

Research for Policy

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# Good Business

Policy to Unlock Companies' Benefit  
for Society

WRR

THE NETHERLANDS SCIENTIFIC COUNCIL FOR GOVERNMENT POLICY

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# Research for Policy

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# Preface

This book is a translation and adaptation from the Dutch report *Goede zaken. Naar een grotere maatschappelijke bijdrage van ondernemingen*, which was presented to the Minister of Economic Affairs and Climate Policy in September 2023. In this book, the Netherlands Scientific Council for Government Policy (WRR) argues for a change in business-related government policy in the Netherlands: stop pampering and start challenging companies to find solutions for society.

The original Dutch publication was written by a project group consisting of Arnoud Boot (Council Member), Catrien Bijleveld, (Council Member), Marthe Hesselmans, Bart Stellinga, Ramy El-Dardiry, and Danique François. Earlier in the project timeline, Alyt Damstra and Josta de Hoog also made significant contributions. At different times in the project interns Sjaroes Salimian, Taco Prins, Jelle Holtzapffel, Sjoerd Kok, Linda den Bol, Casper de Haes, Dorian de Gruijter, Maxime Straatman, Emma Willems, Kalyma Nadal Uceda en Matthijs aan het Rot were involved. Invaluable support was provided by Dmitri Berkhout, Paul van den Berg, and Mitra Javanmardi. The Dutch publication has been adapted for an international audience but has not been updated.

*Good business. Policy to unlock companies' benefit for society* is the product of a comprehensive review of academic literature, policy documents, consultations with experts, group discussions, and in-house analyses. Two background studies were also conducted. Rutger Claassen authored 'De legitimiteit van bedrijven in een liberale democratie. Een politiek theoretische benadering' (The legitimacy of corporations in a liberal democracy. A political theoretical approach), which was published as a WRR Working Paper (no. 43). Erik Stam authored 'Theorieën van de onderneming. De winst van een dynamische brede welvaarts benadering' (Theories of the Firm. The benefits of a dynamic general welfare approach), published as a WRR Working Paper (No. 52). Both working papers are in Dutch and can be found on the WRR website.

The project group conducted interviews with over two hundred experts from various companies and business sectors, supervisory authorities, ministries, academia, and civil society organizations. The authors wish to thank these interviewees for

generously sharing their insights, which have been invaluable in shaping our report. Their names are listed at the end of this document.

In the final phase of the project, various texts were reviewed by Marcel Timmer, Arjen van Witteloostuijn, Lans Bovenberg, Keetie Sluyterman, and Bas ter Weel. We thank them for their comments and valuable suggestions.

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**Competing Interests** The authors have no competing interests to declare that are relevant to the content of this manuscript.

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# Chapter 1

## The Role of Companies in Addressing Societal Challenges



### Contents

1.1 A Timeless Issue with Renewed Urgency .....	2
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Just like many other countries, the Netherlands faces significant challenges across various domains, notably climate change, health, the labour market, and earning capacity.<sup>1</sup> Environmental problems such as pollution and declining biodiversity demand transformative shifts in our products, production processes, and consumption patterns.<sup>2</sup> Junk food is contributing to health problems that put great pressure on the Dutch health and social care system. Meanwhile, the Dutch economy is experiencing stagnant productivity growth.<sup>3</sup> At the same time, for certain segments of the workforce, working conditions are being eroded.<sup>4</sup> In short, there are substantial societal challenges across a multitude of domains.<sup>5</sup>

To address these challenges requires collaborative efforts and initiatives from citizens, civil society organisations, the government and, critically, from companies.<sup>6</sup> Companies are indispensable to societies: by leveraging their creativity and

---

<sup>1</sup>In this book we understand the term earning capacity to mean ‘the ability to generate structural economic wealth and social well-being, now and in the future.’ TNO (2024), see also WRR (2013).

<sup>2</sup>Bouma et al., (2020); Statistics Netherlands (CBS) (2021); Hanemaaijer et al. (2023).

<sup>3</sup>De Bondt et al. (2021); Brennenraedts et al. (2021).

<sup>4</sup>Euwals et al. (2016); Jongen et al. (2023); Organisation for Economic Co-operation and Development (OECD) (2015b); Rijksoverheid (2020).

<sup>5</sup>Putters (2022).

<sup>6</sup>The Netherlands Scientific Council for Government Policy (WRR) (2012).

organisational capabilities they can devise solutions and operationalise new ideas. However, this is not a given. Companies can also be part of the problem, for example when their production processes involve the exploitation of workers or if their products are harmful to health and the environment.

The central question this book explores is: How can companies be incentivised to deliver the greatest possible positive impact on society? That question, both timeless and pressing, arises from the growing challenges confronting societies throughout the world. Focus of this book is the impact of companies and business-related policies on societal challenges in the context of the Netherlands.

## 1.1 A Timeless Issue with Renewed Urgency

A glance at a map of the Netherlands reveals how companies can benefit society. Across the country we find towns and neighbourhoods that were founded by and named after entrepreneurs, such as Nijverdal in the east and Philipsdorp in the south. Throughout the nineteenth and early twentieth centuries, these individuals strove to achieve a higher standard of living for their employees and their families.

While this approach benefited those employees and their families, the entrepreneurs also profited. They discovered that a higher standard of living resulted in better quality work and greater employee involvement. The Dutch textile and machinery manufacturer Charles Theodorus Stork believed that “enterprises committed to understanding and advancing the moral and material welfare of their workers ultimately excel in their commercial endeavours.”<sup>7</sup> In the symbiotic relationship between business success and making a positive impact on society, each can reinforce the other.

Yet there is another side to the story. Late in the nineteenth century, many Dutch companies paid low wages, imposed long working hours, used child labour for strenuous and hazardous work, offered substandard housing, and made little or no provision for unemployment, illness, or accidents. Public concern about such matters led to a parliamentary inquiry in 1886–1887. In the course of this inquiry, when asked why he permitted children under the age of 14 to engage in physically very demanding tasks, the Dutch factory manager Louis Regout responded: “I cannot afford to fall behind my competitors, who would not voluntarily refrain from doing so, and it would be unfortunate if our neighbours, such as the Belgians, continued to pursue their current working practices.”<sup>8</sup>

The viewpoints expressed by Stork and Regout underscore the fact that companies never operate in isolation. Even today, making a positive impact partly depends on the context in which the business operates, including the decisions made by consumers, competitors, financiers, employees, *and* the government. The latter has a

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<sup>7</sup>Stork (1888).

<sup>8</sup>Cited in: Giele (1981).

key part to play here. After all, government policies have great and wide-ranging influence on companies' production processes and on the nature of their products and services.

Given the current tasks, it is imperative to recalibrate strategies that ensure that companies make a greater positive impact, and to define an appropriate role for the government in this regard. In this book, the Netherlands Scientific Council for Government Policy outlines the recalibration in question. We argue that the government tends to pamper incumbent firms, instead of incentivising all companies to help resolve societal challenges. Hence, the potential of companies to contribute to society remains untapped.

### **Box 1.1 Key concept: companies**

We use the term 'companies' to refer to organisations that provide products and/or services aiming to generate profit.<sup>9</sup> We use the term 'firm' as a synonym. When we mention 'companies' we generally do not mean government agencies. Nevertheless, the Dutch government owns shares in some major companies such as KLM or ABN AMRO. In some companies, such as DUTCH RAILWAYS (NS) and Schiphol airport, all shares are owned by the government.

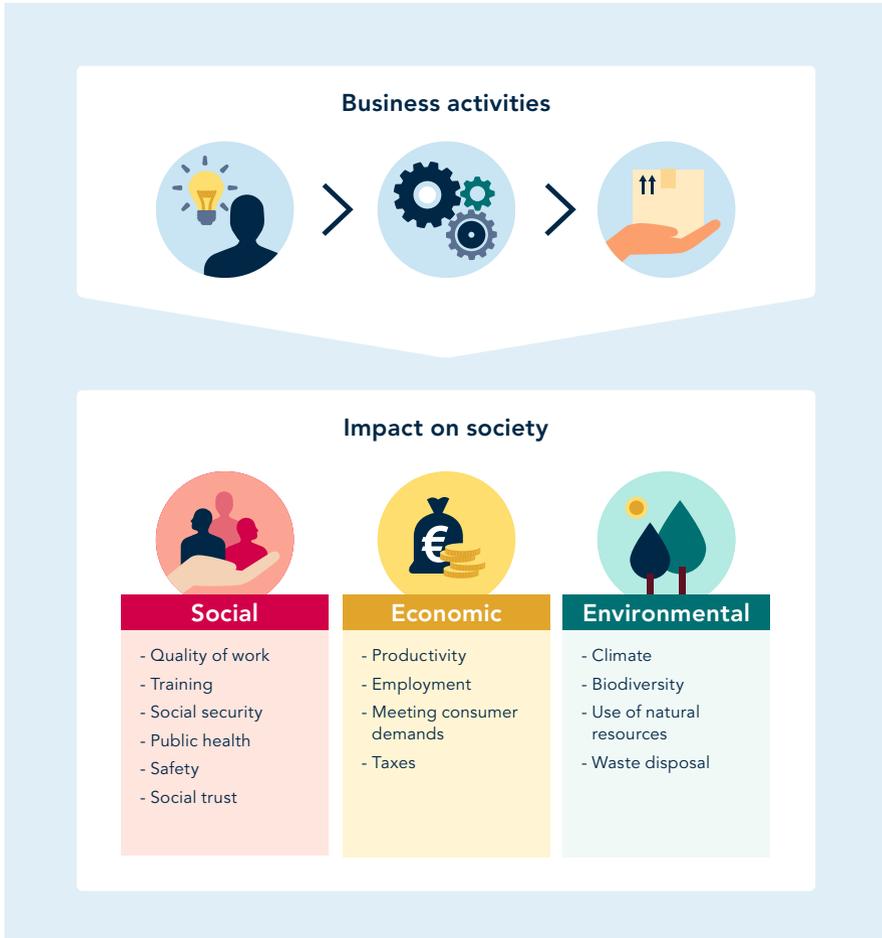
A company also has a legal dimension. Some companies in the Netherlands have a legal personality, while others do not. A company with a legal personality is an independent entity recognised by law, capable of entering contracts, maintaining its own financial records, and operating under its own financial liability and risk. The most important legal forms for companies with a legal personality in the Netherlands are the public limited company (NV; often listed companies), the private company (BV) and the cooperative form.<sup>10</sup> Companies without a legal personality are sole proprietorships, partnerships, limited partnerships (CV) or general partnerships (VoF).

In this introductory chapter, we start by examining the framework we use to assess companies' positive impact (Sect. 1.2). Below we explain why, in this book, we have cast the net wider than the role played by individual companies (Sect. 1.3). We go on to explain what we mean by the context in which companies operate (Sect. 1.4). Finally, we briefly discuss the essence of our analysis (Sect. 1.5).

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<sup>9</sup>This definition is based on the one used by the Netherlands Tax Administration, which defines a business as "a sustainable organisation of labour and capital that aims to achieve profit through participation in economic activity".

<sup>10</sup>The law of legal entities in the Netherlands is mainly regulated in Book 2 of the Dutch Civil Code. Incidentally, individuals may also establish a private company for other purposes, including savings, investment, accruing a pension, and the management of real estate or stakes in other companies. See Deinum et al. (2022).



**Fig. 1.1** Dimensions of the impact of business on society

## 1.2 The Impact of Companies on Society

In this book, we take a broad view of the significance of companies for society. That view includes various interrelated social, economic, and environmental dimensions (see Fig. 1.1).<sup>11</sup> Each of these dimensions is critical to our general welfare.<sup>12</sup>

<sup>11</sup>This tripartite division is a fairly longstanding feature of academic literature (see, for example: Barbier (1987)). It is commonly used in contemporary literature on welfare and well-being, by Statistics Netherlands (CBS) and others.

<sup>12</sup>In the Dutch language the term ‘brede welvaart’ (translated as general welfare or well-being) is often used to indicate a broad view of welfare that includes social, economic and environmental

Companies can impact societal factors such as the quality of work, social cohesion, and public health. The economic dimension encompasses not only the income generated and jobs created but also investments made in productivity. In broader terms, companies fulfil the needs of consumers. When examining the environmental dimension, it's important to consider how companies impact natural resources, biodiversity and climate change. Companies can have a positive impact on every dimension, both in the short and long term. Yet this is not a given. Companies also have the potential to cause harm.

In this book we focus on companies' core activities, because through these activities, companies have the biggest societal impact. These core activities include the products and services they sell, as well as the production processes. Hence, companies' contribution to society should not be confined to philanthropy or activities that are detached from the company's business model.<sup>13</sup> The most ambitious opportunities *and* imperatives for companies to make a positive impact—socially, economically and environmentally—stem directly from their core activities.

The strength of companies lies in their pursuit of efficient production processes, effectively responding to consumer preferences, and innovating products and services. Naturally, it is important to take differences between companies into account. This encompasses external attributes such as size, legal structure, sector, and age, as well as diverse business strategies and their position within the value chain. Companies excel by virtue of their capacity to maintain a certain level of focus. Some companies primarily aim to provide products or services at competitive prices. In many cases, scale and tightly organised production processes are vital for achieving this goal. Other companies focus more on a specific niche, such as supermarkets that exclusively offer organic products. Some companies may endeavour to become innovative market leaders, by making the continuous innovation of products and services a key element of their strategy. Such players on the global stage include Tesla and Apple, while Adyen and ASML are notable examples in the Netherlands.

Similarly, companies can generate adverse outcomes through their activities, products and services. For instance, they may use monopoly power to impose high prices or produce substandard products. Alternatively, their use of platform technology could jeopardise workers' social protection. Likewise, working conditions could fall short of expectations, or production processes could contribute to environmental pollution. However, negative effects can also manifest themselves in more subtle ways. For instance, certain fashion brands may portray a not very diverse image of models in their marketing, thereby negatively impacting young people's self-image.

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dimensions. This book uses the terms 'general welfare' or in short 'welfare' to imply this broad perspective unless a more narrow view of welfare is explicitly mentioned. See also Chap. 2.

<sup>13</sup>Social and Economic Council of the Netherlands (SER) (2000, p. 12).

**Box 1.2 Key concept: doing good business**

The key concept of doing ‘good business’ in this book is about the positive impact that companies have on society—socially, economically, and environmentally. Societies today face grand challenges in the domains of climate change, health, the labour market, and earning capacity, for which the involvement of companies is of great importance. Throughout the book we will use ‘making a positive impact’ as a synonym for doing good business. Importantly, we focus on companies’ core activities, in other words we focus on companies’ impact through their products, services, and production processes. We differentiate impact from the concept of doing good business by noting that impact includes both positive and negative effects of companies on society.

Using the value chain in the clothing industry as an example, Fig. 1.2 illustrates the full scope of companies’ impact.<sup>14</sup> In the clothing industry, for instance, companies help to tackle challenges by creating recyclable products and by incorporating sustainability into the design process. The funds generated from selling products and services can be channelled into compensating employees, repaying financiers, settling accounts with suppliers, and contributing to government revenues through taxation. Conversely, entrepreneurs may exploit their workforce during the production process or contribute to environmental pollution.

This broad perspective on the effects companies have on society complicates the task of pinpointing the exact nature of the impact in question. The three dimensions—social, economic and environmental—are not readily quantifiable in uniform units.<sup>15</sup> In recent years, there has been a surge in the number of initiatives designed to more accurately measure the impact of companies on society.<sup>16</sup> These include tools like sustainability ratings and impact reports, for instance. We see several difficulties here. For instance, one common issue is the absence of precise standards. As a result, the assessment of impact is contingent on the interpretations provided by different rating agencies, non-governmental organisations (NGOs), or companies themselves. The multiple dimensions of companies’ impact on society further complicates the task of accurately assessing a company’s score.

This book is not intended to provide a precise definition of what ‘making a positive impact’ means for companies. We mainly underscore the importance of taking an integrated approach to assessing their contribution to society, extending beyond the economic dimension alone. Acknowledging that the quality of work and a clean environment are of equal value to the products and services sold in physical stores or online, it becomes indispensable to adopt a broad perspective.

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<sup>14</sup>Clothing’s value chain has been extensively studied in the business literature, although precise interpretations may vary. For instance: McNamara (2008); Niinimäki et al. (2020).

<sup>15</sup>Bos et al. (2022).

<sup>16</sup>See Box 5.4 later in this book.

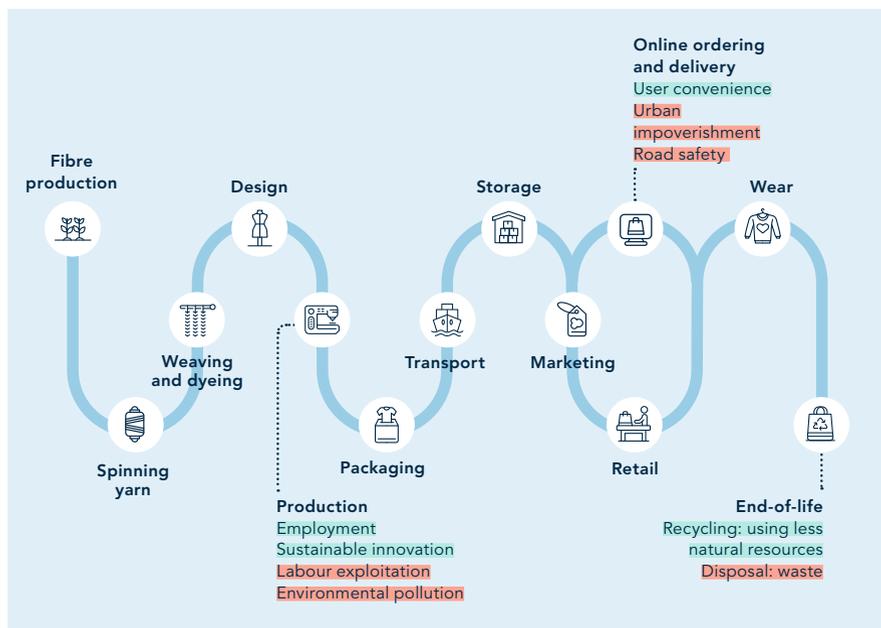


Fig. 1.2 Negative (orange) and positive (green) societal effects in the clothing value chain

### 1.3 Beyond the Individual Company

Debates about companies' efforts to make a positive impact often focus on what more individual companies could do or what they could do better. In the Netherlands for instance, companies are expected to commit to 'proactively' promoting healthier eating habits among consumers or improving working conditions within their supply chains.<sup>17</sup> There are a variety of different terms for this—in particular 'corporate social responsibility' (CSR) and 'People, Planet & Profit'—which often have varying interpretations.<sup>18</sup> A defining feature is that the various terms are rooted in activities that companies largely decide upon and execute themselves, either independently or in collaboration with other parties.

While certain companies are indeed making a positive difference in this way, the cumulative impact of private initiatives will not be enough to successfully tackle the complex challenges Dutch society faces. Furthermore, there is a genuine risk that initiatives in the context of CSR or People, Planet & Profit may ultimately serve as nothing more than elaborate marketing strategies. For example, large oil and gas

<sup>17</sup>Organisation for Economic Co-operation and Development (OECD) (2015a, p. 75).

<sup>18</sup>Kolk and van Tulder (2010); Social and Economic Council of the Netherlands (SER) (2000); Sluyterman (2004).

companies have expressed their intention to promote clean energy or ‘net zero’ emissions, yet their investment strategies do not reflect this commitment.<sup>19</sup> The controversy surrounding the quality of compensation schemes, such as carbon credits, concerns the risk of greenwashing, in which companies paint a rosier picture of their impact than is justified.<sup>20</sup>

Accordingly, researchers and policymakers in the Netherlands emphasise the need for reforms in corporate governance, if companies are genuinely seeking to make a more positive impact on society.<sup>21</sup> This includes the question of who should wield influence over a company’s decision-making processes. For instance, it’s argued that companies have given too much priority to the financial interests (including short-term interests) of shareholders. The stakeholder model offers an alternative approach in which the interests of other stakeholders, such as employees and consumers, are given more equitable consideration alongside those of shareholders.<sup>22</sup> The question here is how much society benefits when companies explicitly define a societal purpose.

These key issues are revisited at several points in this book. However, our scope extends beyond policies solely focused on the organisation of individual companies. We see a need to focus on the context in which companies operate. They are impacted by the actions of competitors at home and abroad, by consumer demand and by the extent to which they can get away with offloading costs onto society. Societal challenges—whether related to innovation, working conditions or climate extremes—are brought to the attention of business management via diverse channels. These include their own employees, customers, citizens, NGOs, shareholders and other financiers, trade associations, and, of course, the government. An overemphasis on the individual role of companies causes people to overlook wider issues. This book focuses on how the government can influence companies’ contexts to incentivise them to make a positive impact.

## 1.4 Focus on the Context of Companies

By focusing on the context in which companies do business, several policy domains come into focus, at local, national, and international levels. These are market and sector-specific regulations, innovation policy, labour market policy, environmental policy, financial regulation, and so on. All these domains offer opportunities for the

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<sup>19</sup>Li et al. (2022).

