

GETTING STARTED WITH DUE DILIGENCE

WHAT IS DUE DILIGENCE?

That companies should do business with respect for people and the environment is established internationally, with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles for Business and Human Rights. It all comes down to identifying, preventing and reducing CSR risks in your supply chain, production process and export chain. This is called due diligence.

There is a European legislative proposal to oblige due diligence in the Netherlands and Europe - to be implemented in the coming years. This proposal makes globally trading companies responsible for their own business activities as well as those of trading partners in the production chain. In other words: entrepreneurs must carry out risk analyses in their chain and act when malpractices occur.

WHY DUE DILIGENCE?

To meet the upcoming due diligence legislation, you integrate it throughout your organisation: your management systems, policies, and procedures. And that is not easy. That is why in this 'Getting started with due diligence' MVO Nederland lays out how to approach due diligence step by step. The goal: adjust your internal policies and procedures to ensure that you do business with respect for people and the environment.

GETTING STARTED WITH DUE DILIGENCE **IN 9 STEPS**

STEP 1: CHECK YOUR CURRENT CSR POLICIES AND ACTIVITIES

Due diligence has strong ties to your corporate social responsibility (CSR) policy. That is why it is wise to first address your current CSR policy. Have you already established a certain focus in that which you can carry over into due diligence policies? Good. Then your CSR policy and due diligence can reinforce each other.

Don't have a CSR policy yet? Then now is the time to develop one. After all, this policy defines what your company's CSR mission and vision is, sets goals and defines who is responsible for them. All these choices affect your international activities.

STEP 2: MAP YOUR SUPPLY CHAIN

To properly start due diligence, you first need to understand your supply chain. This can be achieved using the following four steps.

1. List all the products and services you buy, produce and export.

2. Map out the steps preceding your product and/or service.

The road from raw material to consumer can be long, with all sorts of actors in between, as shown in the figure below. Consider transport, mining raw materials and converting them into semi-finished products. List all the steps prior to your product or service that you can think of.



3. Map out the steps following your product and/or service

These are the buyers of your product or service. Or think of the factories that further process your product or retail that sells it. These are also important because parties can use products for negative purposes. A well-known example are cameras to detain people against their will or an application that facilitates human trafficking.

4. For each product, service, and raw material, identify in which country it is produced and transported

Enquire in-house for which products, services, and raw materials the country of origin is known. Is it not known? Then engage with your supplier.

PRACTICAL TIP: MAKE IT WORKABLE

If you offer many products, commodities and services, mapping can be quite time-consuming. Should there be budget, outsource it to an organisation like Passion Fruit.

You can also decide not to select all products right away. Then choose a starting point based on the products and services

- with the largest volumes;
- from risk sectors pointed out by KPMG;
- based on risk countries indicated by Amfori;
- or from your direct suppliers

In practice, CSR risks are more common at the beginning of the supply chain. In other words: in countries where the rule of law is weak. You could start with that. This does not mean that there are no risks further down the chain. Ultimately, you need to go through these due diligence steps for every product and service in your portfolio, because CSR risks occur in every chain.

OUTCOME STEP 2

You have now established a list of your products and raw materials, including country of origin and supplier. In step three, you identify the risks.

STEP 3: IDENTIFY (POTENTIAL) CSR RISKS

In this step, you get an overview of the current and potential risks for the commodities, products and services you have prepared. To do this, you identify two types of risks.

1. Start with the potential risks in the countries related to your products

Start by discovering what international CSR risks you face with your trading activities in the countries on your list. MVO Nederland developed a free website where you can find risk information for countries and products, and country-product combinations. Go to this website at www.mvorisicochecker.nl/en and;

1. enter the product, service or raw material and country of origin. Start with your end-product and then do the same for key raw materials selected in step 2;
2. instantly receive a PDF report for the selected country and/or product summarising all possible CSR risks by CSR theme, both social and environmental;
3. do the same for the other products, commodities, and services you selected in step 2.

Please note: the CSR Risk Check only shows possible risks.

2. Then examine the actual risks in your supply chain

Based on the pdf report, you then investigate the actual CSR risks in your supply chain.

