

Competitive Advantage or Public Domain? Role of Supply Chain Visibility in Preparing for the Corporate Sustainability Due Diligence Directive

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ABSTRACT,

This year, the Corporate Sustainability Due Diligence Directive was voted in at the EU parliament. This mandates large companies in the EU to identify, plan and address any adverse risks to human rights and the environment, in the upstream supply chain. The EU suggests companies collaborate within industries to comply with the directive. However, previous academic research argues that having supply chain visibility (SCV) leads to a competitive advantage. The study investigated 1) whether the companies think that SCV is a competitive advantage amid the introduction of the CSDDD, and 2) how they could collaborate with the competitors. The data was collected through interviews with representatives from ten companies that have to comply with the directive. The analysis used the lens of the Resource-Based View. The study showed that 1) many companies no longer find the SCV to be a source of sustained competitive advantage, and 2) companies are willing to indirectly collaborate with competitors through sharing best practices, supplier information and a framework for evaluating suppliers, through the help of an industry association and third-party organisations. The study therefore agrees with the suggestion of the EU to join forces to comply with the competitors.

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Keywords

Supply Chain Visibility, Supply Chain Traceability, Sustained Competitive Advantage, Buyer-buyer collaboration, Due Diligence, Corporate Sustainability Due Diligence Directive,

1. INTRODUCTION

A globalised supply chain (SC) brings benefits and risks to firms, cheaper sourcing costs and due diligence issues (Karaosman et al., 2020). Establishing the World Trade Organisation (WTO) lowered the hurdle for global sourcing, which was leveraged by introducing e-procurement. (WTO, n.d.). Globalisation enabled firms to enjoy the benefit of deepening the international division of labour, stemming from different labour laws and economic power (De Schutter, 2020). This also meant they could benefit from cheaper labour costs in developing countries when acquiring raw materials or manufacturing. This helped the local economy by creating jobs and building infrastructure around the facilities (Orlanyuk-Malitskaya et al., 2024). However, this created human rights issues, as firms began to exploit the differences between countries, resulting in worse working conditions for millions of workers around the globe (Hiba et al., 2021). On top of this, global SCs are also causing environmental issues (Karaosman et al., 2020; Miozzo et al., 2005).

As a reaction to the trend, the European Commission proposed the Corporate Sustainability Due Diligence Directive (CSDDD) on February 23, 2022 (European Commission, n.d.). This is a “step up” from what was previously called Guiding Principles on Business and Human Rights (UNGPs), put forward by the United Nations Human Rights Council in 2011 (OHCHR, 2011). The UNGPs were the first guideline for corporates to address due diligence, which was voluntary. Thus, the approach was deemed “largely insufficient” (European Parliament, 2020, p. 6). Furthermore, a KPMG survey revealed that most respondents indicated that their actions against due diligence issues are limited to their first-tier suppliers (Smit et al., 2020).

The CSDDD aims to establish duties for large companies by implementing the core elements; identifying, bringing to an end, preventing, mitigating and accounting for negative human rights and environmental impacts in the company’s operations, subsidiaries and value chains (European Commission, n.d.). Addressing due diligence issues is not a new proposition for a few countries, such as the Netherlands, Germany, Norway, Switzerland and France, as these countries have mandatory legislation on a national level (Lubitzsch & Neely, 2024; Worldfavor, 2023). Despite different criteria for companies applicable to laws in each country, legislations share the intention and expected effect (ECCJ, 2020). The introduction of CSDDD will standardise the due diligence duty across the EU, and companies outside the countries mentioned above will also apply this duty.

The revised directive proposal requires due diligence actions from companies that have 1,000 employees, with €450 million or more in turnover, which will cover 5,500 companies (Council of the European Union, 2024). The companies have a three to five-year transition period to prepare for the directive, once voted in (the period depends on turnover and other criteria) (Council of the European Union, 2024). This is expected to be performed by following the steps based on the OECD Due Diligence Guidance for Responsible Business Conduct (DD Guidance): “(1) integrating due diligence into policies and management systems; (2) identifying and assessing adverse human rights and environmental impacts; (3) preventing, ceasing or minimising actual and potential adverse human rights and environmental impacts; (4) monitoring and assessing the effectiveness of measures; (5) communicating; (6) providing remediation” (Council of the European Union, 2024, p. 11). This, especially in step 2, requires Supply Chain Traceability (SCT), the ability to map the supply chain (Skilton & Robinson, 2009). This aids supply chain visibility (SCV), which is to what extent the buying firm is aware of the operations of the SC (Malik et al., 2021).

Malik et al. (2021) explain that SCT will enable the firms to gain information about raw materials and those related to sustainability impact. However, this poses barriers to the CSDDD implementation process (Brun et al., 2020).

Furthermore, scholars confirm that control, oversight and SCT are lost especially against indirect or second-tier suppliers (Caridi et al., 2013; Hofmann et al., 2018; Sarpong, 2014). Kortelainen (2022) also agrees that monitoring and controlling the activities of suppliers, and receiving reliable information, which is crucial for the effective implementation of the practices, would be most challenging.

For the firms to be able to have enough SCV of the SC to identify the risks, the CSDDD proposal states that the firms “should be entitled to share resources and information within their respective groups of companies and with other legal entities” (Council of the European Union, 2024, p. 11). Furthermore, the DD Guidance suggests that firms collaborate “at an industry or multi-industry level as well as with relevant stakeholders throughout the due diligence process” (OECD, 2018, p. 19). The two statements imply that firms should collaborate vertically (across their SC) and horizontally (with competitors). Despite challenges such as the unwillingness of suppliers to cooperate, many scholars confirm that vertical collaborations can strengthen firms’ SCV. Horizontal collaboration has also been investigated, with scholars finding that it can also be beneficial for SCV, through gaining information about shared suppliers between firms (buyer-buyer/horizontal collaboration) (Cao et al., 2023; Huang et al., 2022; Naeeni et al., 2023). Furthermore, buyer-buyer collaboration benefits both parties in the long run (Cao et al., 2023).

