

Navigating the CSDD directive proposal: Implications and strategic planning for procurement in financial organisations

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List of abbreviations

CSDD – Corporate Sustainability Due Diligence

CSR – Corporate Social Responsibility

CSRD – Corporate Sustainability Reporting Directive

DNB – De Nederlandsche Bank

EC – European Commission

EP – European Parliament

ESG – Environmental, social and governance

EU – European Union

HRDD – Human rights due diligence

MVO – Maatschappelijk verantwoord ondernemen (Responsible business conduct)

NGO – Non-governmental organisation

OECD – Organisation for Economic Co-operation and Development

SME – Small and medium-sized enterprises

UNGPs – United Nations Guiding Principles on Business and Human Rights

Management summary

In the context of globalised trade, businesses have increasingly outsourced global activities. Although there are economic benefits, outsourcing has added complexity, risk and uncertainty to global supply chains. Limited visibility in these supply chains may complicate the identification of potential adverse environmental and social impacts. One means to increase visibility in the supply chain is by enhancing the supply chain transparency, necessary to meet regulatory standards, maintain product quality and manage risks.

In relation to these negative environmental and social impacts, their identification and mitigation and transparency of businesses, European regulations and directives have been introduced to ensure more responsible business conduct. Fragmented due diligence laws among EU member states led the European Commission (EC) to strive for a level playing field for businesses, focusing on responsible global business conduct. As a result, they have proposed the Corporate Sustainability Due Diligence (CSDD) directive, which requires businesses to examine and address adverse environmental and human rights impacts in their value chains. The proposal targets businesses of a certain size, affecting their purchasing departments and processes, as it also targets upstream activities.

Therefore, the pivotal question emerges: what are the consequences of the CSDD directive for purchasing departments in financial organisations, and how can they prepare for its implementation?

The directive proposal requires businesses to perform due diligence across their entire chains of activities, including upstream, downstream, and internal operations. This process involves identifying, mitigating, or ending potential and actual adverse environmental and human rights impacts. Businesses must monitor the effectiveness of their due diligence process and establish a complaint procedure for these negative impacts. Considering its implementation, the financial sector was eventually included in the scope of the CSDD directive, only focussing on their own and upstream

activities. The directive proposal had been in trilogue between the Council, Committee and European Parliament. After some resistance, a weakened final text received enough support within the EC and awaits a final vote by members of the EP in April.

Interviews performed with lawyers specialised in ESG laws, identify significant liability risks for businesses in the directive. In addition, non-compliance with the directive could result in reputational damage. The directive may also introduce an extra bureaucratic burden. It is worth noting that contracts are expected to change as they may be used as a safekeeper in the supply chain. Audit and termination rights are likely to be implemented as measures to monitor supplier performance and terminate relationships as a last resort.

Figure 1 shows the processes that may be affected by the CSDD directive in relation to purchasing. It is anticipated that supplier selection, performance monitoring, and supply chain engagement will be impacted, with additional considerations regarding adverse environmental and social impacts. If there are no viable options for minimising or terminating the impact, purchasers should decide to terminate the supplier relationship. Finally, the directive could introduce a new quality into risk management with other topics to be investigated.

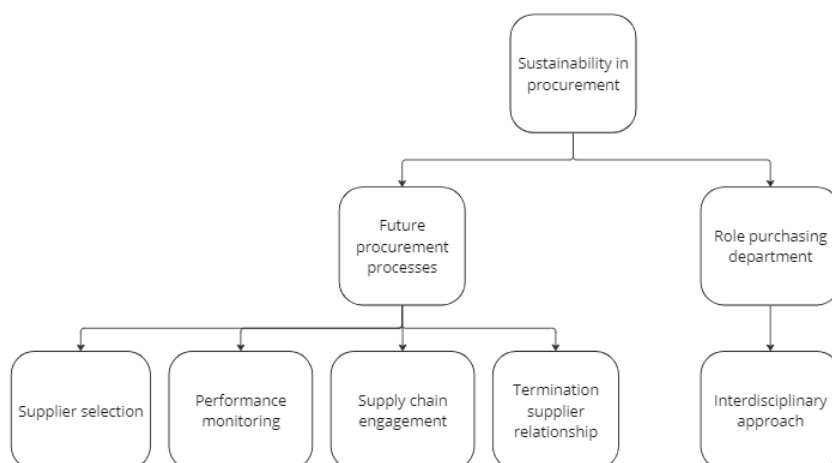


Figure 1 - Thematic visualisation impact on purchasing processes

Several practical actions have been identified to achieve readiness for the upcoming directive, where an overall interdisciplinary approach is advised as the directive involves almost every part of an organisation. The steps to be taken are shown in Figure 2, where the order of the steps is from top to bottom.



Figure 2 - Practical actions for preparing for the CSDD directive

To facilitate in preparation and implementation, it is recommended for businesses to use existing guidance. They can specifically use the OECD guidelines, which resemble the processes outlined in the CSDD directive proposal itself and provide sector-specific guidance.

In conclusion, the directive, with its liability and reputational risks for businesses, mainly adds to existing risk management processes, introducing new areas of investigation. Although the text is not definitive yet, businesses can proactively take several practical steps to strategically prepare for the directive's implementation by using existing and future guidance and tools. The purchasing department has a supportive role in this process by providing relevant upstream activity information.

1. Introduction

Globalised trade influences interactions between economies across the globe (Monczka et al., 2009). Developing economies might gain selling opportunities, whereas developed countries' buying side might achieve cost savings. One of the means to stimulate globalised trade occurred in 1947 when numerous countries across the globe signed the General Agreement on Tariffs and Trade, that included the utilisation of global resources more effectively by creating mutual agreements among nations to lower tariffs and other trading barriers (World Trade Organization, 2023b). Later in 1995, the World Trade Organization was established and has a primary function to guarantee that trade operates with as much ease, predictability and freedom as achievable (World Trade Organization, 2023a).

With globalisation, today's businesses have been outsourcing many of their activities (Ishizaka et al., 2019). Businesses delegated various activities to countries like China and India. Even though it may lead to cost advantages, it can create social and environmental challenges, such as an increase in carbon dioxide emissions in countries like China and India (European Commission, 2022a). Within this environment where companies continuously outsource services and production, products become more complex, and the variety of suppliers is increasing. Therefore, the complexity of global supply chains is increasing (Kappel et al., 2020; Simangunsong et al., 2012). With this increasing complexity come supply chain risks and uncertainty. As supply chains become more complex and involve increasing numbers of tiers or layers, visibility throughout the entire supply chain becomes more difficult. Production or services further down a company's supply chain may be involved with adverse environmental or social impacts without the company knowing.

One main issue here is supply chain transparency, which companies have been trying to improve (Montecchi et al., 2021). This is the act of providing comprehensive details regarding operations and products, including their origins, manufacturing procedures, expenses and logistics. This transparency within the supply chain is needed for compliance with regulations and to ensure the

quality and sustainability of products and services. It may also aid companies in their risk management strategies. Next to the possible advantages of transparency in the supply chain for the companies, it might also identify possible adverse environmental and social impacts. Muchlinski (2021) states that businesses now understand having responsibilities in preventing, mitigating and ending human rights violations that are linked to their processes. However, they are likely to resist strict legal liability for these human rights abuses, even though legal regulations for transparency within the supply chain are increasing (Kappel et al., 2020; Muchlinski, 2021).

In response to these developments, the European Commission (EC) introduced the Corporate Sustainability Due Diligence (CSDD) directive proposal. The proposal was adopted in 2022 to achieve

“sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies’ operations and corporate governance. The new rules will ensure that businesses address adverse impacts of their actions, including in their value chains inside and outside Europe.” (European Commission, 2023, p.1).

Businesses will be expected to comply with the CSDD directive, which currently also applies to the financial sector. The consequences of this directive specifically on the purchasing departments of these businesses have not been thoroughly examined in the existing literature. Subsequently, how these departments can prepare for and implement the due diligence process remains a question. As a result, purchasing departments across Europe are struggling with uncertainty in the face of the impending directive. Additionally, financial organisations in the Netherlands are heavily regulated and are to comply to several EU regulations already. The upcoming directive adds yet another compliancy challenge within these organisations. Corporation DELA, along with its purchasing department, are also facing this challenge, as DELA falls within the scope of the CSDD directive. DELA is a corporation with its headquarters based in Eindhoven and has a cooperative business model. They focus on two main activities, insurance and funerals (Coöperatie DELA, 2023). DELA's funeral homes are in the

Netherlands and Belgium, and it appears that their market is growing due to excessive mortality in the Netherlands in 2022.

The goal of this research is to comprehend the CSDD directive proposal and its impact on purchasing departments in financial businesses within the scope of the directive, taking DELA as a case study. The objective is to assist DELA and other financial organisations in preparing for the upcoming CSDD directive by identifying necessary components to be included in their due diligence process and how these required due diligence measures should be implemented.

In realising this research goal, the following central research question will be addressed in this thesis:

What are the consequences of the CSDD directive for purchasing departments in financial organisations and how can they prepare for its implementation?

To answer the central research question the following sub-research questions will be answered.

SRQ1: What is the CSDD directive proposal?

SRQ2: What are possible consequences of the CSDD directive and to whom does it apply?

SRQ3: What are the possible consequences of the CSDD directive for purchasing departments in the financial sector?

SRQ4: How can purchasing departments in organisations in the financial sector prepare for the CSDD directive?

Case study: What are the consequences of the CSDD directive for the purchasing department within DELA and how can they prepare for its implementation?

First, the background of the CSDD directive is outlined with EU efforts related to the CSDD directive, due diligence on human rights and environmental impact in international standards and the CSDD directive itself. The subsequent section includes a literature review on the CSDD directive, after which

the method is described. Then the results are presented and discussed. The last section concludes the thesis.

2. Background

2.1 EU developments related to the CSDD directive

In this section, European efforts preceding the CSDD directive forcing businesses to address adverse impacts are outlined to frame the setting. Over the past decade, the EU introduced several regulations, directives and other frameworks related to responsible environmental and social business conduct, outlined in Sections 2.1.1. till 2.1.6. This means that some businesses already need to comply to multiple responsible environmental and social business conduct regulations and directives before the CSDD directive's implementation.

2.1.1. NFRD

In 2014, the EC adopted the Non-Financial Reporting Directive (NFRD) (European Commission, 2023b). This directive obliged certain sized businesses to report on non-financial aspects as well. Reporting on environmental, and social matters and their impact became mandatory. Businesses should give an honest and complete image of the risks, policies and results of these matters.

2.1.2. European Green Deal

The EC presented the European Green Deal in 2019, which aims to make Europe climate-neutral by 2050 and 55% in 2030 (EU Taxonomy Info, 2024; European Commission, 2019). Two other goals are economic growth without depleting natural resources and that no human or region is neglected (European Commission, 2024a). An investment plan of a trillion euros is included for the coming 10 years, including investment areas such as circular economy. The EC believes that the behaviour of businesses is essential to achieve the goals set in the European Green Deal (European Commission, 2022b).

2.1.3. EU taxonomy regulation

In line with the objectives set by the European Green Deal, the EU taxonomy regulation entered into force in 2020 (European Commission, 2024b). It is a framework that classifies whether

operations of a business are sustainable or friendly to the environment (EU Taxonomy Info, 2024). Before its implementation no clear definition existed on what sustainable or environmentally friendly activities were. The regulation outlines six objectives related to climate and the environment listed below.

1. Minimizing climate change
2. Adjusting to climate change
3. Sustainably utilizing and protecting water resources
4. Circular economy transition
5. Preventing and regulating pollution
6. Defending and repairing biodiversity and ecosystems

2.1.4. SFDR

Another regulation in line with the European Green Deal is the Sustainable Finance Disclosure Regulation (SFDR), implemented by the EU in 2021 (European Commission, 2024d). It obliges financial market participants and advisers to transparently inform investors about sustainability risks impacting investments and the negative effects these investments can have on the environment and society. The regulation does not mandate the incorporation of green criteria into investments, but focuses on ensuring that sustainability claims made by financial product providers are justified.

2.1.5. CSRD

As part of the European Green Deal, the EC adopted the Corporate Sustainability Reporting Directive (CSRD), which enhances rules regarding the disclosure of social and environmental data required from businesses and entered into force in 2023 (European Commission, 2023b). It strengthens social and environmental reporting requirements for businesses and extend them to more businesses. It aims to provide investors with information to assess a businesses' societal and environmental impact, but also financial risks and opportunities related to sustainability. Its

implementation starts in 2024, with reports due in 2025. Until businesses must comply to the CSRD in 2024, rules set by the NFRD remain into force.

2.1.6. Regulation on Deforestation-free products

In June 2023, the Regulation on Deforestation-Free Products took effect (European Commission, 2024c). It aims to tackle the expansion of agricultural land linked to various commodities, such as cattle, cocoa, leather and chocolate. The EU, a major consumer of these commodities, seems to lead in addressing deforestation issues. Operators and trades must ensure that their products do or did not contribute to forest degradation. As of its implementation, traders and operators have 18 months for compliance.

2.2. Human rights and environmental impact due diligence in international standards

Besides the EU efforts mentioned in Section 2.1., international standards and guidelines have been introduced to aid businesses in reducing or mitigating adverse impacts on businesses' supply chains. These standards and guidelines can also be called soft-law. The first business and human rights instrument adopted by an intergovernmental organisation was the United Nations Guiding Principles on Business and Human Rights (UNGPs) (Muchlinski, 2021). The role of companies in respecting and complying with human rights became apparent and due diligence was a key element in these principles (Bonnitcha & McCorquodale, 2017). It already included human rights due diligence (HRDD) (McCorquodale et al., 2017; McCorquodale & Nolan, 2021; Schilling-Vacaflor & Gustafsson, 2023).

HRDD does not get an actual definition in the UNGPs. However, the principles state that processes should be made to "identify, prevent, mitigate and account for how they address their impacts on human rights" (National Action Plans on Business and Human Rights, 2024, p.1).

In 2018, the Organization for Economic Cooperation and Development (OECD) introduced the OECD Due Diligence Guidance for Responsible Business Conduct (OECD, 2018). OECD was introduced in 1961 and strives for enhancing economic productivity and employment opportunities to create firm education and combating global tax evasion (OECD, 2023a). The due diligence guidance introduced

included adverse environmental impacts (McCorquodale & Nolan, 2021; Schilling-Vacaflor & Gustafsson, 2023). These impacts are described as risks, which is “the likelihood of adverse impacts on people, the environment and society, that enterprises cause, contribute to or, to which they are directly linked” (OECD, 2018, p.15).

2.3. National due diligence laws in the EU

Several European countries have adopted national laws related to due diligence. For instance, the French Vigilance law, which concerns adverse social and environmental impacts, was passed in 2017 (Cossart et al., 2017; Palombo, 2019). In France, parent companies are obligated to conduct due diligence on these impacts. This obligation applies to companies that own a significant number of outstanding shares in another company, giving them control over the subsidiary. Failure to investigate their subsidiaries can result in the parent companies being held accountable and owing a duty of care to the victims of violations.

In 2021, Germany adopted a similar law concerning due diligence on human rights, the German Supply Chain Due Diligence Act (Krajewski et al., 2021). In the same year, Norway adopted the Norwegian Transparency Act. Both laws contain measures for mandatory due diligence concerning human rights. Krajewski et al. (2021) state, “While the aims are similar, the German and Norwegian laws contain certain important differences when it comes to the substance and scope of the due diligence requirement.” (Krajewski et al., 2021, p.1). For instance, the threshold for companies that need to comply with the law is higher in the German act than in the Norwegian. Another difference is that the German Act adds environmental risks to due diligence, even though this remains superficial.

2.4. CSDD directive

2.4.1. *Setting and aim*

As stated in 2.3., differences exist in the due diligence laws adopted by various European countries. The EC notes that this indicates a growing desire to support companies in their due diligence efforts, but it also creates fragmentation and may introduce uncertainty into the legal system

(European Commission, 2023a). It may also introduce imbalances in a level playing field in the single market.

Besides the fragmented due diligence laws and becoming climate-neutral, the EC sees that European businesses are situated in complex global value chains (European Commission, 2022b). They acknowledge that identifying adverse environmental and social impacts might be challenging and believe proper due diligence will facilitate this process. They also anticipate that more data on these adverse impact topics will become available in the future. Therefore, the goal of the CSDD directive is to

“set out a horizontal framework to foster the contribution of businesses operating in the single market to the respect of the human rights and environment in their own operations and through their value chains, by identifying, preventing, mitigating and accounting for their adverse human rights, and environmental impacts, and having adequate governance, management systems and measures in place to this end” (European Commission, 2022b, p.3).