Suppliers are a great starting point. Engage with them and keep the following 5 tips in mind:

1. You have a better understanding of suppliers with whom you have frequent contact and long-standing collaboration. So present CSR risks to them first and ask if the supplier recognises certain CSR risks.
2. Suppliers working with management systems and certification are more aware of CSR risks.
3. Check if there are organisations that specialise in investigating risks in your specific region or risk topic. Consider NGOs that work in the country of origin and thus know more about local working conditions and environmental risks. Online, you can often already find a lot from them as well.

4. Talk to employees in your international chain, even locally if possible. Visit a production facility, for example, but be aware that the situation you see there is not always representative. Cultural differences also make it difficult to assess CSR risks. We recommend partnering with a local party or returning regularly to gain insight into the reality on the work floor.
5. Review the number of sources for risk in the CSR Risk Check. The more public sources report on a risk, the more likely it is to occur.

PRACTICAL TIP: START WITH YOUR MOST STRATEGIC SUPPLIERS

When you have many products and suppliers, analyse the most strategic suppliers first. In other words, the suppliers with whom you have a large purchasing volume and have been working with for some time.

OUTCOME STEP 3

You now have a list of CSR risks for the products and services you purchase as a company. This includes countries of origin, supplier names and a description of the identified risks, extracted from the CSR Risk Check and discussions with suppliers and/or a local organisation. Use this list for step 4.

STEP 4: PRIORITISE CSR RISKS

Prioritisation is relevant if you cannot address all potential and actual negative impacts immediately. And while you should address all CSR risks as soon as possible, prioritising is not a bad idea. You can do that based on the following three questions.

1. How likely is it that the negative effect will occur?

You examined this factor in step 3. Use your insights from this step.

PRACTICAL TIP: USE THE CSR PRIORITY CHECK

Because information from the CSR Risk Check can sometimes be quite overwhelming, we developed the CSR Priority Check. Answer a few brief questions and, with this check, receive an assessment of which supply chain you can tackle first. You can find the [Quick Check Priorities](#) here.

2. How severe is the negative impact of this risk?

The UN Guiding Principles establish three criteria to determine the severity of a human rights risk:

1. Scale: what is the negative impact on human rights?
2. Scope: how many people are affected?
3. Irreversibility: Are there limits to the ability to recover affected people to a situation that is at least equal or equivalent to their situation before the negative impact? This factor weighs most heavily in prioritising.

In practice, it is difficult to apply criteria because information is often scarce. Therefore, find out as best you can what the severity of a particular risk is. Ask independent, local people to provide a perspective on the situation. Ask how they assess the above criteria. Use the same questions to determine the severity of your environmental risks in addition to your human rights risks. The CSR Risk Check also gives you suggestions on which organisations to consult for the country you are researching. You will find these in the report you received after completing the check.

3. What are the possibilities for action?

Estimate the possibility of action by determining the relationship between you and your supplier. Do you have a good relationship? Then you can exert more influence to address CSR risks. Is your company good for a big part of the product purchase at your supplier? Also then it is easier to discuss possible changes with your supplier.

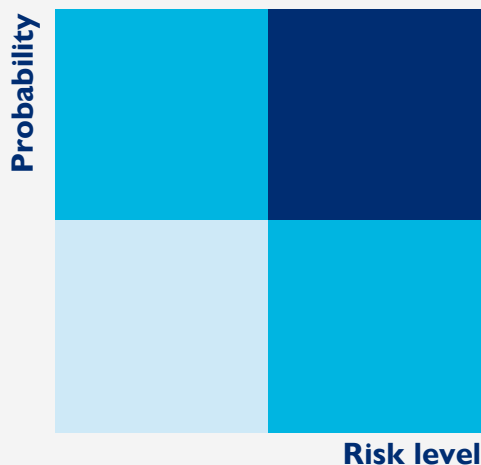
Prioritise: after this, it is important to make a priority assessment of these three components.

PRIORITY CHECK = RISK LEVEL X POSSIBILITY FOR ACTION

PROBABILITY X SEVERITY

Involve as many stakeholders as possible in this step and jointly look at the elements for each potential CSR risk. Based on likelihood, severity, and possibility of action, determine what should be prioritised. Use severity as the most important factor in determining the risk level. Also consider including what you have a strong focus on as a company.