However, due to the resources and effort that are required to gain SCV, scholars argue that having a good SCT can be a source of competitive advantage (Egels-Zandén et al., 2015; Malik et al., 2021; Razak et al., 2023). Moreover, firms have resisted being transparent with competitors to “safeguard their competitive advantage” (Morgan et al., 2023).

1.1 Research question

Introducing the directive puts firms at risk of failing to identify and address any due diligence issues across the SC. However, as it stands, the suggestion from the EU and previous academic research on crucial components of complying with the new directives could be contradictory.

This paper applies the Research-Based View (RBV) by Barney (1991). This is used to address topics of Sustained Competitive Advantage (SCA). It explains that SCA stems from bundling resources that are Valuable, Rare, Inimitable and Non-substitutable (VRIN) (Barney, 1991). Through this lens, the paper investigates the following research questions:

RQ1: Is SCV a public domain instead of a source of sustained competitive advantage, amid the introduction of the Corporate Sustainability Due Diligence Directive?

If SCV is a source of SCA, RQ2a: *What SC knowledge is beneficial in establishing SCA?*

If SCV is a public domain, RQ2b: *How can firms collaborate with their competitors to gain SCV to comply with the CSDDD?*

The data collection process will focus on companies based in the EU, prioritising those in France, Germany, Norway, Switzerland and the Netherlands due to due diligence-related regulations (Enneking, 2019; Lubitzsch & Neely, 2024). However, this will not limit data collection from firms other than the countries mentioned, as the directive applies across the EU.

1.2 Academic and practical implications

The research aims to fill the academic gap of the implication of the CSDDD to firms' competitive advantage in SCV. Moreover, the research will also spotlight the role of horizontal collaboration (collaborating with competitors) in the course of implementing the CSDDD.

Its practical implications lie in the novelty of the topic, as firms will have a three to five-year transition period (Council of the European Union, 2024). This will help the firms that apply to the directive to strategise their preparation to comply with the CSDDD.

2. LITERATURE REVIEW

This chapter outlines essential information, theories and concepts needed for the research: SCV, RBV, and the CSDDD.

2.1 Supply Chain Visibility

Jüttner and Maklan (2011) describes SCV as “information about entities and events regarding end-to-end orders, inventory, transportation and distribution as well as any events in the environment”. Many scholars have discussed SCV in the context of increasing efficiency and mitigating risks along the SC. The information often includes inventory level, payment and demand data from upstream SC (Caridi et al., 2013). Better insight and more information a firm possesses about its SC allow it to identify any deviation from the production or transportation plan, which allows the firm to gain SC resilience and robustness (Brandon-Jones et al., 2014; Caridi et al., 2013). SCV is often measured in both the types of data (e.g. transactions, status, operation) and its quality (e.g. Accuracy and timeliness) (Caridi et al., 2013).

According to Malik et al. (2021), SCV is aided by having a better SCT. Skilton and Robinson (2009) defines SCT as the “ability to identify and verify the components and chronology of events at all stages of a process chain”, which is essentially the mapping of the flow of materials along the SC. This influences SCV because the information sharing between actors in the SC gives a firm more information about the suppliers (Garcia-Torres et al., 2022; Malik et al., 2021). SCT provide information about events along the SC, as well as allows the firms to get a better overview of the environmental and human rights status quo along the SC (Busse et al., 2017; Caritte et al., 2015; Malik et al., 2021). Therefore, a better SCT would also mean an improvement in SCV, as better mapped SC and information sharing allows information availability about the suppliers (Brun et al., 2020; Malik et al., 2021; Sharma et al., 2022).

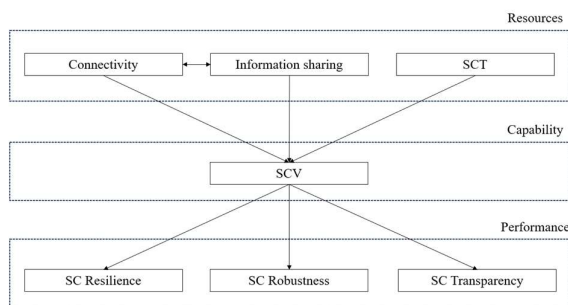


Figure 1. Summarised relationships between SCT, SCV and SC Transparency.

Visualised by the author based on the literature (Brandon-Jones et al., 2014; Brun et al., 2020; Caritte et al., 2015; Garcia-Torres et al., 2022; Malik et al., 2021; Morgan et al., 2023; Sharma et al., 2022)

In the literature, authors interchangeably use SCV and SC transparency. SC transparency refers to the disclosure of information about the SC to external stakeholders, including customers, the public and regulators. This is mainly utilised for public communications with the shareholders to establish and demonstrate the legitimacy of the firm's SC (Malik et al., 2021). For this reason, firms have been skeptical about higher SC transparency, as this may endanger the competitive advantage by sharing the information (Morgan et al., 2023). The relationships presented in this subchapter are visualised in Figure 1.

2.1.1 Supply Chain Visibility and Due Diligence

Implementation of due diligence practices can be discussed using research around conflict minerals, sustainability and child labour along the SC. Many papers previously focused on the competitive advantage of implementing the practices (Hofmann et al., 2018; Porter & Kramer, 2006; Stratopoulos, 2017; Warter & Warter, 2015).

Implementation of due diligence is rather challenging, especially when done voluntarily, as the firms' awareness of such issues, and motivations were big factors that played into how the implementation was done (Hofmann et al., 2018). Many firms addressing conflict mineral issues have an implementation style of “compliance”, which describes an approach of strict implementation. Thus, suppliers not adhering to the practice are immediately replaced (Hofmann et al., 2018). Therefore, Hofmann et al. (2018) indicate that power over the upstream enables the implementation process.