<sup>20</sup>Delmas and Burbano (2011); de Freitas Netto et al. (2020).

<sup>21</sup>Claassen and Schoenmaker (2022).

<sup>22</sup>Mayer, 2018; for the Netherlands see, for example: Cools (2021).

government to push companies to engage in innovative endeavours aimed at addressing society's challenges.

Take the regulation of markets and sectors. This type of regulation focuses on how the interests of society, including the affordability, quality, accessibility, and safety of specific services or products, can be adequately safeguarded. Companies have voiced substantial criticism about the regulatory burden of varying regulatory and assessment frameworks.<sup>23</sup> Conversely, there is also the concern that policymakers and supervisory authorities might err on the side of insufficient regulation and be excessively influenced by the views of established parties. Illustrative is the Dutch debate surrounding the inadequate regulatory oversight of steel producer Tata Steel and the related concerns about health risks for employees and citizens living near the steel plant in the north-west of the Netherlands.<sup>24</sup>

Competition policy is another key instrument for safeguarding the interests of society in markets. There is a fundamental divergence of views within the scientific community about whether antitrust regulations should be relaxed to expedite the resolution of certain challenges, or rather be tightened or left unchanged. Some scientists see cause for stricter regulations as they highlight the growing consolidation in numerous sectors and the dominant position that large companies may achieve as a result.<sup>25</sup> On the other hand, there is the concern that competition policy hinders companies' efforts to become more sustainable. European competition policy sets limits on business collaboration, to prevent the formation of cartels that could negatively impact consumers. Critics contend that, in certain instances, cooperation is essential to effectively promote sustainability or to improve the terms and conditions of employment.<sup>26</sup> Other researchers stress that existing regulations already provide great scope for cooperation, underscoring the pivotal role of competition in helping to foster sustainability.<sup>27</sup>

In this book, we explore conflicting tensions of this kind: which government policies for business can best address harmdoing by companies and facilitate the transformations needed to address the grand challenges our society faces today? If society's problems are to be tackled effectively, changes must be made across many domains by companies as well as governments.

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<sup>23</sup>The Confederation of Netherlands Industry and Employers (VNO-NCW) & The Royal Association MKB-Nederland (MKB NEDERLAND) (2021, p. 20).

<sup>24</sup>Various studies have shown that emissions from Tata Steel, a steel business based in the province of North Holland, have led to serious air pollution in the area, and that supervisory authorities have not intervened adequately in response to this problem. Onderzoeksraad voor Veiligheid (Dutch Safety Board) (2023); Randstedelijke Rekenkamer (Randstad Court of Audit) (2019).

<sup>25</sup>IMF (2019); Philippon (2019).

<sup>26</sup>For example: CSR Platform (2016).

<sup>27</sup>Schinkel and Treuren (2020).

**Box 1.3 Key concept: business-related government policy**

In this book, we refer to government policies that impact companies as ‘business-related policies’. These span a wide array of policy domains, at local, national, EU and international level, including market and sector-specific regulations, competition policy, innovation policy, labour market policy, environmental policy, financial regulation and corporate governance codes. We have grouped all these aspects together under one umbrella to underscore the importance of coherence between the various methods used by government agencies to influence business activities.

We want to emphasise a key point here: the government should not take the place of the entrepreneur. Excessive government intervention can discourage private initiatives. Rather than taking the initiative, companies adopt a passive stance.<sup>28</sup> We are not implying that companies are invariably the most suitable, let alone the only, parties to tackle society’s challenges. This book does not focus on privatisation issues or on scenarios in which ‘the market’ takes the lead. The focus is on the preconditions and incentives that companies encounter in their context.

To gain insight into bottlenecks and solutions, we have extensively studied both the scientific literature and policy reports. We visited numerous companies in the Netherlands to gain a firsthand understanding of the challenges faced by companies in practice. We conducted interviews with over two hundred individuals from various business sectors, supervisory authorities, ministries, academia, trade unions, and NGOs.<sup>29</sup> These interviews always revolved around three pivotal questions. (1) how can companies make a more positive impact; (2) what currently prevents them from doing so; and (3) what is the role of government? We have chosen to focus our interviews on four sectors: the food industry, construction, insurance, and the chemical industry. These sectors represent a significant slice of the Dutch economy, offer a broad overview of the issues facing companies today, and are indispensable for resolving society’s challenges.

Our goal is not to present an exhaustive list of all the issues facing companies. We primarily want to identify the key obstacles that prevent companies making a more positive impact. While we focus on the situation in the Netherlands, we believe this book provides insights that will likely be familiar and relevant far beyond the Dutch context. We have sought to reflect the diversity among companies, in terms of age, size, organisational structure, and legal form and degree of international orientation. Our encounters with this wide range of firms—ranging from small startups and family-owned enterprises to small and medium-sized enterprises (SMEs) and large multinationals—have enabled us to incorporate the real-world experiences of companies into our analysis.

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<sup>28</sup> Boot (2021).

<sup>29</sup> See appendix for the list of interviewees.

## 1.5 Stop Pampering and Start Challenging Companies

Our research shows that companies have untapped potential, in terms of their ability to positively impact society. It is currently all too easy for companies to offload costs onto society, regardless of whether they do so intentionally or not. Governments must play a key part in altering this situation. They can modify the regulatory framework for companies, consumers, employees, and financiers in such a way that it's more worthwhile to do business in a way that helps resolve the grand challenges our society faces today, in other words: to do good business.

In this book we argue that the Dutch government is currently making too little use of its own abilities to make good business more worthwhile. Our analysis has revealed two key policy bottlenecks. First of all, the government is inclined to think in terms of the status quo. It tends to shield incumbent firms from turbulence through mitigation measures, such as tax breaks or flexible oversight and enforcement frameworks. The idea that financial support for companies should be the exception rather than the rule is rarely implemented. The pampering of companies encourages a passive mindset and hampers the efforts of innovators who seek to tackle society's challenges.

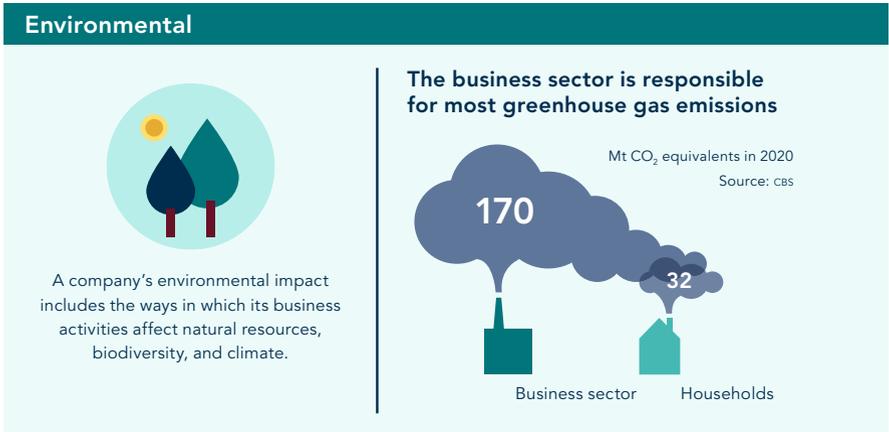
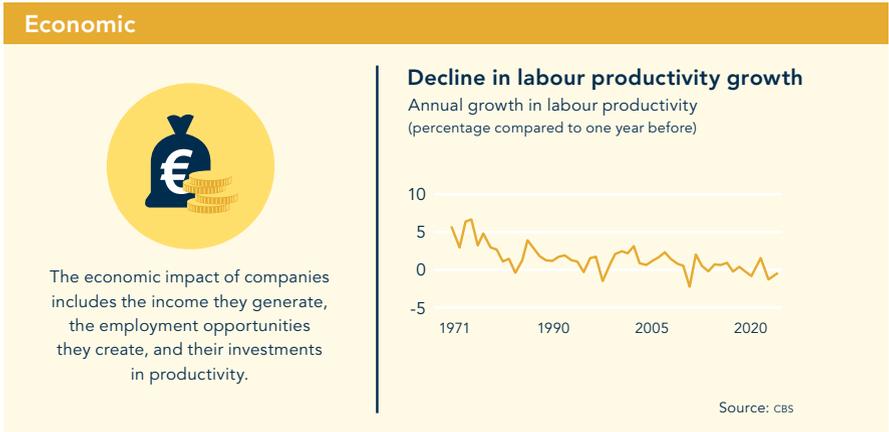
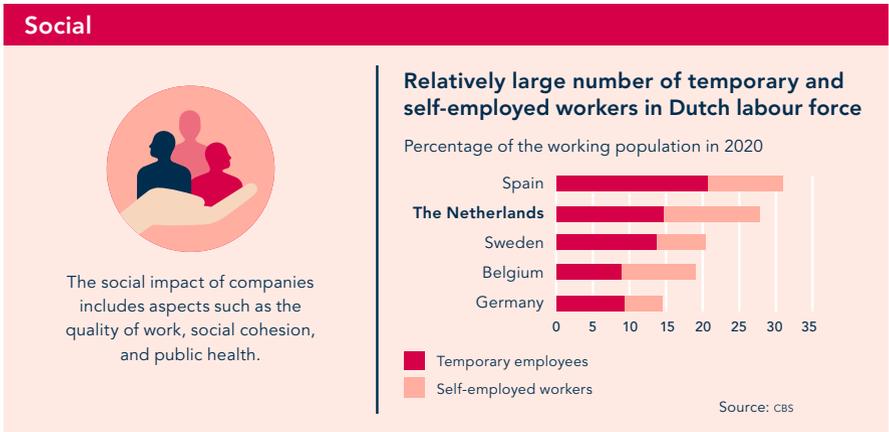
Secondly, the government does not always have a realistic grasp of companies' capabilities and motives to make a positive impact. When there are no clear commercial incentives for firms to help find solutions for society, companies are unlikely to revise their business models accordingly. However noble their intentions may be. Many policies merely urge entrepreneurs to do good business on their own accord. These policies overlook the fact that, for companies, doing good often doesn't pay, as customers may be unwilling to pay higher prices or because financiers prefer short-term profits.

The Dutch government *and* the Dutch business sector both need to roll up their sleeves. In this book, the Netherlands Scientific Council for Government Policy advocates for a more forceful and effective strategy to motivate companies to make an impact on society in a way that benefits both parties. That demands a change in government strategy: stop pampering and start challenging companies to find solutions for society. Good business doesn't materialise out of thin air. If the government shields companies with mitigating measures, they feel less need to excel in their core competencies in a way that benefits society. Companies will be most effective at tackling today's social, economic and environmental challenges when they are called upon to apply their problem-solving skills and inventiveness. To make it worthwhile for companies to create positive impact, the government must implement an ambitious mix of pricing instruments, standards and rules to limit harmdoing, along with robust oversight and enforcement mechanisms. Today's immense societal challenges require bold business-related policies, outlining how the government intends to address transitions such as those related to climate change, energy, and the labour market, while actively engaging companies in these efforts.

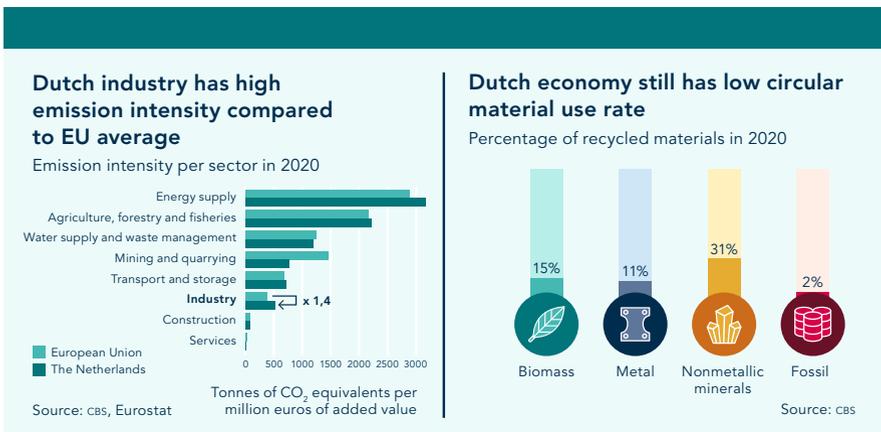
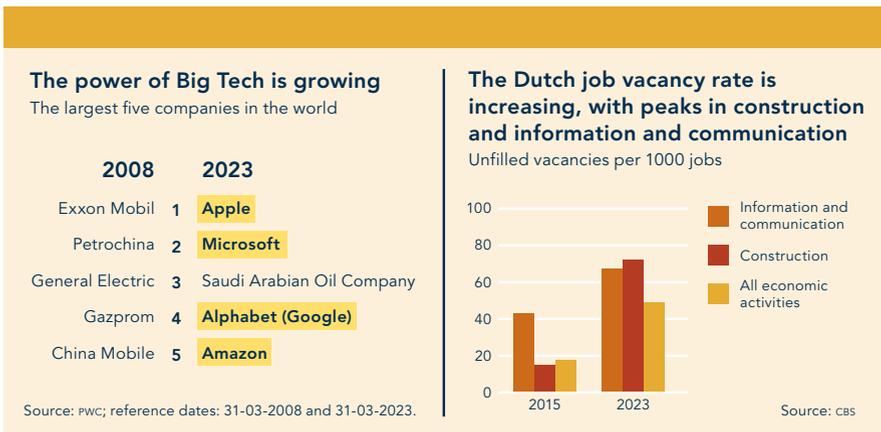
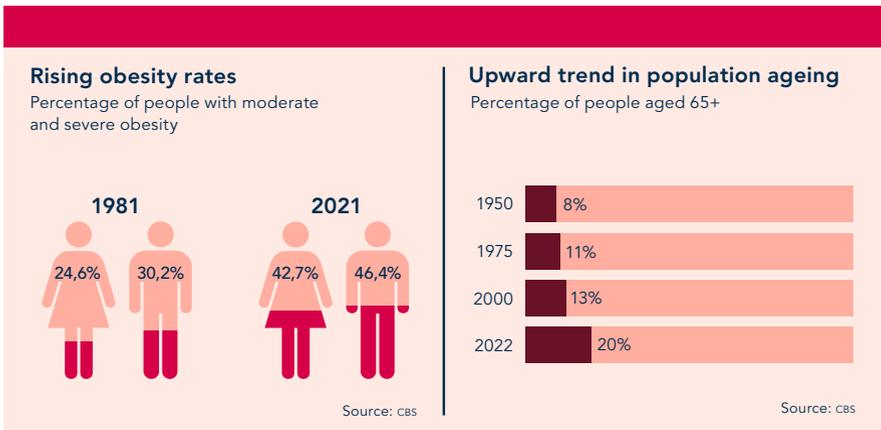
More detailed explanations of these conclusions and recommendations will be presented in the final chapter. The chapters in between are structured as follows: In

Chap. 2, we present a conceptual and theoretical analysis of the impact of companies on society. We show that a broad perspective of welfare is required here. In Chap. 3, we focus on the historical evolution of business-related government policies in the Netherlands. We examine past policies and perceptions regarding the relationship between business and society. In Chap. 4, we explore obstacles that prevent companies making a positive impact. In Chap. 5, we provide a more detailed analysis of current business-related policy in the Netherlands, its opportunities for incentivising companies to address societal problems and its bottlenecks. While our primary focus here is on the Dutch national policy context, we also explore decentralised and European policy frameworks.

This introduction began with quotes from two nineteenth-century Dutch industrialists: Charles Theodorus Stork and Louis Regout. Stork saw his efforts to improve the living and working conditions of factory workers as a win-win situation, whereas Regout's primary concern was that if he stopped child labour, he might lose his competitive edge. When viewed through the lens of present-day standards and values, it would be easy to condemn Regout's perspective. What's more intriguing though is that his concerns ultimately proved to be groundless. By banning child labour, society chose to transform the context in which companies could do business at the time. Within that new setting, his firm, which later became Royal Sphinx, managed to survive until the early twenty-first century. It is incumbent upon governments, citizens, and entrepreneurs to reshape the context in which companies operate currently. This should ensure that, a century from now, future historians can say that we successfully incentivised companies to help tackle today's challenges for society.



**Infographic 1** Business and society in the Netherlands: trends and challenges



Infographic 1 (continued)

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# Chapter 2

## A Broad Perspective of Companies' Impact on Society



### Contents

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How can companies make the greatest possible impact on society? This chapter offers a conceptual and theoretical analysis of the issue. We start with a more detailed analysis of the concept of general welfare. The basic principle of this book is that companies have a widespread impact on societies' welfare,

encompassing social, economic, and environmental aspects.<sup>1</sup> The social dimension includes aspects such as the quality of work, social cohesion, and public health. The economic dimension encompasses the income generated, the jobs created, and investments made in productivity. The environmental dimension includes aspects such as the availability and quality of natural resources, biodiversity, and climate change. In Sect. 2.1, we discuss the recent evolution of the concept of general welfare in the Netherlands.

Section 2.2 focuses on companies' contribution to society. Firms are deeply entwined with the fabric of society, so they are mutually interdependent with a range of other parties. This encompasses direct stakeholders like consumers, employees, and financiers, as well as indirectly connected groups, such as citizens living near industrial plants, the natural environment, and society at large. While the interests of these groups can coincide, they may also diverge.

Given this potential for conflicts of interest, we need to consider how far a business can be expected to go in achieving an equitable balance of interests. Section 2.3 outlines two key viewpoints aimed at tackling this issue: the shareholder perspective and the stakeholder perspective.

In the concluding section, we analyse how the positive impact of companies can be enhanced by modifying the context in which they operate. Companies are more likely to make a greater contribution to society when the context in which they do business—notably their consumers, financiers, and especially the various levels of government—gives them the appropriate incentives to do so. We maintain that altering the context—by changing market conditions or by easing transitions—is the key to improving business-related government policy.

## 2.1 Various Dimensions of General Welfare

In this book, when we refer to firms doing good business, we mean the extent to which they help enhance all dimensions of general welfare, including social, economic, and environmental dimensions. It concerns the extent to which people are able to fulfil various needs, such as securing meaningful employment, living in a clean environment, and feeling safe. Below, we provide a concise overview of the debate surrounding the concept of general welfare in the Netherlands and how it relates to international debates especially about Gross Domestic Product (GDP).

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<sup>1</sup>In the Dutch language the term 'brede welvaart' (translated as general welfare or well-being) is often used to indicate a broad view of welfare that includes social, economic and environmental dimensions. This book uses the terms 'general welfare' or in short 'welfare' to imply this broad perspective unless a more narrow view of welfare is explicitly mentioned.

### ***2.1.1 The Debate Surrounding General Welfare***

In the wake of the financial crisis of 2007–2009 there has been an ever more pronounced emphasis on the importance of adopting a broad perspective on welfare. Critics contend that, in the decades preceding that crisis, the concept of welfare had often been narrowly defined in economic, political, and policy contexts.<sup>2</sup> Efforts to operationalise welfare often focused on metrics that could quantify factors in monetary terms. In this connection, welfare was frequently associated with the ability to access and consume goods and services that are available in the market or that can be priced. Gross domestic product (GDP) fitted seamlessly into this perspective. Services that don't involve explicit compensation, such as informal care, or aspects that are more challenging to quantify as traditional goods or services, such as meaningful employment, clean air, and safety, were often overlooked. Despite being touted as contributors to people's well-being, these aspects received little attention, if any, within the narrow (economic) concept of welfare.<sup>3</sup> Box 2.1 provides a more in-depth exploration of the shortcomings of GDP as a metric for welfare.

#### **Box 2.1 The shortcomings of GDP as a metric for general welfare**

A country's GDP is calculated by taking the total monetary worth of goods and services produced within a given year and deducting the value of those goods and services that were consumed for this production process (intermediate consumption). This pertains to the goods and services supplied both by market entities and by public (or semi-public) entities (the government). Intermediate consumption involves aspects such as the costs of energy consumption and raw materials. The limitations of GDP as a measure of welfare have long been recognised. Simon Kuznets, the originator of the concept, issued a cautionary note in 1934. "The welfare of a nation can [...] scarcely be inferred from a measurement of national income [...]"<sup>4</sup> Thus, even though we have long been aware of them, these shortcomings are only now coming under increased scrutiny.<sup>5</sup> Consider, for instance, aspects such as government services or financial services, the monetary value of which is not easily quantifiable. But there are even more fundamental problems. Some goods and services

(continued)

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<sup>2</sup>For example Stiglitz et al. (2009).

<sup>3</sup>Heertje (2006).

<sup>4</sup>Kuznets (1934).

<sup>5</sup>Stolwijk (2010); the Netherlands Scientific Council for Government Policy (WRR) (2013).

**Box 2.1** (continued)

that contribute to welfare are excluded, such as voluntary work or domestic chores at home. Furthermore, the negative effects of market activities—such as environmental pollution—are largely overlooked.<sup>6</sup> Additionally, production statistics do not adequately reflect the extent to which individuals can access these goods and services. In societies characterised by pronounced economic inequality, a substantial GDP may not necessarily translate to heightened general welfare. In a broader sense, the repercussions for future generations are often disregarded. Thus, the resource depletion inherent to GDP is overlooked.