2.4.2. Proposed benefits of the directive by the EC

The EC poses benefits for citizens, companies and developing countries. Citizens benefit from the CSDD directive from enhanced safekeeping of human rights, a more sustainable environment for generations to come, confidence in businesses, transparency and improved accessibility to justice for the victims (European Commission, 2023a). Companies will benefit from the CSDD directive from legal stability and a level playing field, more confidence, increased dedication under employees and an enhanced awareness of adverse social and environmental impacts. Developing countries benefit through enhanced safekeeping of human rights, more recognition of sustainability problems, sustainable investment and greater adoption of international standards.

2.4.3. Which businesses need to comply?

Companies with more than 500 employees and a net worldwide turnover of more than 150 million euros will have to comply with the proposed CSDD directive (European Commission, 2022b).

Second, companies in high-impact sectors listed in Table 1, with more than 250 employees and a net worldwide turnover of more than 40 million euros, must comply. In this last case, fifty percent of this turnover should have been created in minimally one of the high-impact sectors listed.

Third, non-European companies that are active in the European Union (EU), where their turnover generated in the EU exceeds the thresholds of the two groups within the large European companies' description must comply (European Commission, 2022b). For this group, a turnover of more than 40 million euros is required, with at least 50 per cent of their worldwide turnover should have been achieved in minimally one of the high-impact sectors in Table 1.

Table 1

Industry groups and their key activities

Industry group	Key activities
Textiles, leather and related products	Manufacturing “of textiles, leather and related products” (European Commission, 2022b, p.46) “Wholesale trade of textiles clothing and footwear” (European Commission, 2022b, p.46)
Agriculture, forestry, fisheries	Related activities Manufacturing food products “Wholesale trade of agricultural raw materials, live animals, wood, food and beverages” (European Commission, 2022b, p.47)
Mineral resources and metal products	Extracting “mineral resources regardless from where they are extracted (including crude petroleum, natural gas, coal, lignite,

metals and metal ores, as well as all other, non-metallic minerals and quarry products)” (European Commission, 2022b, p.46)

Manufacturing “basic metal products, other non-metallic mineral products and fabricated metal products (except machinery and equipment)” (European Commission, 2022b, p.46)

Wholesale trade of mineral resources, basic and intermediate mineral products (including metals and metal ores, construction materials, fuels, chemicals and other intermediate products (European Commission, 2022b, p.47)

2.4.4. Timeline

The proposal was adopted on 23rd February 2022 and will come into effect 20 days after its publication in the Official Journal of the EU. Then member states of the EU need to adopt and publish two years after the starting of appliance of the directive provisions on the directive. The adopted proposal is in a trilogue process, in which the European Parliament (EP), the Council and the EC are negotiating on the topic (EUR-Lex, 2023). On the 14th of December 2023 a provisional agreement between the Council and the Parliament was achieved (European Council, 2023). The financial sector would face a temporary exclusion from the directives’ scope in the provisional agreement. However, a review clause was included in which future addition of the financial sector is secured.

On January 20th, 2024, a final draft was released and on February 28th, 2024, a vote was scheduled. The vote did not receive enough support and was postponed (McGowan, 2024). Eventually on the 15th of March, a majority of the Council approved a weakened version of the initial CSDD directive text (De Brauw Blackstone Westbroek, 2024; Loyens & Loeff, 2024). Changes to the initial proposal text are outlined in Section 2.5.8. The pending final text awaits an EP vote in April, after which

it awaits translations to multiple EU languages. Lastly, the Council has another vote, followed by a publication in the Official Journal.

2.5. In-depth obligations of the CSDD directive

The CSDD directive contains 31 articles (European Commission, 2022b). The first two articles are about the subject matter and the scope as mentioned in Chapter 2.4. Article 3 contains all relevant definitions used in the directive and Article 4 describes what actions are required for businesses to conduct social and environmental due diligence. These actions are covered in Articles 5 to 11 and are described in the proposal as

- (a) integrating due diligence into their policies in accordance with Article 5;
- (b) identifying actual or potential adverse impacts in accordance with Article 6;
- (c) preventing and mitigating potential adverse impacts, and bringing actual adverse impacts to an end and minimising their extent in accordance with Articles 7 and 8;
- (d) establishing and maintaining a complaints procedure in accordance with Article 9;
- (e) monitoring the effectiveness of their due diligence policy and measures in accordance with Article 10;
- (f) publicly communicating on due diligence in accordance with Article 11 (European Commission, 2022b, p.53).

These actions will be explained in sections 2.5.1. to 2.5.5. in more detail.

2.5.1. Integrating due diligence into their policies (Article 5)

Due diligence is to be integrated into the corporate policies of the businesses (European Commission, 2022b). They should have a due diligence policy that contains the company's approach and code of conduct with rules. It should also contain an explanation of how the business will enforce

its due diligence policy and verify adherence to the code of conduct. This policy should be updated every year.

2.5.2. Identifying actual or potential adverse impacts (Article 6)

Businesses are to “identify actual and potential adverse human rights impacts and adverse environmental impacts” (European Commission, 2022b, p.54). These should be related to their activities, activities of subsidiaries or related to established business relationships. Two exceptions within this article exist. First, businesses under the threshold, but in high-impact sectors, need to do this just for impacts relevant to their sector. Secondly, when regulated financial businesses provide financial services, they should merely perform due diligence before providing the specific service. Businesses can make use of “appropriate resources, including independent reports and information gathered through the complaints procedure provided for in article 9” to identify adverse impacts (European Commission, 2022b, p.54). Next to the identification, businesses should consult relevant stakeholders that are potentially affected.

2.5.3. Preventing and mitigating potential, ending and minimising actual adverse impacts (Article 7 and 8)

Then the directive divides the potential and actual adverse impacts over articles 7 and 8. The next step in the due diligence process is “taking appropriate measures” to prevent the identified potential adverse impacts and mitigating them when prevention is impossible (European Commission, 2022b, p.55). For the actual impacts, these appropriate measures should end or decrease the effect of the impact. To do this they have to, where relevant, execute the next five activities.

1. Create a “prevention action plan”, where necessary, including timelines and key performance indicators (KPIs) for the potential impacts and a “corrective action plan” for actual impacts that cannot be ended right away (European Commission, 2022b, p.55-56).
2. Utilise contractual assurances with direct business partners to make sure they comply with the organisation’s code of conduct and the prevention or corrective action plan. With these

contractual assurances, the EU aims for contractual cascading. This means that these assurances are to move up and down a value chain.

3. Required investments need to be made by the businesses to comply to take appropriate measures in preventing identified potential and actual adverse impacts.
4. Businesses are required to support small and medium-sized enterprises (SMEs) in an established relationship with them, when there is a risk that the SME cannot fulfil “compliance with the code of conduct or the prevention action plan would jeopardise the viability of the SME” (European Commission, 2022b, p.55). In the case of actual impacts, it is about compliance with the corrective action plan instead of the prevention action plan.
5. If no plan seems to be able to end the potential or actual adverse impacts, businesses are required, if relevant, to work together with other entities.

For actual adverse impacts, there exists a sixth action that should be taken when relevant, which is to “neutralise the adverse impact or minimise its extent” (European Commission, 2022b, p.56). They can do this by paying harmed persons, based on significance, the scale of the impact and contribution.

When these measures do not prevent or mitigate adverse impacts, businesses can start a contract with an indirect business partner. Such a contract or a contractual assurance has to be checked for compliance. Businesses are required to take “appropriate measures” to do so and can use “industry initiatives or independent third-party verification” (European Commission, 2022b, p.55).

If the adverse impacts can still not be prevented or mitigated, then the business cannot start new or expand current relationships with the party that is connected with the origin of the impact (European Commission, 2022b). Consequently, they need to take one of the following two actions. First, commercial relations can be suspended, while trying to prevent, mitigate, end or minimize the effect of actual and potential adverse impacts. If that does not help, the business relationship should

be ended. Nevertheless, if financial businesses provide a financial service and ending a relationship would harm the party that is receiving the service, they are not obliged to end the relationship.

2.5.4. Establishing and maintaining a complaints procedure (Article 9)

Next to identifying, preventing, mitigating and ending adverse impacts themselves, businesses need to have an option for complaint submissions related to their activities by

- (a) persons who are affected or have reasonable grounds to believe that they might be affected by an adverse impact,
- (b) trade unions and other workers' representatives representing individuals working in the value chain concerned,
- (c) civil society organisations active in the areas related to the value chain concerned (European Commission, 2022b, p.58).

For these complaints, businesses need to have procedures on how to deal with founded and unfounded complaints (European Commission, 2022b). Adverse impacts that are well-founded need to be added to the identified impacts of the business and handled accordingly. Furthermore, complainants have the right to a follow-up and a meeting with a representative of the business.

2.5.5. Monitoring the effectiveness of their due diligence policy and publicly communicating on due diligence (Articles 10 and 11)

Article 10 describes that the effectiveness of the whole process of identifying, preventing, mitigating and ending adverse impacts has to be assessed (European Commission, 2022b). It should be assessed minimally every 12 months, based on appropriate KPIs and each time the likelihood of occurrence of those impacts poses significant new risks.

Furthermore, Article 11 outlines that If businesses are not obliged to report on Articles 19a and 29a of Directive 2013/34/EU, they need to report on topics in this directive (European Commission, 2022b). A yearly statement on a business's website should suffice.

2.5.6. Other obligations for businesses

The first extra obligation within the directive is combating climate change. Businesses are to form a plan in which “the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement” (European Commission, 2022b, p.60). They are to add emission reduction objectives to the plan. Another obligation for businesses is that they need to choose an authorised representative who will communicate with supervisory authorities. This communication could, for instance, be about compliance with certain aspects of the directive.

2.5.7. Directors role within the directive

Directors of businesses that need to comply with the CSDD directive are explicitly mentioned in articles 25 and 26 (European Commission, 2022b). Article 25 mentions that in their decision-making, they should consider “human rights, climate change and environmental consequences” (European Commission, 2022b). Moreover, they become responsible for creating and monitoring the due diligence processes. They are also to consider the possible and current adverse impacts identified in the due diligence process in the corporate strategy.

2.5.8. Changes to proposal in approved final text

The pending CSDD final text has had alterations compared to the proposal outlined in Sections 2.4.3. and 2.5. First, the scope has been altered in the pending final text targeting less businesses. The threshold has been increased from a minimum of 500 employees and 150 million turnover to a minimum of 1000 employees and 450 million turnover (Jansen, 2024; Loyens & Loeff, 2024). Several other thresholds have been added to the size of businesses and after how much years they must comply, as depicted in Table 2 (Jansen, 2024).

Table 2*Scope CSDD final text*

Number of employees	Turnover (in million €)	Compliant
5000	1500	3 years after CSDD takes effect
3000	900	4 years after CSDD takes effect
1000	450	5 years after CSDD takes effect

Note. The scope also includes franchises with a minimum worldwide turnover of 80 million and earning 22.5 million royalties globally. These businesses must be compliant 5 years after the CSDD directive takes effect as well.

The high risks sectors from Table 1 and their thresholds have been removed. However, a review clause has been added, in which these high-risk sectors may be future additions (Loyens & Loeff, 2024). Secondly, the financial sector will only be targeted on their own operations and upstream activities. A review clause has also been added, which may expand their scope again to the same obligations as other sectors.

Third, businesses are now to include timeframes in preventive and corrective action plans and assess a possible supplier termination mentioned in Section 2.5.4. against the possibility of inducing more significant adverse impacts (Loyens & Loeff, 2024). Moreover, in the proposal businesses were to perform due diligence on their value chains. This terminology of value chain was deleted, and the term chain of activities was added (Jansen, 2024).

Another addition to the pending final text is that businesses only have the obligation to address negative environmental and human rights impacts if they are directly responsible for them

(Loyens & Loeff, 2024). Else, the obligation entails a general duty of care. Moreover, stakeholder engagement is emphasised in the upcoming final text. Businesses should implement suitable actions to facilitate effective stakeholder engagement.

Looking at enforcement, businesses risk name shaming and fines from which the biggest fine includes a minimum of five percent of the worldwide turnover (Loyens & Loeff, 2024). Also, possibilities for civil enforcement are added, a liability for impacts caused if a business does not fulfil its due diligence duties. However, they cannot be held responsible if the impact is caused solely by its business relations in their activity chains.

2.6. CSDD directive literature review

A literature review was conducted to find existing research on the CSDD directive. The literature search was done on www.scopus.nl and www.google.scholar.nl. First the search terms 'CSDDD', 'CSDD directive', 'corporate sustainability due diligence' and 'corporate sustainability due diligence directive' were used to get an initial idea of what had been researched. It appeared that most available literature centred around the discussion of criticism on the CSDD directive proposal and its challenges, discussed in Sections 2.6.1. and 2.6.2.

Next, the search was expanded to find answers on SRQ2, SRQ3 and SRQ4. These sub-research questions are related to possible consequences and implementations of the CSDD directive. The same terms used in the first search were utilised, but they were combined with an AND statement containing, 'consequences OR impact OR financial sector OR financial OR solution OR implementation OR implementing OR purchasing OR procurement'. This resulted in identifying possible solutions for implementing CSDD and discussed in Section 2.6.3.

Besides the due diligence obligation in the CSDD directive, due diligence on human rights has already been part of international standards as mentioned in Section 2.2. A third search has been performed to find what businesses have been implementing for HRDD and is discussed in Section

2.6.4. Since the CSDD directive is based on these international standards, processes in current implementation of these standards may be applicable to the CSDD implementation.

2.6.1. Criticism on the CSDD directive

Since the publication of the proposal, several aspects of the directive have been criticised. First, the directives' scope seems to be limited in such a way that only large companies are included (Methven O'Brien & Martin-Ortega, 2022; Saloranta & Hurmerinta-Haanpää, 2022; Villiers, 2022). This may be problematic as many EU limited liability companies are SMEs and they might also be involved in adverse operations, but fall just out of scope (Villiers, 2022).

As mentioned in 2.5.2. businesses are to perform due diligence in their practices, their subsidiaries and their established business relationships. The term 'established business relationship' remains open for interpretation (Patz, 2022). It is a direct or indirect relationship that is characterised as lasting, considering the intensity and duration (European Commission, 2022b). It should constitute a significant portion of the value chain, rather than being minor. The terms lasting, intensity and duration seem to open space for interpretation. Pantazi (2023) mentions that this vague description may enhance different implementations among Member States of the EU. It could also be possible that businesses choose to move towards shorter, less intensified relationships to evade performing the due diligence duty as described in the directive (Patz, 2022; Villiers, 2022).

Besides the term 'established relationship', more vague open ends are to be found within the directive. On the contrary, businesses seem to prioritize more explicit regulation, instead of irregularity and uncertainty (McCorquodale et al., 2017). Villiers (2022) describes that the risk-based approach of the directive can end in different ways in which laws are created. Therefore, how businesses will conduct due diligence on environmental issues and human rights can vary depending on the situation, environment and timing for example. Another example is the business' role in developing action plans with information from stakeholders, where the company should identify whether they deem it relevant. Such actions remain open for interpretation and encourage creative

solutions to intricate situations (Patz, 2022). Other words such as appropriate, reasonable, relevant and where necessary may cause doubt and unpredictability among businesses as they leave room for different legal interpretations (Methven O'brien & Martin-Ortega, 2022).

Next, stakeholder engagement has been criticised. The stakeholder engagement requirements seem to be limited and cause problems in the directives' due diligence requirements (Saloranta & Hurmerinta-Haanpää, 2022; Villiers, 2022). Villiers (2022) mentions that, on the contrary, solid stakeholder engagement could help in minimizing adverse impacts. The role of the stakeholders is acknowledged in the directive. However, it lacks a stakeholder consultation obligation, and the determination of stakeholder relevance is left at business themselves (Methven & Martin-Ortega, 2022; Patz, 2022). This lack of stakeholder consultation duty may cause slow implementation in businesses, as they might argue irrelevance of stakeholder consultation (Patz, 2022). The necessity of stakeholder consultation is also described by Camoletto et al. (2022), as Corporate Social Responsibility (CSR) due diligence practises based on materiality for sustainability matters, need stakeholder opinions.