SCV, often referred to as “SC transparency” in many literature, has been identified as a significant barrier to implementing due diligence practices (Hofmann et al., 2018; McCorquodale et al., 2017). Research in the due diligence domain agrees that SCV is crucial, as having a good overview of the suppliers, thus allowing mapping and anticipating any possible risks of harm to humans or the environment acts as a baseline for addressing due diligence issues (Step 2 of the DD Guidance) (Council of the European Union, 2024; McCorquodale et al., 2017; OECD, 2018; Venkataraman et al., 2021). Another obstacle in implementation was found to be the complexity of the SC, which makes the SCV more challenging to tackle (Hofmann et al., 2018). Additionally, it can be costly for firms and some may not have enough resources to engage in due diligence practices.

In addressing environmental risks along the upstream SC, Busse et al. (2017) explain that collaborating with all stakeholders will provide the firm with a new perspective about the suppliers in their SC, which would result in a better SCV and thus be able to address potential risks.

After a practical implementation of the due diligence practices, Villiers (2019) explain that the effect of the practices can be enhanced when there is active involvement and engagement with the stakeholders, given good transparency. Therefore, having good visibility in the SC and acknowledging the status quo related to due diligence should be the focus.

2.2 Resource-Based View

The RBV suggests that bundling firms' resources and capabilities is the key element of achieving a competitive advantage (Barney, 1991). This implies that the source of competitive advantage derives from the firms' internal factors, by how the resources are utilised to do better than the competitors (Grant, 1991). Resources refer to anything that can enable business activities such as the production and distribution of goods, which can be both tangible (e.g. infrastructure) and intangible (e.g. Information and knowledge) (Größler & Grübner, 2006). Bundling refers to using firm resources and their integration for capacity-building, which increases

efficiency and effectiveness (Sirmon et al., 2008). Brandon-Jones et al. (2014) mention that building capabilities that are unique and better than those of competitors will require bundling the resources. Such competitive advantage gained through capabilities aided by bundling resources instead of solely by a resource, is more likely to give the firm SCA (Brush & Artz, 1999).

Barney (1991) distinguishes competitive advantage and SCA. SCA is defined as the extent of resilience against duplication activities of the competitive advantage by the competitors and does not directly refer to the period (Barney, 1991). Barney (1991) further explains that a resource that contributes to SCA should have the elements of VRIN:

(1) *Valuable*: resources should aid the effectiveness and efficiency of a firm;

(2) *Rare*: the resources should be scarce by having control over them so that it is not easily accessible from other players in the field;

(3) *Inimitable*: the resources should not be easily duplicated in-house by the competitors;

(4) *Non-substitutable*: the resources should not have an easy alternative to provide a competing firm with the same or better capabilities.

Scholars have looked at how SCV can lead to SCA: Bundling connectivity and information sharing along the SC provides SCA to firms through building capability (Brandon-Jones et al., 2014), also visualised in Figure 1. Moreover, Razak et al. (2023) analyse and point out that having an SCT system creates SCA for a firm due to its “VRINness” (Brandon-Jones et al., 2014).

2.3 Corporate Sustainability Due Diligence Directive

The CSDDD was proposed to make firms both report their due diligence status quo and address the issues. The directive builds upon and uses the framework of the UNGPs, and requires EU companies that fall under the conditions to identify, make a plan to address and address any due diligence risks and issues within the upstream SC (Council of the European Union, 2024). However, the directive does not “require companies to guarantee, in all circumstances, that adverse impacts will never occur or that they will be stopped” (Council of the European Union, 2024, p. 10). Instead, it is more important to identify the adverse risks correctly and take practical actions accordingly (Council of the European Union, 2024). CSDDD contributes to many of the EU’s plans and objectives, such as the European Pillar of Social Rights, and the EU Action Plan Towards Zero Pollution for Air, Water and Soil (Council of the European Union, 2024).

The directive expects the firms to cover all the steps of OECD Due Diligence Guidance for Responsible Business Conduct, which will be discussed further in Chapter 2.4.2 (Council of the European Union, 2024). The primary condition of companies that will be obliged to comply with this directive is any EU-established companies with more than 1,000 employees and a turnover of €450m or more (Council of the European Union, 2024). Other conditions, including those for non-EU firms, are summarised in Appendix A.

2.3.1 The six steps of the CSDDD

This section briefly describes the OECD Due Diligence Guidance for Responsible Business Conduct (DD Guidance) implemented in the CSDDD proposal.

(1) *Embed responsible business conduct*: This guides the review or implementation of Responsible Business Conduct (RBC) into the policies and has a clear plan for communicating, handling and

addressing any possible RBC issues (OECD, 2018). Companies should also have clear RBC expectations for engaging with external stakeholders (OECD, 2018).

(2) *Identify & Assess Adverse Impacts*: Identify and map any possible RBC risks along the SC and business relationships, and assess the risks to identify the implementation of the risks (OECD, 2018). Moreover, evaluating its impact on the company and the root cause of the RBC risks (OECD, 2018). This step requires SCV (Malik et al., 2021).

(3) *Cease, prevent or mitigate*: To address RBC issues identified in step 2 and the adverse impacts of such issues or risks, or develop a plan, including engagement with external parties (OECD, 2018).

(4) *Track*: Tracking implementation and monitoring its impact and effectiveness, as well as learning what went right and what went wrong in the risk-adding process for future improvements (OECD, 2018).

(5) *Communicate*: Publically report any relevant information on conducted activities to address the RBC issues. (OECD, 2018)

(6) *Provide for or cooperate in remediation when appropriate*: When the company has had a causal effect on the impacts, remediation actions shall be taken. (OECD, 2018)

3. METHODOLOGY

3.1 Research design

Due to the lack of previous research on the implications of CSDDD on SCA of SCV, the study will take an exploratory approach. Therefore, a qualitative approach was used to ensure new insights and explanations would be captured. An inductive approach will be taken for this approach, in which the data gathered will merge into concepts (Thomas, 2003). The data collection process was done through interviews to allow a deep understanding of their input and leave room for follow-up questions (Fossey et al., 2002).

3.2 Sampling

The scope of the research is any firms that apply to the CSDDD, thus firms that are:

- 1) More than a turnover of 450m in the EU;
- 2) More than 1,000 employees.