In recent years, there has been a proliferation of new indicators and measurement methodologies geared towards a more nuanced perspective on general welfare.<sup>7</sup> At international level, the Sustainable Development Goals (SDGs) are highly significant. These seventeen goals set by the United Nations (UN) build upon the Millennium Development Goals put forward in the year 2000. The SDGs encompass numerous indicators for gauging progress on issues such as poverty, climate change, and human rights. In 2016, a Dutch Parliamentary Committee of Inquiry called for the development of supplementary indicators to be used in tandem with GDP.<sup>8</sup> Statistics Netherlands (CBS) has developed the Monitor of Well-being for this very purpose.<sup>9</sup> Another example is the Better Well-being Index, developed by Utrecht University in partnership with RaboResearch.<sup>10</sup> Like GDP, the better well-being index tries to encapsulate welfare in a single metric, but in doing so the index not only considers the economic dimension of welfare, but also its social and environmental dimensions. In addition, several Dutch government agencies are developing a toolkit to facilitate the assessment of various factors (beyond just financial and economic indicators) within the budgetary system of the Dutch government.<sup>11</sup> In connection with these developments, other organisations are working to quantify the impact of companies on society. Besides financial annual accounts, they are also mapping out the effects of business activities on the social and environmental dimensions of welfare, for example. Just as GDP is a limited metric for welfare, profit fails to capture the full societal value generated by firms.

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<sup>6</sup>WRR (2016).

<sup>7</sup>In 2008, at the request of former French President Nicolas Sarkozy, economists Joseph Stiglitz, Amartya Sen, and Jean-Paul Fitoussi prepared a report. This document details the shortcomings of the prevailing focus on Gross Domestic Product (GDP) and recommends creating and using alternative indicators of welfare. See Stiglitz et al. (2009).

<sup>8</sup>Parliamentary papers II 2015/16, 34298, no. 3.

<sup>9</sup>CBS (2021).

<sup>10</sup>RaboResearch and Utrecht University (2016).

<sup>11</sup>See CPB Netherlands Bureau for Economic Policy Analysis (CPB) et al. (2022).

According to the increasingly common definition of general welfare in the Netherlands (in Dutch ‘brede welvaart’), the concept refers to “the quality of life in the here and now, but also to the extent to which that is achieved at the expense of future generations or people elsewhere in the world”.<sup>12</sup> This definition underscores the reality that welfare can involve conflicting interests. After all, the welfare that we are enjoying in the here and now could be at the expense of other people and future generations. Another vital consideration is that “quality of life” also involves economic, social, and environmental dimensions.<sup>13</sup> Due to the diversity of factors involved, measurement is a particularly complex task. How are we to identify reliable indicators for these dimensions and determine their relative importance?

Statistics Netherlands has formulated eight themes to gauge general welfare in the ‘here and now’: subjective well-being, material welfare, health, work & leisure, living conditions, society, safety, and the environment. Each of these themes, in turn, features a number of indicators. Statistics Netherlands tracks the development of these indicators over time to see how they measure up against other European countries. In considering ‘future’ welfare, the agency evaluates the resources required for subsequent generations to attain a level of welfare comparable to that of the present generation. Statistics Netherlands also evaluates the impact of the Dutch pursuit of welfare on the welfare of people in other countries, focusing on aspects such as employment, income levels, resources, and the environment.

### ***2.1.2 How New Is the Concept of General Welfare?***

During the 1950s, the Social and Economic Council of the Netherlands (SER) formulated five objectives for socio-economic policy: establishing an equitable balance of payments, securing full employment, fostering satisfactory economic growth, maintaining a stable price level, and achieving a just distribution of income. Since the 1960s and 1970s, in particular, there has been a significant expansion in environmental policy, with climate change gaining increased prominence in recent decades.<sup>14</sup> In this context, Dutch politics and policy have consistently (albeit implicitly) pursued a broad interpretation of welfare (see Chap. 3).

Consequently, the broad outlook on general welfare is by no means a new development. The novelty lies in various significant developments since the 2007–2009 financial crisis. Firstly, there’s now a heightened focus on adopting alternative methods for measuring general welfare. As indicated, there is criticism of GDP’s predominant status as a metric for welfare, underscoring the need to prioritise other indicators in the formulation and evaluation of policy.<sup>15</sup>

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<sup>12</sup>CBS (2022a).

<sup>13</sup>Social and Economic Council of the Netherlands (SER) (2021).

<sup>14</sup>Peet and Nijhof (2015).

<sup>15</sup>For a critical examination of existing methods for evaluating general welfare, see Jacobs (2021).

Secondly, the view that social and environmental factors should be viewed not merely as 'preconditions' for economic growth, but as objectives, is gaining wider acceptance. This has ramifications for policy making. Policy domains that were previously regarded primarily as 'economic', such as innovation policy, are increasingly embracing social and environmental goals as well.

Finally, there has been a shift in perspective regarding the role of the individual company and that of companies in general. Particularly in the years leading up to the crisis, the key principle seemed to be that companies exist chiefly to 'make money', and that responsibility for safeguarding the broader interests of society and providing public goods—often through regulation—rests with the government. This separation of responsibilities is currently being questioned. An illustration of this is the commitment of the main Dutch employers' association (VNO NCW/MKB Nederland) to adopt general welfare as their new guiding principle.<sup>16</sup> At the heart of this general welfare approach is the belief that companies have impacts and obligations that surpass financial and economic considerations. In the next section we look at ways in which firms influence the various dimensions of welfare.

### 2.1.3 Summary

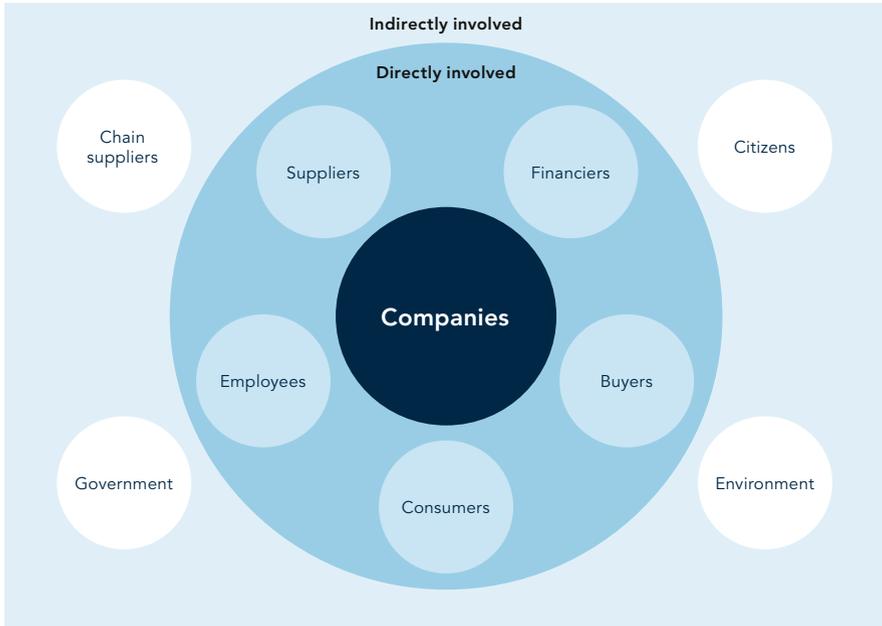
- General welfare is a broad concept. It involves people's ability to fulfil various needs, such as meaningful employment, living in a clean environment, and feeling safe. Accordingly, this broad concept of welfare has social, economic, and environmental dimensions.
- Particularly since the financial crisis of 2007–2009, critics have contended that there has been a tendency to use a narrow economic definition of welfare in the Dutch policy context. There is now a growing emphasis on social and environmental goals, also when it comes to the impact of companies on society.

## 2.2 Companies and Their Context

An analysis of companies' contribution to society necessitates a deeper examination of their relationship with the parties around them, from consumers to financiers and from employees to society as a whole. In what ways do companies impact their context, and how are they impacted by it, in turn? We highlight the fundamental interdependence between companies and society. Firms need society if they are to operate successfully. This involves factors such as access to healthy and skilled employees, laws and regulations, and infrastructure for transportation. Companies

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<sup>16</sup>The Confederation of Netherlands Industry and Employers (VNO-NCW) & The Royal Association MKB-Nederland (MKB Nederland) (2021).



**Fig. 2.1** The context in which companies operate

are also closely connected to other parties in their value chains, including suppliers and customers. While companies are typically seen as ‘independent entities’ from a legal standpoint, they are also part and parcel of a broader framework that supports and sustains them.

Conversely, society depends on companies to fulfil specific needs. Companies provide goods and services while also creating job opportunities. They have an impact on various stakeholders, including consumers and other customers, employees, financiers, and suppliers (see Fig. 2.1). Yet the production and consumption of goods and services also impact entities that are not directly connected to the business, such as citizens living near its plants, the natural environment, and society as a whole. While the interests of these directly and indirectly involved parties may align with those of the company, they can also conflict with them.

### ***2.2.1 Contribution to Society Through Products, Services and the Production Process***

Companies’ contribution to society largely reflects the products and services they supply to consumers and other customers. Consumers have different preferences regarding the price-to-quality ratio of goods and services. Some prioritise the lowest possible price, while others are willing and able to pay a premium for superior

quality. Firms respond to this, for instance by entering markets to address these diverse needs. Economists use the term 'allocative efficiency' to describe a situation in which supply and demand in an economy are more closely aligned. However, companies do much more than simply respond to market demand. According to anecdotal accounts, Henry Ford once said that merely meeting existing needs would have led to a quest for faster horses rather than to the invention of passenger cars. In the field of economics, this innovation is also known as 'dynamic efficiency'.<sup>17</sup>

The creation of products and services involves a production process, which can also make an important contribution to society. To minimise the production costs of goods and services, companies must use their production factors (capital goods, labour, and natural resources) as efficiently as possible, with as little 'waste' as possible. Economists refer to this as 'productive efficiency'. Innovation plays a vital part in this area too. By developing and implementing new production techniques, firms can drive down costs, which gives them an edge over their competitors. They can then allocate the freed-up resources to other activities.

Thriving companies can compensate key stakeholders that are indispensable to their operations, especially employees, financiers, and suppliers. They provide employees with a stable income, along with job satisfaction and opportunities for personal and professional development. Lenders, who supply 'loan capital', expect interest payments and, in the long term, repayment of the principal. Shareholders and other suppliers of 'risk capital' are compensated with a portion of the profit, in the form of dividends. Finally, suppliers also contribute to the success of the company. However, there's a reciprocal impact. The buyer pays a financial compensation, which then enables the supplier to reimburse direct stakeholders (employees, financiers, etc.) for services rendered.

It's important to emphasise that companies' contributions to society are not restricted to financial considerations alone. Human needs are many and varied, including aspects that cannot be expressed in monetary terms.<sup>18</sup> For example, consumers might appreciate knowing that employees enjoy good terms and conditions of employment, or they may feel part of a community by purchasing certain products. Employees do not only consider wages, but also the broader terms and conditions of employment or the extent to which their views resonate with the business's activities. Moreover, many people see work as a way of giving their life additional meaning.<sup>19</sup> Thus, the exchanges between companies and individuals are not limited to mere transactions, they also play a part in shaping people's identities.

Firms are not mere bystanders in this context, of course, they need to react to these diverse considerations *and* also attempt to shape them. Some companies do this by declaring their support for societal issues that resonate with people, such as health, climate change, or community initiatives. By developing meaningful

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<sup>17</sup>Stam (2022); WRR (2008). For a discussion of the link between innovation and entrepreneurship, see Block et al. (2017).

<sup>18</sup>Bovenberg (2023); Fehr and Fischbacher (2002); Heertje (2006).

<sup>19</sup>See WRR (2020) for an in-depth exploration of the various roles of work.

narratives, they hope to encourage people—consumers, employees, or financiers—to do business with them.<sup>20</sup>

The impact of companies on general welfare is not limited to direct stakeholders. Parties who are not directly involved in transactions can also be positively or negatively affected. As previously mentioned, when companies deliver products and services more efficiently, this frees up people and resources, which can then be deployed in other activities. Consequently, this can benefit society as a whole. In addition, by channelling funds into research & development (R&D) and through employee training, firms also influence society. Other parties can potentially benefit from this. A business's operations in a given town or region can boost the living environment for citizens living near its plant. Another key aspect is that companies pay taxes, which are instrumental in funding collective services like education, care, and social security.

Hence, the effect of companies on general welfare also extends beyond the 'now'. Companies can promote future welfare by investing in new production resources and technologies, as well as the development of knowledge. The same applies to investments in staff. A business gains immediate benefits from offering further training or retraining, while at the same time helping to shape the future careers of its employees. Other parties also benefit from this. Finally, the use of natural resources and raw materials impacts future welfare, particularly in areas like biodiversity, the environment, and climate change. By investing in technologies that minimise our environmental footprint, firms can contribute to the general welfare of future generations.<sup>21</sup>

### 2.2.2 *Market Failure*

Several factors can prevent a business from fully meeting the needs of its various stakeholders, such as poorly designed internal processes or what is generally referred to as "market failure".<sup>22</sup> For instance, a business might capitalise on consumers' lack of information by using vague health labels on its products. Alternatively, a firm may seek to boost its profit margins by leveraging its market power, to the detriment of consumers.<sup>23</sup>

It is not only consumers who can be adversely affected, companies can also shortchange direct stakeholders in the production process. Information asymmetries

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<sup>20</sup>Bovenberg (2023).

<sup>21</sup>Ramos and Hynes (2019).

<sup>22</sup>See Teulings et al. (2003).

<sup>23</sup>Tirole (2015). Another instance of potential market failure concerns public or collective goods. The fundamental issue here is the inability to enforce payment for goods and services. This leads to situations in which some individuals benefit without paying (free-riding), thus discouraging market entities from supplying these goods and services.

and disparities in 'market power' play a role here. For instance, a company might fail to fulfil its obligations to employees, particularly in situations where they lack viable alternatives or are considered to be easily 'replaceable'.<sup>24</sup> In addition, the interests of certain financiers can be overlooked. Furthermore, smaller suppliers may find themselves squeezed dry by large buyers who could exploit their market dominance to their advantage.<sup>25</sup>

Companies can also have a wider, negative impact on society, for example by contributing to pollution, causing noise nuisance, or selling unhealthy food. Aside from the negative repercussions for consumers, there are wider effects stemming from lower productivity and higher care costs when employees experience long-term health problems due to working conditions. This impact of companies on society is commonly referred to as "negative externalities" or negative external effects. Such effects arise when actions or behaviour lead to disadvantages for another party, who is not duly compensated. This makes them a mirror image of "positive externalities", where another party gains from a company's actions yet the company itself receives no direct compensation in return.<sup>26</sup>

### ***2.2.3 Win-Win Situations and Conflicting Interests***

Consequently, a business can impact a wide array of parties. This is not a one-way street as these parties can, in turn, impact the company in question. Companies that pollute the environment, or that treat their employees poorly risk losing their customers and employees to competitors. This leads to lose-lose situations, in which firms negatively impact both society's interests and their own. On the other hand, direct stakeholders can 'reward' the company for doing good business. That results in win-win situations Here we see an alignment of interests, for instance when consumers hold good working conditions in high regard and reward this through their spending decisions, or when financiers offer favourable terms to companies that market healthier food products.

However, there is always a risk of conflicting interests. To begin with, conflicts could arise between direct stakeholders. When companies slash prices by skimping on the terms and conditions of employment and on employees' wages, then the benefit to consumers comes at a cost to the workforce. Furthermore, potential tensions may arise between the interests of firms and those of society. When it comes to the economic, social, and environmental dimensions of welfare, there's no guarantee that companies will contribute in the best possible way. Positive contributions to society might incur higher costs for companies that cannot offset them. The crux of the matter then is how to create win-win situations.

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<sup>24</sup>Manning (2021).

<sup>25</sup>Chen (2007).

<sup>26</sup>See Romijn and Renes (2013); Tirole (2015).

### 2.2.4 Summary

- Companies' contributions to society stem from their core products, services, and production processes. This enables them to address the needs of direct stakeholders, such as consumers and employees. Their operations can also have an effect on those who are indirectly involved, such as citizens living near their plants.
- However, companies can also fall short of their stakeholders' expectations, and negatively impact society as a whole. For example, when firms offload costs onto other parties.
- Different parties may have conflicting interests. Win-win situations, in which private interests and the interests of society align are no guarantee whatsoever.

## 2.3 Corporate Social Responsibility and Corporate Governance

So far, we have mainly discussed firms' contributions to society in terms of impact. Yet another question is that of responsibility. To what extent *should* companies take into account the broad impact of their products, services and production processes on society? Or can they disregard this impact and delegate the responsibility to others?

The literature offers a variety of answers to these questions. The discussion is dominated by two perspectives, those of shareholders and stakeholders. Both perspectives concern the theoretical and empirical question of what kind of 'entity' a company actually is, and which goals are of pivotal importance. They also concern the prescriptive question of which goals companies ought to prioritise. The fact that these theoretical, empirical, and prescriptive approaches are intertwined further complicates the debate. This section will briefly discuss the two perspectives and reflect on their meaning for the context of this book.

### 2.3.1 The Shareholder Perspective

From the shareholder perspective, the business is a vehicle that shareholders (the providers of risk capital) use to create financial value for themselves.<sup>27</sup> According to this perspective, management is expected to prioritise the interests of shareholders in its decision-making processes. What interests are involved? According to the economist Milton Friedman, shareholders will generally want their companies "to make as much money as possible while conforming to the basic rules of society, both those

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<sup>27</sup>See Hansmann and Kraakman (2000).

embodied in law and those embodied in ethical custom".<sup>28</sup> In short, companies should pursue the maximum possible profit within the boundaries of legal regulations and social norms.

Broadly speaking, three key arguments are presented to support the shareholder perspective. First of all, shareholders are seen as the firm's 'owners' (the principal), who have delegated day-to-day operational oversight to the management (the agent). Thus, it is incumbent upon the agent to represent the interests of the principal. Secondly, shareholders are characterised as stakeholders who are in a 'weak position' compared to other stakeholders. They do not enjoy guaranteed financial remuneration, and they are at the back of the queue when it comes to financial compensation.<sup>29</sup> Thirdly, prioritising shareholders could ultimately benefit society at large. In addition to reflecting efficient consumer service, profitability enables the company to honour all of its contractual obligations to employees, creditors, and suppliers. From this perspective, when companies prioritise their shareholders' interests, society as a whole reaps the rewards.<sup>30</sup>

One major caveat to this last argument is that externalities might harm parties who are not directly involved in the business and who have no contractual protection. According to this perspective, the primary responsibility for mitigating these external effects rests with the government. It is considered undesirable for the management of a firm to initiate societal engagement (such as environmental stewardship or hiring long-term unemployed) when that leads to reduced profits. According to Friedman, this implies that management seeks to make a good impression using funds that rightfully belong to the shareholders. Following the payment of dividends, shareholders should have the autonomy to decide which societal objectives they wish to support with their funds—if they feel inclined to do so. The responsibility for safeguarding all public interests lies with the government.<sup>31</sup>

Nonetheless, some proponents of the shareholder perspective do maintain that, by focusing on societal goals, companies can serve the financial interests of shareholders, as this can lead to greater profitability. This is referred to as 'enlightened shareholder value', because when a business prioritises benefits for society and is financially incentivised to do so, this can benefit shareholders.<sup>32</sup> Friedman acknowledged the potential for firms to profit from responsible conduct, however, he believed the term 'corporate social responsibility' carried little weight in such instances.

There is also discussion about whether shareholders invariably view matters through a financial lens. There are many different types of shareholders, and it's quite conceivable that at least some of them care about non-financial considerations. Shareholders may, for example, believe that the company is better placed to make a

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<sup>28</sup>Friedman (1970).

<sup>29</sup>Fama and Jensen (1983).

<sup>30</sup>Kraakman et al. (2009).

<sup>31</sup>Friedman (1970).

<sup>32</sup>Ho (2010); Jensen (2002).

contribution to society than they could individually through the philanthropic dispensation of dividend payments.<sup>33</sup> Hart and Zingales argue that many of the external effects generated by companies are irreversible, rendering individual shareholders powerless to effectively mitigate their impact.<sup>34</sup> This suggests that a firm's management cannot automatically assume that shareholders expect them to pursue maximum profits.

Moreover, the shareholder perspective faces scrutiny at a more fundamental level.<sup>35</sup> Critics dispute the idea that shareholders 'own' the business, contending that—legally speaking—the company 'doesn't belong to anyone'. Shareholders own a share, not the whole business. Secondly, it would be unfair to underscore the 'weak' position of shareholders. Shareholders are 'at the front of the queue' when profits are high. Furthermore, they have the advantage of limited liability, which ensures that they cannot lose more than they have invested.<sup>36</sup> There is also no guarantee that the interests of other stakeholders (such as employees) are always adequately safeguarded. Thirdly, externalities cannot simply be passed on to the government, as its ability to mitigate them effectively is far from certain. This brings us further into the domain of the stakeholder perspective.

