together with their stakeholders businesses have to increase the transparency of these chains. In practical terms, this requires the following:

- Social reporting

The government supports the European Commission's proposal to change the law on annual reports in regard to reporting by large businesses on human rights, the environment, social and employee-related issues, and corruption. In the Netherlands, the proposal will affect around 600 businesses, which together have a substantial social impact. The administrative burden will be limited by the freedom of the companies to structure the reports as they see fit and the 'comply or explain' principle. The European Commission hopes to have a political decision on the new legislation before the European Parliament elections in 2014.

- Country-by-country reporting

In the context of the European annual report directive, the Netherlands has supported the introduction of a reporting obligation for the extractive industries on payments to governments. This obligation provides information for local people on how the profits of natural resource extraction are used. This transparency can help address corruption. The government is also playing an active part in the EU debate on the introduction of a European obligation for businesses that operate internationally to report on taxes paid in countries where they are active.

The Netherlands also promotes transparency by providing financial support and human resources for the Extractive Industries Transparency Initiative (EITI), which aims to increase the transparency of financial transactions between extraction companies (oil, gas and minerals) and governments in resource-rich countries. Under the EITI the government of a participating country and extraction companies active in the country agree to report on payments they have received and made.

- Natural and social capital

Information on natural and social capital is an important component of social reporting, but one that is often not sufficiently elaborated and therefore needs to be strengthened. A number of initiatives have been introduced to achieve this. Cooperation and sharing knowledge can help speed up and scale up the process. During the Nature Summit on 22 June, 12 parties and the government signed a declaration of intent to draw up a joint programme by the end of 2013 at the latest.

- Transparency benchmark

The Netherlands has an active incentive policy on social reporting in the form of the transparency benchmark. The benchmark, conducted annually for the Ministry of Economic Affairs, ranks the 500 or so largest Dutch companies in terms of the transparency of their sustainable business practices and CSR. When the criteria for transparency and the target group are reviewed and updated at the end of 2013, the new provisions of the European annual report directive will be taken into account.

- ISO 26000 self-declaration

Businesses will be encouraged to make wider use of ISO 26000, the international standard on CSR and the self-declaration for the standard developed by NEN with the support of the Ministry of Economic Affairs. CSR Netherlands will highlight ISO 26000 in its information for businesses, and will invite branch organisations to promote the application of ISO 26000 in their sectors and support them in these efforts. The ISO 26000 self-declaration will not be made compulsory in contacts with the government, as this contravenes procurement legislation and the international agreement of intent that this standard should be non-certifiable. However, if it contains sufficient information the self-declaration can be used to fulfil the reporting obligations relating to the social criteria imposed by the government for sustainable procurement.

- Sector risk analysis agreements

In the dialogue on voluntary CSR agreements between the government and sectors like textiles and energy, selected on the basis of a sector risk analysis, transparency throughout the chain and the involvement of stakeholders will be important focal points. Voluntary agreements will be made on the basis of thorough analysis of the production and supply chains.

- Efficiency quality marks

There are many private sustainability standards which guarantee that goods are produced in an environmentally and socially responsible manner. These can be identified by consumers or suppliers by a logo, quality mark or certificate. The large number of quality marks is confusing for consumers and increases the costs of compliance for businesses in producing countries. Based on a recent survey of international private sustainability standards by the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD),¹² the government will investigate how the Netherlands can contribute to streamlining and scaling up these standards. The government is promoting efforts to achieve greater efficiency in quality marks. The Ministry of Economic Affairs, for example, supports the Floriculture Sustainability Initiative in developing an equivalency tool to enable international quality marks in the flower and decorative plants sectors to be compared and rated. This will allow both producers and buyers to use different quality marks as long as they guarantee the same standard, reducing the costs of scaling up sustainable production.

- Company benchmarks

After the success of the Access to Medicine Index, the government is going to finance the development of new indices. It is currently funding the development of an Access to Seeds Index and an index focusing on responsible mining. These indices link industries to wider social issues, like improved access to medicines for the poorest groups. They also make the contributions of individual businesses to these issues transparent and comparable. With pressure from investors and companies keen to preserve their reputations, a mechanism of positive competition can emerge, inspiring a 'race to the top'.