The sampling process was non-randomised. A list of companies that meet the criteria above was created based on the internet search. To effectively gain an insight into the SCV in preparing for the CSDDD, personnel invited to the interview were either those involved in SC compliance, or SC directors/managers, to ensure they have sufficient knowledge of both due diligence and their SC. Searching for potential interviewees was done mainly through LinkedIn using the People Search function, with search keywords containing the company’s name and anticipated job position/title. Since LinkedIn does not offer the option to view their phone numbers, the author sent a connection invitation with a note briefly explaining the research. Once the invitation was accepted, a more detailed explanation of the study and a formal invitation to the research were sent. Some other personnel were contacted through the author’s network. Additionally, a post on LinkedIn was made to seek an interviewee.

No specific industry or sector was focused on nor ignored, due to the challenges in planning interviews with personnel stemming from the busyness of the personnel that were aimed to be interviewed.

3.3 Interview

The semi-structured interview approach was chosen to effectively capture any related inputs from the interviewees, to

allow the interviewer to ask follow-up questions and explore the topic (Fossey et al., 2002).

Therefore, an interview guide was designed with core fundamental questions to guide the interviewer during the interviews and not overlook any critical questions. The interview guide can be seen in Appendix B.

Before each interview, all participants were asked for consent to collect and process the data, followed by consent for recording the interview. They were also informed that any information about the interviewees and the company they represent will be removed or anonymised, and any recorded materials will be discarded after the transcription. Before specific questions related to the research were asked, the participants were asked to introduce themselves and their company, as well as how long or complex their upstream SC is to ensure the presence of context in the interview.

The interview was aimed to capture (1) whether the SCV is a source of SCV amid the introduction of the directive (using the VRIN framework of the RBV), (2) the firms' willingness to collaborate with competitors in complying with the directive and (3) how the collaboration they think should be performed.

3.4 Data analysis

After the data collection process, the interviews were transcribed through the Microsoft Teams function and were later manually finalised by the author. Each interview was assigned a code to ensure anonymity. This can be seen in Figure 3. The first two letters represent the industry, and the following two letters represent the country, followed by a unique number. Moreover, any part of the transcript that may allow tracking down to an individual was removed.

Data analysis was completed using the thematic analysis approach. This is because the research is exploratory and entails new topics related to the research. Thus, interpreting the data by forming themes helps to capture all important information (Kiger & Varpio, 2020). This approach also aids the research, as it helps to “understand a set of experiences, thoughts, or behaviours across a data set” (Kiger & Varpio, 2020, p. 847). This was done by first getting familiar with the interview data (transcripts) and identifying a theme that gets mentioned across the dataset, which is the themes. The themes and codes can be seen in Figure 2, and their description can be found in Appendix C. These themes were used to code the data sets to allow a better summary of the dataset across the dataset and to enable a discussion later in the research. As shown in Figure 2, codes in SCA were formulated based on the VRIN framework of the RBV by Barney (1991) to effectively use the theory as a lens to investigate how SCV interacts with the SCA.

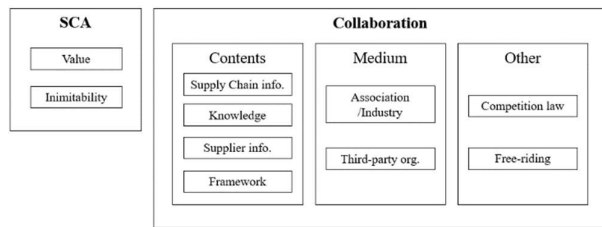


Figure 2. Codes deviated from the thematic analysis and its theme

4. RESULTS

4.1 Interview Results

In total, ten interviews were conducted. A summary of participants can be seen in Figure 3. Many participants (FI-DE1,

FA-DE2, CH-NL2, CH-FR1, TE-NL1 and HT-NL1) were from the LinkedIn search, and CH-NL1, CH-US1 and MA-DE1 were from the personal network of the author. FI-NL1 was from the reference of the supervisor. No interviewees were gained through the LinkedIn post asking for potential interviewees.

#	Country	Industry	Role
FI-NL1	The Netherlands	Funeral Insurance	Procurement Director
FA-DE1	Germany	Fashion	Team Lead Sustainability
FA-DE2	Germany	Fashion	Supply Chain Director
CH-NL1	The Netherlands	Chemical	Global Integrated Supply Chain Sustainability Leader
CH-NL2	The Netherlands	Chemical	Procurement Sustainability Manager
CH-FR1	France	Chemical	Global Supply Chain Director
CH-US1	USA	Chemical	Global Social Responsibility Director
TE-NL1	The Netherlands	Telecom	Head of Supply Chain & Order Fulfilment
MA-DE1	Germany	Manufacturing	Specialist Human Rights
HT-NL1	The Netherlands	Healthcare Technology	Supply Chain Manager

Figure 3. Summary of country of origin, industry and role(s) of the interviewees/companies

All companies that participated in the study were well aware of the CSDDD. This is because companies that fall under the criteria of the CSDDD were already obliged to comply with the Corporate Sustainability Reporting Directive (CSRD), which is the predecessor directive about due diligence (CH-NL1 and CH-US1). The complexity of the SC amongst the participants was perceived as high. This is due to the size of the company and industry, such as fashion, chemical and manufacturing. Such companies indicated their visibility is still limited (FA-DE2, CH-US1 and HT-NL1). Only FI-NL1 indicated that their SC is rather simple and short, which gives them full SCV and SCT.

All interviews were roughly 30 minutes long. Moreover, FI-NL1, CH-US1 and HT-NL1 had two participants present at the interview, which provided inputs from a broader expertise.

4.2 Sustained Competitive Advantage from Supply Chain Visibility

This chapter lays out the interview results related to the theme of SCA.