### ***2.3.2 The Stakeholder Perspective***

From the stakeholder perspective, the firm is seen as a partnership of various stakeholders. Typically, stakeholders are defined as the entities that are essential to the operation of the business, or whose backing is indispensable to its survival.<sup>37</sup> This primarily concerns direct stakeholders such as consumers, employees, financiers, shareholders, suppliers and other partners who collaborate in a firm's operations. More broadly, it concerns the context in which companies operate. Thus, government agencies (including local agencies), local communities, the environment and the natural surroundings, are also seen as stakeholders.

This perspective suggests that a business's management bears responsibility towards all stakeholders and has a moral duty to conduct a balanced assessment of their varied interests. This encompasses not only financial concerns but also, for instance, the safety of citizens living near their plants and the personal and professional development of employees. Proponents of the stakeholder perspective reject the notion that shareholders should take precedence in this assessment of interests. They further propose that the stakeholders concerned should have a say in the company's decision-making processes. In other words, management must not only

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<sup>33</sup>Hart and Zingales (2017, 2022).

<sup>34</sup>Hart and Zingales (2022).

<sup>35</sup>See for example Cools (2022).

<sup>36</sup>See also Stout (2013).

<sup>37</sup>Davis et al. (1997); Donaldson and Preston (1995); Freeman and Reed (1983).

weigh the various interests, it must also allow for direct input from the various parties.<sup>38</sup>

Several critical remarks can be made about this perspective. First of all, critics contend that when management needs to balance various interests, this introduces a considerable level of uncertainty into the business strategy. After all, there is no way of knowing whether management is acting in accordance with this balancing of interests or whether it is prioritising its own interests.

Secondly, critics challenge the idea of enabling various stakeholders—not just shareholders—to directly shape business strategy. Many countries, including the Netherlands, have a longstanding tradition of assigning roles to employee representatives via the works council.<sup>39</sup> In the case of other direct stakeholders, the situation is more challenging. Suppliers rarely have a permanent interest in all aspects of the business, while lenders often enjoy a strong legal position. To do justice to the broader societal impacts, it makes sense to include indirect stakeholders. However, future generations lack the ability to exert direct control, for example, and it's unclear who might serve as their representative. The presence of many parties at the table—many of whom, it should be noted, are pursuing their own interests—risks making the company ungovernable.<sup>40</sup>

### ***2.3.3 The Relationship Between Companies' Corporate Governance and Their Contributions to Society***

Ultimately, both the shareholder and stakeholder perspectives focus on managing the business, which encompasses the firm's objectives, the powers and influence of various stakeholders on the company's actions, and the methods used to account for them. According to the shareholder perspective, management's primary duty is to focus on the shareholders' financial interests and to be accountable for them. Moreover, from this perspective, shareholders should be granted sufficient powers to intervene when management performs poorly. The stakeholder perspective stresses that management should balance the interests of various stakeholders and remain accountable to all these parties. Stakeholders must also have the ability to exert meaningful influence on the business strategy.

What is the relationship between managing firms and contributing to society? The shareholder's approach is that a laser focus on a single objective ensures optimal business performance. The premise is that the company's contracts safeguard the interests of other direct stakeholders, and the government should take the lead in mitigating any negative external effects. The stakeholder approach challenges this premise. The interests of other stakeholders are seldom fully protected, nor can we

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<sup>38</sup>Claassen (2021).

<sup>39</sup>Brewster et al. (2019); Conchon (2011).

<sup>40</sup>See the discussion in Claassen (2021, p. 44).

assume that the government will be able to mitigate any and all external effects. As a result, this wide-ranging approach must be embedded within a board's mindset, if companies are to make a positive contribution to general welfare.<sup>41</sup> Companies should use value creation on financial-economic, social, and environmental levels as a guideline.<sup>42</sup>

Participants in the Dutch debate commonly associate the stakeholder approach with a broad focus on welfare.<sup>43</sup> This involves focusing on the impact that companies have both on direct and indirect stakeholders.<sup>44</sup> The Dutch corporate governance code articulates this concept via the principle that “the company is a long-term partnership among various stakeholders involved in the business”.<sup>45</sup> This seems to imply that the most appropriate strategy for boosting companies' contributions to general welfare is to boost stakeholder orientation.

What is left unclear is how a firm's corporate objectives relate to doing good business. A company's efforts to find an equitable balance between the interests of its various stakeholders may not always automatically translate into a wide-ranging, positive impact on general welfare. At the same time, if a business focuses exclusively on its shareholders' financial interests, this will not necessarily have a negative impact.

This discussion demonstrates that the context in which companies operate plays a vital part in their impact on society. As previously discussed, the assumptions underlying the shareholder and stakeholder perspectives vary in terms of how markets operate and how effectively the interests of direct and indirect stakeholders are safeguarded by means other than corporate governance. From a policy perspective, this implies that it is necessary to explore how companies are managed *and* to focus on the context within which they operate (Sect. 2.4).

### 2.3.4 Summary

- In discussions about companies' responsibilities for their impact on society, shareholder and stakeholder perspectives prevail.
- From the shareholder perspective, the company acts as an extension of its shareholders and should pursue the maximum possible profit within the boundaries of legal regulations and social norms.

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<sup>41</sup> Claassen (2021); Schramade and Schoenmaker (2022).

<sup>42</sup> Schramade and Schoenmaker (2022).

<sup>43</sup> See, for example, The Confederation of Netherlands Industry and Employers (VNO-NCW) & The Royal Association MKB-Nederland (MKB Nederland) (2021).

<sup>44</sup> See Stam (2022).

<sup>45</sup> Monitoring Commissie Corporate Governance Code (2022).

- From the stakeholder perspective, the company operates as a partnership of various stakeholders, while management is tasked with striking a harmonious balance between various interests.
- A company's corporate objectives and conduct may not always align with societal purposes.

## 2.4 Regulate Markets and Promote Transitions

Companies do not operate in isolation. The decisions they make are shaped by the broader context in which they operate. This section focuses on that context. We specifically look at how the government can adjust market conditions and incentivise companies to play a more substantial role in addressing society's challenges. This section concludes by examining some of the problems that may occur with government intervention.

### 2.4.1 *Adjusting Market Conditions*

Companies are active in markets. They compete with one another to win the customer's favour. They also compete in other markets, such as the labour market. Ideally, entrepreneurs will engage in a race to the top, continuously seeking improvements in products and production processes, rather than a race to the bottom, for instance when it comes to labour conditions or environmental standards. As previously mentioned, market failure can result from factors such as information asymmetries, market power, and external effects. Overcoming these deficiencies is important to enhance the positive impact of companies and reduce their harmdoing.

Institutions and rules both have a vital part to play in this process. As the American economist William Baumol put it: "How the entrepreneur acts at a given time and place depends heavily on the rules of the game – the reward structure in the economy that happen to prevail."<sup>46</sup> In this context, 'institutions' could refer to the authorities responsible for overseeing competition, while 'rules' could include regulations designed to ensure food safety. However, 'institutions' also encompass agreements between companies and governments, which may not (or not yet) be legally binding, such as agreements or covenants.<sup>47</sup>

Thus, the government does not have a monopoly when it comes to developing institutions. Companies can negotiate agreements regarding production standards, such as refraining from child labour, ensuring product quality standards, and providing information. This self-regulation includes both implicit rules and formal

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<sup>46</sup>Baumol (1990, p. 894).

<sup>47</sup>McMillan (2002); North (1990).

agreements. Companies can also reach agreements among themselves regarding prices, production quantities, and market distribution. These agreements entail the formation of ‘cartels’, which typically provoke suspicion.

The government typically spearheads the development of many regulations, either in collaboration with private actors or independently. For instance, it employs legislation to drive competition between companies. However, regulation can also be designed to exclude certain matters from the competitive process. Take the minimum wage, for instance. In their efforts to cut costs, companies are barred from setting a lower limit on what they pay employees. Other examples include regulations aimed at combating environmental pollution or at the prohibition of child labour. Companies are expected to compete, but within certain limits.

The government may also opt to influence behaviour through the use of pricing instruments, rather than by enforcing bans or mandates. Tariffs serve as a tool for deterring certain production processes or products. These could involve levying an excise tax on cigarettes or taxing CO<sub>2</sub> emissions. The government can incentivise companies to do good business by means of subsidies, tax benefits, or loans involving favourable terms. Although the specifics of the design may vary, the overarching goals are often the same—to hold companies accountable for any negative external effects and to offset positive external effects.

Companies can also be influenced by entities other than the government. Consumers, customers, employees, and financiers play an important part. They can exercise their power by ‘voting with their feet’ when dissatisfied with a company’s actions. Customers will switch to competitors, employees (or potential employees) will seek alternative employers, and financiers may decline to provide financing to the company. Conversely, these parties wield influence by rewarding those firms that, in their view, exhibit commendable behaviour. Here, they can prioritise financial factors—buyers focus on prices, employees assess wages, and financiers analyse returns—while also taking a broader perspective, on for instance the sustainability of the production process.

Providing accurate information is a vital prerequisite for this decision-making process. After all, there is a risk of ‘greenwashing’ or ‘social washing’, in which companies present themselves as being more virtuous than their actions would suggest. This problem can be remedied by developing standards and providing oversight. NGOs, scientists, consumer organisations and journalists fulfil a key role here, by uncovering certain abuses or, indeed, commending positive practices.<sup>48</sup> Finally, control is important. This could include employees who express their wishes through the works council, shareholders who influence strategy through decision-making in shareholder meetings, or customer panels that spotlight potential areas for improvement.

The government is involved in all these areas. It formulates regulations that grant specific rights to the various parties, and impose certain obligations. By means of ‘process requirements’, it mandates companies to establish entities like a works

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<sup>48</sup> Yaziji and Doh (2009).

council or a supervisory board, and to grant them specific powers. It can also stipulate requirements regarding the information that a firm must disclose and who must verify that information.

Thus, the government doesn't dictate the exact appearance of products and production processes, but it does influence the decisions of direct stakeholders. In turn, these parties can incentivise companies to provide products and services that are more beneficial to society (see also Box 2.2). It is worth noting that the government itself is an active participant in this context. As a major customer for many companies, it influences companies through its own procurement policy. In addition, it can act as a financier (for example through investment funds) or as a shareholder (through state shareholdings).

### **Box 2.2 Laws and regulations influence the company and its context**

Companies' actions are shaped and facilitated by numerous laws and regulations. We briefly review a group of influential provisions around companies in the Netherlands. Dutch laws and regulations take centre stage here, while EU regulations naturally have a significant part to play as well.

The Dutch Civil Code contains key provisions regarding the establishment, actions and dissolution of legal entities. This specifies, for example, the rights and obligations of the various bodies within the company, such as the board of directors, the supervisory board, and the general meeting of shareholders.

Listed companies must adhere to certain key provisions and principles in the Dutch Corporate Governance Code, which is enshrined in law. In addition, there are laws that regulate dealings with direct shareholders, such as consumers and employees. Consumers' rights and obligations are partially codified in the Civil Code. For instance, consumers have the right to demand information from sellers regarding the product they wish to purchase, or to return a defective product within a specified period. In addition, the Dutch Competition Act protects consumers against market power abuse.<sup>49</sup>

The rights and obligations of employees are enshrined in numerous laws and regulations. The regulations codified in the Civil Code include provisions regarding probationary periods, holidays, notice periods, and dismissal. Then there are various laws governing factors such as wages (minimum wage), working hours, working conditions, leave schemes, and equal treatment. Various provisions concerning the powers of works councils in company management are enshrined in the Works Councils Act.<sup>50</sup>

(continued)

<sup>49</sup>This act also contains provisions regarding state aid.

<sup>50</sup>In the Netherlands a works council (in Dutch: *ondernemingsraad*) is a support structure for employee participation within a company that is built to protect and promote an employee's position in the company. Under current Dutch law, it can be a strict requirement depending on the number of employees.

**Box 2.2** (continued)

Laws can also directly pertain to products or production processes. Consider, for example, the Commodities Act for food safety. For companies, laws that regulate interactions with the physical environment also play a significant role. In many cases, these firms will need to obtain an environmental permit to carry out specific activities.

### 2.4.2 *Promoting Transitions*

Companies occupy a key position in the major transitions our society is facing, for instance regarding digitalisation or energy. Besides adapting themselves, companies have a role to play in helping others adapt. Consider the energy transition for instance, where construction companies may help drive sustainability forward by using different materials, or help workers reskill in new digital building techniques. However, companies and their stakeholders often find it challenging to make these kinds of adaptations without external support. Public administration scholars have coined the phrases ‘transition failure’ or ‘transformation failure’ to describe the difficulty in getting system changes off the ground.<sup>51</sup> They show that merely adjusting market conditions will not suffice here and that there is a requirement for transition policy.

Public goods, such as infrastructure, are indispensable in terms of facilitating sweeping social changes. Take the transition to more sustainable energy sources, like hydrogen. Its use as a fuel and raw material can help mitigate climate change, yet constructing the necessary infrastructure is beyond the capabilities of any single entity. Hence, coordination is essential.<sup>52</sup> In addition, transitions rely heavily on innovations.<sup>53</sup> As a ‘launching customer’, the government can use its procurement policy to generate demand in the initial phase of an innovative product, incentivising the business to learn, innovate further, and potentially scale up.

Aside from coordination and support for innovation, major adjustments in society frequently call for modifications to regulation and oversight. For new, innovative firms, policy can act as a roadblock, either because the relative cost of compliance is so steep that it hampers their ability to compete with incumbent firms, or because regulations do not provide scope for new products or production techniques. A relatively new strategy—the ‘regulatory sandbox’—has been devised to address this issue. It enables companies to experiment with innovations while avoiding any risk of infringing the law. Although the supervisory authority keeps a finger on the pulse,

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<sup>51</sup>Weber and Rohrer (2012).

<sup>52</sup>Council for the Environment and Infrastructure (RLI) (2019).

<sup>53</sup>Frenken and Hekkert (2017); Velzing (2022).

these parties remain exempt (temporarily) from existing policy.<sup>54</sup> An alternative but comparable strategy is to implement differentiated policies. At the outset, new, smaller parties will benefit from a less restrictive regime that provides scope for experimentation. Once these parties scale up, they too become subject to the current policy.

The unifying theme in these interventions is the government's desire to disrupt the status quo. To this end, the government should have a clear vision of how it wants society to develop.

### 2.4.3 *Limits of Government Policy*

In the above sections we have briefly touched on the context in which companies operate, *and* of how the government shapes this context, both independently and with assistance from other parties. One question that has yet to be resolved concerns the desirability of government intervention in companies. First and foremost, there is no 'one-size-fits-all' approach in this case. What is clear is that government interventions can also have undesirable effects. We have cited a variety of pitfalls, acknowledging that this is by no means a comprehensive list (see Fig. 2.2).<sup>55</sup>

First of all, the government (and the underlying political arena) may adopt a short-term horizon, resulting in policy fluctuations. This focus on the short term leads new administrators to put off dealing with challenging dossiers, while their eagerness to act needlessly exacerbates other issues.<sup>56</sup> This creates uncertainty for companies.

It is of pivotal importance to ensure a certain degree of policy consistency, although 'locking in' policy for an extended period may run counter to democratic decision-making processes. Policy consistency isn't set in stone. Ideally, the government must have the flexibility to modify policy when new circumstances warrant it.<sup>57</sup>

A second pitfall concerns the issue of policy incoherence. Because the government often pursues different objectives, there is a risk that policy in one area may undermine policy in another area.<sup>58</sup> This may stem from policy compartmentalisation and limited coordination between various government entities, often referred to as 'horizontal incoherence'. Policy coordination between

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<sup>54</sup> Allen (2019); Fahy (2022).

<sup>55</sup> For a theoretical overview outlining sources of 'government failure', see: Le Grand (1991).

<sup>56</sup> De Goede (2015, pp. 15–16).

<sup>57</sup> See van Egmond et al. (2018).

<sup>58</sup> Christiansen (2001); Lenschow et al. (2018); Organization for Economic Cooperation and Development (OECD) (2021).



**Fig. 2.2** Policy pitfalls

different levels of government (international, national, regional) is not always effective. Such ‘vertical incoherence’<sup>59</sup> can impede firms by imposing conflicting requirements on them.

Lastly, the government may be susceptible to ‘regulatory capture’. Here, swayed by influential lobbying, policymakers or supervisory authorities may prioritise the interests of certain companies over those of society. These concerns typically revolve around large, incumbent firms that have the capacity to organise lobbies and that stand to gain or lose a great deal from particular policies.<sup>60</sup>

Many factors determine the extent to which these shortcomings occur in practice. A capable government, with knowledgeable employees familiar with specific sectors and the corresponding societal issues, can balance various public and private interests more effectively than a government with limited capacity that is disconnected from everyday realities. At the same time, it’s important to maintain a certain amount of distance, to avoid regulatory capture.

Ultimately, the boundaries of government control show that it falls to all stakeholders, most notably the companies themselves, to boost the business community’s contribution to society. The government may expect companies to adhere to both the letter and the spirit of the law, along with widely accepted international guidelines. Different companies will inevitably interpret regulations in different ways. This latitude creates the need for companies and other parties to make their own decisions on how to enhance their contribution to society.

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<sup>59</sup>Smith (2004).

<sup>60</sup>Stigler (1971).

### 2.4.4 Summary

- Companies do not operate in isolation. Institutions and rules influence the ways in which companies operate and the decisions they make.
- Governments can increase the likelihood of companies making a positive impact on society by adjusting market conditions or promoting transitions.
- Policies do not always deliver. The potential for adverse outcomes from government interventions underscores the challenge that both public and private sectors face in enhancing companies' contributions to general welfare.

## 2.5 Conclusion

In this chapter, we have briefly touched on the various concepts and scientific discussions that are relevant to our book. We view companies' contribution to society as their impact on general welfare, encompassing economic, social, and environmental dimensions. Furthermore, general welfare extends beyond the 'here and now' to considerations of 'elsewhere' and 'later'. Business interests may coincide or conflict with the interests of society. In the latter case, it pays for companies to pass on costs to other parties.

Does this imply that companies bear a responsibility to balance the interests of society as effectively as possible? Though important, this question is not at the centre of this book. We purposefully focus on the importance of the context in which companies operate. Measures to adapt that context can incentivise firms to contribute more to society. The government can use its extensive and wide-ranging policy toolkit to adjust market conditions or promote transitions.

In the following chapters, we dispense with theoretical and conceptual discussions and turn our attention to practical matters. To this end, we will begin by investigating historical perspectives of how companies contribute to society and how these perspectives have informed policy decisions in the Netherlands. We will then identify obstacles that hinder companies from contributing more significantly to society, and consider the government's role in eliminating these hurdles.

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# Chapter 3

## A History of Business-Related Policies in the Netherlands



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In this chapter, we explore the historical evolution of Dutch business-related policies. What were the views on how policies could incentivise companies to do more for society? A historical lens can help highlight the fact that current ideas about

companies' societal role may not be as obvious as we think they are. Business-related policies and companies themselves have all undergone considerable changes over time—albeit with elements of continuity and cyclic patterns. Furthermore, a historical perspective can serve as a source of inspiration for policymakers. This does call for caution though: while a certain policy approach may have succeeded or failed in the past, this doesn't mean that it will produce similar results in today's context.

We analyse historical developments across several pertinent policy domains, divided into three distinct periods: (1) from the end of the nineteenth century to the end of the Second World War (1890–1945); (2) the post-war period up to and including the oil crises of the 1970s (1945–1980); and (3) the period from the 1980s until today (1980–present). This categorisation is primarily an analytical tool, because many policy developments are not constrained by artificial temporal boundaries. At the same time, these periods reveal a discernible level of coherence in government policy, suggesting that this categorisation is not entirely arbitrary.

Throughout the first period, in a growing number of domains across the Netherlands the 'laissez-faire' principle of classical liberalism was under pressure (Sect. 3.1). This era was characterised by a cautious institutionalisation of corporatist ideas, placing strong emphasis on cooperation and coordination between companies, as well as between employers' associations and unions. The Great Depression and the Second World War gave a major impetus to a more hands-on role for the government. This approach reached its zenith during the second period—the three decades following the Second World War (Sect. 3.2). There was a marked focus on the position of employees, not only within socio-economic policies but also in corporate governance regulations. The economic turmoil of the 1970s and early 1980s heralded a change of course. There was support for policies based on the premise that giving companies more leeway would bolster their contributions to society (Sect. 3.3). The credit crisis and its aftermath sparked renewed efforts to help companies make a greater contribution to society. This quest has become more pressing in the light of current challenges in areas such as climate change, the labour market, public health, and earning capacity.<sup>1</sup>

In each section, we begin by examining developments in business and politics before shifting our focus to relevant policy themes. These themes include innovation and market regulation, work and social security, environment and climate, and corporate governance.