¹² <http://www.standardsmap.org/about/project/>

Besides these three ongoing initiatives, the government wishes to support new ideas that will lead to the adoption of ranking mechanisms in other industries. A condition is that new indices must not be limited to Dutch businesses so as to guarantee a level international playing field. They also have to be completely independent, so as to avoid 'greenwashing' or 'industry bashing'. The criteria for an index must be developed within a multi-stakeholder process. The government will finance a limited number of feasibility studies, for which a total of four million euros will be made available over a period of four years. On the basis of these studies the options for follow-up funding will be explored for each potential index. The government will also seek to cooperate with other national and private donors. These deliberations will in the first instance be made on the basis of the contribution an index can make to the government's policy objectives.

4. Monitoring and compliance with OECD Guidelines

As described above, inadequate monitoring by the Bangladeshi government is one of the main causes of poor safety and working conditions in the country's textile industry. Bangladesh is not the only country where this problem occurs. The Dutch government is therefore focusing, first, on strengthening monitoring by local governments by providing capacity support and technical assistance, for example by urging them to develop stricter labour legislation or by training inspectors. Where statutory monitoring is lacking or inadequate social values depend more on businesses taking their own responsibility.

Taking on this responsibility is not free of obligation. The government expects businesses that operate abroad, especially where legislation or enforcement are inadequate, to apply the same standards for CSR as in the Netherlands, with the OECD Guidelines as a normative framework (see annexe 2 on the global governance gap).

Many businesses operate in line with the OECD Guidelines on their own initiative. In addition, public opinion is an important factor for businesses active abroad. Individuals, civil society organisations, consumers and investors follow the actions of companies with a critical eye and, where necessary, enter into discussion with them to prevent or minimise the negative impact of their activities.

To promote compliance with the OECD Guidelines, the government and the business community itself have taken a number of measures:

- Corporate Governance Code

Corporate governance refers to the way businesses are run and how they monitor their own activities. Besides the statutory provisions for governance and monitoring governed by business law, there is also a code of conduct on how listed Dutch companies should organise their governance structures. The code is an instrument of self-regulation. The law states that businesses either have to apply the code as a whole or have to explain in their annual reports why they have not done so. This is the 'comply or explain' principle.

According to the code, CSR must be an integral part of the tasks of directors and members of the supervisory board. Under the code, the supervisory board plays an important role in the internal monitoring of CSR policy and has to state in its annual report that it approves the Board of Directors' CSR policy. The government also considers it essential that serious attention is devoted to CSR – in line with Corporate Governance Code – within the existing structures and responsibilities of the board of directors and the supervisory board.

- Private sector instruments

The OECD Guidelines are the starting point for businesses applying for the various private sector instruments. In concrete terms, businesses that receive government grants or loans must confirm that they are familiar with the Guidelines and act in accordance with them. In the case of larger financing programmes, businesses are asked to conduct a risk analysis (due diligence) to make ICSR risks, including those relating to human rights, transparent throughout the whole chain. Depending on the seriousness of the risks identified, extra provisions will be added to the grant decision or to the government contract. Projects will additionally be assessed for compliance with some or all of the IFC Performance Standards. This assessment also applies to projects under insurance instruments. While financing programmes are being implemented, they will be monitored for compliance with ICSR criteria. Sanctions can be imposed on businesses that do not keep to their agreements. These sanctions vary per instrument, and include terminating the financing or demanding that loans are repaid more quickly. Suspected violations of the OECD Guidelines can also be reported to the National Contact Point for the OECD Guidelines. The effect of the ICSR frameworks will be evaluated in 2014.

- Duty of care

In December 2009 Professor A.G. Castermans and J.A. van der Weide described, at the request of the State Secretary for Economic Affairs, the private-law liability of parent companies for the actions of overseas subsidiaries. Every legal person is responsible for their own actions. Dutch legal persons must ensure that they take not only their shareholders' interests into account in their decision-making, but also other relevant social interests that might be affected by those decisions. The actions of legal persons abroad and the interests they have to take into account in their decision-making are governed by the laws of the country concerned. In the National Action Plan to implement the UN's Guiding Principles on business and human rights (the Ruggie Framework), the government will describe businesses' duty of care in more detail.