4.2.1 Value

Value refers to whether SCV will bring efficiency and effectiveness to the company. CH-NL1 indicated that SCV brings value to their company. They explain the importance of having an ecosystem of their SC:

“Visibility is absolutely critical because it not only gives you actual visibility on your process and where your improvements are, [but] also means that you're much more working within an ecosystem and that ecosystem is critical to enable trust to make those investments and to elevate yourself as an entire ecosystem towards that customer value. That not only includes [...] performance of a product, but is really thinking across the triple bottom line” (CH-NL1)

Similarly to CH-NL1, it was also mentioned that having a good relationship and trust with suppliers in the SC would provide them with value (FA-DE1, FA-DE2 and CH-NL2). Additionally, FA-DE2 indicated that the traditional values that SCV brings to the company such as avoiding time loss and any other risks, remain significant even with the introduction of the directive. They further explain that SCV eliminates any unnecessary costs and this is separate from the directive (FA-DE2).

However, according to multiple participants, having a better SCV no longer gives the company values in terms of SCA (FI-NL1, FA-DE1, TE-NL1 and MA-DE1). FA-DE1 elaborates that their focus and conscious effort on sustainable procurement has previously been a differentiator against their competitors, this is however no longer the case due to the introduction of the directive. It was similarly mentioned by MA-DE1 that SCV would not bring value as SCA, since “everybody has to do it”. FI-NL1 has a steadfast stance on SCV not being a source of SCA, as the sharing of information about suppliers is already taking place through platforms such as Hellios:

“I can hardly imagine that [SCV] will be a differentiator going forward” (FI-NL1)

4.2.2 Inimitability

Inimitability in RBV refers to the extent to which other players cannot copy specific resources. As mentioned above, FA-DE1, FA-DE2 and CH-NL1 emphasised the importance of trust with the suppliers in their SC, which they perceive to be difficult to copy by the competitors in-house.

Another point mentioned by FA-DE2 was that SCV is inimitable, as any IT system will require fine-tuning for all companies, and cannot be installed in a one-fits-all principle. However, FA-DE1 disagrees with this point of view:

“If you share information, you always have the have the problem that [...] people do copy your business model or do copy the way or they have take[n] it as a blueprint for doing it in their style” (FA-DE1)

4.3 Collaboration

Questions about collaboration amid the introduction of the directive were also asked, regardless of whether the interviewee feels SCV will lead to SCA for their company. This chapter lays out topics related to collaboration frequently mentioned by multiple participants. All participants confirmed that a form of collaboration can be taken to help other companies and create synergy.

“[...] cannot be solved by one single company. So you have to work together” (MA-DE1)

4.3.1 Contents

One of the forms of collaboration mentioned by interviewees was the sharing of **SC information**. This refers to sharing the details of the SC, such as from which supply a company is purchasing materials or components. FI-NL1 stands firm on this, by mentioning that they have no problem sharing who is involved in the SC. They feel that despite being competitors with other firms, it is all about helping each other:

“I would be more than willing to share that kind of info because you know next time I will need them. So it's always a little bit give and take.” (FI-NL1)

FI-NL1 concluded they have a short and simple SC so the advantage gained from procurement is relatively low. However, CH-FR1 does not think that revealing their SC would be beneficial in any way, due to dispersed and global SCs:

“in terms of in terms of [the] supply chain, [...] we have competitors in China [and in] the US [...], how would you collaborate in [the] international supply chain?” (CH-FR1)

On top of sharing SC information, other participants mentioned sharing **Knowledge**, such as best practices or tools (FA-DE2, CH-FR1, MA-DE1 and CH-US1). MA-DE1 uses an example of software that tracks the traceability of the SC for the sharing of knowledge:

“What are tools, what are methods to get transparency in your supply chain because they are also technical or possibilities that are there to explore.” (MA-DE1)

MA-DE1 further elaborates that sharing knowledge will result in the overall development of the due diligence issues in the SCs. CH-US1 agrees with this, mentioning that there is still an opportunity within their industry for the resources and tools that aid in compliance with the directive. Moreover, such tools are emerging in multiple levels of SC (CH-US1).

In addition to sharing resources and tools, it was also revealed that having a dialogue between companies in the same or similar industry would help solve issues one may encounter (FA-DE2). CH-US1 indicated that they have been in one-on-one conversations with other players in the industry, which also includes some competitors, regarding all EU taxonomy, CSRD and CSDDD. They recently had such meetings about CSDDD with three companies that reached out to CH-US1 to discuss the best practices in complying with the directive. They also expressed that being in dialogue to exchange knowledge would create synergy, as the directive alone includes many aspects and levels of topics.

While many mentioned that it is helpful to share knowledge and best practices with their competitors or others in the same industry, CH-FR1 expressed that such collaborations do not have boundaries, and can help even if they happen across the industry. CH-FR1, a chemical company, further explained that sharing knowledge about the tools with Pepsi Co. or McDonald's would be as effective as with their competitors.

Supplier information was another point where participants mentioned that they could collaborate. This refers to general information about the suppliers on audits by various stakeholders and their results. The results of the audits are mainly the crucial information in complying with the directive, which includes any potential risks to human rights and the environment. Many participants explicitly expressed that sharing information about suppliers' status on due diligence topics should and would be shared (FI-NL1, FA-DE1, FA-DE2, CH-NL1, TE-NL1, MA-DE1, CH-US1 and HT-NL1). Some mentioned that such collaboration would grow in the coming years (TE-NL1 and CH-US1). CH-NL1 gave a clear example of how companies can work together by sharing information:

“What we would do if we have a specific issue, we would talk about like the type of issue, the severity and the potential impact on what corrective actions could be to really have an alignment.” (CH-NL1)

Both FA-DE1 and MA-DE1 emphasised the importance of sharing audits being conducted, to eliminate auditing redundancies:

“[...] if I go and audit you then the other companies don't have to go and audit you because the audit report is available. This avoids 'Audit Fatigue'” (MA-DE1)

This is crucial according to FA-DE1, as there are multiple external auditors auditing, and internal audits by customers of such suppliers. For instance, one of the factories they work in Bangladesh gets audited more than 30 times a year, which they

believe can be avoided through effective collaboration (FA-DE1). Furthermore, such collaborations currently happen informally between auditors at the site or conferences, instead of through formal high-level collaboration, according to FA-DE1, FA-DE2 and HT-NL1.