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<sup>1</sup>In this book we understand the term earning capacity to mean 'the ability to generate structural economic wealth and social well-being, now and in the future.' TNO (2024), see also WRR (2013).

### 3.1 War, Depression and Greater Coordination, 1890–1945

At the turn of the twentieth century, there was mounting pressure on the ‘laissez-faire’ principles of classical liberalism. Industrialisation prompted concerns about people’s working conditions, while the First World War revealed the Dutch economy’s dependence on the economies of other countries. Policy was heavily influenced by corporatist ideologies, with significant emphasis on cooperation and coordination between employers’ and employees’ associations. The government embraced a more proactive stance, while still delegating significant responsibilities to private actors. The Great Depression of the 1930s and the subsequent Second World War perpetuated this trend towards increased coordination, resulting in increased support for a more hands-on role for the government.

#### 3.1.1 *Developments in Dutch Business*

From the end of the nineteenth century, the ‘second industrial revolution’ gained momentum in the Netherlands. The advent of technologies such as electricity, the combustion engine, and new means of communication revolutionised every economic sector, from agriculture and industry to services (see Box 3.1). This went hand-in-hand with economies of scale in industry. Estimates show that, by around 1890, companies with more than 50 employees employed approximately 15% of the factory workforce. By 1930, this share had risen to about 44%.<sup>2</sup> A significant trend in the early twentieth century was the rapid rise of a few, very large, internationally oriented companies, specifically Shell, Unilever, Philips, DSM, Akzo, and Hoogovens.<sup>3</sup>

#### **Box 3.1 The importance of technological developments**

In business and society at large technological progress has served as a catalyst for change. During the nineteenth and early twentieth centuries, the introduction of various new technologies led to major changes in production processes and products. In Dutch agriculture, the development of the milk centrifuge enabled dairy companies to process milk on a much larger scale, while artificial fertilisers and new cultivation techniques significantly boosted production in arable farming. The emergence of steamships, trains, and cars had a

(continued)

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<sup>2</sup>Scheffer (1942).

<sup>3</sup>Government support played an important role in the growth of these companies, not only through direct financing but also, for example, because the government had removed patent legislation at the end of the nineteenth century. See: Bloemen et al. (1993); van Zanden (1997).

**Box 3.1** (continued)

profound effect on trade and other services. It had a similar impact on industry (by boosting the steel industry, for example) and agriculture, of course.<sup>4</sup> Technological developments still needed to be integrated into the fabric of society.<sup>5</sup> Thus, mechanical milk processing and the ensuing increase in scale only became feasible with the development of a road network, in the early decades of the twentieth century. Before that, the poor condition of the roads made it impossible to transport milk over greater distances because the risk of spoilage was too high.<sup>6</sup>

Despite these developments, many companies in manufacturing, agriculture, and services continued to operate on a small-scale. To manage the scale and coordination of production processes, many companies banded together to form cartels or cooperatives.<sup>7</sup> Family-run companies—companies in which a family supplies the capital and/or has a dominant role in management—were the rule. The first half of the twentieth century saw the gradual emergence of large companies run by external managers, offering a clear alternative to traditional, small-scale family-run companies.<sup>8</sup>

Dutch entrepreneurs had a strong international focus, resulting from the country's longstanding trading tradition and colonial empire. As a result, the Netherlands profited significantly from the wave of globalisation between 1870 and 1914. During this period, technological advances in transport and communications, coupled with the fact that many countries—including the Netherlands—opted to pursue trade liberalisation and implement the Gold Standard, considerably boosted international economic interdependence. In 1870, the Dutch government decided to open up its colony of the Dutch East Indies to private entrepreneurs (until then, it had been an exclusive revenue-generating territory for the state). This move resulted in the widespread involvement of the business community in colonial economic activities. This was especially true for banks, trading companies, and shipping companies.<sup>9</sup> The First World War disrupted international trade and consequently impacted the Dutch business community. The 1920s briefly saw a revival in economic globalisation, but this was succeeded by a new decline during the Great Depression of the 1930s.<sup>10</sup>

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<sup>4</sup>van Druenen (1990).

<sup>5</sup>The Netherlands Scientific Council for Government Policy (WRR) (2021).

<sup>6</sup>Van Druenen (1990).

<sup>7</sup>Vermij (2003).

<sup>8</sup>Sluyterman (2003, pp. 48–49, 310–313).

<sup>9</sup>Sluyterman (2003, pp. 51–52).

<sup>10</sup>Sluyterman (2003, pp. 315–316).

### 3.1.2 *Political Developments*

Liberal economic ideas held sway in political circles and among companies in the Netherlands throughout the second half of the nineteenth century. One of the main objectives was to give entrepreneurs as much leeway as possible. The government was supposed to refrain from interfering. For example, there was no competition policy: the Dutch government neither encouraged nor prohibited cartel agreements. Its focus was on creating the right conditions for business, which involved improving the railways, canals, and roads, implementing education policy, negotiating free trade agreements, and adopting the Gold Standard. This focus was also evident in changes such as the reduction in excise duties and the liberalisation of trade.<sup>11</sup> By contemporary standards, the government was very small, with a limited number of civil servants and relatively low overall expenditure. Up until the First World War government expenditure only amounted to around 10% of GDP, while today it ranges from 40% to 50%.<sup>12</sup>

From the close of the nineteenth century onwards, liberalism as an ideology encountered growing scepticism. In many European countries, socialism gained ground, placing the ‘struggle between labour and capital’ at the forefront, with the goal of ‘socialising the means of production’. Although socialists in the Netherlands held no governmental responsibility until just before the Second World War, socialist ideology did have an impact on political discourse and on local politics. This influence increased as unionisation levels rose, the right to vote gradually expanded, and concerns arose about revolutionary (socialist) tendencies around the end of the First World War.<sup>13</sup>

Policy developments were primarily influenced by corporatist conceptual frameworks. Confessional movements (both Catholic and Protestant) held significant sway in this regard. They were against both ‘cold’ liberalism and ‘godless’ socialism. Confessionals shared the liberals’ scepticism about an excessively large role for government.<sup>14</sup> In contrast, however, they stressed cooperation and coordination, including agreements between trade unions and employers’ associations on prices and wages.<sup>15</sup> This ‘corporatist ideology’ wielded significant political influence, in

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<sup>11</sup> Sluyterman (2003, pp. 67–68).

<sup>12</sup> Bos (2006); CPB Netherlands Bureau for Economic Policy Analysis (CPB) (2023).

<sup>13</sup> van Zanden and Griffiths (1989).

<sup>14</sup> The Catholic principle of subsidiarity (higher authorities should not do anything that could be effectively done by lower-level authorities) and the Protestant principle of ‘sovereignty over our own domain’ (church, business, family) were important. Over time, there was increasing support within Catholic circles for government intervention in the social arena, partially driven by Pope Leo XIII’s stance in 1891 (the *Rerum novarum* encyclical) advocating government legislation in this area.

<sup>15</sup> Guldenmund (2012); Kickert (2003); Van Waarden (1987).

part because Catholic and Protestant parties formed the backbone of Dutch government coalitions for almost the entire twentieth century.<sup>16</sup>

What was also important in this regard was the increased popularity of partnerships in the business community, involving both employees and companies. The early twentieth century saw the consolidation of many trade unions along the lines of Dutch ‘pillarisation’ (the division of social groups, such as religious and ideological communities, into separate blocs). Employers also increasingly formed alliances, partly in response to the organisation of employees and partly in response to the government’s more interventionist stance. The growing importance of collective labour agreements (CLAs) spurred a further proliferation of interest groups.<sup>17</sup>

### 3.1.3 *Innovation and Market Regulation*

During the latter half of the nineteenth century, the Dutch government focused on broad, condition-setting policies. By abolishing the Patent Act in 1869, it gave companies free reign to copy foreign inventions as they saw fit (see Box 3.2). At that time, knowledge and innovation policy was of little or no significance. The start of the twentieth century saw the establishment of several advisory and information agencies, but it was up to the companies themselves to decide whether or not to make use of them.<sup>18</sup> Agriculture was the exception to this. The agrarian crisis of the 1880s fostered a greater willingness to tolerate government intervention. This, and other factors, formed the basis for research, information, and education policies in agriculture and a well-developed R&D system.<sup>19</sup>

#### **Box 3.2 Innovation by Dutch companies**

Companies themselves were largely responsible for developing and implementing new production techniques and innovations. They were assisted by a very flexible patent regime, as there was no patent law between 1869 and 1910. Dutch companies could ‘copy’ innovations from foreign players without having to worry that this might cause trouble in their own country. Take

(continued)

<sup>16</sup>Van Waarden (2002, p. 53).

<sup>17</sup>Sluyterman (2003, pp. 84–86).

<sup>18</sup>Peet & Nijhof (2015, pp. 33–34).

<sup>19</sup>Bieleman (2000). The agricultural crisis primarily impacted arable farming. Prices in this sector declined, due to the import of very cheap grain from the US and elsewhere. Steamship connections played a part in facilitating such imports.

**Box 3.2** (continued)

Philips: When developing the metal filament lamp, Gerard Philips eagerly adopted General Electric's production methods. However, Philips often negotiated settlements abroad to sidestep legal proceedings.<sup>20</sup> Many other Dutch companies, including Van den Berg and Jurgens (later Unilever), also capitalised on the flexible patent system. Innovation also took place in other ways: companies seeking to rationalise production processes began experimenting with what was known as 'scientific management'. Among other things, this type of management involved a more systematic approach to production and the division of labour.<sup>21</sup>

The liberal approach at the end of the nineteenth century also entailed a very limited government role in terms of market regulation and trade. Once again, agriculture bucked the trend. Box 3.3 contains an example of this. The Dutch economy was exceptionally 'open', as import duties provided minimal protection for domestic companies. Dutch politics were less affected by the protectionist leanings that arose in neighbouring countries, partly due to the political clout wielded by entrepreneurs in trade and shipping.<sup>22</sup> In addition, the government long maintained a laissez-faire approach in the field of competition. Neither competition nor cartels were actively encouraged or discouraged. It was believed that the open nature of the Dutch economy would render price or production agreements ineffective.<sup>23</sup>

**Box 3.3 A National Quality Mark for butter**

The introduction of the National Butter Quality Mark in 1904 was a government measure to facilitate butter exports. In the preceding decades, fraudulent practices had tarnished the reputation of Dutch butter overseas. Many shipments of butter were adulterated with margarine, water, glucose, or white syrup and sold (especially in Britain) as pure butter. Since it was difficult for customers to assess quality when purchasing such products, all brands of Dutch butter (even the good ones!) were tarnished with the same brush. This prompted many customers to switch to butter from Ireland, Italy, the United States (USA) and Denmark. This, coupled with the rise of margarine as a cheaper alternative, adversely impacted Dutch dairy farmers' incomes. In 1899, the Dutch government introduced a Butter Act to regulate the

(continued)

<sup>20</sup>Sluyterman (2003, pp. 29–30).

<sup>21</sup>Bloemen (1988).

<sup>22</sup>The Advisory Council on International Affairs (AIV) (2022, p. 16).

<sup>23</sup>Dankers et al. (2013, p. 19).

**Box 3.3** (continued)

production and sale of butter. In 1904, a quality mark was established to ensure that “customers could always be certain that the butter they received had been inspected”.<sup>24</sup> Officially recognised butter inspection stations (often established by trade organisations but under government supervision) were authorised to issue this quality mark. Butter producers, therefore, had to be affiliated with these stations to be eligible for the quality mark.<sup>25</sup>

From the start of the twentieth century, the government cautiously began to pursue a more hands-on approach to economic policy. For instance, in 1902, it established the *Staatsmijnbedrijf* (State Mining Company; the precursor to DSM) to incentivise mining activities in Limburg. It was felt that, by focusing on domestic energy production, the Netherlands could reduce its strategic reliance on other countries. The First World War confirmed the wisdom of this approach. That war also demonstrated the need for the Netherlands to exert more control in other areas. For instance, the government financially supported the creation of the Royal Dutch Salt Industry (the forerunner of AKZO), the Dutch Blast Furnaces and Steel Factories, and the Royal Dutch Airlines (KLM) for the Netherlands and the Colonies.<sup>26</sup> However, such initiatives were the exception rather than the rule. Private initiative continued to be the guiding principle, certainly until the onset of the Great Depression.<sup>27</sup>

### 3.1.4 *Employment and Social Security*

The surge in industrialisation at the close of the nineteenth century was accompanied by an increased focus on the ‘social question’, with critics highlighting factory workers’ dire living conditions. The concern for working conditions and social amenities had historically been regarded as a private matter for individual entrepreneurs. This implied that substantial differences existed between one company and another (see Box 3.4). Some large companies provided sickness or disability benefits and housing for their employees. But employers generally felt that the salaries paid to workers not only covered their labour but also any occupational risks. They deemed help in case of sickness or an accident to be a matter for private charities.<sup>28</sup>

<sup>24</sup> Cited in: Van Druenen (1990).

<sup>25</sup> Van Druenen (1990, pp. 22, 27, 54).

<sup>26</sup> These initiatives were public-private partnerships, involving financial contributions from both private entities and the government.

<sup>27</sup> Barendregt (1992).

<sup>28</sup> Bruggeman & Camijn (1999, p. 63).

The end of the nineteenth century marked the start of a major transformation in this area. For example, the Labour Act of 1889 ensured better monitoring of the prohibition on child labour (under 12 years of age) and imposed restrictions on the working hours for women and for children between the ages of 12 and 16.<sup>29</sup> Starting from the First World War, the government enacted a series of laws establishing provisions for unemployment, disability, illness, or old age. These laws improved the position of employees and signified a more interventionist approach by the government. However, true to corporatist and liberal ideology, many responsibilities remained in the hands of employers' associations, trade unions, or individual entrepreneurs.<sup>30</sup>

#### **Box 3.4 Social amenities as a win-win situation**

In the nineteenth century, the provision of good working conditions and social amenities by individual entrepreneurs were regarded as acts of charity. Yet, from the dawn of the twentieth century, more companies began to see the need for less discretionary initiatives, partly in response to the burgeoning power of trade unions, the rise of socialist movements, and the fear of government intervention. Forward-thinking entrepreneurs stood out by setting up social funds, forming employee associations, and embarking on housing construction.<sup>31</sup> Providing such benefits to employees was a demonstration of enlightened self-interest, as labour became scarcer during this era, and factory work grew more technical, making it advantageous for companies to retain employees for longer. Thus, providing housing, education, medical care, and socio-cultural activities was a strategy used by certain companies (large companies) to attract and retain employees, while also enhancing their productivity.<sup>32</sup> Initiatives like this forged a stronger bond between these companies and their employees.

### **3.1.5 Corporate Governance**

During the nineteenth century, the Dutch business community was characterised by small-scale operations and a strong reliance on family ties.<sup>33</sup> Prevalent legal structures included the general partnership (abbreviated in Dutch as 'VoF') and the

<sup>29</sup>In 1901, the Netherlands saw the introduction of the Industrial Accidents Act, marking the start of collective insurance in the country. This legislation mandated that certain defined groups of workers be insured against the expenses arising from industrial accidents. In 1909, the Employment Contract Act was introduced. This act acknowledged the legal validity of collective labour agreements, resulting in a marked increase in their adoption.

<sup>30</sup>Peet & Nijhof (2015, pp. 69–73).

<sup>31</sup>Sluyterman (2004, p. 11).

<sup>32</sup>Stoop (1992).

<sup>33</sup>Sluyterman (2003, pp. 48–49).

limited partnership ('CV'). The public limited company ('NV') was less popular. While the shareholders in a public limited company enjoyed limited liability, the regulatory requirements governing its incorporation were considered to be overly restrictive. Towards the end of the nineteenth century, the government relaxed these requirements, sparking a surge in the popularity of the public limited company legal structure.

Importantly, economies of scale in the industry required substantial amounts of capital. The public limited company form was best suited to this because, as stated, shareholders enjoyed limited liability.<sup>34</sup> This legal structure was often employed in the Dutch East Indies, due to the greater risks and hurdles involved in raising capital through informal channels, which was common practice in the Netherlands.<sup>35</sup>

From the dawn of the twentieth century, economies of scale and professionalisation compelled large, industrial companies to loosen their once close ties with investors (original investors). Accordingly, companies became more self-reliant, with management pursuing greater autonomy. Calls for employee participation and the threat of strikes prompted various companies to establish works councils, though these bodies had limited decision-making powers.<sup>36</sup> There were listed companies with a large base of anonymous shareholders, alongside small public limited companies with just a single shareholder, or at most a handful. It was far from obvious how to regulate such a diverse set of companies.<sup>37</sup>

After many years of political debate, corporate governance rules were revised in the late 1920s. Financial reports and their adoption by the General Meeting of Shareholders were subjected to stricter requirements. This triggered increased financial transparency within larger companies and secured a stronger position for shareholders.<sup>38</sup> However, particularly for large companies, prioritising shareholders conflicted with the reality that professional managers were increasingly central to decision-making processes. Company managers thus expressed criticism, arguing that shareholders were so far removed from the companies that they should not be given too much influence in corporate governance.<sup>39</sup>

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<sup>34</sup>De Jongh (2014, pp. 203–205).

<sup>35</sup>Sluyterman (2003, p. 52).

<sup>36</sup>In the Netherlands a works council (in Dutch: *ondernemingsraad*) is a support structure for employee participation within a company that is built to protect and promote an employee's position in the company. Under current Dutch law, it can be a strict requirement depending on the number of employees.

<sup>37</sup>Camfferman and van den Brand (2010). The Dutch Commercial Code (1838) still considered the public limited company to be a "temporary pact among a small and relatively consistent number of partners for the execution of a clearly defined task".

<sup>38</sup>Camfferman and van den Brand (2010).

<sup>39</sup>Dankers et al. (2013, p. 26).

### 3.1.6 *The Great Depression and World War II*

The global economic and financial crisis of the 1930s impacted the Netherlands severely. The Netherlands clung to the Gold Standard much longer than other European countries, causing its trade position to deteriorate sharply. The economic slump was unprecedented, while the unemployment rate soared to almost 20% of the workforce.<sup>40</sup>

In many ways, the Great Depression signalled a significant shift in Dutch government attitudes towards business. In the preceding decades, the government had adopted a slightly more interventionist stance, but now the business community added its voice to calls for protectionist measures. The Crisis Import Act and Crisis Export Act of 1931 shielded the domestic market from foreign competition.<sup>41</sup> Some companies also sought to halt the decline by forming cartels. The Cartel Act of 1935 empowered the government to declare cartels universally binding across the entire sector.<sup>42</sup> These measures were designed to safeguard Dutch companies, yet they ultimately failed to trigger an economic revival. Economically unsustainable operations were artificially kept afloat.<sup>43</sup> At the same time, the government attempted to alleviate unemployment, although the measures it enacted were often too limited to have any real impact.<sup>44</sup>

While the Second World War marks a watershed moment in history, there is also a considerable degree of policy continuity between pre-war developments, measures enacted during the occupation, and post-war policy. Thus, various plans that had been devised before the war were put into effect, such as the Child Benefit Act and the Health Insurance Decree. Furthermore, new measures were introduced and upheld after the war, such as payroll tax, income tax, and corporation tax (see Box 3.5). The implementation of these various measures also involved a significant expansion of the civil service, which remained largely unchanged after the war.<sup>45</sup>

#### **Box 3.5 Corporate tax**

During the first half of the twentieth century, the government levied taxes on the dividends disbursed by companies. These involved the Business Tax (1893) and later the Dividend and Bonus Tax Act (1918). In 1939, it switched to a profit tax.<sup>46</sup> The German occupier replaced this with the Corporate Income

(continued)

<sup>40</sup>Statistics Netherlands (CBS) (2009).

<sup>41</sup>Peet & Nijhof (2015, pp. 88–90).

<sup>42</sup>Barendregt (1992).

<sup>43</sup>De Jong (2012).

<sup>44</sup>Peet & Nijhof (2015, pp. 95–96).

<sup>45</sup>See Peet & Nijhof (2015, pp. 105–114) for a detailed description of wartime policy changes.

<sup>46</sup>Elsweier and Stevens (2018, p. 1).

**Box 3.5** (continued)

Tax (1942), mirroring the German model: companies came to be regarded as autonomous and enduring legal entities, thereby rendering them ‘liable for tax’. Together with various other tax initiatives, the corporate tax ensured that companies contributed a larger share of government revenue. In 1938, companies accounted for 7% of Dutch government income, and by 1942, this figure had surged to 21%.<sup>47</sup> Although corporate tax rates were lowered after the war, the German corporate tax framework remained unchanged until the late 1960s.

**3.1.7 Summary**

- The years following the close of the nineteenth century were characterised by industrialisation and the expansion of Dutch companies. The pace of economic globalisation accelerated swiftly until the outbreak of the First World War.
- The dominant laissez-faire approach of the Dutch government began to face mounting challenges in this period. Social-democratic and confessional ideologies prompted a gradual shift towards prioritising cooperation and coordination between employers’ and employees’ associations. While the government still delegated many responsibilities to the private sector, it gradually took on a more interventionist approach towards companies.
- The Great Depression of the 1930s provided a powerful impetus to these trends. This marked a shift towards a more hands-on role for the government than before.