Give each factor a score per risk or put them in a matrix with risk level and possibility of action on the axes. The image below illustrates how to do this. The risks in the darker section are your first priority. Then you work towards the risks in the lighter sections.





OUTCOME STEP 4

For each potential risk from step 3, you have examined the level of priority. Now you have an outline of priority level on your potential CSR risks. Based on this, you will create a thorough plan of action in the next steps.

STEP 5: DETERMINE INVOLVEMENT AND ACTION REQUIRED

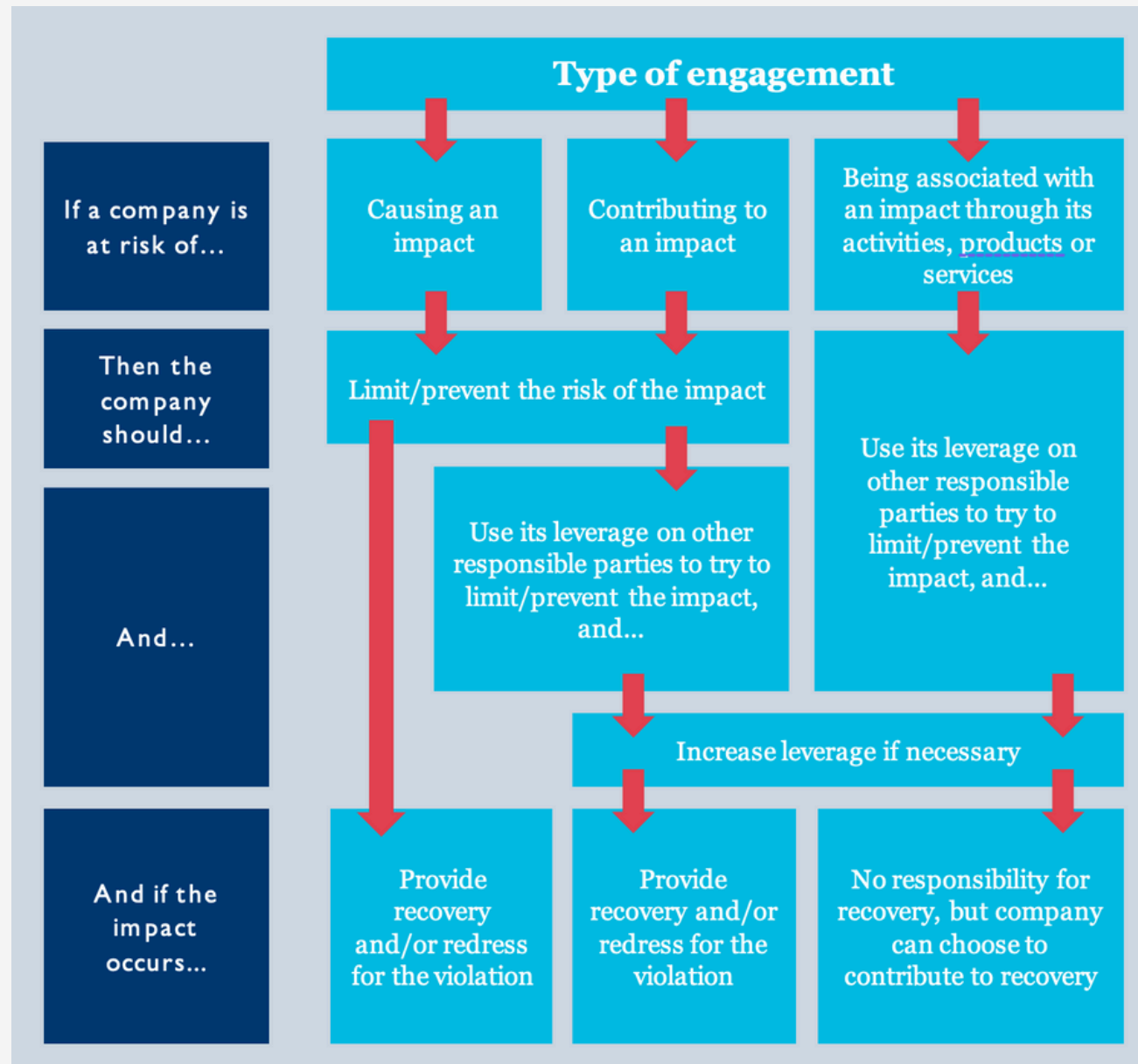
The OECD guidelines define three measures of engagement:

1. Being a direct cause of negative impact means that your organisation's activities are sufficient in themselves to lead to negative impact;
2. Contributing to a negative impact means being the cause of negative impact together with other organisations;
3. Being involved in negative impact means that your organisation contributes to negative impact through another organisation.

This engagement determines how to respond as a company. This roadmap additionally distinguishes three types of required action.

1. Reducing the negative impact your organisation is currently making as far as possible;
2. and preventing and reducing future negative impacts;
3. and compensating as much as possible for negative impacts already made and restoring negative impacts where possible.

The relationship between your commitment to CSR risks and the type of action the OECD guidelines expect you to take can be somewhat difficult to understand. That is why we have made it clear in the image on the next page.





OUTCOME STEP 5

You have clarity on what actions you can take to address CSR risks in your international supply chain.

STEP 6: ESTABLISH A PLAN OF ACTION WITH YOUR CHAIN PARTNERS

This step is about achieving the goals in your chain. We discuss the plan of action by types of required action, as discussed in the previous step.

1. Minimising negative impact as much as possible and preventing future negative impact

Let's start at the beginning: if negative impacts occur in your supply chain that you cause, you identify what actions cause them, remedy and compensate them, and then consider how to prevent them. For example: if your short deadline for orders causes people to experience poor working conditions, you investigate whether orders can have a longer lead time.

As a starting point, use the CSR Risk Check report from step 3. For each CSR risk, this report contains advice on how to tackle it. Some advice focuses on actions for your organisation, others to collaborate with parties. Translate this into your own plan of action. Should you not know immediately how to tackle a particular risk, learn from organisations with knowledge of the particular region or issue you want to address. Then engage with your supplier. Better still: with the producer. The more parties in the chain, the trickier. So try to ensure as few links as possible. That leads to more transparency, more influence and often a better relationship.[JS|U1]

Together, look at agreements you have and build the relationship. Below are 5 options for agreements you can go through.

1. Contracts: when choosing new suppliers to purchase from, go sustainable. Aim for long-term contracts and work on the relationship. Do you know them personally? That helps, for instance, to secure better production conditions at the supplier. Also join regular contact moments with your current suppliers to raise CSR issues.
2. Supplier- or code of conduct: Draw up a supplier code that you communicate to all suppliers and include a section with CSR provisions in the purchasing conditions. Discuss the CSR policy, processes, and performance with (in)direct suppliers and customers. For example, explain to suppliers in training sessions why the organisation strives for better working and environmental conditions and why this also benefits them. Consider staff retention and more efficient production.
3. Registration: Encourage suppliers to document their CSR performance. Agree on what you expect from each other and how to follow up on non-compliance. Give supply chain partners training on dealing with CSR risks, for example.

5. Regular contact: visit (in)direct suppliers and customers and assess them on social and environmental issues. This can also be done together with other buyers and suppliers, or by an independent organisation. Involve NGOs, trade unions and experts in the monitoring process to evaluate the methodology or set up joint fact-finding missions and audits.
6. Grievance mechanism: Is there an international and external complaints system in place? Internal and external stakeholders - think employees and local residents - can suffer from irresponsible business activities. Input and feedback allow you to better identify and then minimise real and potential negative impacts. So make sure all stakeholders have access. This [guidance document](#) that SOMO made about grievance mechanisms in the electronics sector can be applied to other sectors as well.

PRACTICAL TIP: MAKE MEASURABLE AGREEMENTS WITH SUPPLIERS AND SUPPLY CHAIN PARTNERS

Make use of Corrective Action Plans (CAPs). These are plans of action to change something. Online you can find many [examples](#).