In relation to sharing information about auditing, collaboration on creating an industry-wide **framework** was mentioned by multiple participants (FI-NL1, FA-DE1, CH-NL1, MA-DE1, CH-US1, CH-NL2 and HT-NL1). CH-NL1 elaborates as to why this is crucial in compliance with the directive:

"[...]the data is there but the data is not always effectively shared, and obviously there [...] [are] certain areas that always need more improvement. If you look at European companies versus let's say Asia Pacific or African countries, there may be certain translation issues with that, not necessarily language, but also the terms of systems and criteria that we have." (CH-NL1)

MA-DE1 also emphasises the importance of having an industry standard on auditing procedures, requirements and methodology, which would avoid any "Audit Fatigue". Moreover, an industry-standard will also benefit the tendering process of suppliers, since a standardised evaluation of the suppliers in the context of CSDDD would be possible across the industry (FI-NL1). Another benefit is the evaluation of the new suppliers that get added to the portfolio, as an equal evaluation can be done with ease (CH-NL2). HT-NL1 points out that this can be challenging to address due to the number of different audits and certifications with varying points of focus. However, they are also optimistic about the next years.

4.3.2 Medium

Medium refers to how the collaboration can occur, either through dialogues between individual companies within an association/industry or through third-party organisations such as NGOs.

All participants agreed that collaborating with players in their industry or an **association** they are part of would be possible. FI-NL1 was very open to collaborating with their direct competitor. In contrast, others were more fond of dialogue to exchange information and best practices (as mentioned in Chapter 4.3.1). Additionally, multiple participants indicated that such collaborations are also happening and think this dialogue can continue for the CSDDD topics (FA-DE1, FA-DE2, CH-NL1, MA-DE1 and CH-US1).

Many claimed that collaborating through associations is also beneficial, as this allows all association members to share information, outside of the relationships companies may have. One of the examples given by CH-NL1 was Together For Sustainability (TFS), where every significant player in the industry sets a shared goal and strives for it. CH-NL1 emphasises that by working all together as an industry, the industry will be able to make steps together, besides simply being compliant with the directive.

Interviewees were also fond of the idea of involving **third-party** organisations. CH-NL1, TE-NL1 and CH-US1 raised Ecovadis as an example of third-party organisations that help with the collaboration process. Ecovadis allows the sharing of supplier-related information, including environmental effects, and companies can base their tendering process on this as well (CH-NL1). Although Ecovadis does not support information sharing specifically for CSDDD, TE-NL1 feels this will be soon the case. Furthermore, TE-NL1 believes that many large production companies would use a third-party platform where all kinds of due diligence-related information can be seen. FA-DE1 firmly believes that such third-party organisations should be able to

provide infrastructure for better communication. They add that because of the globalised SCs amongst the companies, cultural differences and language barriers make the auditing process more challenging, which is where the infrastructure provided by third parties would be beneficial (FA-DE1).

"If you have never done this, it might be difficult and then you need somebody to transport the message and to transfer the knowledge to you and to help you to understand it. And that, I think it's a good time to build up such kind of initiatives." (FA-DE1)

4.3.3 Other

While all participants indicated they would be open to collaborating, there was a concern about **competition law** while collaborating within the industry (FA-DE2, CH-NL1, CH-FR1, TE-NL1, MA-DE1, CH-US1, CH-NL2 and HT-NL1). Disclosure is strictly prohibited, especially concerning the exact information about a company's SC (MA-DE1). CH-FR1 and CH-NL2 indicated they would be open to collaborating, as long as competition law allowed them to. Similarly, CH-NL1 stressed their effort to make stakeholders anonymous when issues arise:

"[...] we operate on Chatham House rules, so generally supplier names and rates and so on are [...] not discussed at all." (CH-NL1)

FA-DE2 mentioned the Cartel agreement, which prevents companies from teaming up against the competition to take advantage of their collective position. They believe this is especially strict in Germany – thus, collaboration should be carefully conducted. Despite concerns raised by other participants, TE-NL1 feels there is no necessity to share any information that can interfere with such law to comply with the directive, and should stick to means such as sharing of framework and knowledge.

Another collaboration-related topic asked was the potential issue of **free-riding** when collaborating, as companies with lower capabilities may disadvantage those with more power and competencies (Cao et al., 2010). However, many participants expressed that this "unfairness" comes with anything and is necessary for the industry's growth in the CSDDD context (FA-DE2, CH-NL1, TE-NL1 and MA-DE1).

"It's a natural process for development because you always have those front runners and those who follow, and I think it's also about the learning experience because the ones who have been working on these topics for some years, they can share their experience [...]. I don't think it's unfair. I think it's a natural process." (MA-DE1)

5. DISCUSSION

This chapter explores the implications of the results summarised in Chapter 4, by examining them against the research questions in Chapter 1.

5.1 Key findings

5.1.1 Is SCV a public domain?

The research identified a mixed opinion on whether SCV would be a source of SCV amid the directive's introduction. This can mainly be derived from the results presented in Chapter 4.2 (Value and Inimitable). Many indicated that SCV would no longer be a source of SCA, since due diligence within the upstream SC has become a compliance matter, instead of an effort to gain an advantage over the competitors. On the other hand, CH-NL1 disagreed with this by providing a clear stance on how SCV would give them both visibility in potential risks and trust across the SC, which is why SCA would be gained through SCV according to them. The presence of the SC ecosystem,

which CH-NL1 mentioned frequently may be the significant factor that sets apart from other participants.

However, in the CSDDD context, it can be argued that investing in gaining SCV to identify potential due diligence risks in the SC is providing companies with less SCA than before. This can be backed up by participants' willingness to collaborate to comply with the directives, and the openness of information sharing, as long as purchasing strategies are protected. Moreover, because of their desire to share information, the inimitability (I) of SCV would be irrelevant.

In the interviews, only comments about V (Value) and I (Inimitable) were identified, and none of the participants mentioned R (Rare) and N (Non-substitute). This can be analysed that obtaining an exclusive SCV against competitors in the industry is equally difficult for all, due to the complex, globalised and overlapping nature of the SCs amongst the companies in the same industry. Additionally, although SCV can be aided in different ways such as through software and technology, it cannot be replaced in any way. This is because SCV is a set of information, which explains why this was not mentioned by any of the participants. Consequently, it can be argued that SCV may provide competitive advantages in aspects of risk management in sourcing, but would not be a source of SCA in the context of CSDDD.