**3.2 Reconstruction, Growth, and Oil Crises, 1945–1980**

The decades immediately after the Second World War saw a strong focus on reconstruction, economic growth, job creation, and expansion of the welfare state. This period marked the zenith of industry and the dominance of large industrial corporations. There was greater political backing for a more hands-on role for the government, but the Netherlands certainly did not embrace top-down government control. In fact, private parties (or their representatives) perpetuated the corporatist approach through mutual coordination, in consultation with the government.<sup>48</sup> The position of employees became a key area of interest, impacting not just socio-economic policies but also corporate governance frameworks. From the 1960s onwards, there was also a growing interest in environmental issues. The economic

<sup>47</sup>Peet & Nijhof (2015, pp. 107–108).

<sup>48</sup>For details of developments in other countries, see Hall (2013).

upheaval of the 1970s and early 1980s—and the government’s response to this—sparked strong criticism of the government’s role in the economy.

### 3.2.1 *Developments in Dutch Business*

The period after the Second World War saw a significant scaling up in agricultural and industrial activities, partly driven by technological developments. The move towards greater mechanisation in agriculture resulted in the mantra of produce, specialise, and rationalise.<sup>49</sup> Industrial expansion from the 1960s onwards was, to some extent, facilitated by the discovery and swift exploitation of natural gas fields in the north of the Netherlands. This development was partially responsible for a surge in energy use by Dutch industry—particularly in bulk chemicals, oil refining, and plastics. This reliance on fossil fuels led to problems during the oil crises of the 1970s. Industry captured its greatest share of the labour market in the 1950s and 1960s, peaking at around 40%. The 1960s marked the start of an upward trend in the percentage of workers in the commercial and public (or semi-public) service sectors.<sup>50</sup>

Following the Second World War, there was a rapid rebound in international trade. Total import and export volumes surged from roughly 40% of GDP in 1945 to close to 100% in the early 1950s.<sup>51</sup> The restricted size of the domestic market made an international focus virtually unavoidable: Dutch firms could only reap the benefits of economies of scale and mass production if they exported a major portion of their output. In addition, the Netherlands’ strategic location ensured its ongoing importance as an international distribution hub.<sup>52</sup> To this end, the government pursued an acquisition policy to attract American companies to the Netherlands.<sup>53</sup> A significant change occurred when the Netherlands officially acknowledged the independence of its colony, Indonesia, in 1949. Immediately after the war, the Netherlands prioritised trade with the US (via Marshall Aid) and Indonesia, however it increasingly pivoted towards Europe as the years went by.<sup>54</sup> Indonesia’s independence acted as a major catalyst for the policy commitment to European unification.<sup>55</sup>

The increase in scale in industry was reflected in indicators such as the growth in turnover and the number of employees per company. Additionally, there was a rise in the number of companies with multiple branches.<sup>56</sup> This increase in scale did not

<sup>49</sup> Schot and van Lente (2003).

<sup>50</sup> CPB Netherlands Bureau for Economic Policy Analysis (CPB) (2023).

<sup>51</sup> The Netherlands Scientific Council for Government Policy (WRR) (2003), p. 33).

<sup>52</sup> van Zanden and Griffiths (1989).

<sup>53</sup> Dercksen (1986, pp. 209–210).

<sup>54</sup> Statistics Netherlands (CBS) (2018a).

<sup>55</sup> Segers (2019).

<sup>56</sup> Van Gerwen & De Goey (2008, p. 169).

**Table 3.1** Share of the ‘traditional big six’ in the labour market

Year	1929	1950	1960	1973	1993	2008	2019
Jobs at the traditional ‘big six’ in the Netherlands (x 1000)	70	150	170	200	120	59	41
Share in overall employment in Dutch industry of employment at the ‘big six’	8,5%	13,6%	13,3%	17,9%	12,5%	7,0%	5,1%
Share in overall employment in the Netherlands of employment at the ‘big six’	2,4%	4,0%	4,1%	4,1%	2,0%	0,8%	0,5%

Sources: Data for the years 1929, 1950, 1960, 1973 and 1993 in van Zanden, 1997, p. 60. Data for the years 2008 and 2019: annual reports and newspaper reports. Data on employment in industry and the Netherlands: Statistics Netherlands CBS

merely result from organic growth; rather, mergers and acquisitions, especially from the mid-1960s onwards, also drove it.<sup>57</sup> In addition to the pursuit of greater scale, companies fuelled mergers with expectations of European market integration, the introduction of expensive computer technology, and a desire to boost market share.<sup>58</sup> Many large industrial companies recognised the need to diversify to take advantage of economies of scope, sparking an uptick in international mergers and acquisitions.<sup>59</sup>

A striking factor in this context was the economic clout wielded by a small group of very large, highly diversified multinational companies. The top six companies mentioned earlier—Shell, Unilever, Philips, DSM, Akzo, and Hoogovens—accounted for 13.6% of Dutch industrial employment in 1950 but, by 1973, that share had grown to 17.9% (see Table 3.1).<sup>60</sup> These companies also played a pivotal role in innovation. In the 1930s, they were responsible for 50% of total industrial R&D expenditure, a figure that soared to 70% after the Second World War. In addition, they had a pivotal role in international trade.<sup>61</sup> In comparison to countries like Britain and Germany, Dutch companies had a rather bifurcated structure: a small number of very large companies held sway at the top, and there was a fairly significant gap between the top 5/6 and the rest of the economy.<sup>62</sup>

The scaling up and rationalisation of production processes posed a major challenge for traditional family-run companies. Hence, during this period, we see that many family-run companies threw open their doors to ‘outsiders’. Companies such as Albert Heijn, Proost & Brandt, and Océ van der Grinten elected to go public to fund their growth and appointed non-family members to the board. Many family-run

<sup>57</sup>Bouwens & Dankers (2012, p. 173).

<sup>58</sup>Sluyterman (2003, p. 311).

<sup>59</sup>Schot and van Lente (2003); Sluyterman (2003).

<sup>60</sup>Van Zanden (1997).

<sup>61</sup>Peet & Nijhof (2015, p. 177).

<sup>62</sup>See Bloemen et al. (1993) and Van Zanden (1997) for further details concerning the various reasons for this.

companies either merged with—or were open to acquisition by—other companies.<sup>63</sup>

As in the pre-war period, industrial firms were still grappling with the pressing need to retain employees. The growing complexity of production processes further exacerbated this. Accordingly, many large companies invested heavily in their social amenities, such as housing, education, and medical services. It is worth noting that the government partially reimbursed the expenses incurred. However, later in this period these facilities faced mounting challenges. Companies prioritised internationalisation and the nationwide expansion of economic activities, which was incompatible with the provision of extensive local amenities. Individual companies also had less need of these amenities, due to the expansion of the welfare state and public facilities in the areas of education, housing, and care. This weakened the bond between companies and the areas in which their companies were located.

### 3.2.2 *Political Developments*

The Great Depression of the 1930s marked the start of a political shift in terms of the prevailing conceptual frameworks on economics and business. “Few, if any, believed that society could be entrusted to the tender mercies of free markets in this new environment.”<sup>64</sup> Liberal ideas faced challenges as social-democratic and confessional ideas gained traction. These conceptual frameworks highlighted the significance of coordination between government, entrepreneurs, and employees, in relation to the economy as a whole, at the sectoral level, and at the level of the firm.<sup>65</sup> The early twentieth century saw the emergence of this corporatist approach, which gained significant momentum during the Great Depression and World War II, and was further institutionalised after the war.<sup>66</sup>

In the post-war period, political support for a strong economic role for the government increased. The social democratic Labour Party (PvdA) and the Catholic People’s Party (KVP), which influenced post-war policy in the so-called ‘Catholic-Red coalitions’ until well into the 1950s, adopted a much more favourable stance in this regard compared to the liberal and Protestant parties. However, in practice, the Dutch government took a relatively cautious approach. There were no large-scale nationalisations, nor was the government as highly directive as in France.<sup>67</sup> Instead,

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<sup>63</sup>Sluyterman (2003, pp. 198–201, 311).

<sup>64</sup>Vermij (2003, p. 117).

<sup>65</sup>In the literature, this coordinated approach is also known as the ‘Rhineland model’ (coordinated market economies) and is contrasted with the ‘Anglo-Saxon model’ (liberal market economies); see Hall and Soskice (2001).

<sup>66</sup>Peet and Nijhof (2015); Van Zanden (1986).

<sup>67</sup>Even during the heyday of interventionist government, Jan van den Brink (the Minister of Economic Affairs) stressed that “private economic decisions” would continue to hold sway in the economy. Cited in: Schotman (1985, p. 10).

the Netherlands took a corporatist approach, in which substantial responsibilities were delegated to (or coordinated with) employers' and employees' associations.

The trade unions wielded great political influence during this period. Membership of the trade union movement skyrocketed from 800,000 shortly after the war to 1.8 million in 1980.<sup>68</sup> This growth helped to bolster the position of employees. The trade unions carved out a recognised role in decision-making on labour matters, which included the creation of the Labour Foundation<sup>69</sup> in 1945 and the Social and Economic Council of the Netherlands (SER) in 1950.<sup>70</sup> At the company level, employees were increasingly seen as indispensable, prompting a greater focus on their interests and involvement.<sup>71</sup>

### 3.2.3 *Innovation and Market Regulation*

To help rebuild the country after the war and restore the trade balance, the Dutch government vigorously championed industrialisation and a strong international competitive position. The guided wage policy played a pivotal role in this. The government consulted employers' and employees' associations, before laying down guidelines for the scope of wage increases. These guidelines were later incorporated into collective labour agreements at the sectoral level. The combined effect of low wages and the devaluation of the Dutch guilder gave exports a significant boost and generated massive profits.<sup>72</sup> From 1954 onwards, wages were allowed to rise more quickly, in what became known as 'well-being wage rounds', to allow employees to benefit from high economic growth rates.<sup>73</sup> The combination of higher wages, a tight labour market, and economic growth drove industrial companies to hire 'guest workers'. The government paved the way for their arrival by signing recruitment treaties with various countries.<sup>74</sup>

From the late 1940s onwards, policymakers drafted industrialisation memoranda (policy proposals) that were instrumental in shaping industrial policy. In an effort to

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<sup>68</sup>Statistics Netherlands (CBS) (2021).

<sup>69</sup>The Labour Foundation is a national consultative body organised under private law. Its members are the three peak trade union federations and three peak employers' associations in the Netherlands.

<sup>70</sup>The Social and Economic Council (SER) advises the Dutch government and Parliament on social and economic policy. It also brings together various different parties, including labour unions and employers' organisations, to reach agreements on societal issues. van Zanden and Griffiths (1989).

<sup>71</sup>Peet and Nijhof (2015).

<sup>72</sup>Dieren (2013, p. 12); Peet and Nijhof (2015, p. 142).

<sup>73</sup>Sluyterman (2003, p. 174).

<sup>74</sup>Jennissen (2013). The state retained ownership of slightly over 50% of the shares in the Recovery Bank, while the remainder was held by private investors (banks, institutional investors, and private investors). At 300 million guilders, its share capital exceeded that of the five largest commercial banks combined.

grease the wheels of industry, the government made funding available, with a particular focus on the metal industry and the chemical industry. The Society for the Financing of National Recovery (‘the Recovery Bank’), established in 1945 as a public-private investment bank, was instrumental in this effort. However, industrial policies were still primarily of a generic (horizontal) nature. For instance, there were initiatives to provide training and acquire technical knowledge in the US. Keeping energy affordable was also of paramount importance. The exploitation of the Groningen gas field was especially important in this regard (see Box 3.6 about the role of the Groningen gas field in this effort). Furthermore, there was a strong focus on facilitating international trade. In addition to providing export financing, the Netherlands spearheaded efforts to dismantle trade barriers, through multilateral treaties and organisations, such as the European Coal and Steel Community and (later) the European Economic Community.<sup>75</sup>

### **Box 3.6 The importance of the Groningen gas field**

Since its discovery in 1959, the exploitation of the Slochteren gas field in the northern province of Groningen has left an indelible mark on Dutch economic, social, and political development. Within about five years, the newly installed gas network had expanded to supply 80% of Dutch households.<sup>76</sup> This heralded the demise of the coal mines and a subsequent spike in unemployment in the southern province of Limburg. The government launched a range of measures to tackle this. These included incentivising companies to set up operations in Limburg and relocating government services to that province (such as Statistics Netherlands (CBS)). The discovery of these gas reserves and the major government involvement in their rapid exploitation provided industry with access to low-cost energy. As a result, Dutch industry became very energy intensive. Gas sales proved to be very lucrative for the various stakeholders—the government and the oil companies (Shell and Esso). The state relied heavily on these revenues to finance a major expansion of the welfare state in the 1960s. During the 1970s, the drawbacks of these developments also became apparent (see Sect. 3.2.7).

At the sectoral level, corporatist ideologies remained important, as expressed in the establishment of semi-public institutions to enact binding regulations and levy charges within specific sectors or chains.<sup>77</sup> Employers’ and employees’ associations held sway over these institutions.<sup>78</sup> Responsibilities varied widely, covering areas such as training, information dissemination, safety, and working conditions.<sup>79</sup> In

<sup>75</sup> Barendregt (1992, pp. 16–19).

<sup>76</sup> Van der Steen (2018).

<sup>77</sup> Guldenmund (2012).

<sup>78</sup> Sluyterman (2003, pp. 179–180).

<sup>79</sup> Guldenmund (2012).

practice, this arrangement was primarily adopted by the agricultural and retail sectors. No such organisations were set up in the industrial and financial sectors.

There was also broad support for coordination in the area of competition policy. Cartels experienced a marked uptick in acceptance throughout the 1930s and during the war. This attitude persisted in the post-war era, dovetailing neatly with the guided wage policy and price regulation. Enacted in 1958, the Economic Competition Act effectively legitimised cartels, except in situations where they were deemed to be detrimental to the public interest.<sup>80</sup> However, the 1960s marked a watershed moment, signalling a decline in the meaningful impact of cartels. Instead of cartels, companies predominantly opted for mergers and acquisitions as a means of bolstering their market position. However, competition policy remained largely unchanged, leading to economists calling the Netherlands a ‘cartel paradise’ in the 1980s.<sup>81</sup>

### 3.2.4 *Employment and Social Security*

During the early 1950s, employee insurance schemes still formed the backbone of the social security system. Employees and employers paid the lion’s share of the premiums, with only a modest contribution from the government. Benefits were tied to wages, and these schemes were rooted in the traditional belief in the man’s role as the primary breadwinner. In 1947, the government also enacted emergency legislation for pension payments, which was later superseded by the General Old Age Pensions Act in 1956. This law entitled every resident of the Netherlands aged 65 and above to a basic pension. The social security system underwent further expansion during the 1960s, with the enactment of the General Social Security Act (1963) and the Occupational Disability Insurance Act (1967).<sup>82</sup>

From the 1960s onwards, the government increasingly shifted its focus towards ensuring a minimum level of welfare. In 1964, the government introduced a minimum wage requirement for all employees aged 25 and above. From 1969 onwards, automatic annual increases were introduced, tied to inflation and wage trends. Thus, throughout the 1970s, the minimum wage consistently exceeded the levels seen in the 1950s and 1960s.<sup>83</sup> The expansion of access to social security schemes went hand in hand with increases in the level and duration of benefits. Furthermore, benefits were tied to developments in the minimum wage. Most of the funding for social benefits came from natural gas revenues, but these couldn’t keep pace with the rapid growth in expenditure during the 1970s. Hence, the Dutch government saw a substantial increase in its expenditure.<sup>84</sup>

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<sup>80</sup>Bouwens & Dankers (2012, p. 167).

<sup>81</sup>Sluyterman (2003, p. 314).

<sup>82</sup>Peet & Nijhof (2015, pp. 151–152); Sluyterman (2003, pp. 189–190).

<sup>83</sup>Peet & Nijhof (2015, pp. 162–163).

<sup>84</sup>Wierds & Schotten (2008, p. 11).

### 3.2.5 *Environmental Policy*

During the 1960s and 1970s, there was an increased focus on the downsides of economic growth, such as environmental damage. The Club of Rome’s report, ‘The Limits to Growth’ (1972), raised concerns about the Earth’s ability to withstand the pressures of massive global economic expansion. While the ‘environment’ had traditionally been seen as a nature conservation issue, it was now gaining traction as a public health concern.<sup>85</sup> Subsequently, environmental concerns became more apparent in new policies, such as the ‘facetten’ policy, a policy aimed at addressing multiple social, economic, and environmental aspects of welfare (see Box 3.7). This trend was also illustrated by the inception of the Ministry of Healthcare and Environmental Health in 1971 and the enactment of a series of environmental laws, with a particular emphasis on combating issues such as water and air pollution.

#### **Box 3.7 New policies for business and the environment**

In the Memorandum on Selective Growth (1976), the Den Uyl administration (1973–1977) endorsed the idea that governmental intervention should extend beyond stimulating economic growth and employment to include activities that support objectives such as environmental preservation, spatial planning, effective resource and energy management, and improved prospects for developing nations.<sup>86</sup> This policy was dubbed ‘facetten’ policy as it dealt with multiple facets of welfare. For example, it was implemented in the Dutch Restructuring Company’s (NEHEM) policies aimed at restructuring sectors experiencing stagnant growth. Another example was the Investment Account Act (WIR; 1978), a tax subsidy for companies to promote investments that were geared towards reducing environmental impact and energy consumption.

The policy has been described as “the first [...] serious attempt to implement an industrial policy that makes allowance for objectives beyond the economic domain”.<sup>87</sup> However, it does not appear to have amounted to much in practice.<sup>88</sup> NEHEM’s restricted (financial) capabilities had a negligible impact, while the WIR served essentially as a generic and very magnanimous business investment subsidy (so much so that authorities axed it suddenly in 1988 in the context of austerity measures). The challenge in developing the new policy arose partly from the necessity for interdepartmental coordination and cooperation, against a background of conflicting interests and differing views.<sup>89</sup>

(continued)

<sup>85</sup> Van der Steen et al. (2021).

<sup>86</sup> Diederer (2013, pp. 29–31); Peet & Nijhof (2015, p. 205).

<sup>87</sup> Mol & Scholtens (1994, p. 47).

<sup>88</sup> Schippers (2010).

<sup>89</sup> Velzing (2013, p. 61), referring to Hoppe (1983).

**Box 3.7** (continued)

However, it appears that the main obstacle was the timing of the ‘*facetten*’ policy itself. As it was a time when unemployment surpassed the 10% mark, priorities shifted, and endeavours such as environmental health, spatial planning, and development cooperation were considered less important.<sup>90</sup> The history of this policy shows that, to prevent policy being sidelined during economic downturns, attempts to steer government policies for business towards general welfare goals must have a robust institutional foundation.<sup>91</sup>

### 3.2.6 *Corporate Governance*

From the early twentieth century onwards, the perception that public limited companies (NV) mainly exist to serve shareholders had steadily declined. Corporatist ideology viewed the public limited company as an independent entity with various stakeholders. The Annual General Meeting (AGM) of shareholders is not the supreme authority. Instead, there is a functional division of powers among the stakeholders.<sup>92</sup> After the Second World War, this view of companies became more widely accepted. Furthermore, the position of employees became a central concern. For example, the Works Councils Act of 1950 required all companies with more than 25 employees to establish works councils. These mandatory works councils, however, functioned merely in an advisory capacity and were formally required to focus solely on the interests of the firm. Moreover, the works councils were initially chaired by the employer and not by employees.<sup>93</sup>

The 1960s and 1970s ushered in other significant changes. In 1969, the Social and Economic Council issued an influential advisory report in which it concluded that companies’ growing social clout (a consequence of economies of scale) required investors, commissioners, and employees to provide a stronger counterbalance to management. The Council’s advisory report catalysed a range of initiatives. For instance, the powers of employee representatives were augmented. Amendments to the Works Councils Act in 1971 and 1979 gave greater power to works councils. No longer chaired by the employer, they were required to adopt a more employee-centric stance. From then on, the employer also had to seek the works council’s approval for major changes in working conditions and working hours. The introduction of merger codes of conduct was designed to ensure that, in the event of mergers or acquisitions, employees would receive timely updates and have the opportunity to exert influence.

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<sup>90</sup>Diederer (2013, p. 31).

<sup>91</sup>See also Chap. 2 for more discussion about the concept of general welfare and how it evolved in recent years.

<sup>92</sup>De Jongh (2014, pp. 297–298).

<sup>93</sup>Peet & Nijhof (2015, p. 123); Sluyterman (2003, pp. 176–177).