Another area of criticism is the usage of contractual assurances, that may become an extra tick-the-box (Saloranta & Hurmerinta-Haanpää, 2022). This extra tick-the-box is also identified by Jurić et al. (2022) as the problem of due diligence on adverse environmental and social impacts becoming another tick the box in their activities exists. Methven O'brien & Martin-Ortega (2022) state that these contractual assurances may include "the risks of burden shifting by lead companies onto suppliers; the possibilities of superficial legal compliance measures substituting for authentic risk management; and well-documented limitations of currently prevailing approaches to third-party compliance verification via 'social audit'." (p.21). Pantazi (2023) also mentions the moving of responsibility to third parties as a risk in using these contractual assurances. If the business has taken all appropriate measures and used contractual assurances with direct business partners, the liability can be moved to these indirect partners.

2.6.2. Challenges legislation of the directive

Besides the critical points mentioned in 2.6.1. there are also challenges in the legislation process to create effective law (Villiers, 2022). As the directive focuses on sustainability as well as climate change, short-term costs are needed for benefits in the future. The system should be flexible to accommodate changes in requirements resulting from new developments, while maintaining stability in existing requirements. Striking a balance between over-regulation and flexibility is crucial. One approach is to facilitate collaboration among relevant stakeholders towards common objectives and eliminate redundant reporting requirements.

However, as stated in section 2.3.3, some terms in the directive are open to interpretation. While these terms may allow for flexibility, they may also result in requirements that are too vague or inconsistent. Established relationships still need to be defined properly, as this is still to be determined by national courts (Patz, 2022). Also, other terminology may be assessed differently in national courts. Their assessment of when intensity or duration is enough to classify an established relationship may differ, leaving room for potential different legal interpretations (Methven O'Brien & Martin-Ortega, 2022). These differences might jeopardize the proposed benefit of a level playing field for businesses by the European Commission.

2.6.3. Possible solutions for businesses

Despite all the criticism and challenges, businesses will have to comply with the directive when it has been adopted by the EP. How should organisations organise this implementation? Saloranta & Hurmerinta-Haanpää (2023) try to give possible solutions on the upcoming CSDD directive. They describe how proactive contracting might aid in conducting due diligence on sustainability matters while keeping the CSDD directive in mind. From a proactive contracting perspective, contracts have more and different functionalities than just the legal aspect. Examples of functions are managing businesses, communication and cooperation. Saloranta & Hurmerinta-Haanpää (2023) describe four ways in which sustainable due diligence can be achieved.

First, shared responsibility and cooperation should be incorporated in contracts, instead of utilizing one-sided contracts that hinder flexibility and the development of trust (Saloranta & Hurmerinta-Haanpää, 2022). This may promote cooperation and communication on sustainability matters and may avoid possible conflicts. Second, adding promotive contract elements in clauses might encourage businesses to pursue positive sustainability activities. Instead of clauses where parties are only sanctioned when objectives are not met, parties should also be triggered to conduct desirable sustainability activities. One thing to keep in mind is the fact that these promotional contract clauses are a better fit for long-term strategic relationships rather than short-term relationships. Third, the users of the contracts should be incorporated in creating such contracts and codes of conduct regarding sustainability. Actual users need to be able to understand and use the contracts the way they are meant to be utilised, instead of difficult contracts that fail in practice. Lastly, contracts should strive for relationships that benefit both parties and focus on preventing and minimizing issues. Though, it is recommended to incorporate civil liability remediation clauses (Saloranta & Hurmerinta-Haanpää, 2023). Patz (2022) also mentions a proactive approach in the due diligence process. Businesses should have a proactive stance in identifying, preventing and mitigating risks.

Villiers (2022) also poses some possible solutions for complying with the upcoming CSDD directive. The first is to reduce the length of supply chains to gain transparency. It may cause more efficient stakeholder engagement and more manageable supply chains. Nevertheless, the supply chains should not be shortened too much, which may jeopardize their reliability. Next, blockchain may be utilised in the future to increase transparency in a supply chain. It may help in creating trust between stakeholders, as it may gather relevant data throughout the supply chain. Another aid in due diligence processes may be using supplier relationship management practices (Villiers, 2022). Next, three preconditions are identified as needed for due diligence success regarding sustainability matters; “transparency; external participation and verification; and monitoring and review” (Villiers, 2022, p.565).

2.6.4. Implementation of HRDD

Research has indicated how businesses implement HRDD based on international standards. McCorquodale et al. (2017) investigated the implementation of HRDD in companies globally and found that businesses that are dedicated to due diligence on human rights and conduct HRDD transparently and plainly, were deemed more prone to identify negative impacts. Three steps in the HRDD process were analysed on what businesses were implementing. These steps are “identifying actual or potential human rights impacts; taking action to address these impacts; and tracking or monitoring the effectiveness of these actions” (McCorquodale et al., 2017, p.221). Additionally, Smit et al. (2021) researched the implementation of those three steps, but included a fourth step that includes the communication of implemented measures.

First of all, in the identification of current and possible negative human rights impacts, Smit et al. (2021) found mapping the supply chain and human rights impact assessment as processes in the identification process. In mapping the value chain, businesses mostly do not have full visibility of their whole supply chain and first-tier suppliers may prevent insight further in the supply chain. Nevertheless, traceability in the supply chain may be assisted by technological developments. In the identification, McCorquodale et al. (2017) found that as a method, businesses most often used desk research. Examples of desk research are “internet searches, sanctions lists and other database searches, media and non-governmental organizations (NGO) reports and high-risk country research” (McCorquodale et al., 2017, p.208). Businesses also use audits internally and externally in the identification process. These included, for example, safety, project and internal compliance audits.

Businesses might also consult stakeholders in identifying adverse impacts. In consultation with stakeholders, businesses in the financial services sector most often consulted regional employees and communities. When engaging stakeholders, businesses may use grievance mechanisms, such as emails and complaints systems. Extra questions regarding human rights are also asked in existing risk management processes, where stakeholders are engaged (Smit et al., 2021). McCorquodale et al.

(2017) conclude that in the identification process, it is important that businesses analyse which stakeholders are relevant and which identification method fits best with that. Third parties seemed to be neglected in the identification process, even though they are essential in the identification process of negative human rights impacts in the whole value chain.

Second, in addressing identified negative impacts businesses showed little cross-functional coherence between departments (McCorquodale et al., 2017). This lack may hinder these businesses in effectively handling the identified negative impacts. Moreover, training employees or suppliers can be methods of preventing negative impacts (McCorquodale et al., 2017; Smit et al., 2021). Businesses use contractual provisions mostly as a method for preventing negative human rights impacts, where human rights clauses may have been added (McCorquodale et al., 2017). Consequently, businesses may use codes of conduct and these contractual clauses as a negative impact action method, which may be useful in supply chain settings (McCorquodale et al., 2017; Smit et al., 2021). These contractual clauses and codes of conduct can be used when problems in compliance occur. Businesses may then terminate or not engage in new contracts with the party in question. However, businesses most often first try to engage with the supplier, after which termination is the last resort (Smit et al., 2021). The usage of contractual clauses is also stimulated in the upcoming CSDD directive (European Commission, 2022b). In responding to actual impacts, businesses commonly use grievance mechanisms at operational-level, available to impacted stakeholders (Smit et al., 2021). These mechanisms are frequently limited beyond the first-tier supplier, which poses challenges in effectively overseeing human rights mitigation measures. They are mostly companies' own mechanisms mostly available to supply chain workers only.

Third, in monitoring the effectiveness of the actions mentioned above, stakeholder consultation may be utilised as a method (McCorquodale et al., 2017). Other options would be benchmarking tools or other human rights indicators. The Global Reporting Initiative is an example of such a tool, which is used for reporting on sustainability matters (Global Reporting Initiative, 2024).

As indicators businesses may use compliance with labour rights or safety. Furthermore, grievance mechanisms may give an indication of the due diligence activities concerning human rights. These grievance mechanisms seem to be internally orientated in businesses, even though external stakeholders are also needed for effective monitoring. Additionally, Smit et al., (2021) describe the usage of audits at suppliers, where traditional auditing processes are proven to be insufficient. Current practices found are an initial audit and regular audits are performed in lasting relationships. As suppliers may be audited by multiple buyers, initiatives can exist where suppliers have certain auditing certificates, which some buying businesses are willing to accept. Finding effective monitoring mechanisms is needed, as the upcoming CSDD directive also obliges businesses to monitor the effectiveness of the due diligence processes (European Commission, 2022b).

Lastly, (Smit et al., 2021), found that some businesses transparently communicate their human rights issues. The businesses emphasised the benefits of transparently communicating, for example in positive reactions and helping with the internal education of people.

2.6.5. Conclusion background and literature review

Several EU efforts have preceded the CSDD directive. The EU introduced the European Green Deal with its goal of becoming climate neutral before 2050. Considering this deal, the EU has introduced several regulations and directives related to responsible environmental and social business conduct. At Member State level several EU countries introduced due diligence laws. This fragmentation in national laws partly led to the rise of the CSDD directive that is based on the UNGPs and OECD guidelines. The CSDD directive enforces businesses taking responsibility for negative human rights and environmental impacts. Businesses of a specific size are to identify and treat these adverse impacts and monitor the effectiveness of this due diligence process. The directive proposal is still awaiting a final vote in the EP for adoption and has had criticism in literature. Next to a few possible solutions for the implementation of the CSDD directive for businesses, consequences on purchasing

departments in the financial sector has been little research yet. Though, ways of how business are implementing HRDD have been researched.

3. Methodology

3.1. Research design

Referring to the sub-research questions mentioned in the introduction, the theoretical chapter partially answers the first, second and third questions. In Sections 2.4 and 2.5., the CSDD directive proposal was examined to identify its direct obligations and the scope, answering SRQ1 and partly SRQ2. Section 2.6 already outlines an initial exploration of SRQ3 and SRQ4 in literature, leaving a gap in consequences and preparation specifically for purchasing departments in financial businesses.

The problem stated in the introduction describes a research gap in what possible consequences of the CSDD directive for purchasing processes and departments of businesses in the financial sector could be. An inductive approach was considered relevant, where gaining initial insights and new perspectives is bound to explorative research (Jain, 2021). As new phenomena related to this new topic are to be found, the research is qualitative and explorative.

3.1.1. Data collection method

Considering the exploratory approach to finding new phenomena, the data that was collected is qualitative. It was collected via semi-structured interviews, a flexible method in which individuals can be interviewed (Kallio et al., 2016). The interviewer is free to ask follow-up questions on the prepared questions. As the goal of the interviews is to collect insights on new phenomena such as possible consequences of the CSDD directive and possible preparation actions, semi-structured interviews were deemed as an appropriate data collection method. This method enables the interviewer to venture deeper into possible consequences and preparation actions mentioned by the interviewees and find underlying reasoning. Interviews were recorded on Microsoft Teams and transcribed from the recordings. They were conducted in either English or Dutch, depending on the preference of the interviewees. In the results section, only English translations of Dutch quotes are provided. The original Dutch quotes and their translations can be found in Appendices F and G. Each

translated quote is referenced back to its corresponding appendix. The appendices do not include quotes that were originally in English.

3.1.2. Population and sample

To obtain dependable information, experts in environmental, social and governance (ESG) law were interviewed. An overview of the demographics of the research population are demonstrated in Table 3.

Table 3

Demographics of the interviewees

Interviewees				
demographic data				
Gender	Σ 11	Male	Female	
		8	3	
Job title	Σ 11	Lawyer (ESG)	Consultant (ESG)	Assistant of EP member
		5	5	1
Mean total work experience (years)		10.6	10.4	7
Standard deviation		6,19	7,44	0
Overall mean total work experience		9.33		
Standard deviation		2.02		

The first group consisted of members of the EP who were involved in adopting the CSDD directive. These included the rapporteur or shadow rapporteur of the proposal, who are closest to the

development of the directive and can provide valuable insights. The interview guide for this group includes questions about interpreting the current proposal text and can be found in Appendix A. The policy maker is assumed to know the actual meaning of the text. Other questions relate to potential consequences and preparations. All rapporteurs and shadow rapporteurs were contacted, but some did not respond, were unavailable or uninterested in an interview. Eventually, an interview was conducted with the assistant of one of the shadow rapporteurs.

The second group of relevant experts consists of consultants with expertise in ESG law and regulation. They may already have insight into how businesses are currently preparing and may also have relevant ideas on possible consequences and preparation methods. The last group consists of lawyers/jurists specialised in ESG law and regulation. They can provide insight into possible legal consequences. They often advise businesses on these topics and are therefore considered relevant experts on the topic. The interview guide for the last two groups is depicted in Appendix B. The interviewees are asked if and how businesses are currently preparing, as they consult and advise businesses on these topics and may provide insight. Five ESG consultants and five lawyers were interviewed due to timing constraints.

The final group consists of employees from financial sector organisations with ESG-related roles. They could offer valuable insights into how businesses in the financial sector are preparing for the upcoming directive. However, most employees either did not respond or declined to participate in an interview due to time constraints or company policy. As a result, no interviews were conducted with this group. All three groups together gave a sample of eleven interviews with experts on the topic, including a policymaker related to the proposal.

3.1.3. Data analysis method

Due to the exploratory nature of the research and the collection of qualitative data, a qualitative data analysis method was deemed appropriate. The specific research topic is new and possible consequences and preparations have had little attention in literature. The goal is to identify

possible consequences and preparations in exploratory research. New insights are to be gathered from the data and, therefore, thematic analysis was used as a data analysis methodology. It is a technique for recognizing, examining and documenting patterns within the dataset (Braun & Clarke, 2006). Moreover, it may also interpret matters within the research subject. Thematic analysis offers flexibility and theoretical freedom (Braun & Clarke, 2006; Kiger & Varpio, 2020). Furthermore, thematic analysis aims at finding commonalities and shared opinions, where “a theme captures something important about the data about the research question and represents some level of patterned response or meaning within the data set” (Braun & Clarke, 2006, p.82). Thematic analysis was considered an appropriate method for data analysis, keeping the research goal in mind. Thematic analysis consists of six phases shown in Table 4 (Braun & Clarke, 2006; Kiger & Varpio, 2020).

Table 4

The six phases in thematic analysis as described by Braun and Clarke (2006)

Phase	Description of the process
1. Familiarizing yourself with your data:	Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas.
2. Generating initial codes:	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.
3. Searching for themes:	Collating codes into potential themes, gathering all data relevant to each potential theme.

4. Reviewing themes:	Checking if the themes work in relation to the coded extracts (Level 1) and the entire data set (Level 2), generating a thematic 'map' of the analysis.
5. Defining and naming themes:	Ongoing analysis to refine the specifics of each theme, and the overall story the analysis tells, generating clear definitions and names for each theme.
6. Producing the report	The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back of the analysis to the research questions and literature, producing a scholarly report of the analysis.

Note. Reprinted from *Using thematic analysis in psychology*, by V. Clarke & V. Braun, 2006, *Qualitative Research in Psychology*, 3(2), p.87. Copyright 2006 Edward Arnold (Publishers) Ltd.

In the first phase, all interviews were transcribed and re-read. The second phase involved creating initial codes, resulting in a total of 587 codes across all 11 interviews.

In the third phase, the codes were sorted into potential themes and subthemes. 113 codes were not associated with any theme and were placed in a miscellaneous theme. The remaining 474 codes were categorised into 48 initial themes and subthemes, as shown in Figure C1. Some themes had already been assigned to initial theme-subtheme structures.

3.2. Case study DELA

Besides the qualitative interviews, there is also a need for actual implementation examples. A case study will be performed at DELA to render insight into what such an implementation could look like. The research goal is to find out what DELA already implemented considering due diligence and risk management processes, as to find out if CSDD elements can be integrated into existing processes. Additionally, the study aims to identify any gaps in DELA's processes and provide recommendations for implementation. The first research question in this case study is about finding out the initial situation at DELA regarding the CSDD directive.

- What is the current situation at DELA in the context of due diligence and in what way is it aligned with the CSDD directive?

Moreover, the case study is to provide additional information on answering SRQ3 and SRQ4 with the questions stated below.

- What are the possible consequences of the directive for DELA and its purchasing department?
- How can DELA and its purchasing department prepare for the upcoming directive?