However, according to many participants, this does not mean that SCV is a public domain. The primary reason for this is competition law, since disclosing and sharing SC information may lead to a breach of the law. Moreover, it may also cause issues where a purchasing strategy could be copied and damage the traditional VRIN-ness of SCV (e.g. SC risk management & efficiency), as pointed out by FA-DE1.

Consequently, the answer to RQ1 (*Is SCV a public instead of a source of sustained competitive advantage, amid the introduction of the Corporate Sustainability Due Diligence Directive?*) is neither of the two.

5.1.2 Collaborating to comply

This chapter discusses RQ2b "How can firms collaborate with their competitors to gain SCV to comply with the CSDDD?" instead of RQ2a since RQ1 concluded that SCV is not a source of SCA (Chapter 1.1).

As mentioned in Chapters 4.5 and 5.1.1, all study participants expressed that a form of collaboration with competitors is possible and desired to help each other comply with the CSDDD.

"if you slap the hand that feeds you [...], where does that leave you?" (CH-NL2)

Interviewees presented many ways collaborations can happen, but collaborations to directly gain SCV were challenging and undesirable in Chapter 5.1.1.

A typical bottom line among the interviewees was that they feel that the CSDDD compliance topic cannot and should not be dealt with by individual companies, and forces should be joined. Moreover, current "audit fatigue", redundancies in auditing processes, was also highlighted, indicating that the initiatives and efforts of individual companies are not effectively shared, and still lack transparency. As solutions to such current difficulties, interviewees suggested multiple ways that can indirectly help others in compliance, which are sharing 1) best practices, 2) supplier information, and 3) auditing framework with the help of associations of industries and third-party organisations to be effective ways to collaborate with competitors in complying with the directive.

Sharing knowledge of the best practices and how certain things could be approached to those who are investigating due diligence

in the SC for one of the first times eliminates the initial trial-and-error phase that all companies have to go through otherwise. This would lead to a faster growth of the topic within the industry, leading to responsible purchasing, which is the overall goal behind the introduction of the directive. This is also crucial, as there is only a three to five-year transition period, and the EU is still vague on the specific requirements of the directive.

As multiple interviewees mentioned, many audits are being performed at all levels of SCs through different methodologies and criteria, and pointed out that there would be redundancies in such efforts and investments. Although some collaborations occur in an informal setting, having audit results effectively shared and aligned could also reduce redundancies. To complement this, having a standardised industry-wide auditing framework can ensure the effectiveness of the information shared about the suppliers.

As mentioned multiple times, the companies that participated in the study are fond of developing together as industries and suggested that collaborations can occur either in industry association settings or through third-party organisations. For knowledge sharing, initiating dialogues within the associations would be adequate instead of individual efforts in reaching out to companies. This can be effectively done through recurring meetings of the industry association with the representatives of member organisations. This can foster a more effective way of exchanging knowledge, as the question or an issue could be raised to many other members simultaneously. Concerning collaborating through audit information and standardised frameworks, participants expressed that third-party organisations' initiatives would be optimal. Participants mentioned Heliios, a platform for sharing supplier and risk management-related information, and Ecovadis, a platform for sharing sustainability-related information from suppliers. According to participants, both have not yet adapted to CSDDD, but this could be an easy addition for them, which would result in a smooth collaboration between companies inside and outside the industry.

In such collaborations, free-riding can be expected, since those with more competencies and resources can invest more into such initiatives. However, none of the participants felt that free-riding would be a significant issue. This further supports how companies are open to collaborating to create due diligence synergy for each industry.

Thus, this subchapter answers RQ2b. SCV cannot be directly gained through collaborations with competitors due to competition law. Still, there are ways that companies could collaborate to help each other comply with the CSDDD, which are sharing best practices among the players in the industry (association), and coordinating with different companies through platforms of third-party organisations to mitigate audit fatigue.

5.2 Implications

5.2.1 Academic implications

Due to the novelty of the directive, the number of research done specifically on CSDDD is still limited. Despite that, similar topics have been researched in the past decade, such as CSR and Conflict Minerals. In such research, collaboration topics have also been focused on, but the focus was limited to vertical collaboration, which is collaborating along the SC to identify and address risks. This research takes inspiration from the research of Cao et al. (2010) and brings a new insight into horizontal collaboration, the collaboration between competitors, into the CSDDD topic.

The research also outlined the significant involvement of the regulatory regime in the topic of CSDDD. Moreover, the results

also showcase the transition from the previous voluntary basis on addressing due diligence issues in the upstream SC to a compliance topic that could make the company liable. It was mentioned that SCV is no longer a source of SCA solely because this became a compliance issue rather than a voluntary effort. It can be argued that the results of previous research may no longer be applicable given the introduction of the directive. Thus, a further investigation of various topics specifically for the content of CSDDD would deepen academic knowledge.

5.2.2 Practical implications

The CSDDD is also a new addition to large companies, and this is a practical field for companies that apply to the directive must start strategising for the enforcement of the directive.

The research depicts how open the companies are in collaborating to share knowledge, build a coherent framework within the industry, and ultimately join forces to comply with the directive. Sustainability officers or SC directors can use this research to understand how other companies perceive the CSDDD and can strategise their position in this directive and collaboration.

This paper also contributes to providing a general direction in how companies can approach other players or third-party organisations concerning collaborations. As this research lays out how exactly collaboration could be done, strategists in CSDDD can adopt this into the courses of action before the enforcement of the directive, which would benefit the efficiency and effectiveness of the investments in complying.

5.3 Limitations

Despite detailed and valuable insights from many professionals working at large corporate firms, some aspects may have influenced the research results.