PRACTICAL TIP: USE CERTIFICATION AS A FIRST STEP

Do you buy small volumes or facility products? Check the labels as a first step towards sustainability. The [ITC Standards Map](#) provides information on over 210 standards, codes of conduct and certifications regarding sustainability in international supply chains.

2. Use your influence on other responsible parties to try and reduce/prevent impact and increase influence if necessary

In many cases, you are not the only organisation collaborating with your supplier. So if possible, consult with others on their due diligence goals to exert more influence. For example, join existing chain or industry initiatives such as the Sustainable Trade Initiative (IDH). They have set up projects to achieve sustainability in food chains, such as with palm oil, nuts, citrus and cocoa.

PRACTICAL TIP: USE THE INFLUENCE IN THE CHAIN CHECKSLIST

Use the Influence in the Chain Checklist to increase your influence in the supply chain and take more targeted action towards suppliers. You can find this [checklist on the CSR Risk Check website](#).

3. Ensure restoration of the violation

Remedy the damage caused, even if this is not always immediately possible. If your organisation engages in deforestation, you can replant forest. However, a lot of time will pass until you have fully restored it. In addition, irreversible things may have happened, such as an industrial accident. Full recovery is in such cases not always possible, but financial compensation offers an alternative. To establish a plan of restoration, the International RBC created some practical guides.

OUTCOME STEP 6

You now know what action to take if you are involved in negative situations in the chain. You recognise that it is smart to have good relationships with suppliers and work together to increase influence. You also have a clear sense of the need to repair the damage done.

STEP 7: ANCHOR THE APPROACH IN INTERNAL BUSINESS PROCESSES

To really implement due diligence, your internal organisation needs to be in decent shape. Below, we outline the four key components for this.

1. Ensure responsibility for CSR at all levels of your company

Make specific people responsible for implementing CSR policies. Due diligence issues focus on the procurement department. But due diligence also involves other departments. Only by being involved and responsibility at every level can you take steps - from (product) management to board level.

2. Educate the organisation

Train employees in CSR and sustainable procurement. Last-minute orders and low prices are often a reason to neglect labour standards at the expense of the employees involved. If procurement officers are expected to realise deals only for the lowest price, they do not include CSR aspects in their supplier selection. Prevent this by holding management accountable for its policies and inform the procurement department of its priorities.

3. Simplify your supply chain

Simplify the supplier portfolio and the length of the supply chain. You could think of centralizing your supply, work with fewer traders and creating easier agreements between parties. Establish long-term relationships with your supply chain partners.

4. Set clear due diligence goals

The whole organisation must pursue the same goals to make due diligence policies a reality. Read more in steps 8 and 9.

OUTCOME STEP 7

You now know which parts within your organisation are needed to implement due diligence. Within your organisation, the goals are clear, people have learned about due diligence and someone is responsible for each team, with final responsibility with the management. You are aware that simplifying chains leads to more overview.

STEP 8: MONITOR PROGRESS AND EVALUATE

1. Evaluation of risk analysis

Determine regularly whether the risk analysis you carried out is still representative of the current situation. For this, fill out the CSR Risk Check again. In addition, indicate there that you want to be updated on developments. Capture moments of evaluation in advance.

2. Monitoring

Measure results

Results of the policy (the goals you pursue as an organisation, as stated in step 7) are expressed as the achievement of concrete targets or with Key Performance Indicators (KPIs). On this basis, you also report on progress. Make your goals SMART as much as possible: specific, measurable, action-oriented, result-oriented and time-bound. This enables control and communication on this subject. Examples:

- We purchase xx percentage of sustainably certified raw materials within xx years;
- We have xx percentage of supplier codes signed by the end of 2025;
- We conducted xx percentage of audits over the next three years.

Audit or no audit?

To track progress in the supply chain, you conduct audits on suppliers and producers. The goal: to issue a certificate or audit report. Keep in mind that audits are not always a reliable tool and sometimes do not provide a comprehensive assessment of the situation. Moreover, an audit report only provides information about the status quo on the day of the audit. Inexperienced auditors and a corruption-friendly environment can also negatively affect the results.