- National Contact Point for the OECD Guidelines

Countries that endorse the OECD Guidelines for Multinational Enterprises commit themselves to setting up a National Contact Point (NCP) to help businesses comply with the Guidelines. Stakeholders can report cases to the NCP where they feel that the Guidelines are not being observed. The NCP can mediate between them and the businesses concerned to seek a solution. If this dialogue does not produce a joint solution, the NCP will issue a statement about the company's compliance with the OECD Guidelines and, if applicable, make recommendations. The statement will be published and brought to the attention of bodies implementing government schemes and of institutional investors. This is not a legal procedure and can have no direct legal consequences.

The challenge for the NCPs is to function optimally in a globalising world. The Dutch model, with independent members, has been applied by other countries. Since the reform of the Dutch NCP, NCPs have been set up in other countries with working methods comprising different innovative elements. Based therefore on a comparative study of the working methods of the NCPs in the United Kingdom (where the NCP is a civil service body that hires professional mediators and has a multi-stakeholder steering group to monitor its activities), Norway (independent NCP with self-sufficient secretariat) and Denmark (newly established, independent NCP, part of broader dispute arbitration institute, with its own investigative mandate), the government will make a decision on possible modification of the decree establishing the Dutch NCP in 2014.

Civil society organisations (CSOs) in the Netherlands and in host countries have their own role to play in CSR. They can fulfil this role in three ways: by supporting businesses in their efforts to apply CSR, bringing parties together to promote CSR, and reminding businesses and governments of their obligations in relation to CSR.

CSOs are working increasingly with businesses and governments to address social problems, by making knowledge available and proposing solutions to shared objectives. In partnerships with businesses, for example, civil society organisations suggest ways in which labour law, the right of association and other human rights can be guaranteed. The watchdog role of CSOs can take various forms. They can, for example, draw attention to problems that have not been noticed in international production and supply chains. They can also identify conflicting interests between businesses and citizens at local, national and international level and ensure that these issues get onto the policy agenda. At local level, they can organise employee and producer interests and defend their rights. They can also remind governments and businesses of their obligations, and ensure that people and planet are respected. It is important that CSOs can fulfil their role independently and freely. The letter that the Minister for Foreign Trade and Development Cooperation will send to the House of Representatives after the summer will provide details on how the government intends to support the role of CSOs.

Conclusion

The government believes that the challenge for the coming years lies in the timely identification of risks in various chains that are relevant to Dutch businesses: people and planet have to be protected. The government does not want incident management for ad hoc interests, but structural solutions in international chains. The initiative of course lies with the business community, with the government and civil society as obvious partners.

The government is convinced that the multi-stakeholder approach that underlies the Netherlands' CSR policy can be an example to other countries. The social partners in the SER have been working since 2008 within their International CSR initiative on clarifying and making widely known what ICSR and chain responsibility mean. VNO-NCW has embraced CSR as a basic principle for business practice in its vision on sustainable business.¹³ CSR Netherlands currently has around 2,500 businesses affiliated as partners, including around 70 branch organisations. Dutch companies score highly on the Dow Jones Sustainability Index and in international comparisons of transparency.^{14,15}

Working on a shared agenda from different perspectives leads to results with a sufficiently strong support base to survive in the long term.

If the business community embraces its responsibilities, all stakeholders can contribute in their own way. What we want to achieve with due diligence is clear; what has to become clear in the coming period is how we intend to do that in practice. The development of best practices will mean that situations like those in Bangladesh can be prevented in more and more sectors.

¹³ VNO-NCW and MKB-Nederland (2012). 'Onze gemeenschappelijke toekomst: integrale visie op duurzame ontwikkeling en maatschappelijk verantwoord ondernemen.' [An integral view on sustainable development and corporate social responsibility.]

¹⁴ KPMG: International Corporate Responsibility Reporting Survey 2011.

¹⁵ Transparency International: Bribe Payers Index Report 2011.