Another key change was the introduction of a new regulation that required large companies to establish a Supervisory Board (SB).<sup>94</sup> The Supervisory Boards wielded considerably greater powers than boards of smaller companies, including approving key management decisions, the appointment and dismissal of directors, and the adoption of the annual accounts. The reasoning behind this was that the shareholders of large companies were often neither willing nor able to manage and control the business effectively, so the Supervisory Board had to shoulder this responsibility. For large companies, the new regulation meant a change in the appointment procedure for the Supervisory Board. Henceforth, the Supervisory Board itself would be responsible for selecting new supervisory directors, with input from both the Annual General Meeting of shareholders (AGM) and the works council.<sup>95</sup> This step reinforced the independent character of large companies, eroding the perception that the AGM is ultimately the supreme authority.

### 3.2.7 *The Oil Crises and Stagflation*

The 1970s saw a reversal in economic fortunes. Rising energy prices and the increasing value of the guilder put pressure on the highly energy-intensive industrial sector. There was talk of a ‘Dutch disease’ indicating that the large-scale and rapid exploitation of the Groningen gas fields had eroded the international competitive position of industry. Global demand for natural gas exerted upward pressure on wages, prices, and—following the collapse of the Bretton Woods system of fixed exchange rates in the early 1970s—the exchange rate. As a result, the competitive position of many sectors on the international stage took a hit.<sup>96</sup> Furthermore, wages were tied to price hikes, resulting in a self-reinforcing effect—rising prices drove up wages, thereby fuelling further price increases, thus perpetuating the cycle. The oil crises in 1973 and, particularly, in 1979 triggered a period of ‘stagflation’ (a combination of stagnation and high inflation) and presented mounting challenges.

Initially, the government treated these problems as a cyclical issue and sought to spur recovery through ‘demand stimulation’. Billions in government loans flowed to individual companies, to prop up production and protect jobs.<sup>97</sup> Economic recovery failed to materialise, however, due to the structural nature of the problems. The Rijn-Schelde-Verolme (RSV) shipping company applied for bankruptcy in 1983. This was a dramatic development, especially since the business had previously received

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<sup>94</sup>This regulation is known as the ‘Structuurregeling’, following the ‘Structuurwet’ of 1971.

<sup>95</sup>Social and Economic Council of the Netherlands (SER) (2001).

<sup>96</sup>Corden and Neary’s (1982) article is widely considered to be the classic analysis.

<sup>97</sup>Peet & Nijhof (2015, p. 205). The Recovery Bank (renamed the National Investment Bank in 1962) extended crisis financing to struggling companies, often under the aegis of government guarantees rather than at its own expense and risk.

more than 2 billion guilders in government aid. The RSV scandal demonstrated the significant downsides and risks of government support for individual companies.<sup>98</sup>

Dutch companies meanwhile increasingly criticised government policy as they felt overwhelmed by excessive regulatory burdens and social contributions. These regulatory burdens and contributions undermined competitiveness and hindered economic growth, they argued. One major Dutch employers' association described companies as "being entangled in an inextricable web of rules and regulations".<sup>99</sup> This criticism extended beyond social amenities to a range of domains, such as legislation focused on 'democratising' companies and environmental statutes that imposed new requirements on permits and company expansions. At the same time, the employers' association felt that the government was neglecting the fundamentals of entrepreneurship—production and productivity.<sup>100</sup> The growing consensus behind this criticism prompted significant policy shifts from the 1980s onwards.

### 3.2.8 Summary

- In the post-war period, dominant internationally oriented conglomerates formed the economic centre of the Netherlands. Policies aimed at wage restraint, cheap energy (gas), and foreign investments greased the wheels of industrialisation. The service sector experienced robust growth later in this period.
- Political leaders had immense confidence in the government's ability to steer the economy, yet—true to corporatist principles—the government often cooperated with (and deferred to) employers' and employees' associations.
- The rise of the welfare state brought about a newfound awareness of the status of employees. They were given more formal opportunities for influence in corporate governance. Conversely, shareholders in large corporations were increasingly sidelined.

The industrial sector had grown accustomed to policy-enabled cheap energy and low wages. However, from the 1970s onwards, it grappled with a dramatic surge in energy prices, wages, and social security expenditures. The government supported struggling companies and made concerted efforts to invigorate the economy. Detractors condemned this approach for its ineffectiveness.

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<sup>98</sup>Peet & Nijhof (2015, pp. 206–207).

<sup>99</sup>Cited in: Van Doorn (1982).

<sup>100</sup>Van Doorn (1982).

### 3.3 Liberalisation, Globalisation, and Credit Crisis, 1980–Present

In the economic upheaval of the 1970s and early 1980s, many believed that structural issues hampered the business environment and competitiveness. In addition, critics drew attention to the government's increasing involvement in the private sector, which they portrayed as overly expansive and, above all, inappropriate, as evidenced by its futile attempts to salvage ailing industrial companies. Instead, the idea of promoting entrepreneurship by means of liberalisation, privatisation, and fiscal support for innovation became (again) more popular. At the same time, regulations in areas such as taxation, labour, social security, and the environment had to be consistent with Dutch business competitiveness. There was also a shift in perspective on companies, which placed greater emphasis on their role as entities responsible for prioritising the financial interests of shareholders. The credit crisis and its aftermath have reignited discussions about these policy views.

#### 3.3.1 *Changes in the Economy and Dutch Business*

From 1980 onwards, the economy increasingly gravitated towards services (see Fig. 3.1). Today, approximately half of the Dutch working population is employed in commercial services—spearheaded by transportation services, communication technology, and financial services.<sup>101</sup> Non-commercial services (government, education, healthcare) account for about a third of the working population. Although direct employment in agriculture and industry is a shadow of its former self, commodities like food and chemical products still play a vital part in exports.

The crisis of the 1970s and 1980s challenged the post-war drive for big, integrated companies within the industrial sector. Hence, from the 1980s onwards, industrial companies shifted their focus towards adopting increasingly flexible production processes and more targeted business models. Technical innovations in areas such as information and communication technology (ICT) enabled the much broader adoption of coproduction, outsourcing, and just-in-time production techniques.<sup>102</sup> Conversely, companies in the commercial services sector, particularly financial firms, sought to internationalise and diversify.<sup>103</sup> Both trends converged in a massive wave of mergers, acquisitions, downsizing operations, and reorganisations during the 1990s and 2000s.<sup>104</sup> During this period, a dramatic transformation

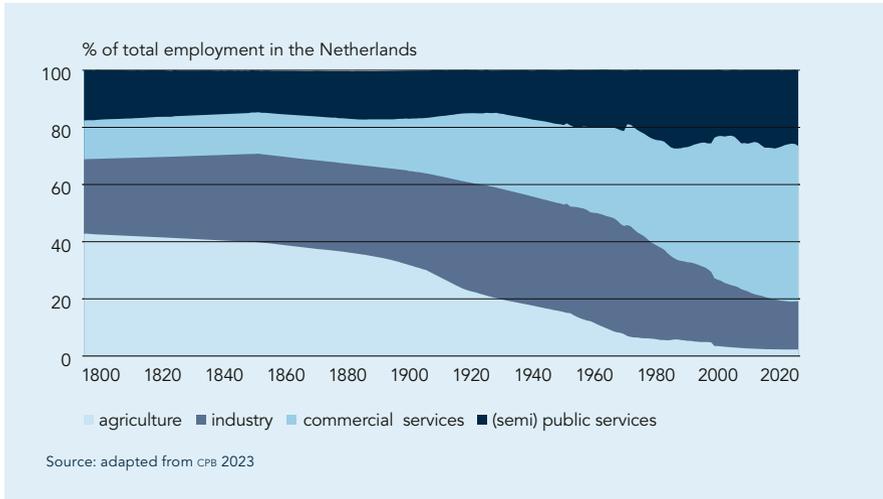
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<sup>101</sup> De Nederlandsche Bank (DNB) (2005).

<sup>102</sup> Sluyterman (2003, pp. 259–265).

<sup>103</sup> Sluyterman (2003, p. 312); The Netherlands Scientific Council for Government Policy (WRR) (2019).

<sup>104</sup> Sluyterman (2003, p. 267); Van Witteloostuijn (1999).



**Fig. 3.1** Sectoral employment trends in the Netherlands

occurred in the ranks of the biggest companies, marked by the ascendancy of the services sector and the decline of the former industrial titans.<sup>105</sup>

Moreover, this era was characterised by a significant uptick in the intensity of economic globalisation. This trend stems from a combination of factors, notably ICT innovations, the widespread adoption of sea containers for freight transport, the end of the Cold War, the deepening of European economic cooperation, and the industrialisation of emerging economies. Markets became increasingly intertwined on an international scale, while value chains underwent fragmentation.<sup>106</sup> Dutch import and export volumes experienced a surge, notably driven by the remarkable growth of Chinese imports. In 1980, imports from China accounted for just 0.3% of total imports, whereas today they make up approximately 10%.<sup>107</sup> There was a rise in cross-border mergers and acquisitions, with Dutch companies venturing into international markets and foreign firms acquiring assets in the Netherlands.<sup>108</sup> Today, foreign-controlled companies account for around 30% of the economic added value generated by the business community.<sup>109</sup> The 2000s have seen a resurgence of interest in companies' role in society. This is illustrated by a greater focus on corporate social responsibility (CSR). In this context, the spotlight primarily focused on large, listed, and internationally operating companies, evaluating how

<sup>105</sup> See also Tamminga (2022).

<sup>106</sup> Timmer et al. (2014).

<sup>107</sup> Statistics Netherlands (CBS) (2018b, 2020).

<sup>108</sup> Sluyterman (2003).

<sup>109</sup> Nelisse (2023).

these companies impacted human rights, the environment, and particularly, the climate.<sup>110</sup>

### 3.3.2 *Political Developments*

From the 1980s onwards, liberal economic ideas regained broad support in the Netherlands. There was a consensus that the government should once again focus on establishing the right conditions and devolve more responsibility to ‘the market’. This entailed a dual approach, involving a more laissez-faire stance through ‘deregulation’ and a greater emphasis on competition by bolstering competition rules.<sup>111</sup> The latter required active government intervention and was, as such, definitively not laissez-faire. Meanwhile, a distinct shift took place in the perspective on large companies. The idea that a company primarily serves the financial interests of its shareholders took hold in the US and the United Kingdom (UK), overshadowing employee interests. This shareholder perspective subsequently travelled to continental Europe, becoming popular with the management of many listed companies and with policymakers.<sup>112</sup>

This ‘reevaluation of private initiative’ resonated to a greater or lesser extent throughout the entire Western world. It also gained traction within international organisations such as the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Co-operation and Development (OECD), and within the European Commission. Particularly from the 1980s and 1990s onwards, renewed efforts were made to ‘complete’ the European internal market, which was very much supported by Dutch policy and business officials. The associated shift of policy powers to the European level also breathed new life into these ideas. Still, the reevaluation of private initiative was by no means new to the Netherlands. Indeed, Dutch academics, policymakers, politicians, and business representatives had long championed these pro-business and pro-market ideas. Moreover, many of the policy prescriptions revisited ideas that had played a major part in shaping Dutch policy before (and partly after) the Second World War.<sup>113</sup>

Many politicians threw their weight behind measures offering greater leeway for private initiative. Calls to ‘roll back the state’ found significant resonance within conservative and liberal circles. From 1982 to 1989, two administrations under prime minister Ruud Lubbers (involving both the Christian Democratic Appeal

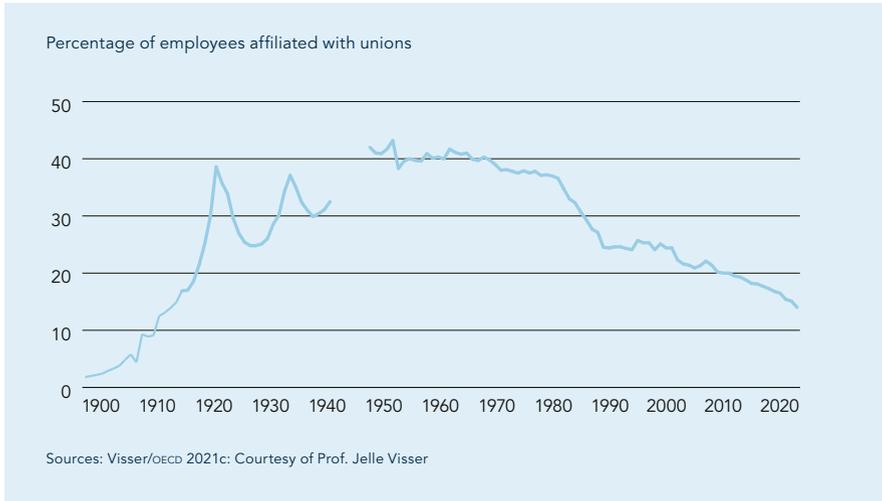
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<sup>110</sup>Kolk and van Tulder (2010); Social and Economic Council of the Netherlands (2000).

<sup>111</sup>The liberal ideas previously developed in Germany (‘ordoliberal thinking’) and by the Chicago school acknowledged the necessity of actively stimulating and monitoring the market mechanism. Ordoliberal thinking took a more favourable stance towards government intervention. See Bonefeld (2012).

<sup>112</sup>Boot (2009).

<sup>113</sup>Mellink and Oudenampsen (2022); Peet & Nijhof (2015, p. 223).



**Fig. 3.2** Unionisation levels in the Netherlands (1896–2021)

(CDA) and the People’s Party for Freedom and Democracy (VVD)) spearheaded numerous reforms. The Dutch Labour Party’s (PvdA) shifting viewpoints were another key factor. This party embraced a greater role for ‘the market’ and became committed to liberalisation and privatisation, particularly from the 1990s onwards.<sup>114</sup>

Despite dwindling membership figures and declining levels of unionisation (see Fig. 3.2), the trade unions still (potentially) retained significant clout.<sup>115</sup> In the 1990s, employers’ associations opted to join forces, resulting in the merger of the two principal employers’ associations by the close of the decade. The fusion of these entities was partly the result of increasing ‘depillarisation’,<sup>116</sup> but the Europeanisation of policy and the economy was also a key factor. By engaging in these partnerships, companies sought to exert more influence on European policy.<sup>117</sup>

<sup>114</sup>Bruggeman & Camijn (1999, p. 255).

<sup>115</sup>de Beer and Berntsen (2019).

<sup>116</sup>‘Depillarisation’ denotes the dissolution of barriers between the different faiths and ideologies that had long been the cornerstones of Dutch society. The 1960s marked the beginning of a shift in Dutch society towards greater individualisation, as social life increasingly evolved beyond the confines of particular philosophical or political movements.

<sup>117</sup>Bruggeman and Camijn (1999).

### 3.3.3 *Innovation and Market Regulation*

Just as in the 1950s, policymakers in the eighties and nineties viewed wage restraint as the key to restoring international competitiveness. Under the 1982 Wassenaar Agreement,<sup>118</sup> employer’s associations and trade unions reached an agreement to suspend the automatic linkage of wage levels to price changes (an approach favoured by the employers’ associations), in return for a reduction in working hours (as demanded by the trade unions).<sup>119</sup> This strategy sought to revive the profitability of the business community, leading to higher investments and—eventually—to greater employment.<sup>120</sup> However, wages rose more slowly than prices, resulting in a decline in real wages. This decline enabled internationally oriented Dutch companies to compete more effectively with foreign companies. The focus on wage restraint remained a defining feature of wage negotiations between employer’s associations and trade unions in the ensuing decades. However, this sustained emphasis on wage restraint also had a downside—it stifled investment in labour productivity (see Box 3.8).<sup>121</sup>

#### **Box 3.8 Wage restraint: a double-edged sword**

Since the Wassenaar Agreement (1982), the ‘social partners’ (trade unions and employers’ associations) have primarily focused on wage restraint. The enhanced flexibility of labour, the large-scale entry of women into the labour market, weaker trade unions, and economic globalisation continued to restrict wage increases in the subsequent decades. In the early 1980s, wage restraint was vital for recovery. However, clinging to this strategy in the ensuing decades also drew criticism. While limited wage increases may boost international competitiveness in the short term, various economists have pointed out potential long-term drawbacks.<sup>122</sup> As wages rise, companies will be more inclined to replace labour with other production factors. This will boost labour productivity.<sup>123</sup>

(continued)

<sup>118</sup>This agreement, a pact between employers’ associations and employees’ associations on Dutch employment policy, laid the groundwork for a longstanding commitment to wage restraint.

<sup>119</sup>Although not explicitly stated in the agreement itself, the objective was evident to everyone involved. With this agreement, the government would forsake top-down wage measures (something it had done repeatedly in the 1970s).

<sup>120</sup>Sluyterman (2003, p. 274). The first Lubbers administration also cut civil servants’ salaries and the minimum wage by 3%. The government also discarded the link between the minimum wage and the average trend of collective labour agreements (CAO).

<sup>121</sup>Kleinknecht (1994); van Riel and van Zanden (2023); Van Zanden (1997).

<sup>122</sup>Kleinknecht (1994); Van Zanden (1997).

<sup>123</sup>Kleinknecht (2020); van Riel and van Zanden (2023).

**Box 3.8** (continued)

Against a background of wage restraint, companies will be less incentivised to pursue new productivity-enhancing technologies.<sup>124</sup> The Netherlands' comparatively sluggish productivity growth since the 1990s could, therefore, be partly attributed to the lack of incentives resulting from wage restraint. There is also a risk of feedback loops. For example, limited productivity growth justifies a restricted wage increase, leading to limited incentives to invest in productivity-enhancing technologies. As such, Dutch GDP growth in recent decades has been, to a significant extent, the result of the expansion of the labour force, particularly with the entry of many women into the labour market from the 1980s onwards.<sup>125</sup>

The 1980s saw a change in direction in government policies for business, away from the 'defensive' industrial policy of the 1970s. Industrial policy was rebranded as 'technology and innovation policy'. The focus of this policy was on creating conducive conditions (a 'horizontal' approach) rather than providing ('vertical') support to specific sectors or companies. This horizontal approach included addressing bottlenecks to technological innovation, such as funding problems for R&D, and the disconnect between the work of research institutions and the requirements of Dutch companies.

None of this implied that financial support schemes for firms would be terminated. Since the 1980s, the government has developed various instruments to grant financial support to companies, with a particular focus on R&D. It achieved this by means of credits, subsidies, and fiscal measures.<sup>126</sup> Key examples are the 'Innovatiestimuleringsregeling', an innovation subsidy (1984–1991), and a tax credit for promoting research and development (the 'WBSO', 1994). Both schemes enabled companies to alleviate payroll tax burdens for R&D personnel. They were very much in keeping with the market-oriented policy, which was based on the

<sup>124</sup> See for example Kleinknecht (1994).

<sup>125</sup> Since the nineteenth century, the prevalent view has been that women (including married women) should stay at home to tend to the children. This has led to their low level of participation in the labour force. The 'Incapacity Act' remained in force in the Netherlands until 1956. It stipulated that employed women must be dismissed on their wedding day and that they had to seek their husbands' approval when obtaining insurance or withdrawing money, for example. It was not until the 1970s and 1980s that the idea of married women working began to be socially accepted. They were often compelled to work part-time, partly due to inadequate childcare facilities. See Van Zanden (1997).

<sup>126</sup> Credits were frequently issued by the Ministry of Economic Affairs. It is worth mentioning that, during the same period, the government gradually privatised the National Investment Bank, finalising the process in 2004. The bank was initially acquired by the General Civil Pension Fund (ABP) and the Dutch pension fund for the care and healthcare sector (PGGM), followed by a takeover by several banks (including ABN AMRO) in 2005, and finally, in 2021, it came under the ownership of the American Blackstone Group.

principle that the government should refrain from excessive intervention and instead entrust innovation to the business community.<sup>127</sup>

Despite this focus on generic financial measures, the government did not entirely abandon support for specific sectors or technologies. During the 1980s and 1990s, the government launched various policies to support specific companies, technologies, or sectors (picking winners). During the 2000s, the government implemented the ‘Sleutelgebiedenbeleid’ a policy for promoting sectors considered key to the Dutch economy. This later evolved into the so-called Top Sectors Policy—to support economically and scientifically robust sectors that had proven to be successful (backing winners). These sectors included food, chemistry, and high-tech systems.<sup>128</sup>

The 1980s and subsequent decades saw growing emphasis on the international competitive position of Dutch business. In 1989, the Minister of Economic Affairs said that, in addition to wage restraint, in policy domains such as taxation or the environment, “the importance of a favourable business environment and an efficiently operating market sector had to be clearly and continuously taken into account”.<sup>129</sup> Flexible tax legislation was a key element in the government’s efforts to attract foreign industry. Traditionally, the Netherlands has sought to avoid the double taxation of subsidiaries at home and abroad, by means of bilateral treaties and bespoke agreements with companies. During the 1980s and 1990s, this policy was intensified. Over time, the Netherlands evolved into a key hub for many multinationals’ tax avoidance strategies.<sup>130</sup>

From the 1980s onwards, the Dutch government has worked diligently to promote market forces. This is exemplified by the privatisations of state-owned companies (such as the postal service and telephony), the commercialisation of sectors such as telecom and energy, and the pursuit of European market unification.<sup>131</sup> The pathway to unification was created by harmonising laws and regulations, dismantling obstructive statutes, and strengthening competition policy (under European pressure). In the early 1990s, the Lubbers III administration reached an agreement to ban cartels. The Kok I administration solidified the agreement by enacting the Dutch Competition Act in 1998. It prohibited any agreements or actions by companies designed to undermine competition on the Dutch market. A Dutch Competition Authority was also set up at the same time to monitor compliance with the act.<sup>132</sup>

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<sup>127</sup> Dankbaar and Velzing (2013); Diederer (2013).