The qualitative data was collected via semi-structured interviews. Several employees of the purchasing department of DELA were interviewed to find out what current due diligence processes are and how this is done in practice. They also gave insight into whether sustainability and human rights aspects are already considered in purchasing processes and what those entail.

The *Maatschappelijk Verantwoord Ondernemen* (MVO) manager of DELA was also interviewed to find out whether there is already a risk management system in place and how this should be done, because the CSDD directive obliges businesses to identify actual and potential adverse impacts regarding the environment and human rights. MVO translates to responsible business

conduct in English. The MVO manager could also give insight into other processes that are already in place regarding sustainability and human rights safekeeping.

DELA also has an investment and asset management department that already has due diligence processes in place. An interview with one employee in that department was conducted to find out what due diligence was implemented already. The interviews were conducted in Dutch to make the interview as comfortable as possible for the interviewees. Lastly, a document analysis with all relevant documents that exist within DELA was performed. Examples of documents are contractual assurances, risk assessments, outsourcing policies or other relevant policies that were in place at the time.

4. Results

This section presents the research findings and describes the narrative obtained from the thematic analysis. It presents relevant patterns and differences that emerged from the analysis and provides insight into the possible consequences and preparations of the CSDD directive proposal. Specifically, it describes the implications and possible preparation actions for purchasing departments. After introducing the thematic findings, the current business preparations are outlined, followed by the link between the themes and research questions.

4.1. Introduction thematic findings

4.1.1. *From data to themes: methodological insights*

In 3.1.3., the first three steps were outlined resulting in initial themes. These themes were then analysed to determine their relevance to the extracts and the entire data set, resulting in the creation of an initial thematic map. Initially, five overarching themes were identified, with nine themes remaining that did not fit into any category. The five overarching themes and their structures can be found in Appendix D, Figure D1.

In the final stage, an analysis was conducted on seven of the nine loose themes, resulting in the creation of an overarching theme that encompasses all of them. The loose theme 'current business activities' was embedded throughout most of the existing themes and was therefore removed from the selection. Additionally, the miscellaneous theme was deleted as the codes did not fit into any of the themes. Eventually, the following six overarching themes were created:

- Sustainability in procurement
- Organisational readiness and capacity building
- ESG incorporated in business conduct
- Sectoral implications
- Directive regulatory framework

- Directive navigation and evolution

Please refer to Figure E1 for the final thematic map, containing the six overarching themes and subthemes.

4.1.2. Discovering themes

As noted in 4.1.1., a total of six overarching themes were identified in the thematic analysis. These themes capture the essence of the research and show the patterns and insights that are related to the understanding of the possible consequences and preparations of the CSDD directive proposal on purchasing departments in the financial sector. This section will briefly introduce the themes. Thematic representations are provided for each theme, with the numbers in the legend indicating the number of interviewees who mentioned at least one code belonging to that theme. The colour assigned to each theme corresponds to the code with the highest frequency of mentions. In the following sections, significance of these themes and their relation to the research questions are explored, offering insights into relevant responses in sections 4.2 and 4.3.

Directive navigation and evolution

The first thematic finding centres around understanding the directive itself and its progression in time. This theme is crucial in getting to understand what the CSDD directive entails and what its future holds. Its structure can be found in Figure 3, where the theme is divided into two subthemes in which the objectives of the directive and the dynamics of the directive in time are highlighted. Within this framework, themes with the most frequently mentioned codes are, goal CSDD, EU discussion, possible positive effect CSDD and CSDD risk considerations. An interesting find is the discussion within the EU, as one of the policymakers interviewed provided detailed insights on the trilogue between the EP, the Council and the EC regarding the directives.

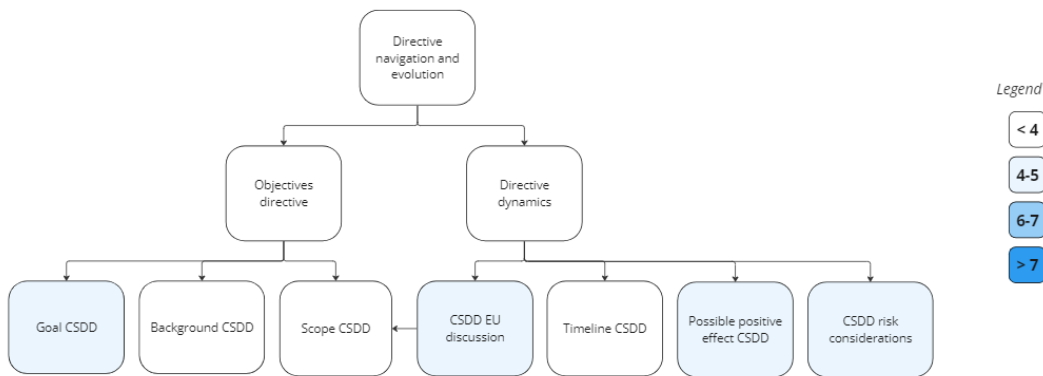


Figure 3 - Thematic representation of directive navigation and evolution

Note. The numbers in the legend represent the number of different interviewees who mentioned at least one of the codes belonging to a theme. The colour assigned to a theme corresponds to the code with the highest frequency of different interviewees.

Directive regulatory framework

Not only the objectives and dynamics are necessary for understanding the CSDD directive. Additionally, the next theme explores the regulatory framework of the directive, which is essential for compliancy. The framework is subdivided into four subthemes, enhancing compliancy, legal obligations, enforcement and national implementation, as can be seen in Figure 4. Enhancing compliancy comprises two main themes: relevance and contracts as a safekeeper. Moreover, the dataset frequently indicated national implementation of the directive.

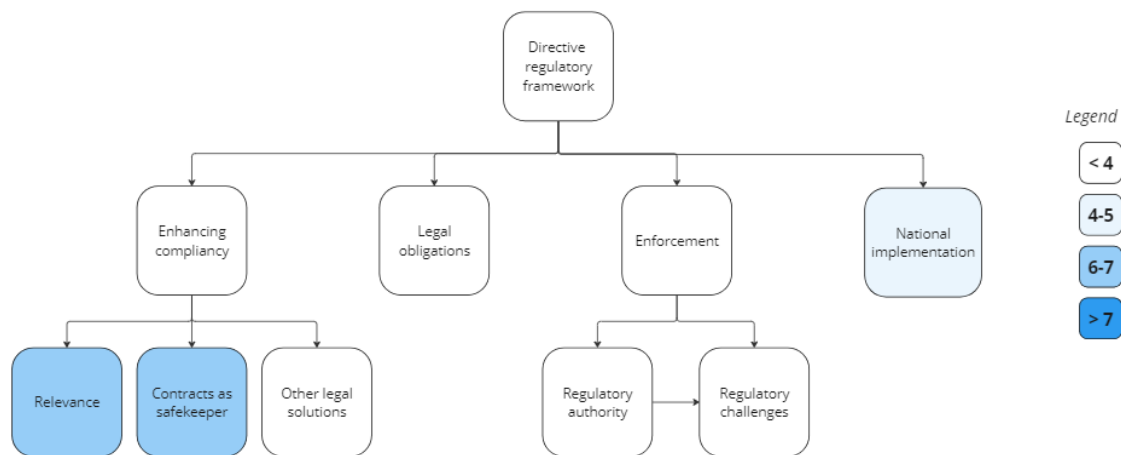


Figure 4 - Thematic representation of legal implications directive

Note. The numbers in the legend represent the number of different interviewees who mentioned at least one of the codes belonging to a theme. The colour assigned to a theme corresponds to the code with the highest frequency of different interviewees.

Sectoral implications

Continuing to the third thematic finding, the impact of the CSDD directive on different sectors was frequent in the dataset. These findings may be insightful in understanding which sectors are expected to be highly impacted and, therefore, in need of understanding what actions are needed. The exploration focuses on the financial sector, while also considering potential differences between sectors (see Figure 5). The financial sector is of particular interest, as it is the main focus of the research and a recurring theme in the dataset.

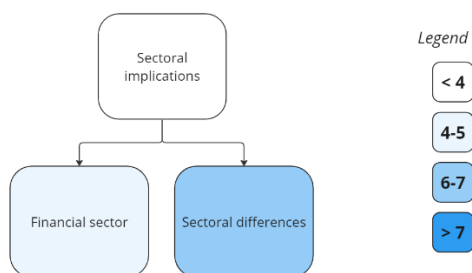


Figure 5 - Thematic representation of sectoral implications

Note. The numbers in the legend represent the number of different interviewees who mentioned at least one of the codes belonging to a theme. The colour assigned to a theme corresponds to the code with the highest frequency of different interviewees.

ESG incorporated in business conduct

The phenomenon that ESG is becoming increasingly integrated into business processes is the fourth thematic finding from the dataset. Discovering where and how ESG is becoming integrated into business conduct is the essence of this overarching theme. In Figure 6, the framework of this theme shows the division into three subthemes, integrated ESG risk management, ESG integration in value chains and ESG regulatory landscape. A recurring subject within the data is the ESG regulatory landscape, where soft-law standards and ESG laws contain codes that are frequently used by

different interviewees. Additionally, the data shows that ESG integration in value chains is dominant, with recurring subthemes such as value chain exploration and stakeholder engagement.

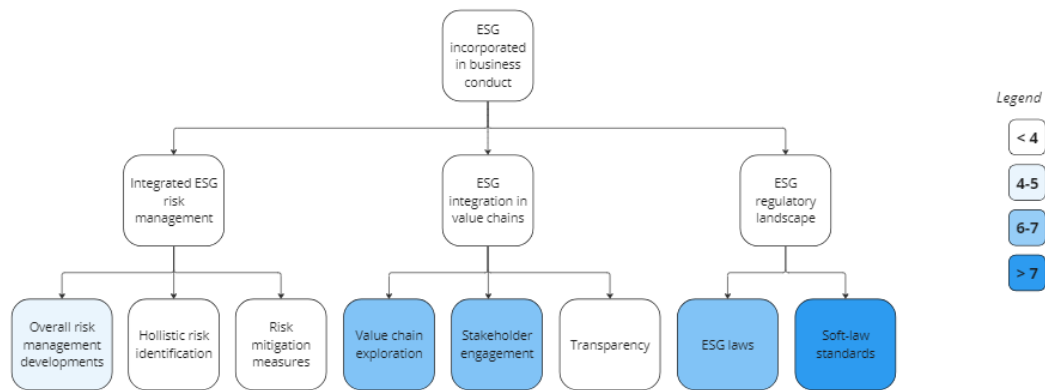


Figure 6 - Thematic representation of ESG incorporated in business conduct

Note. The numbers in the legend represent the number of different interviewees who mentioned at least one of the codes belonging to a theme. The colour assigned to a theme corresponds to the code with the highest frequency of different interviewees.

Organisational readiness and capacity building

The fifth thematic finding explores ways to prepare for the upcoming directive and build capacity. These topics depicted in Figure 7 may render insight for organisations on how to prepare for the upcoming directive. Relevant insights from experts in the field may help guide businesses in their journey toward compliance. Implementation challenges for businesses are particularly interesting as they describe current and expected problems requiring future solutions.



Figure 7 - Thematic representation of organisational readiness and capacity building

Note. The numbers in the legend represent the number of different interviewees who mentioned at least one of the codes belonging to a theme. The colour assigned to a theme corresponds to the code with the highest frequency of different interviewees.

Sustainability in procurement

The last thematic exploration focuses on sustainable practices within procurement. This theme examines future procurement processes and the role of the purchasing department in preparing for the CSDD directive, as illustrated in Figure 8. Purchasing departments need to understand these topics to determine their role and the potential impact of the directive on their processes. A significant outcome of the interdisciplinary approach theme was that one code had been mentioned by all participants. Additionally, supplier selection was a recurring theme within the dataset.

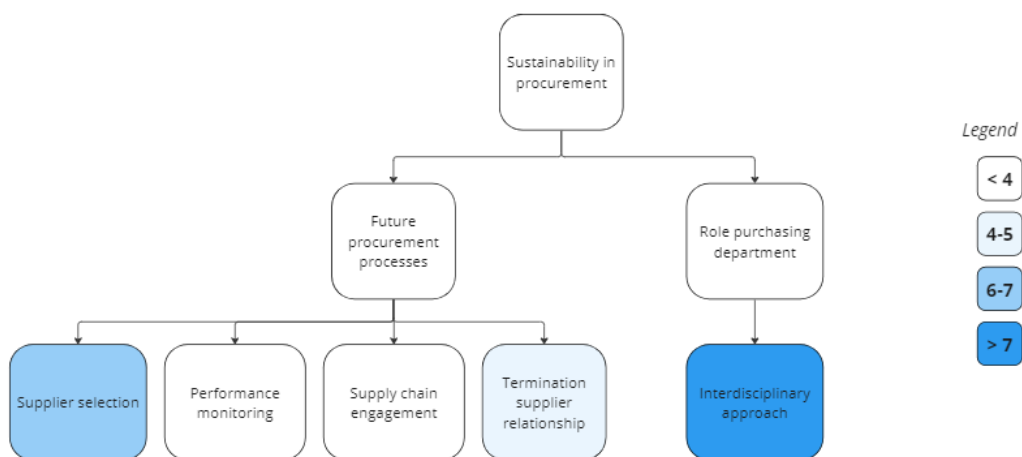


Figure 8 - Thematic representation of sustainability in procurement

Note. The numbers in the legend represent the number of different interviewees who mentioned at least one of the codes belonging to a theme. The colour assigned to a theme corresponds to the code with the highest frequency of different interviewees.

4.2. Current situation and practices

In starting to dive deeper into the thematic findings, this section depicts the current state of readiness within businesses and specifically DELA for the upcoming CSDD directive. Also, preparation practices and implementation challenges are discussed.

4.2.1. Experts' perspective on current situation and practices

The opinion on whether businesses are already starting to prepare seems to be infrequent and divided. One interviewee mentions that businesses are already starting to prepare, whereas another does not know about preparing businesses. The extent to which businesses are currently prepared differs, as noted by another interviewee. Three consultants describe that businesses seem to have established a lot of measures already regarding the processes of the CSDD directive. They mostly seem to have a policy or commitment regarding sustainability and human rights. Additionally, five interviewees described that there is an increasing awareness of the upcoming directive among businesses.

Despite these developments, when exploring the theme of ESG incorporated in business conduct and analysing ESG laws, what has become evident is that currently businesses are not much aligned with voluntary international standards such as the OECD guidelines. A reason mentioned might be that these soft-law standards are no real legal demand. This lack of alignment with these standards can be linked back to the theme objectives directives in directive navigation and evolution, as it is also one of the underlying reasons the directive has been introduced.

Moreover, when analysing the theme of sectoral implications, a difference in readiness between sectors seems to exist, because most due diligence activities seem to be happening already at the high-risk sector. The policy maker describes, "it's quite targeted around the OECD high risk sectors, so textiles, agriculture, so food industries and minerals. And because there I think the negative impacts are quite like most known and they also have value chains that are traceable".

Analysing the thematic exploration ESG incorporated in business conduct revealed that even though there seems to be a lack of alignment to the voluntary guidelines, ESG is starting to become apparent in current business processes. Its integration in value chains shows that businesses get increasing questions from existing customer relations related to sustainability topics. However, environmental and social aspects do not seem to be integrated into current risk management

approaches fully yet, as currently due diligence is mostly performed on solvability and liquidity. One interviewee quotes, “Especially in larger companies, due diligence is conducted on solvency and liquidity. Investigating the reliability of the collaboration partner” (Appendix F, 2023).

These under-identified risks on environmental and social aspects will need to be identified for compliance in the whole value chain eventually. However, the value chain exploration theme revealed that, currently, businesses seem to have little knowledge of their value chains and their investigation can be hard. A possible reason for this difficulty and a recurring topic in the dataset is that value chains are complex and there is a lack of transparency in them. Analysing the theme of transparency renders that indirect suppliers prevent insight and there is currently often a black box behind tier 1 suppliers.

Associated with the current situation and practices, experts mentioned how businesses are currently preparing. In the context of the thematic exploration of ESG incorporated in business conduct and its integration into value chains, the first thing mentioned is that businesses are currently preparing with mapping their value chains and prioritising risks. Moreover, one interviewee described that some businesses start de-risking their value chains, because they foresee many difficulties along the way. Exploring the organisational readiness and capacity building theme, within data and tooling, other examples mentioned are that businesses are investigating tools that may ease the implementation and due diligence process.