Annexe 1: Framework for CSR

A frequently heard complaint about CSR policy is that it has no clear normative framework. After a report on this issue by the Scientific Council for Government Policy (WRR), the House of Representatives approved a motion (26485, no. 129) calling for a clear normative framework for CSR. The current framework for CSR is made up of:

- *OECD Guidelines for Multinational Enterprises (What you need to do in terms of international CSR)*. The OECD Guidelines make clear what the Dutch government (and the governments of 43 other countries) expect from businesses operating abroad in terms of corporate social responsibility. They advise businesses on how to deal with issues like chain responsibility, human rights, child labour, paying taxes, the environment and corruption. They incorporate other relevant guidelines, such as the ILO standards¹⁶ and the UN's Guiding Principles on business and human rights drawn up by Professor John Ruggie¹⁷ in relation to the 'responsibility to respect'. For businesses the OECD Guidelines and the Ruggie principles are not separate frameworks that need to be applied separately. In all communication and conditions for cooperation with the private sector, the government applies the OECD Guidelines as a reference framework for international CSR. In other words, they offer an overall framework for what the Dutch government expects of businesses in terms of international CSR. The government has also set up a mechanism for settling disputes, the NCP for the OECD Guidelines, which deals with reports and complaints regarding compliance with the OECD Guidelines by Dutch businesses.

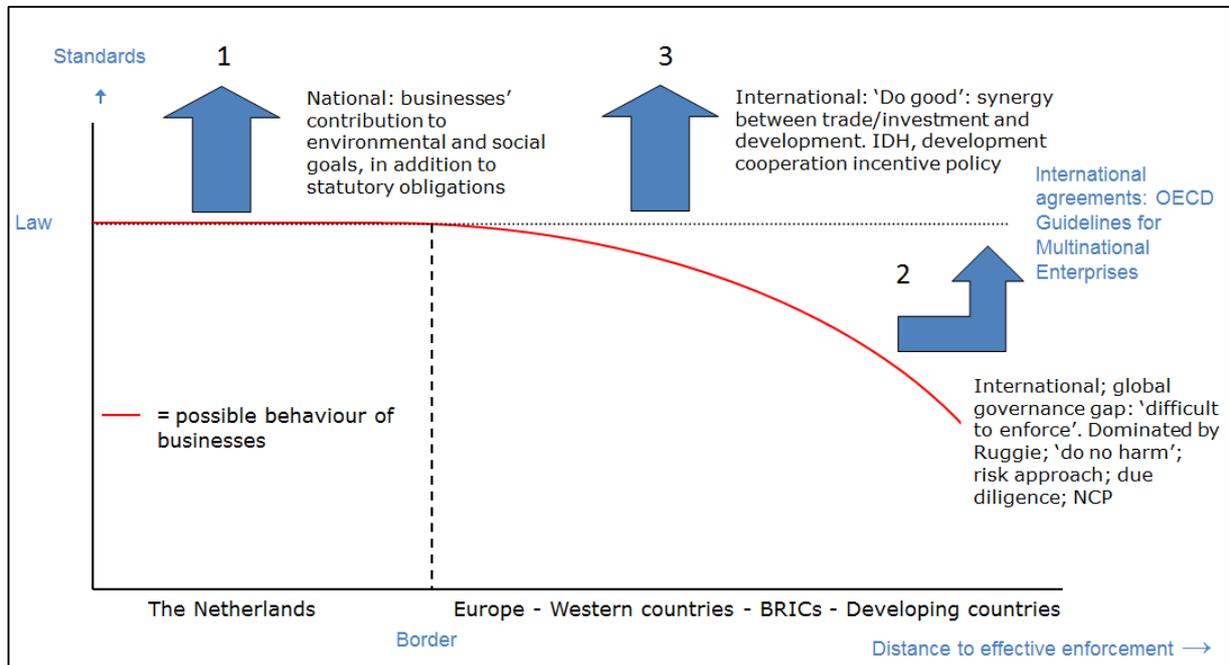
¹⁶ The International Labour Organization (ILO) has developed a number of fundamental standards on working conditions. They relate to the right to organise and to conduct collective bargaining and the right to protection against child labour, forced labour and discrimination, together with standards relating to working hours, pay and employment contracts.