The first limitation lies in the representation of the industries in the study. As summarised in Figure 3, the research had: one funeral insurance, two fashion, four chemical, one telecom and two manufacturing companies, and this is not a complete representation of all companies that apply to the directive. Aside from the industries participating, there could be some industry-specific opinions or desired ways of collaborating, which this research may have missed out on.

Second, the data was collected from either those involved in SC sustainability topics or those with a good overview of the company's SC, such as SC directors. This was done because the research had a significant weight on the SCV, which was anticipated that SC directors would be knowledgeable. While the anticipation was accurate, it became clear that sustainability officers have a better insight into collaboration topics, as they are the ones strategising the CSDDD topic in general.

5.4 Future research

This section lays out suggestions for future research in the horizontal collaboration domain on the topic of the CSDDD.

The research contributed to identifying the possible ways of collaborating amid the introduction of the CSDDD. Quantitative research could be conducted using the study outcome to conclude which collaboration could be done statistically. The result of this research can advise the companies and third-party organisations on effectively strategising the following actions for CSDDD.

As explained in the previous subchapter, the representation of industries were not equal. A research focusing on more industries equally may give a useful insight in difference between the industries. The result of this would help the strategists in how collaboration could be done for their industry.

The outcome of this research also indicated the interaction of the competition law and how companies could collaborate with their competitors. Future research could look into how the CSDDD may influence the future of regulations such as competition law and Cartel agreements. In addition to investigating this with company representatives, it would be beneficial to consult with experts in the law field. This would provide a better understanding of what must be considered when collaborating with competitors or assisting such collaborations as a third-party organisation.

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APPENDIX

Appendix A – Criteria for the CSDDD

Group 1a: EU-established companies with more than 1,000 employees and turnover of €450m or more.

Group 1b: Non-EU companies with turnover of €450m or more generated in the EU

Group 2a: EU companies with franchise or licensing models with €80m turnover worldwide AND €22.5m of royalties received worldwide

Group 2b: Non-EU companies with franchise or licensing models €80m turnover in the EU AND €22.5m of royalties received in the EU.

Summarised from the revised directive proposal (Council of the European Union, 2024).

Appendix B – Interview design

The scripts are intended to help the interviewer know exactly what to mention. The intention of the script is not to follow word for word.

Introduction:

[Script]: Hello my name is Kai, I am delighted to have you here, and to have your time in your busy schedule. I'd like to first remind you about the research. The research is part of the bachelor thesis for the University of Twente. The research aims to investigate whether sharing information about the supplier upstream in the supply chains would be the future amid the introduction of the CSDDD. For this, I am interviewing those representing companies the EU, but mainly in Germany, France and the Netherlands.

The interviews will be recorded and later transcribed for the analysis of data. Both data will be discarded as soon as the research process ends. Participants, you, are free to withdraw from the participation of the research at any point in time, if necessary. The research will ensure that no one can trace back to you as an individual, as well as the company by removing any personal information and naming the participants with unique numbers.

Are there any questions?

Do you consent to participate in this study?

May I record the interview for analysis purposes?

if yes, start recording

For the record, I'd like to repeat the two questions.

Do you consent to participate in this study?

May I record the interview for analysis purposes?

Section 1: About the company they represent.

- Could you let me know a little bit about yourself, including shortly on your background and what your job currently entails?
- Can you tell me a little bit about your company?

Section 2: the CSDDD

- How familiar are you with the emerging change around the CSDDD?
- What are the measures and actions taken in the past for addressing due diligence across the supply chain?
- What do you think (or what are) the challenges in complying with the directive?
- How do you think you can overcome such challenges?

Section 3: VRINness of the SCV

- In complying with the directive, as far as I understand, knowing your supply chain is crucial. How much of "traceability" do you have? To what extent are you able to map the suppliers' network?
- Within the given "traceability", how much do you think you can acquire information about their impact on human rights and environment?
- What have been the previous efforts and initiatives related to finding out more about the suppliers?
- Do you think having this visibility would lead to competitive advantage for your company, and why?
 - Valuable
 - Rare
 - Inimitable
 - Non-substitutable

- What are the specific information that will provide a better visibility of your upstream supply chain, in your view?

Section 4: Competitor Collaboration

- Amid the introduction of the CSDDD, what would you say is the best course of action?
- Would any kind of collaboration with other companies or organisations help in complying with the CSDDD, and how realistic do you think this is?
- Would you say you could collaborate with your competitors to together prepare for the CSDDD?
- If so, to what extent would you be willing to collaborate? Would you only share part of the information, collaborate to gather information or further?
- If not, why and what are specific concerns in doing so?

Ending:

- Is there anything else you would like to add that has not yet been mentioned in the interview?

[Script] This is the end of the interview, thank you very much for your time and your professional insights! This will help the research significantly. Please feel free to contact me through email if you have any questions or doubts related to this interview and the research. You can also able to withdraw from the research at any point in time, when doing so, please let me know as soon as possible. I'd like to thank you once again for your participation in the study and have a lovely rest of your day.

Appendix C – Theme and code description

SCA – Codes that are related to SCA and include the elements of VRIN

- Value – “V” of the VRIN framework, regarding how SCV gives value to the company.
- Inimitability – “I” of the VRIN framework, regarding how SCV cannot be copied in-house by other players in the industry.

Collaboration – Codes that are related to how competitors can collaborate to better comply with the CSDDD.

- *Contents – What kind of information could be shared in collaborations.*
 - Supply Chain Information – information of the SC, detailed information on where the materials are coming from and who the exact suppliers are.
 - Knowledge – Best practices and tools for improving SCV.
 - Supplier Information – Information of suppliers on their due diligence status and audit process and results.
 - Framework – Framework of assessment of the suppliers (auditing and tendering) regarding the due diligence status.
- *Medium – How the collaboration could occur.*
 - Association/Industry – collaborations through industry associations or based on relationships between firms within the industry.
 - Third-party organisations – collaborations facilitated by a third-party organisation that does not operate in the same industry.
- *Other – other remarks made about collaborating with competitors.*
 - Competition law – any mentions related to competition law in disclosing information.
 - Free-riding – any mentions about possible issues of free-riding where one firm takes advantage of the other in collaboration.