Next to the lack of transparency in value chains, businesses are currently facing other challenges connected to the implementation of the CSDD directive. First, in analysing the implementation challenges for businesses theme, it was found that the priority is often elsewhere at other current or upcoming regulations. This is especially the case in the financial sector where some organisations may report on several regulations, found in the sectoral implication theme. An identified phenomenon is that businesses often prioritise the CSRD over the upcoming CSDD directive, which was mentioned by four different interviewees. One of the interviewees describes

that “A lot of attention is now directed towards CSRD, the CSRD readiness. And what do you need to do to get prepared? Even less so for the CSDDD” (Appendix F, 2023). Priority may be directed at other current or upcoming regulations, because when the interviews were conducted, the CSDD directives’ text was still not final yet and it had not been approved by the EP yet. Other regulations have already been implemented and businesses need to comply to those regulations first. Another challenge brought up by two consultants is that businesses have scoping issues in defining whether they are included in the scope of the directive. Another interviewee described businesses having difficulties in defining the relevance of identifying impacts within the value chain and determining their extent.

4.2.2. Current situation DELA

To render more practical insights, the current situation at DELA, the case study organisation is outlined in this section and practical recommendations will be discussed in Section 5.4. Besides possibly being in scope with CSDD, DELA is in the scope of the CSRD directive. This means that they already must report over 2024. It became apparent that currently the CSRD is prioritised over the upcoming due diligence directive, in line with what the experts noted in Section 4.2.1. Nevertheless, there is a sense of awareness to be found within the organisation. The purchasing department, financial asset management and the MVO manager already have a basic understanding of the CSDD directive proposal. They already had a few meetings with all three departments on the topic.

Apart from the basic understanding, DELA has been performing variants of due diligence. Overall, there has been little focus on human rights and environmental impacts in this process. Incorporating such due diligence was also not mandatory yet and their responsible business conduct was more focussed on assessing their carbon emissions previously. The MVO manager does investigate possible risky cases, but there is no real process or policy related to this. Moreover, financial asset management already includes an ESG section in a questionnaire for their asset manager selection process. Nonetheless, this ESG section is not yet elaborate.

Within the purchasing department due diligence is performed in several processes. Firstly, in the supplier selection, purchasers have described performing due diligence. However, their definition of due diligence seemed to vary, and the due diligence process has not been formally integrated into the purchasing policy. The employees know that they must perform 'due diligence'. Furthermore, the due diligence that is performed is mostly on financial aspects.

Besides this due diligence, risk management is performed. DELA is regulated by *De Nederlandsche Bank* (DNB) and is required to implement a tendering policy. The policy provides guidance for when an insurance company is tendering activities, looking at the selection, monitoring and evaluation of service providers for example. Risk management must be performed at tenders, with processes like the due diligence process outlined in the directive. These processes are already in place at DELA.

4.3. Connecting the dots between research questions and themes

After the introduction of the themes and outlining the current situation and practices of businesses regarding the CSDD directive and its implementation, this section relates the thematic findings to the research questions. Each theme is key in understanding the complexities of the upcoming CSDD directive for financial organisations and specifically their purchasing departments. The themes are examined in greater detail, illustrating how they are related to the research questions. The analysis aims to answer questions on the content of the CSDD directive proposal, its broad-reaching possible consequences, and its impact on purchasing departments in the financial sector.

4.3.1. Analysis of the CSDD directive proposal

Analysing the core of the CSDD directive may aid in understanding, preparing and implementing the upcoming directive. This section aims to give more insight into the first sub-research question:

SRQ1: What is the CSDD directive proposal?

To get a deeper understanding of the CSDD directive proposal, two thematic findings are examined in in-depth. To understand what the objectives and developments of the CSDD directive proposal are, the theme of directive navigation and evolution is explored first. Then, the thematic finding of directive regulatory framework to understand how the directive will be regulated and implemented among EU member states are examined.

Objectives and dynamics

First, the objectives of the directive were found within the dataset, including its background and reason. The dataset uncovered that, currently, as mentioned in 4.2., businesses are not much aligned with voluntary standards. Another interviewee mentioned that overall, businesses seem not to be taking care of working conditions in their value chains. Moreover, these human rights and environmental issues in value chains may cause the rise of regulations, as one interviewee describes that “if you look at the UK Modern Slavery Act, it was basically introduced because there was an issue of modern slavery in hotels in London.”.

Consequently, it appeared that the goal of the directive is more responsible businesses in the future. The policymaker mentioned that they will now need to take responsibility for their caused impacts. To accomplish this, they are to perform due diligence in which they need to identify and treat negative impacts related to human rights and the environment. The policymaker mentions that there is a holistic approach within the directive, because

“Every value chain has its complexities, has its challenges, has different things to deal with them. You cannot really, for instance, compare tracing for instance, food goods or agricultural goods to, say, minerals sector, that's much harder to trace and so on. And so if you already have targeted tools for your sector that makes sense for your business, that will help you immensely in any case, because the law is trying not to tell you exactly like it's impossible for us to regulate every single sector. It's a holistic approach”.

Recurring with four different interviewees, the aim of the CSDD directive is that this due diligence will spread through the value chain. Another recurring topic mentioned by the policymaker was that “we wanted to really have the level playing field”. The policymaker refers to a level playing field for companies in the EU, as described in Section 2.4.1. The cause for wanting a level playing field can be found in the fragmentation of varying national due diligence laws in different member states.

Considering the timeline of the directive, at the time of the interviews the directive was still in trilogue, which may take some time as the policymaker describes that

“the trilogue is not very productive at the moment and we have a very clear deadline because the European elections are coming up. So we want to finish this directive. We have to finish by February. And the way that it looks now, it's a bit grim. And so it is possible that we're not going to manage to finish and then it's taken over to the next mandate, which I also think is interesting.

Therefore, businesses seem to still have time for the preparation of the directive. However, four interviewees mentioned that businesses should schedule time to start already.

Directive regulatory framework

Now that the core of the directive proposal is outlined, the regulatory framework of the directive proposal is explored by analysing the thematic finding directive regulatory framework. First, the legal obligations of the directive have been introduced within the dataset.

The topic that was stated by most different interviewees within the legal obligations theme was that in the context of due diligence, voluntary standards are “supposed to become a mandatory law for the big companies”. One interviewee describes the directive as an effort obligation and overall, it is mentioned that there will be a constant due diligence obligation. Large businesses will need to identify and treat negative impacts in their value chain. It should be improved each year and direction on progress should be given. Furthermore, the dataset suggests that they will need to have

a complaints mechanism and a transition plan in line with the Paris Agreement. Another obligation mentioned is the fact that businesses will need to have a policy on due diligence.

The question then arises how these obligations will be regulated. Two main themes come into play here, enforcement and national implementation. The enforcement theme analyses showed that within the dataset, it became evident that regulatory authorities will come into play. These regulatory authorities will be appointed at national levels by each of the Member States of the EU. Moreover, these regulatory authorities may use enforcing measures such as fines. Some interviewees expect that NGOs may come up with complaints and eventually force the regulatory authorities to act. Two lawyers noted that they expect many procedures concerning adverse environmental and human rights impacts. However, a frequent topic mentioned by five interviewees within the dataset, is that there will be a starting period without much enforcement and that the authorities will be lenient in this beginning, as they expect “Perhaps not immediately penalties from the regulatory authority, they might wait a bit at the beginning and allow businesses a grace period to adjust” (Appendix G, 2023). Therefore, showing serious effort may be enough in the beginning. It may also be the case that high-risk sectors and big impacts will first be enforced, but two interviewees believe that eventually everyone will be enforced.

Next to the leniency in the beginning, the data shows that regulatory authorities are expected to face some challenges. First, interviewees mention busy, inexperienced regulatory authorities with low capacity. Secondly, charging businesses may be difficult as proving causality may pose difficulties when questioning, “What can still be attributed to that business? It is a matter of what is still causally related to their obligations of the directive.” (Appendix F, 2023).

After describing the regulatory factors, a recurring topic in the data was that the EU regulation also needs to be implemented nationally in all member states. It is noted that these national implementations “are very likely having different interpretations in every member state”. Though, in the current trilogue the policy maker is trying to look at possibilities to solve that “from our point of

view. For instance, we would like to go for maximum harmonization of specific articles, meaning that comp like memberships cannot change, for instance the articles that describe the process from Articles 4 to 8.”

Zooming in on the Dutch implementation, one interviewee believes that it will not differ much from the proposal. Though, a recurring topic mentioned by four interviewees within this national implementation theme, is the Dutch due diligence law proposal *Internationaal maatschappelijk verantwoord ondernemen*. This Dutch due diligence law has had a new *nota van wijziging* and it may be stricter than the CSDD directive.

4.3.2. Scope and possible generic consequences of the CSDD directive proposal

Building on the in-depth analysis of the CSDD directive proposal, this section explores the second sub-research question:

SRQ2: What are possible consequences of the CSDD directive and to whom does it apply?

To broaden the understanding of the proposal, this section uncovers its possible consequences and scope. In doing so, three themes will be touched. First directive navigation and evolution are examined to get insight into the scope and several possible consequences that pose risks to businesses. Also, chances that the proposal might bring are displayed. Then the two themes, directive regulatory framework and sectoral implications are analysed to demonstrate possible consequences in line with those themes.

Possible changes to CSDD proposal text

The data revealed that the scope is still unclear and that not all businesses are in scope. Only businesses with a certain size and revenue in Europe. As mentioned in 2.5.1., the directive proposal is still in trilogue and four different interviewees mentioned that the financial sector is not definitively in scope as “there has been a lot of discussion on the question whether to even cover the financial sector”. The policy maker mentioned that the financial sector still might be excluded fully, as the

French government, “one of the leading voices in a trilogue”, wants to exclude them. On the contrary, the EP wants to address the financial sector as a high-risk sector.

Not only the scope is still under discussion in the trilogue, but the policymaker also announced the deletion of the term ‘established relationships’. Established relationships are identified based on their intensity and duration, as described in Section 2.6.1. It was removed because the duration has little influence on the level of involvement of a certain risk. Moreover, businesses could then easily circumvent their responsibility by changing contracts. It is expected that the director’s liability will decrease or even disappear. One interviewee expected that the liability will be focussed on the process and obligations for businesses. It is expected that the personal liability will likely disappear. Another discussion centres around bureaucracy and the policymaker also described that

the biggest negotiation that we already had in the parliament and that we're now having in trilogue is: how can we make sure that the bureaucracy of it stays within the limit. That's bearable for companies while still being a very effective law.

Possible consequences CSDD directive proposal: risks and chances

Moving from the undefined scope of the directive proposal to possible consequences that could pose risks to businesses. Four interviewees mentioned that starting too late might have consequences. Other noted consequences are listed in Table 5, where four interviewees described the recurring consequence of reputational damage. A second identified risk is liability and lawyers were the main group to mention this as a significant consequence, with only two lawyers mentioning it. One consultant also noted this, but this consultant is a jurist and has worked as a lawyer in the past. Furthermore, the director's liability as a risk was also mentioned by two lawyers only, even though this will probably disappear or be decreased during the trilogue.

Next to the risks, the data also revealed that the directive proposal could offer opportunities for businesses. They can also be found in Table 5. One is that businesses could become more responsible in the future. Specifically interesting for this research, is the potential reduction of spend

on suppliers and the decrease in maverick buying, as they can be directly linked to procurement processes.

Table 5

Summary of risks and chances of the CSDD directive proposal

Risks	Chances
Reputational damage	Increased responsible business conduct
Liability	New quality in supply chain management
Director liability	Possible clean value chains
Lawsuits	Closer grip on spend on suppliers
Receiving fines	Drying out maverick buying
Bureaucratic burden	

Contractual legal consequences

A common theme among the data, as reported by seven interviewees, is the expectation of changes to contracts. These contracts may serve as a safeguard in the supply chain. The interviewees have described several additions to existing contracts.

- Risks related to human rights and the environment
- Clause chain, for indirect relationships
- Audit rights
- Termination rights
- Minimal assurances
- Supplier code of conduct
- Rewarding as incentive

It became evident from the data set that there are already existing models for contracts. The policymaker said that the EP “asked the Commission to basically already prepare contractual clauses that you can just copy paste”. In addition, one consultant noted that these models will be based on the American Bar Association models. These models can be used as a preview of what the EC’s model clauses might look like.

Sectoral consequences

A frequent belief found in the data set is that the CSDD directive proposal has an impact on all sectors. Nevertheless, a difference was noticed between the financial sector and the operational sector, as the financial sector “do not really have a direct supply chain. They do not source various basic goods from around the world to produce products here. Though, I believe they finance supply chains.” (Appendix F, 2023). It was mentioned that they are “in many cases very different to an industrial company, where you have different relationships”. One interviewee does not know if they are very different. Besides these differences, six interviewees believe that the directive proposal has a high impact on high-risk sectors. One for instance describes that the expectations are higher in high-risk sectors and states “It is the case that, to my understanding, a couple of specific risk sectors are also mentioned in the CS3D, so the expectations will be higher over there.” (Appendix G, 2023). CS3D means the CSDD directive in this quotation. The high-risk sectors have been defined in 2.4.3.

Zooming in on the financial sector, its consequences may depend on the activities of financial businesses. An interviewee expects fewer issues in the supply chains in the financial sector. The duty of care may increase and businesses in the financial sector may report on four regulations.

4.3.3. Potential impact of the CSDD directive proposal on purchasing departments in the financial sector

After analysing and gaining insights into the directive’s objectives, dynamics, scope and possible generic consequences, this section focuses on the impact of the proposal on procurement, trying to gain more insight into relating the themes to the third sub-research question:

SRQ3: What are the possible consequences of the CSDD directive for purchasing departments and procurement processes in the financial sector?

The examination includes two main themes, where the first theme of sustainability in procurement, focuses on various purchasing processes. The second theme is ESG incorporated in business conduct and focuses on risk management and its relation to procurement.

Sustainability in procurement: Supplier selection

A recurring topic within the supplier selection theme, mentioned by six different interviewees was that “Supplier selection is going to change” (Appendix G, 2023). The data shows that there may be more information gathering in the future within this supplier selection. Another interviewee describes that information related to ESG topics will become more relevant in selecting suppliers. The same interviewee believed that weighing criteria may change as “today we companies look at cost, availability, lead times. Quality and sustainability adds a new dimension to it”. Eventually, there may be less freedom in choosing suppliers with this more elaborate selection.

Sustainability in procurement: Performance monitoring

Following the selection process, the subsequent purchasing process mentioned was performance monitoring, containing challenges related to monitoring supply chains and possible negative impacts. One interviewee questioned, “how do I monitor my supply base? How do I get notice of any incident where I need to react?”. This is also part of the risk management process explained later this section.

Sustainability in procurement: Supply chain engagement

Supply chain engagement was a recurring topic and theme within the data set. Cooperation with other members of the supply chain was frequently found within the codes and cooperative entities in the supply chain noted are:

- Suppliers or customers

- Competitors
- Cross-industry

Additionally, interviewees noted that businesses are not alone in a supply chain and that impact is created together with suppliers. However, this cooperation may be difficult, as getting closer to suppliers can be difficult.

Findings from interviews also revealed that the purchasing department seems to be important in this engagement, because they are in contact with suppliers. Together with these suppliers, they can cooperate for compliance. Cooperation also seems to be encouraged by the OECD guidelines as, “what already applies under the OECD guidelines is much more about collaboration, so ensuring together that there are no violations in the value chain” (Appendix G, 2023).

Sustainability in procurement: Supplier relationship termination

Regarding the last purchasing process, supplier relationship termination is a recurring topic in the data set. Five different interviewees mention the upcoming decisions on termination of supplier relationships, where “if they cannot meet all the requirements, a consideration may be not to work with such a supplier. And that can have significant consequences for the business operations” (Appendix F, 2023). Nonetheless, businesses should strive for a cooperative solution before deciding on termination and termination rights have been mentioned to ensure the right of termination when the other party in the contract fails.

Risk management development

Another process that could be part of purchasing processes is risk management which is found in the thematic finding of ESG incorporated in business conduct. Consequences noted were that different new risk categories will need to be addressed and that businesses will now need to know their product, source and supply. Moreover, it was noted that businesses are to make action plans for their overall risk management processes.