¹⁷ John Ruggie (2011). Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework. Endorsed by the UN Human Rights Council.

- *ISO 26000 (How to apply CSR)*. ISO 26000 is the international standard for the implementation of CSR within organisations. It is consistent with the OECD Guidelines and other relevant international guidelines for CSR. Unlike many other ISO standards, ISO 26000 is not a certifiable standard, but a tool for applying CSR. It offers businesses a useful step-by-step plan for identifying stakeholders and entering into dialogue with them, setting priorities and goals, and translating CSR into their strategy and business processes. In addition, a self-declaration has been developed with the support of the Ministry of Economic Affairs, which businesses can use to show how they have applied ISO 26000 within their organisation. The government encourages and promotes the application of ISO 26000.
- *Guidelines for social reporting (How to communicate on CSR)*. There are various guidelines to help businesses draw up annual social reports. The best known international guideline is the Global Reporting Initiative (GRI). In May 2013 GRI presented an update, known as the G4. In the Netherlands the Foundation for Annual Reporting has specified clearly in its Guideline 400 what information organisations should include in their annual reports, including details of CSR. A separate manual for social reporting is also available. This takes account of international developments and examples of best practices by, for example, linking up with generally accepted guidelines and standards like GRI.

The OECD Guidelines therefore provide the substantial framework for international CSR for the Dutch private sector. ISO 26000 and guidelines for reporting, like GRI, can be seen as useful supplementary aids within that framework.

Annexe 2: Global Governance Gap



The vertical axis measures the normative level of rules, international agreements and the actual actions of businesses. The horizontal axis shows how difficult it is for the government to exert influence from the Netherlands on the actual behaviour of businesses (the distance to effective enforcement of a standard or law is greater as it moves to the right). The red line shows the possible behaviour of Dutch businesses. Within the Netherlands, the square to the bottom left, we assume that government is able to set and enforce rules. That means that the behaviour of businesses in any case meets the minimum statutory standard. Arrow 1 depicts national CSR – i.e. businesses doing more than is required by the standard (for example in terms of savings on energy or resources). An example is Greenfox, which employs sheltered workshops to convert tube lighting for businesses for use with low-energy lighting.

Over the border (to the right of the dotted line) the government's influence on businesses is more indirect. Within the EU, rules and their enforcement can still be addressed, while within the OECD, Western countries can make effective agreements on a level playing field. In addition a number of fundamental labour standards have been developed through the International Labour Organization (ILO) to contribute to better working conditions. But in emerging economies and

less developed countries, and especially in fragile states, it is extremely difficult for the government to take action against Dutch businesses, or their subsidiaries or suppliers. Where Dutch businesses operate in a situation where legislation – and/or its enforcement – is inadequate, businesses' desire to minimise costs can create a situation which is conducive to bad working conditions, environmental damage and possibly even human rights violations; the red line then curves downwards.

Businesses should aim to apply the same standards abroad as in the Netherlands. This is shown by the horizontal dotted line at the level of legislation in the Netherlands. International normative frameworks like the OECD Guidelines for Multinational Enterprises are the reference for the desired international level of 'decency'. The space between the red line and the dotted line represents the 'global governance gap'. International CSR policy (shown by arrow 2) aims to ensure that the behaviour of businesses abroad complies as much as possible with the international frameworks ('do no harm'). The government expects businesses to do what can reasonably be asked of them to observe the OECD Guidelines in their activities abroad. An example might be a Dutch company that imports sports clothing from India without asking why it is so extremely cheap. If the answer raises suspicions of forced or child labour, the company should take appropriate action.

The 'do no harm' policy has attracted considerable interest in recent years as a result of the work of Professor Ruggie and the revision of the OECD Guidelines. It is, however, vital to improve the situation of many employees and other stakeholders in less developed countries. Businesses that contribute to that ('do good') are shown under arrow 3. Unilever and Friesland Campina, already mentioned above, are good examples. The conceptual difference between 'do no harm' and 'do good' policies is not intended to imply that they cannot be mutually reinforcing. It simply means that the perspective from which businesses can be called by account is different.