Audits are, however, a good source of information for identifying risks and measuring progress. Use a corrective action plan (CAP) if something can be improved, as mentioned in step 6.

PRACTICAL TIP: SEE HOW OTHERS HANDLE THIS

Check how Philips handles the theme of Beyond Auditing in its supply chain.

Non-compliance

What happens if a supplier does not meet the buyer's standards as set out in a code of conduct or terms of delivery? You arrange this with suppliers in advance. Give them a chance to improve and help them when necessary. Terminating the contract immediately is not the solution. By doing so, you not only shift the problem to another buyer, but also jeopardise the continuity of supply, especially with critical, strategic suppliers. Suppliers are more likely to meet your demands if you have fair trading terms and reasonable prices, and if you try to establish a good working relationship.

OUTCOME STEP 8

You now know that you should periodically update your risk analysis and check whether any changes have taken place. You also know what SMART targets you have set as a company and monitor whether you are on track to meet them. For example, you conduct audits or monitor the situation in your supply chain. You do not simply end a relationship with a chain partner if something goes wrong, but actively look at how you can contribute to sustainable change.

STEP 9: COMMUNICATE POLICY AND PROGRESS

Transparency and communication to internal and external parties is an important part of supply chain responsibility. Important tips:

1. Continue to engage with individuals, communities and organisations with potential negative impacts in your chain about your approach and progress. This is an important complement to quantitative KPIs.
2. Consult your internal and external stakeholders on reporting topics. What information and performance around your international supply chain do they expect from your company? For instance, report on your ambitions as a company around sustainability, how you want to realise those ambitions and the progress of this. Publish your information, for example via newsletters, LinkedIn, website, annual report or impact report.
3. Transparency is important for your stakeholders, such as financiers and consumers. Therefore, be as specific as possible about your due diligence performance - use the KPIs you have set where possible - and link this to your plan for progress.
4. Decide how you want to publicly account for your actions, e.g. through your regular annual report, a separate sustainability report, information on your website or a special brochure. When you choose the method of formal reporting, consider the UNGP Reporting Framework as a format. You can also apply the Global Reporting Initiative-standard for sustainability reporting, the UN Global Compacts Communication of Progress (CoP) or the IFRS.

PRACTICAL TIP: REPORTING BECOMES MANDATORY, SO START NOW

When the new Corporate Sustainability Reporting Directive (CSRD) is legislated, reporting becomes mandatory for large companies. So now is the time to prepare in advance.



OUTCOME STEP 9

You now know that communication is important, both to your internal and external stakeholders. Reporting does not have to be a good news show. Not achieving set targets is also important to mention, as it shows that you are transparent. Just be sure to include how you plan to still achieve the unachieved targets. The CSRD makes reporting mandatory for many companies.

ABOUT GETTING STARTED WITH DUE DILIGENCE

Getting Started With due diligence is part of a series by MVO Nederland. The steps and practical tips in this guide are based on the knowledge and experience that MVO Nederland has gained while working on the CSR Rick Check and many other (inter)national supply chain projects. The CSR Risk Check is developed by MVO Nederland. The project is financed by the Dutch Ministry of Foreign Affairs. The CSR Rick Check is owned by MVO Nederland. The German version of the CSR Rick Check is financed by the Agentur für Wirtschaft & Entwicklung.

ABOUT MVO NEDERLAND

MVO Nederland is the movement of entrepreneurs in the new economy. We form a network of partners that innovates and implements together to achieve the new economy. Because only in the new, future-proof economy can entrepreneurs continue to do business. That is why achieving it is our goal.

Entrepreneurs are taking a stake in the new economy with MVO Nederland to future-proof their businesses, using the seven themes of the new economy: new wealth, circular economy, biodiversity, real prices, inclusive business, green energy and transparent chains. We also create the right conditions for sustainable entrepreneurs through governments and financiers advocacy, both in the Netherlands and in Europe.

Our goal will be achieved when 20 per cent of the economy converts to the new economy. We aim to reach that tipping point by 2025. We will succeed even faster if we make our movement as big as possible.

Do you have questions about the CSR Risk Check or International CSR? Contact us using [this contact form](#).