Four different interviewees believed that the purchasing department is an important aspect of risk management, as “you bring risks in-house depending on whom you cooperate with, in the context of your procurement activities” (Appendix F, 2023). Nevertheless, two interviewees also mentioned that risks can also occur in the organisation itself and that there also needs to be internal due diligence.

Holistic risk identification

As stated in 4.3.1, businesses are required to perform due diligence, which includes identifying negative impacts. This is reflected in the theme of holistic risk identification. Interviewees emphasised the importance of identifying and treating negative impacts. The risk identification theme is considered holistic, because it considers all relationships, including internal, external, upstream and downstream. Questionnaires are mentioned as a method to identify negative impacts. Next, creating a risk profile per supplier might be a method of understanding the risks in the supply base of a business.

The purchasing department is also affected in the context of risk identification, as it was mentioned that the purchasing department is related to questioning suppliers on these possible risks and will be included in performing due diligence on suppliers. They will now need to be asking extra questions in this process to eventually identify risks. These questions may contain topics like, “did you cover forced and child labour in your supply chain?” (Appendix F, 2023), related to the different new risk categories concerning adverse environmental and human rights impacts.

Risk mitigation measures

Besides the identification of risks, they will also need to be treated. Procurement plays a role in this process, as it is described to be the contact point with suppliers. They need to have a dialogue with suppliers to try and mitigate the risks, or else decide to terminate the relationship, as described by five different interviewees. One mentions,

What do businesses do if they do not receive the right information, if suppliers are not cooperative enough, then it may lead to a termination of the supplier relationship. Or not and can they engage in dialogue with the supplier and make sure the greening process is accelerated, so to speak. (Appendix F, 2023)

Another interviewee mentioned that purchasing departments will need to have escalation mechanisms for incoming cases related to negative environmental and human rights impacts. Businesses should have a process when certain impacts are identified. They need to know if it is a risk and if it is necessary to investigate it deeper into the supply chain. When addressing such risks with suppliers, an interviewee mentioned that this should be done diplomatically. Furthermore, it is noted that the risk management tactics for risk mitigation should be internally documented. For procurement, it is also mentioned that the supplier code of conduct may need adjustment in line with the CSDD directive proposal. Another consequence of the directive related to risk mitigation could also be that supply chains will be de-risked, because it would be thought to be too difficult or risky otherwise.

4.3.4. Strategies for readiness: preparing for the CSDD directive

In this fourth section, the analysis transitions from consequences for businesses and procurement to organisational readiness and strategic considerations considering the directive's preparation. This section aims to provide businesses with ways to position themselves to navigate the forthcoming changes outlined in the CSDD directive, rendering insight into the fourth sub-research question:

SRQ4: How can purchasing departments in organisations in the financial sector prepare for the CSDD directive?

To address this fourth sub-research question, three themes are depicted, ESG incorporated in business conduct, sustainability in procurement and organisational readiness and capacity building. First, the role of the purchasing department in the preparation for the directive is described, after

which the possible steps to be taken already are outlined. Lastly, possible supportive utilities and tools are depicted.

Interdisciplinary approach

All interviewees highlighted the necessity of an interdisciplinary approach when preparing for the CSDD directive. This finding was derived from the thematic finding of sustainability in procurement. The responsibility for the preparation for the CSDD directive cannot be left at just one person or department, because “it affects all functions, but additionally, the knowledge required is spread across various functions” (Appendix G, 2023). Setting up an interdisciplinary team, that is representative for all relevant functions was noted. Some mentioned that all departments were important. The departments that have been mentioned that could be included are,

- Purchasing
- Legal
- Compliance
- Sustainability
- Operations
- Reporting
- Accounting
- Sales
- Finance

Additionally, six interviewees mentioned that the board of directors also need to be included, as “this policy need to be embraced throughout the entire business and ultimately has to be approved by the board of directors” (Appendix F, 2023). It was noted that for the German supply chain law preparation, it was mostly also this broad interdisciplinary approach to gain a basic understanding of the law within the entire organisation. Subsequently, the purchasing department is not alone in preparing for the directive. It was noted that they should investigate their responsibility in the process,

“do I have full control over all suppliers or not? What is with legal suppliers? Is that in many cases not a category managed by procurement?”.

Investigation possibilities

Next to the need for the purchasing department to investigate their responsibility, several other relevant options for investigation in the preparation were mentioned in analysing the data, within the thematic finding organisational readiness and capacity building. First, five interviewees mentioned that assessing the impact of current proposal texts is one way to prepare for the directive. For this impact analysis they describe assessing the proposed text as the definitive text and start investigating what risks exist regarding human rights and the environment and identifying what impact that has. Also finding out what is needed for businesses to deal with those risks was noted. Subsequently, four interviewees described that investigating the gap in what is required and what is already done may also aid in preparing for the directive, “so what do we have already? What is available in terms of, because we have a process, we have data, we have whatever people nominated having responsibilities. So you need to make that match.”. So, doing an initial gap assessment can be a possible preparational step. In this context, the amount of effort needed for implementation can be determined. Another frequently mentioned topic is the investigation of the value chain. It is noted that this can be hard and informational limitations in the chain can be investigated. Additional possible investigation areas for the purchasing department include supplier code of conduct for compliancy and means to measure supplier performance. Other investigation possibilities are training, policy, data and tooling, that are outlined later in this section.

Preparation steps

In the data set not only loose investigation possibilities for preparation purposes were found. Relevant steps to be taken and their timing were also identified.

The first preparation action mentioned by interviewees is creating awareness in the organisation, which is related to the thematic finding of organisational readiness and capacity

building. However, this preparation action was not mentioned frequently. Moreover, it is mentioned that employees need to be on board first and the awareness of the board of directors was stressed to play a role in this first preparational step.

The second step to be performed in the preparation can be found in the thematic finding of ESG incorporated in business conduct. Within the ESG integrated risk management theme, conducting an impact analysis is a significant finding, as it was highlighted by nine interviewees. The impact analysis involves two processes. First, it is the analysis of the impact the directive has on current processes in an organisation. An example of this is that businesses should

Ensure that your business operations that may be affected by the directive are mapped. That is basically step one. How does our company operate? What does our supply chain look like exactly? And if we align that with the directive's requirements, what actions should we take? (Appendix F, 2023)

This is in line with the gap investigation. The second impact analysis described is about finding high risks of adverse impacts in the value chain and its stakeholders. A consultant mentioned questioning,

Where are the risks of misconducts in the value chain, as I see them? Which stakeholders are involved and then initiate the conversation. How are we going to address this? Do we know about these cases, are they already there? Do we suspect them and what is needed to prevent them, and if they already exist, remove them? (Appendix G, 2023)

For this step in the impact analysis, mapping the value chain as a significant first step was mentioned by seven different interviewees. This process is related to the thematic finding of ESG integration in value chains. The data revealed that this mapping may not be easy, but "Your population is in view after mapping the landscape of the supply chain. Could be large and less risky or small and highly risky" (Appendix G, 2023). Though, this does not seem to imply that identified risks have to be

addressed within a short timeframe necessarily. The purchasing department should aid in this mapping process. Four different interviewees described that the purchasing department should get insight into the origination of products. Within the integrated ESG risk management theme it was noted that questionnaires may aid in the identification of risks. However, these questionnaires might become an administrative burden.

Another possible preparation step described in the data set is starting to investigate a possible policy on the due diligence process. In this context, “making the policy is one thing, building the administration to manage the policy is another thing”. For the purchasing department, it was mentioned that they should work on their purchasing policy in line with the due diligence policy and apply it to their supply chain.

Utilities and tools

Businesses do not seem to be left without any guidance or help. The data revealed several utilities and tools that may aid in the preparation and implementation of the directive.

Foremost, the thematic finding of ESG regulatory landscape is explored, because voluntary guidelines, the OECD guidelines, were described by eight different interviewees to be significantly useful in the preparation. One describes investigating “the OECD guidelines that offer much guidance, including a clear step-by-step plan on how to approach it” (Appendix F, 2023). Moreover, six interviewees mentioned that the OECD guidelines are comparable with the CSDD directive proposal. The guidelines are to include guidelines for specific sectors and can be a relevant starting point for investigating how to conduct due diligence aligned with the CSDD directive. One mentioned that in using these guidelines “the worst that can happen is that you do more than what is described in the directive. But basically they are more or less the same activities” (Appendix G, 2023).

The second thematic finding explored in the context of utilities and tools is organisational readiness and capacity building. Training, policy and data and tooling are recurring themes in the

data set. Firstly, training of employees was mentioned by four different interviewees to aid in the implementation of the directive's processes. It should be investigated what training is needed as in "every process you change you need to train people and make them aware of. So what are my decision grids, how do I need to adjust that?". Furthermore, educating the supply chain is also mentioned as important, as the topic might also be new for other relevant parties in the supply chain.

Besides training various data and tooling have been identified within the data set that may aid in the preparation and implementation. Next to the OECD guidelines, other various forms of guidance are described and advised to be used, as "all available guidance, use that to your advantage is always my advice to businesses" (Appendix G, 2023). One interviewee described that there still is a need for sector-specific guidance, while another mentioned already existing sector-specific guidance. The forms of possible guidance mentioned are;

- Contractual models inspired by the American Bar Association models
- Industry initiatives
- CSRD and SFDR guidance on negative impact indicators

Moreover, interviewees have mentioned that using specific data and tools can help in preparing for the directive. In this context, businesses are to investigate needed data points and the tools that enable that specific data gathering. Looking at data points, it became apparent that documenting several processes, such as stakeholder engagement, mitigation actions, and risk management, is needed. Others mentioned a possibility for future certification on CSDD. Examples of similar certifications mentioned are B Corp certification on responsible business conduct and ISO standards.

5. Discussion

Transitioning to the discussion section, the primary research objective has been to comprehensively understand the CSDD directive proposal and its implications on purchasing departments and processes in financial organisations. This section contains a thorough examination of the key findings structured around the four sub-research questions, offering practical insights.

5.1. Ramifications CSDD directive proposal

Moving on to the first sub-research question SRQ1: what is the CSDD directive proposal? The obligations mentioned by the interviewees correspond with those written in the directive, which may contribute to the trustworthiness of the research/interviewees.

The term established relationships in the proposal has had criticism in literature, as mentioned in Section 2.6.1. The results shed new insights into the usage of this terminology, as the term will be removed completely, according to the policymaker. This could mean that instead of at established relationships only, due diligence must be conducted at all business relationships. In that case businesses may be impacted even more, as all relationships would need investigation instead of only relationships that are expected to be continuous. The pending final text confirms the removal of established relationships and the introduction of business partners (De Brauw Blackstone Westbroek, 2024). The latter term includes businesses with which a business has a commercial agreement and includes indirect business partners.

Moreover, open ends in the directive have had criticism, as described in Section 2.6.1. The results accordingly show that currently, businesses can have trouble defining relevance in identifying impacts. Though, it became evident that, eventually, each impact should be considered relevant and that for manageability, risky areas of impact can be prioritised as starting points. As the directive is based on the OECD guidelines, businesses are advised to prioritise based on those guidelines and therefore prioritise risks on severity and likelihood (OECD, 2018). In the upcoming final text this

usage of risk prioritization as a risk-based approach is adopted and businesses are obligated to act if they have a direct responsibility for certain risks (Loyens & Loeff, 2024). This means that adopting a risk-based approach as described in the OECD guidelines might be viable for the prioritization of risks and implementation of measures process.

Looking at the Dutch implementation, a Dutch due diligence law proposal may be implemented before the CSDD directive's implementation, because there has been a *Nota van Wijziging* (Tweede Kamer, 2024). This implies a strange timing, because the Dutch proposal is not completely in line with the CSDD directive and if accepted, may need alteration once the CSDD directive is implemented (Tweede Kamer, 2022). It would mean extra work for the policymakers in the Netherlands, but is also a relevant compliance topic for Dutch businesses. Monitoring its development and identifying differences and similarities with the CSDD directive is recommended, because otherwise businesses may be performing unnecessary steps or are at risk of missing certain steps in their due diligence process preparation.

Results suggest that the regulatory authority may start with a transitional phase with limited enforcement. This is further substantiated by the pending final text allowing businesses several years subsequent to the CSDD taking effect before compliance is required (De Brauw Blackstone Westbroek, 2024). Even though this may seem like a free pass for businesses to take it easy and wait with preparing, it is not advised to do so. Transition periods often exist in a directive and is used so businesses can sort their situations. This time should therefore be utilised effectively to become compliant before the period has ended. Else, businesses might risk having a lack of time in the whole preparation phase, which might lead to being noncompliant when the directive takes effect.

5.2. Possible consequences and scope CSDD directive proposal

After discussing the first, the following second sub-research question is discussed. What are possible consequences of the CSDD directive and to whom does it apply?

First, the scope of the directive is a topic of discussion in the results. The policymaker described that the financial sector is not definitely in scope, whether excluded or added to high-risk sectors. This uncertainty may affect the relevance of this research because if excluded, financial organisations do not have to prepare for the CSDD directive. However, as mentioned in Section 2.5.8., the financial sector is definitely in scope, so this possible effect on the relevance of the research was eliminated. Moreover, identified preparational steps may also be useful for other sectors, because they would also be forced to map their value chains and identify risks. If financial businesses not in scope want to implement due diligence on environmental and human rights impacts, they can also use the identified preparational steps.

In Section 2.6.1., the scope of the directive has also had criticism, because only a certain percentage of businesses would need to comply. Additionally, Section 2.5.8. revealed that the scope in the final approved text includes even less companies than the initial proposal, implying that the intended effect of the CSDD directive has been weakened. Nonetheless, interviewees described that this due diligence is to eventually spread through the value chain. If and how the CSDD eventually spreads through the value chain might be a relevant research topic after the directive has been implemented.

The results suggested one of the consequences to be the risk of reputational damage when not complying with the law. The possibility for reputational damage was also backed by the final approved text, as it includes possible naming and shaming as a control system (Loyens & Loeff, 2024). This is also found in literature because when businesses are perceived to have breached a law or social norm, such as child labour or environmental issues, reputational damage can be the effect when reported by stakeholders with influence (Breitinger & Bonardi, 2019). Businesses are therefore advised to take this risk seriously, because noncompliant behaviour may indeed cause reputational damage.

Besides, the results suggest liability as a consequence, mainly noted by lawyers. They were also the only ones mentioning expecting many procedures. The fact that it was mainly lawyers who introduced these legal consequences could be explained by their legal background and perspective, in contrast to the consultants. Next to many expected procedures, industrial associations in Europe expected unmanageability and bureaucratic burdens (De La Feld, 2024). This was the case in Germany and Italy and these countries were some of the countries voting against the text in February, postponing the approval to March with a weakened version of the initial CSDD directive proposal.

Progressing to another consequence was the result that it was expected that contracts are likely to change. One interviewee mentioned the addition of rewards as an incentive in contracts, backed by (Saloranta & Hurmerinta-Haanpää, 2022) describing the addition of these promotive contract elements in implementing the CSDD directive. In general, contractual clauses and a code of conduct were mentioned as possible measures of dealing with adverse impacts, which was also found in the current implementation of HRDD in businesses (McCorquodale et al., 2017; Smit et al., 2021). Therefore, contractual clauses and a code of conduct are advised for businesses as measures of dealing with adverse impacts, where adding rewards as incentives in contracts may be considered.

The results contradicted criticism of contractual assurances in Section 2.6.1. The criticism indicated that responsibility could be moved to indirect partners. The policy maker, however, mentioned that contracts only were not enough to move the responsibility. These results imply that the criticism on moving responsibility posed by Methven O'Brien & Martin-Ortega (2022) is incorrect.

5.3. Possible consequences for purchasing department and processes

Besides general consequences, the focus will now be on Sub-Research Question 3, what are the possible consequences of the CSDD directive for purchasing departments and procurement processes in the financial sector?

Looking at supplier selection, more criteria related to human rights and the environment may be included. Taherdoost & Brard (2019) describe this addition of environmental and social concerns

to selection criteria, which may make them increasingly complex. This complexity of supplier selection criteria may make them less manageable for businesses. Therefore, businesses might need tools or specific platforms that gather and manage this information for them. In the supplier selection phase, businesses are advised to take these extra criteria into account and try to incorporate as much in contracts, because Smit et al. (2021) describe that the leverage of businesses can be strongest before it is in a relationship with a supplier. In this phase a business may be able to leverage specifications in the contracts regarding these adverse human rights and environmental impacts easier than when a relationship is already existing.

Though not frequently mentioned in the results, performance monitoring is part of the due diligence process of identifying and mitigating the adverse impacts. One practical way to do this mentioned by interviewees was adding audit rights to contracts. Accordingly, powerful buying businesses already seem to conduct these audits on social responsibility, where some even audit their suppliers further upstream (Zhang et al., 2022). Businesses may also use large auditing firms for their auditing processes (Smit et al., 2021). Therefore, performance monitoring and audit rights in contracts may be considered significant results, even though it has had limited mentions.

Next, supply chain engagement was mentioned to be affected as cooperation with suppliers was deemed important and the purchasing department was seen as having a role in this as the contact point with suppliers. Accordingly, purchasers can be seen as crucial in cooperation as a boundary spanner in a customer and supplier relationship (Vesalainen et al., 2020). Therefore, purchasing should take a role in this stakeholder engagement process. In Section 2.6.1. criticism has been identified on the stakeholder engagement, as it seemed limited in the directive proposal. On the contrary, the policymaker believed that stakeholder engagement is important, as this is the mere basis of doing due diligence. Effective stakeholder engagement is also stressed in the approved CSDD text, as mentioned in Section 2.5.8. To stress its importance, when looking at the enforcement of the French law of

Vigilance, stakeholder engagement is often looked at by the enforcer (Brabant & Savourey, 2020; Savourey & Brabant, 2021).

Results suggested that because of the CSDD directive, purchasing departments may get a closer grip on the spend and a possibility for drying out maverick buying. This may be caused by the fact that businesses will become accountable for adverse impacts in their supply chains. When random people in the organisation are buying products without performing proper due diligence, the risk of having adverse impacts in the supply chain are high. When the purchasing department is involved in the whole process, the risk of not foreseeing any impacts decreases. The purchasing department may be able to position themselves in such a way that they increase their control over the spend.

5.4. Practical implications and recommendations: preparational steps and the role of procurement

From consequences to preparation, the fourth sub-research question is addressed. How can purchasing departments in organisations in the financial sector prepare for the CSDD directive? This section also aims to provide practical implications and recommendations for financial organisations and DELA specifically. Several preparational steps have been identified in the results and are summarized in Figure 9 and explained in more detail in Sections 5.4.1 till 5.4.4.



Figure 9 - Practical actions for preparing for the CSDD directive

5.4.1. Interdisciplinary approach

The results indicated one of the most frequently mentioned preparation methods to be the usage of an interdisciplinary approach. Though, little cross-functional coherence between departments in current due diligence implementation concerning human rights was found by McCorquodale et al. (2017). Limited cross-functional coherence may hinder the effectiveness of such due diligence implementation. Smit et al. (2021) found that in HRDD implementation, such an interdisciplinary working group with good communication is preferred. So, an interdisciplinary approach as identified in the results is recommended to financial organisations and DELA.

Considering DELA, its MVO manager, asset management, and purchasing have already had meetings, but interdisciplinary collaboration is necessary for the complete preparation and implementation of the directive. The directive applies to the entire organisation, including upstream and downstream activities. Therefore, more departments or functions are advised to be included in the interdisciplinary collaboration. Additionally, the board of directors should be involved in the process.

5.4.2. Creating awareness

After stressing the importance of an interdisciplinary approach, several practical preparational steps have been identified in the result section. Firstly, the results suggest that awareness of the CSDD directive should be created across relevant functions in the organisation. The interdisciplinary approach from Section 5.4.1. can aid in generating human rights awareness throughout the operation (McCorquodale et al., 2017). Businesses are, therefore, advised to utilise the interdisciplinary approach in creating awareness. The results also stressed the awareness of the board of directors. Businesses are recommended to create awareness at the board of directors, because they may influence the sustainable performance of businesses (Chams & García-Blandón, 2019). Reflecting DELA, the purchasing and financial departments and MVO manager of DELA are already aware of the upcoming directive, but the rest of the organisation also needs to be informed. As suggested to other financial organisations, the board of directors also needs to become aware of the directive and its possible consequences and implications, as that was lacking during the interviews.

5.4.3. Conducting an impact analysis

A second practical step mentioned is conducting an impact analysis regarding the environment and human rights. Interviews indicated that the value chain should be mapped first, after which risks of adverse impacts should be identified and prioritised. Considering DELA, they still have to map the whole value chain to identify possible impacts. As DELA and possibly other financial organisations are already preparing for the CSRD, they may use the knowledge they gained in this

process. Within the CSRD the value chain should also be mapped there. After mapping the value chain adverse environmental and human rights impacts should be identified. Then they can be prioritised, as to give an indication in which order they should be addressed. In the prioritisation of risks, the materiality identified in the CSRD might be helpful. Subsequently, stakeholders related to the adverse impacts should be identified and engaged. Starting a dialogue with them aids in finding ways to mitigate or end the adverse impacts.

Smit et al. (2021) describe a similar process as “human rights impact assessment”, even though this only focuses on human rights (p.951). Considering the CSDD directive, businesses also need to identify adverse environmental impacts. However, gaining insight into the value chain behind tier-one suppliers was mentioned to possibly be difficult, which was also found by (Smit et al., 2021).

5.4.4. Investigating possible policy

The last preparational step was to start investigating a possible policy. As a practical insight, there is no overarching DELA due diligence policy. Though, as mentioned in 2.5.1. businesses are obliged to incorporate the due diligence process in their corporate policy. Therefore, DELA and other financial organisations with no due diligence policy in line with the CSDD are advised to start investigating possible policies. As financial organisations may already be subject to other regulations, they are advised to investigate a possible integration in existing risk management process.

5.4.5. Preparing procurement

After discussing the preparation actions relevant to DELA and other financial businesses, this section focuses on the role of the purchasing department in these processes and outlines possible other preparation actions. First, the purchasing department can support mapping the value chain. Especially, in mapping the upstream part of the value chain where suppliers are situated. The knowledge of the supply chain by the purchasing department may be insightful in the process.

Furthermore, they are the contact point with suppliers and may investigate more insight into the supply chain.

Next, purchasing may be a supporting factor in identifying and prioritizing adverse impacts. The category perspective of purchasing may identify risky categories. Furthermore, conversing with suppliers may also identify adverse impacts. In prioritizing adverse impacts, the spend analysis provided by the purchasing department may help. How a spend analysis may contribute to prioritizing adverse impacts, may be a relevant topic for future research.

Third, due diligence including adverse environmental and human rights impacts should be integrated into their purchasing policy and processes. DELA and other financial organisations that have not integrated this, are advised to do so. They should investigate what can be secured in contracts and their supplier code of conduct.

Moreover, the purchasing department should start including human rights and the environment in the supplier selection. In performing this due diligence already, this can cause less work in the future, because there will be fewer issues in future supplier relationships to handle.

Lastly, they are advised to add risks for adverse environmental and human rights impacts in existing risk management process. As the risk management process at DELA resembles that of the due diligence directive, integrating due diligence in processes is mainly an addition to their existing risk management process for tenders. Other financial organisations are advised to investigate whether their current risk management processes are in line with the due diligence obligation.

5.4.6. Guidance and tooling

Next to practical steps, guidance and tooling can be utilised by financial organisations including DELA to ease the implementation process. The way businesses will integrate and use such tools for the upcoming directive may be a possibility for future research. When looking at guidance, there was a contradicting result in the existence of sector-specific guidance. However, the OECD

guidelines do offer sector-specific due diligence guidance, explaining the right answer on this contradicting result (OECD, 2023b).

When looking at what can be secured in contracts, financial organisations and DELA may investigate the model clauses that will be introduced by the EC. However, as these model clauses are inspired by models provided by the American Bar Association, investigating these may already give a first impression. Furthermore, investigating the usage of existing tools is also advised, but they should first have identified what data points are needed and then see if they can find a match in existing tools.

Besides practical preparational steps, guidance and tooling, results suggested that the CSDD directive mainly offers an addition to risk management, where risk categories are to be added and addressed. Smit et al. (2021) also describe that performing a human rights impact analysis, with identifying human rights impacts, could be integrated into current risk management processes. This means that in the implementation process, businesses may not have to come up with totally new processes or alter much on current processes. Instead, they may be able to integrate it into existing risk management processes.

6. Conclusion

The aim of the research has been to answer the main research question on what the consequences of the CSDD directive for purchasing departments in financial organisations are and how they can prepare for its implementation.

Concluding, the CSDD directive proposal aims for more responsible business conduct by making large businesses responsible for negative human rights and environmental impacts. Businesses are to identify and treat these adverse impacts and monitor the effectiveness of this due diligence process. They are to align their business plan with the Paris Agreement. Businesses can be held accountable for adverse impacts on their chain of activities if they have not implemented these processes and could have prevented such impacts.

Several possible consequences are related to the CSDD directive. If not compliant, they risk receiving fines from the regulatory authority. Businesses also risk lawsuits, reputational damage and an extra bureaucratic burden. On the contrary, the CSDD directive may render an increased responsible business conduct, a new quality in supply chain management, clean value chains. Specifically for the purchasing department this could imply, a closer grip on spend on suppliers and drying out of maverick buying. Therefore, it can be concluded that next to the risks, the CSDD directive may also induce chances.

The directive proposal awaits a final EP vote, and the financial sector is definitively in scope yet. Therefore, financial organisations can proactively take practical steps to strategically prepare for its eventual implementation, using existing guidance and tools, where the preparational approach should be interdisciplinary. The purchasing department has a supportive role in this process, with useful upstream activity access and information.

Concluding, the due diligence process to be implemented seems to be an addition to existing risk management processes within businesses mainly, adding human rights and environmental

aspects as new categories to be investigated. It is possible that financial organisations can implement the obligations in the CSDD directive to current risk management processes. They probably do not have to make large alterations in current processes or create many newly aligned processes.

6.1. Limitations

While the research has given valuable insights into the CSDD directive, acknowledging the limitations of the study is essential. This section will discuss limitations that may have influenced the research process and its outcomes.

Starting with the methodology in which eleven interviews have been conducted with experts on the topic. Eleven interviews are a small number to actually draw conclusions from. However, the point of saturation was strived for and accomplished with five consultants and five lawyers, with which the internal validity was enhanced. Not all consultants and lawyers were employed at large firms, which may have influenced the external validity, because they may not have directly been in contact with the large businesses that are to be compliant, which may cause them to not completely represent the variety of perspectives. Additionally, one interview has been conducted with an EU member involved with the CSDD directive. This affects the external validity of the results coming from this interviewee. It limits the generalizability of these outcomes, as other EU members may have had different perspectives on the topic. In comparison with the lawyers and consultants, the policymaker gave similar answers regarding the preparational steps. However, the policymaker gave more inside information related to the development of the directive itself. Examples are the deletion of the 'established relationships' term and the trilogue information.

Moreover, semi-structured interviews have been conducted, which could have caused some topics to be discussed with one or two interviewees and not with the others. This could be affecting the internal validity negatively, as a comprehensive understanding of those specific topics may be limited. This is also the reason why the significance of certain findings is not merely found in the frequency of a mentioned code or theme.

Moving on to the data analysis, codes and themes were generated by one researcher only and were not checked by others, which was constrained by the duration of the thesis. The internal validity could be affected negatively because, with one researcher only, a risk of bias in the interpretation of the data exists. After all, other researchers might have a different interpretation. Additionally, coding by one researcher impacts the reliability, because other researchers might code and create themes differently. The research therefore may have a lower interrater reliability. However, the process of the creation of the final thematic maps has been transparent and can be found in section 5.1.1., which may positively contribute to the reproducibility and therefore the reliability of the research.

In examining current business preparation results, answers to whether businesses are already preparing were infrequent and divided opinions among the interviewees. Given that most interviewees were advice-giving lawyers or consultants, this result could be found in their client base. If an interviewee has been approached by clients concerning the directive, they would gain insight into current preparation practices. On the contrary, when an interviewee had none of those clients, they would not know of any preparing businesses. This phenomenon may affect the external validity of the research, because this result is difficult to be generalised over the entire population of businesses.

6.2. Future research

Smit et al. (2021) and McCorquodale et al. (2017) researched the implementation of human rights due diligence, focusing on current practices. However, an indication of the percentage of businesses that implemented HRDD may be interesting for future research. Also, researching the actions of preparing businesses for the CSDD directive is a future research topic, as the results of current practices in this thesis were derived from consultants, lawyers and DELA, instead of a large population of businesses currently preparing themselves. It is expected that the number of businesses preparing is low, because the directive has not been adopted yet. Researching the current practices may render more results when the directive has been adopted by the EP.

The results suggested that the impact on the financial sector might be less than other sectors and they most often do not have a complex supply chain. However, a relevant future research topic might be to identify if this is the case and what sector are mostly impacted by the directive, once it has completely been implemented.

Besides the risks mentioned in Section 4.3.2. more risks involved with the CSDD directives might exist for financial organisations. Future research is needed to identify more risks and research in what way those risks will take form. It is a relevant future research topic as it may indicate what other significant risks businesses could face with no compliancy and stress the importance of the necessity for businesses to start preparing.

As described in 5.4.3., gaining insight in higher tier suppliers may be difficult. Researching ways of gaining insight into these higher tier suppliers is a relevant future research topic. Businesses might be able to use these insights to get access to information further in their supply chains. In the impact analysis, purchasing can support both the identification and prioritization of risks. The actual usage and effectiveness of purchasing supporting in these processes are relevant future research topics.

Results suggested that because of the CSDD directive, the purchasing department may get a closer grip on the spend and a possibility of drying out maverick buying, which is an interesting topic for future research. Once the CSDD directive is implemented it would be interesting to find out if and why this is true at businesses compliant to the CSDD directive.

Appendix A

Interview guide members of the European Parliament and jurists

Could you please briefly introduce yourself and tell me what you currently do?

What are the possible consequences of the CSDD directive?

- What are the most significant consequences in your opinion?
- Why?
- What are possible consequences for a purchasing department within a business (processes like supplier selection/ evaluation)?

Which sectors will the directive have the most impact on?

- Why?

How will the directive have an impact on companies within the financial sector?

How can targeted companies in the financial sector prepare for the directive?

What actions can purchasing departments within targeted companies in the financial sector take to prepare for the directive?

Can this preparation be done by the purchasing department alone or is it a cross-functional process, in which more departments need to act and why?

Are businesses already preparing for the upcoming directive that you know of and what are they doing?

More in detail

How can the OECD guidelines help in complying with the CSDD directive?

- How should they be used by businesses willing to comply with the CSDD directive?

Within the directive, several terms that remain open to interpretation can be found. Mostly it includes terms as, 'relevant' and 'appropriate'. Examples of these terms can be found in the questions below. Considering the time in the interview, we will see if we can discuss them all. Otherwise, the question is how these terms are normally assessed and judged and what businesses can do to comply to these terms?

The proposal defines an appropriate measure as “a measure that is capable of achieving the objectives of due diligence, commensurate with the degree of severity and the likelihood of the adverse impact, and reasonably available to the company, taking into account the circumstances of the specific case, including characteristics of the economic sector and of the specific business relationship and the company’s influence thereof, and the need to ensure prioritisation of action.” These appropriate measures are to identify actual and potential adverse impacts. How should businesses organise its appropriateness and assess it?

Article 6 states “Member States shall ensure that, for the purposes of identifying the adverse impacts referred to in paragraph 1 based on, **where appropriate**, quantitative and qualitative information, companies are entitled to make use of **appropriate** resources, including independent reports and information gathered through the complaints procedure provided for in Article 9” How should businesses assess when quantitative and qualitative information is appropriate and what appropriate resources are?

Actions are mentioned in articles 7 and 8 for preventing, minimizing and ending adverse impacts. Businesses are required to take these actions where relevant. How should they assess when these actions are relevant?

Companies are to develop corrective and preventive action plans, whether they deem it relevant. How should a business interpret this open-ended term “relevant”?

- How should they develop these action plans? Are there examples?

Considering stakeholder engagement, how are businesses to decide whether stakeholder engagement is relevant?

Article 10 describes that the effectiveness of the due diligence process should be assessed based on appropriate kpis, how should businesses do this and how should they identify appropriate kpis?

Appendix B

Interview guide ESG consultants and lawyers

Could you please briefly introduce yourself and tell me what you currently do?

Are businesses already preparing for the upcoming CSDD directive that you know of?

- Do you know what they are doing to prepare for the directive?
 - o Why?

What are the possible consequences of the CSDD directive?

- What are the most significant consequences in your opinion?
- Why?
- What will be the consequences for a purchasing department within a business?
- What are the consequences for the purchasing process within a business?

Which sectors will the directive have the most impact on?

- Why?

How will the directive have an impact on companies within the financial sector?

How can targeted companies within the financial sector prepare for the directive?

What actions can purchasing departments within targeted companies in the financial sector take to prepare for the directive?

- Why?

Can this preparation be done by the purchasing department alone or is it a cross-functional process, in which more departments need to act and why?

Appendix C

Thematic analysis: Phase 3

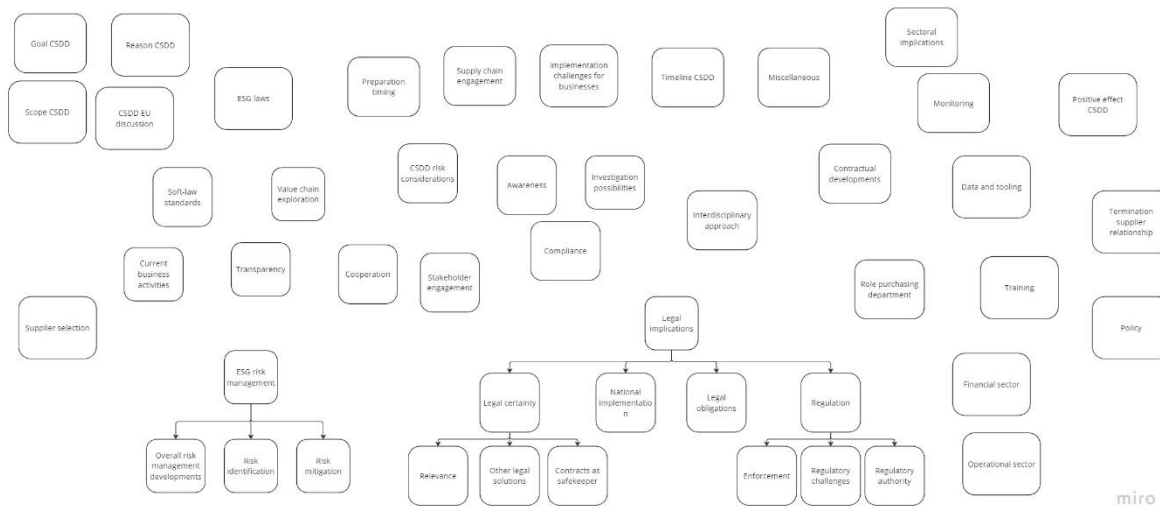
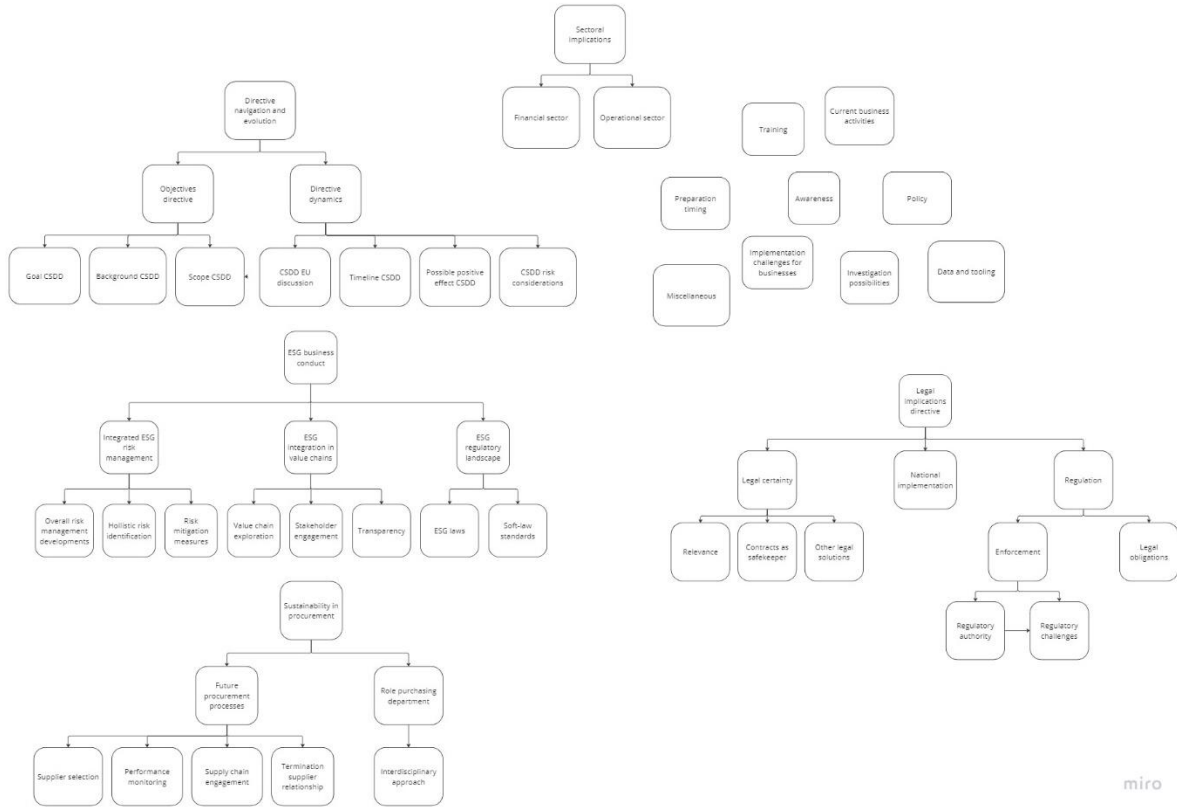


Figure C1 - Phase 3 of the thematic analysis

Appendix D

Thematic analysis: Phase 4



miro

Figure D1 - Phase 4, the initial thematic map

Appendix E

Thematic map of the last phase of thematic analyses

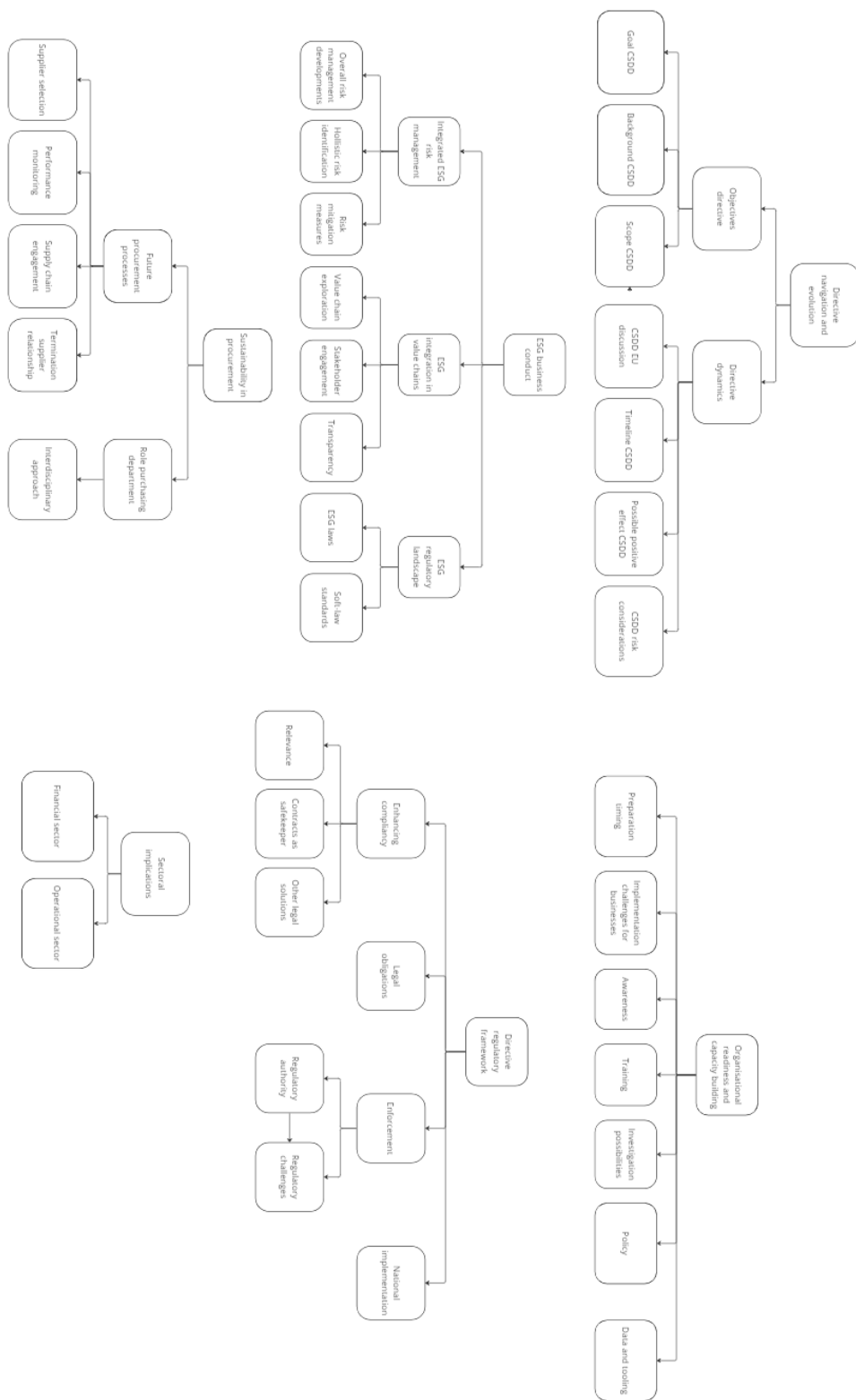


Figure E1 - Last phase, the final thematic map

Appendix F

Dutch quotes and translations lawyers

Lawyer 1

Original quote 1: “gaat er heel veel aandacht op prioriteit nu uit naar CSRD, de CSRD readiness. En wat moet je doen om klaar gestoomd te geraken? Minder nog bij de CSDDD”

English translation 1: “A lot of attention is now directed towards CSRD, the CSRD readiness. And what do you need to do to get prepared? Even less so for the CSDDD”.

Original quote 2: “Wat doen de ondernemingen zelf als ze niet de juiste informatie krijgen als de suppliers niet genoeg meebewegen, dan wordt het dan een termination van de supplier relationship. Of niet of kunnen ze het dialoog aangaan met die supplier en zorgen dat er acceleratie op komt op de vergroening om het zo maar te zeggen.

English translation 2: “What do businesses do if they do not receive the right information, if suppliers are not cooperative enough, then it may lead to a termination of the supplier relationship. Or not and can they engage in dialogue with the supplier and make sure the greening process is accelerated, so to speak.”

Lawyer 2

Original quote 1: “Zeker bij grotere bedrijven wordt al due diligence gedaan op solvabiliteit, liquiditeit. Kijken is het een veilige samenwerkingspartner.”

English translation 1: “Especially in larger companies, due diligence is conducted on solvency and liquidity. Investigating the reliability of the collaboration partner”

Original quote 2: “heb je in je supply chain dwangarbeid, kinderarbeid geborgd?”

English translation 2: “did you cover forced and child labour in your supply chain?”

Original quote 3: “dit beleid moet bedrijfsbreed gedragen worden en moet uiteindelijk ook worden goedgekeurd door de board en door het bestuur.”

English translation 3: “this policy need to be embraced throughout the entire business and ultimately has to be approved by the board of directors).”

Original quote 4: “de OESO richtlijnen die al heel veel handvatten geven, heel duidelijk stappenplan ook hoe je het moet doen”

English translation 4: “the OECD guidelines that offer much guidance, including a clear step-by step plan on how to approach it”

Lawyer 3

Original quote 1: “je haalt risico’s binnenboord afhankelijk van met wie je samenwerkt in het kader van je procurement activiteiten”

English translation 1: “you bring risks in-house depending on whom you cooperate with, in the context of your procurement activities”

Lawyer 4

Original quote 1: “als ze niet aan alles kunnen voldoen in overweging om dan niet met zo'n leverancier samen te werken. En dat kan natuurlijk best wel grote consequenties hebben voor de bedrijfsvoering”

English translation 1: “if they cannot meet all the requirements, a consideration may be not to work with such a supplier. And that can have significant consequences for the business operations”

Lawyer 5

Original quote 1: “Wat is nou aan dat bedrijf toerekenbaar nog? Het is natuurlijk altijd wat staat nog in enig causaal verband tot hun verplichtingen onder die richtlijn.”

English translation 1: “What can still be attributed to that business? It is a matter of what is still causally related to their obligations of the directive.”

Original quote 2: “hebben niet echt een directe supply chain. Die halen niet allerlei basisgoederen uit heel de wereld om daar hier producten van te maken. Maar ik denk, dat zij wel supply chains financieren.”

English translation 2: “do not really have a direct supply chain. They do not source various basic goods from around the world to produce products here. Though, I believe they finance supply chains.”

Original quote 3: “zorg dat je bedrijfsvoering die mogelijk geraakt wordt door de richtlijn om die in kaart te brengen. Dat is eigenlijk stap één. Hoe werkt ons bedrijf nou eigenlijk? Hoe ziet onze supply chain eruit nu precies uit? En als we dat dan langs de eisen van de richtlijn leggen, wat zouden we dan eigenlijk moeten doen?”

English translation 3: “Ensure that your business operations that may be affected by the directive are mapped. That is basically step one. How does our company operate? What does our supply chain look like exactly? And if we align that with the directive’s requirements, what actions should we take?”

Appendix G

Dutch quotes and translations consultants

Consultant 2

Original quote 1: “Misschien nog niet meteen een boete van de toezichthouder, die wacht misschien nog wat af aan het begin en kan bedrijven even een ingroeperiode geven.”

English translation 1: “Perhaps not immediately penalties from the regulatory authority, they might wait a bit at the beginning and allow businesses a grace period to adjust”

Original quote 2: “je hebt wel je populatie in beeld na zo’n in kaart brengen van het ketenlandschap. Kan groot en niet erg zijn en klein en heel risicovol”

English translation 2: “Your population is in view after mapping the landscape of the supply chain. Could be large and less risky or small and highly risky”

Consultant 3

Original quote 1: “Selectie van leveranciers gaat anders worden”

English translation 1: “Supplier selection is going to change”

Original quote 2: “wat nu ook al onder de OECD guidelines geldt dat veel meer gaat om samenwerken, dus samen zorgen dat er geen misstanden in de waardeketen zitten”

English translation 2: “what already applies under the OECD guidelines is much more about collaboration, so ensuring together that there are no violations in the value chain”

Original quote 3: “het raakt sowieso alle functies, maar daarnaast ook de kennis die ervoor nodig is, zit verspreid over alle functies”

English translation 3: “it affects all functions, but additionally, the knowledge required is spread across various functions”

Original quote 4: “waar zitten nu de risico’s op misstanden in die waardeketen zoals ik ze zie? Welke stakeholders zijn erbij betrokken en dan het gesprek aangaan. Hoe gaan we hier iets aan doen? Weten we van die misstanden, zijn die er al? Vermoeden we ze en wat is er nodig om die te gaan voorkomen en als ze al bestaan weg te nemen?”

English translation 4: “Where are the risks of misconducts in the value chain, as I see them? Which stakeholders are involved and then initiate the conversation. How are we going to address this? Do we know about these cases, are they already there? Do we suspect them and what is needed to prevent them, and if they already exist, remove them?”

Original quote 5: “alles wat er aan guidance al beschikbaar is in die zin gebruik dat in je voordeel, is ook altijd mijn advies aan ondernemingen”

English translation 5: “all available guidance, use that to your advantage is always my advice to businesses”

Consultant 5

Original quote 1: “Het is natuurlijk wel zo dat er volgens mij een aantal specifieke risicosectoren ook benoemd worden in de CS3D, dus daar zal de verwachting ook hoger zijn”

English translation 1: “It is the case that, to my understanding, a couple of specific risk sectors are also mentioned in the CS triple D, so the expectations will be higher over there.”

Original quote 2: “het ergste wat er kan gebeuren is dat je meer doet dan dat er in de directive is vastgelegd. Maar in de basis zijn het min of meer dezelfde activiteiten”

English translation 2: “the worst that can happen is that you do more than what is described in the directive. But basically they are more or less the same activities”

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