<sup>128</sup> Dankbaar and Velzing (2013).

<sup>129</sup> Parliamentary Papers II, 1989/90, 21 670, Nos 1–2.

<sup>130</sup> Lejour et al. (2019); Vleggeert and Vording (2019).

<sup>131</sup> Stellinga (2012).

<sup>132</sup> Bouwens & Dankers (2012, p. 222).

### 3.3.4 *Employment and Social Security*

Work and social security policies primarily revolved around wage restraint and retrenchment. Both government and the business community deemed the costs of social security policies to be unsustainable. The government decoupled social assistance benefits from market wages, scaled back unemployment benefits, tightened the Unemployment Act's admission policy, and ceased granting full benefits to partially disabled individuals under the Invalidity Insurance Act ('WAO'). However, reducing the number of benefit claimants proved challenging. By around 1990, over a million people—representing one sixth of the working population—were claiming unemployment benefits or disability benefits.<sup>133</sup> To tackle this problem, the government decided to hold employers financially accountable for employees who were dependent on these benefits. This approach was based on the premise that employers would then be more motivated to prevent employees from ending up in this situation.<sup>134</sup>

From the 1990s onwards, the focus shifted from wage restraint to making labour relations more flexible.<sup>135</sup> This concept was rooted in the belief that allowing employers to form more flexible working arrangements with employees would make the economy more resilient. Between the early 1980s and the financial crisis of 2007–2009, the percentage of flexible working arrangements grew from about 5% to nearly 18%.<sup>136</sup> The Dutch government further tightened social security benefits—people who fell ill or became partially disabled were required to seek alternative suitable work wherever possible. Alongside these changes, there was an increased focus on reintegration and labour market policies aimed at workforce activation (encouraging individuals to actively seek and take up employment). Social security needed to operate as more of a 'springboard' rather than just a 'safety net'.<sup>137</sup>

### 3.3.5 *Environment and Climate Policy*

During the 1960s and 1970s, environmental pollution and its adverse public health effects became a pressing social and political issue. Starting in the 1980s, the government tied environmental policy to the importance of economic growth. It was deemed necessary to prevent the Netherlands from surpassing neighbouring countries in terms of the strictness of environmental policies.<sup>138</sup> Nevertheless, towards the end of the 1980s, issues like acid rain and ozone layer depletion, as

<sup>133</sup> Peet & Nijhof (2015, p. 231).

<sup>134</sup> Peet & Nijhof (2015, p. 231).

<sup>135</sup> Bruggeman & Camijn (1999, p. 36).

<sup>136</sup> Organisation for Economic Co-operation and Development (OECD) (2023).

<sup>137</sup> Vrooman (2010, pp. 359–360).

<sup>138</sup> Cited in Peet & Nijhof (2015, p. 236).

well as soil and river pollution, catapulted environmental problems to the forefront of political agendas.<sup>139</sup> The Dutch government's formulation of ambitious frameworks subsequently positioned the Netherlands at the forefront of environmental policies in Europe. However, during the 2000s, environmental policy lost momentum, and the Netherlands dialled back its ambitions across many fronts, notably in tackling the emission of acidifying substances such as sulphur dioxide and nitrogen. European minimum standards became the guiding principle.<sup>140</sup>

Meanwhile, there was a shift in focus towards sustainability and climate-related issues. A key development in this context was the 1992 UN conference on climate change in Rio de Janeiro, which led to the adoption of the Kyoto Protocol in 1997. Nations pledged to cut down on greenhouse gas emissions. In Europe, this prompted the introduction of measures such as the European Union Emissions Trading System (EU ETS) in 2005. Under this system, companies receive emissions allowances, which they can trade between themselves. This strategy—a market-oriented solution to the sustainability issue—dovetailed seamlessly with the overarching focus on market mechanisms.<sup>141</sup> Nonetheless, governments appeared wary of imposing excessive financial strains on companies, mindful of potential impacts on international competitiveness. In the early stages, the system's effectiveness was compromised due to the surplus of emissions allowances (free allowances). This meant that, for a long time, the cost of emitting (more) CO<sub>2</sub> remained negligible.<sup>142</sup>

### 3.3.6 *Corporate Governance*

Large companies focused primarily on the interests of shareholders in this period. In the Dutch context, this trend coincided with dissatisfaction concerning the closed nature of Supervisory Boards and corporate governance. The management of listed companies redirected its focus towards financial markets, emphasising the importance of 'shareholder value'. Various executive compensation instruments—such as compensation in the form of stock option packages—were introduced to align management with the financial interests of shareholders. As a result, during this time, the Netherlands saw a growing perception of companies as instruments for generating financial value, rather than as entities with broader aims. This trend wasn't limited to publicly traded companies. Non-listed companies increasingly sought and followed consultants' advice to implement comparable strategies.<sup>143</sup> Furthermore, the emergence of new shareholder types, like private equity funds

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<sup>139</sup> Van der Steen et al. (2021, pp. 29–30).

<sup>140</sup> Hoogervorst and Dietz (2015).

<sup>141</sup> Stam et al. (2011).

<sup>142</sup> European Commission (2022).

<sup>143</sup> Boot (2009).

and hedge funds, represented a pivotal shift, given their primary focus on financial metrics when evaluating companies.

### **Box 3.9 Remuneration at listed companies**

Since the 1980s, academics in business administration and economics have highlighted the fact that the interests of management and shareholders may not always be perfectly aligned. Variable stock-based remuneration plans were hailed as a promising strategy for reconciling these interests, as they effectively transformed managers into shareholders. In addition, bonuses could be tied to the performance of the stock price. Consequently, executive remuneration shifted away from being primarily a payment for the delivered work and became more of a tool for incentivising managers.<sup>144</sup> Since then, there has been a marked increase in variable remuneration. Due to the ongoing rise in fixed compensation, managers have earned considerably more in recent decades than the average employee. These practices were spearheaded by American companies.<sup>145</sup> Dutch listed companies show a clear trend towards significantly higher remuneration. From 1996 to 2006, collective labour agreements delivered a 40% increase in wages, while the compensation paid to top executives tripled during the same period.<sup>146</sup> According to one study, the annual compensation of a CEO of a Dutch listed company (fixed and variable components) averaged about 5.3 million euros in 2015. This was roughly one hundred times more than the average employee at such companies earned. Variable remuneration accounted for at least four million euros of this figure.<sup>147</sup>

The increased emphasis on the shareholder perspective also became apparent in policy changes.<sup>148</sup> One goal of the Dutch Corporate Governance Code—endorsed in 2003 by the former Tabaksblat Committee—was to bolster the accountability of the board and strengthen the position of the shareholder. In 2004, based on the same rationale, the Dutch government amended regulations for large firms, transferring ultimate responsibility for the appointment of new supervisory directors to shareholders. Conversely, the envisioned expansion of employees' control rights in the 1970s was not advanced: subsequent amendments to the Works Councils Act have been rather limited. Hence, in that respect, the 'democratisation of the company' came to a grinding halt.<sup>149</sup>

<sup>144</sup> See also Lokin (2018, p. 667).

<sup>145</sup> Bebchuk and Grinstein (2005).

<sup>146</sup> Fennema & Heemskerk (2008, pp. 98–100).

<sup>147</sup> Kotnik and Sakinç (2022); see also Jansen et al. (2013).

<sup>148</sup> Boot (2009).

<sup>149</sup> Schippers (2010). For studies into the operation of works councils, see for examples Van den Berg et al. (2011); Smulders and Pot (2016); Visser (1995).

### 3.3.7 *The Financial Crisis and Its Aftermath*

The 2007–2009 financial crisis initially triggered a debate only about financial regulation. Analyses revealed that policymakers placed too much trust in the self-regulating nature of financial markets and the risk management capabilities of banks.<sup>150</sup> Over time this evolved into a more fundamental debate about the foundations of government policy on business, given prolonged periods of sluggish economic recovery and the increasing urgency of societal challenges related to climate change, public health, the labour market, and earning capacity.

These challenges have triggered an increasing debate about the role of business, which we have briefly addressed in Chap. 1. Concerning companies and their sphere of influence, this debate involves the extent to which listed companies should prioritise the interests (or perceived interests) of shareholders over the interests of a broader spectrum of stakeholders, for instance. A related matter is the debate about the extent to which companies are prepared to take independent steps to increase their contribution to society, potentially by setting a specific corporate goal (‘purpose’ in business jargon).<sup>151</sup>

Moreover, there has been a flurry of debate in recent years about the role of government and the goals of government policies for companies. Some contend that the government needs to play a more assertive role in economic development.<sup>152</sup> They argue that the government should adopt a broader perspective than before, specifically focusing on general welfare and with due acknowledgement for environmental and social objectives.<sup>153</sup> Others express dissenting opinions—doesn’t a more hands-on government come at the cost of entrepreneurship and private initiative? And don’t government policies for business that revolve around ‘profit creation’ in the end benefit social and environmental objectives? These discussions are still evolving and mainly serve to showcase society’s pressing need to explore novel avenues. We will delve deeper into this topic in the upcoming chapters.

### 3.3.8 *Summary*

- Since the 1980s, the economic focus of Dutch companies has increasingly shifted towards commercial services. Companies positioned themselves in the global market through restructuring, mergers, and acquisitions. Industrial firms leaned towards specialisation, while service companies in particular pursued diversification.

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<sup>150</sup>Financial Services Authority (2009).

<sup>151</sup>Mayer (2018); for the Netherlands see for example Cools (2021).

<sup>152</sup>Mazzucato (2019); Ramos and Hynes (2019).

<sup>153</sup>See Sect. 2.1.

- The government’s strategy transitioned from taking (or attempting to take) a hands-on approach to implementing more enabling policies. It increasingly emphasised strengthening the competitiveness of Dutch companies, through measures such as wage restraint, social security cuts, liberalisation, and tax support for innovation.
- Perceptions of the company and its governance changed, as the shareholder perspective gained greater prominence. In practice, this did not mean that shareholders gained more influence, but rather that managers began to prioritise financial indicators.
- Since the financial crisis of 2007–2009, doubts regarding government policies for business have progressively shaped the political agenda.

### 3.4 Conclusion

This chapter has described several key historical developments in Dutch business and in government policy on business. At the same time, we saw attitudes towards the roles of government and companies change. For instance, as the nineteenth century drew to a close, working conditions and social amenities were still largely seen as a ‘private’ duty. It was the employer’s prerogative to define their exact scope. In the course of the twentieth century, it became widely accepted that there should be extensive public provisions. Of course, employers still enjoy a certain latitude in this area, but the discretionary arrangements of the past have now been consigned to history. Hence, the line between public and private duties is not immutable.

History also displays cyclical patterns, in which viewpoints that had once been marginalised resurface, albeit in a modified form. In this context, consider the importance placed on companies having sufficient room for manoeuvre. This emphasis was prevalent in the late nineteenth century, but it was called into question during the First World War and especially during the Great Depression. Ensuing decades saw greater emphasis on the idea that companies required restrictions to maximise their social contributions. Nevertheless, the crisis of the 1970s ushered in a new era. The notion of a hands-on government encountered suspicion, and the importance of giving companies sufficient latitude once again took centre stage.

In addition to the multitude of changes and cycles, we discern several recurrent patterns in the history of companies and government policies for business in the Netherlands. The first enduring feature is the broad-based sharing of responsibility between public and private entities—encompassing the government, companies, trade unions, and other social stakeholders. Consultation, compromise, and coordination became the norm, especially in the twentieth century. This is an asset when coupled with shared responsibility, but it can also introduce vulnerabilities when parties primarily feel that others are responsible for taking action.

Second, there is the strong international focus of Dutch companies. This connection with international markets brings great benefits to the Netherlands. The

Netherlands has undeniably been susceptible to economic crises originating elsewhere, as seen during the 1930s and 1970s. Yet the Netherlands has also reaped the rewards of international booms, as was the case before 1914, in the 1950s and 1960s, and during the 1990s.<sup>154</sup> A failure to acknowledge this reality is fraught with risk. This became evident in the 1930s, for example, when the government compromised Dutch international competitiveness by continuing to adhere to the Gold Standard even when all other European nations had abandoned it.<sup>155</sup> This also became apparent in the 1960s and 1970s, when competitiveness was eroded by sharp increases in wages, social security costs, and prices.<sup>156</sup> Conversely, an overly zealous focus on international competitiveness can also lead to outcomes that are less than ideal. For example, the continued emphasis on wage restraint since the 1980s appears to have weakened the incentive for companies to invest in innovation.<sup>157</sup> In addition, the Netherlands increasingly began to display traits typical of a ‘transit economy’, which is characterised by limited added value in both trade and financial flows.<sup>158</sup>

Thirdly, historical evidence indicates that the Dutch government endeavours to shield incumbent firms from turbulence by means of financial support schemes and overly accommodative regulations. Examples include flexible cartel regimes, efforts to support a shipping company like RSV in the 1970s, the generous tax regime for multinational corporations, and the lax regulation of the financial sector in the run-up to the credit crisis of 2007–2009. In some cases, such policies were a response to challenging economic circumstances, while in others they were more often aimed at preventing the erosion of international competitiveness. A strategy focused on safeguarding the business community may appear beneficial at times, yet it also entails the risk that companies might fail to fully unleash their innovative potential. We will expand on this further in the upcoming chapters.

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<sup>154</sup> Sluyterman (2003, p. 324).

<sup>155</sup> Van Zanden (1997).

<sup>156</sup> Peet and Nijhof (2015).

<sup>157</sup> Kleinknecht (1994); van Riel and van Zanden (2023).

<sup>158</sup> The Netherlands Scientific Council for Government Policy (WRR) (2013, pp. 58, 61).

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# Chapter 4

## Obstacles that Prevent Companies Making a Positive Impact on Society



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Viewpoints on companies' social responsibility evolve over time, as illustrated by the historical perspective presented in the previous chapter. Each era presents its own unique challenges, which give rise to different expectations regarding companies' contribution to society. Of course, some contributions to society are not tied to specific time frames, such as providing employment. Either way it remains to be seen whether companies deliver the contributions expected of them and, if not, what prevents them from doing so.

In this chapter, we explore the obstacles that prevent companies from making a more positive impact on society. As indicated in Chap. 1, the core activities of companies form the central theme of this book. We focus on the ways in which

companies make an impact on society through their products, services, and earning capacity.<sup>1</sup> In this context, we use the term ‘business model’. This concept is defined in various ways in the business literature.<sup>2</sup> We use the term to describe the rationale underlying a business. A business model captures a company’s activities at a given point in time.<sup>3</sup> It specifies how a company creates value by developing a product or service, how it then enters the market, and how it secures a portion of the created value for itself.<sup>4</sup> We explore the obstacles that prevent companies from making a more positive impact on society within the framework of their current business model and/or from adapting their business model to facilitate a more positive impact.

All things considered, a company’s goal is to ensure that its income streams are at least equal to, if not greater than, the costs incurred. In this narrative, business interests and the interests of society can be aligned. However, these interests can also conflict if a company chooses to minimise its costs by passing them on to society. Moreover, entrepreneurial success is not a given. Companies operate in a constantly changing environment. Consumer preferences change, employees develop new aspirations for their personal and professional growth, governments introduce new legislation, and financiers impose different demands. To survive, companies must continually adapt. They are compelled to make choices and devise strategies to boost their contribution to general welfare.<sup>5</sup> Ultimately, this determines their ‘license to operate’ in society.

Tactical considerations are of key importance in this regard. A company’s tactics dictate the amount of value it can capture in the market.<sup>6</sup> Even with an exceptional product, a company will struggle if it lacks the expertise to tap into the appropriate sales market. A company’s tactical decisions also shape the impact it has on the rest of society. Consider, for example, the origin of certain raw materials. Switching suppliers usually doesn’t amount to a meaningful modification of its business model, but it does have the potential to boost or undermine the company’s impact on society. Or when, for instance, supermarkets decide to discount products, the new price can alter consumption habits and potentially affect people’s health.

The importance of choices demonstrates that companies have agency to deal with the various obstacles addressed in this chapter. They have the option to revamp business models, thereby mitigating the obstacles posed by dependencies in the value chain, for instance. At the same time, responding to changes poses risks for a

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<sup>1</sup>In this book we understand the term earning capacity to mean ‘the ability to generate structural economic wealth and social well-being, now and in the future.’ TNO (2024), see also WRR (2013a).

<sup>2</sup>DaSilva and Trkman (2014); Jensen (2013).

<sup>3</sup>Casadesus-Masanell and Ricart (2010).

<sup>4</sup>DaSilva and Trkman (2014); Osterwalder and Pigneur (2010). ‘Revenue model’ is another commonly used term. By this we mean the methods companies use to generate turnover. Thus, the revenue model falls within the scope of the business model.

<sup>5</sup>This book uses the terms ‘general welfare’ or in short ‘welfare’ to indicate a broad view of welfare that includes social, economic and environmental dimensions. See also Chap. 2.

<sup>6</sup>Casadesus-Masanell and Ricart (2010).



**Fig. 4.1** Obstacles that prevent companies from making a positive impact on society

business. After all, the future is shrouded in uncertainty. Long-term strategic decisions demand confidence and courage. Especially when investments are needed that result in lower profits in the present, or when opting for healthier or more sustainable business models, for example, this can impact future financial outcomes. In this chapter, we systematically explore seven obstacles that thwart companies' efforts to make a more positive impact (see Fig. 4.1). Collectively, these show why choices that benefit society are not always clear-cut.

Before dissecting these obstacles in detail, we want to emphasise the many differences between companies. These include their legal structure, age, and degree of international orientation. Consequently, the relevance of any given obstacle will differ from one company to another. Furthermore, some companies have no interest in making a more positive impact on society, while others actively undermine society, by engaging in criminal activities, for instance. In this chapter, we focus on companies that seek to make a more positive impact and help resolve society's challenges, but that ultimately fall short. We want to understand the stumbling blocks that companies encounter in this regard.

## 4.1 Offloading Costs Onto Society

We're drawn to the potential business model [of biofuels], but it must be commercially viable. There are too few incentives for these types of developments, as oil is still too cheap. (CEO multinational in chemical sector)

Companies must ensure that a business model ultimately yields profits. If turnover consistently fails to cover incurred costs, they cannot sustain operations in the long term. Thus, a major obstacle to making a positive impact arises when a company's efforts to do so put pressure on turnover or increase costs. In such instances, it is more likely to prioritise maintaining the status quo. The above statement by the CEO of a chemical multinational is not unique in this regard.

The CEO is simply stating that fossil fuels are 'too cheap' compared to more sustainable alternatives. However, oil is by no means 'cheap' in terms of its repercussions for society. For example, the use of a diesel truck or passenger car leads to several adverse outcomes for society. Some of these outcomes result from the type of fuel selected—diesel, for instance, exacerbates climate change, and degrades air quality. Other effects arise from road transport itself. The deterioration of public infrastructure increases the risk of accidents and congestion. The Netherlands Environmental Assessment Agency (PBL) estimated that the sum total of this damage to society for the Netherlands exceeded 2 euros per litre of diesel in 2018, far surpassing the excise duty on a litre of diesel. As many of these costs do not feature in the marginal costs, the wider impact on society typically does not influence a person's decision about whether or not to use a specific mode of transport. The damage and its costs are ultimately borne by society.<sup>7</sup>

Air travel is yet another case in which society bears the brunt, in this case of the environmental pollution caused by flying. Business flights account for 30% of all passengers at Dutch airports, while 80% of business air travel by Dutch nationals is to destinations within Europe.<sup>8</sup> Much of this air travel can be replaced by alternatives with fewer harmful side effects, such as train travel or virtual meetings. Yet companies still favour air travel. Here, too, the price of an airline ticket does not adequately reflect the greater costs for society. As a result, companies find frequent flying appealing in addition to other factors—such as travel comfort and journey times—that influence their decisions.<sup>9</sup> At the same time, airlines and airports have compelling reasons for not including harmful side effects in their pricing.

Taxation provides a means of recouping the costs to society. In practice, however, the taxes levied are often too modest to effectively incentivise people to make more sustainable choices. The Dutch tax structure for natural gas is based on a degressive model, in which high-volume users pay less tax per cubic metre.<sup>10</sup> Figure 4.2 shows that taxes on natural gas fail to compensate for the environmental damage caused by those high-volume users who consume 170,000 cubic metres or more. Moreover, the degressive tariff structure encourages users to increase the scale of their operations, leading to a reduction in their marginal costs. In addition to benefiting from degressive tariffs, certain energy-intensive business activities also qualify for

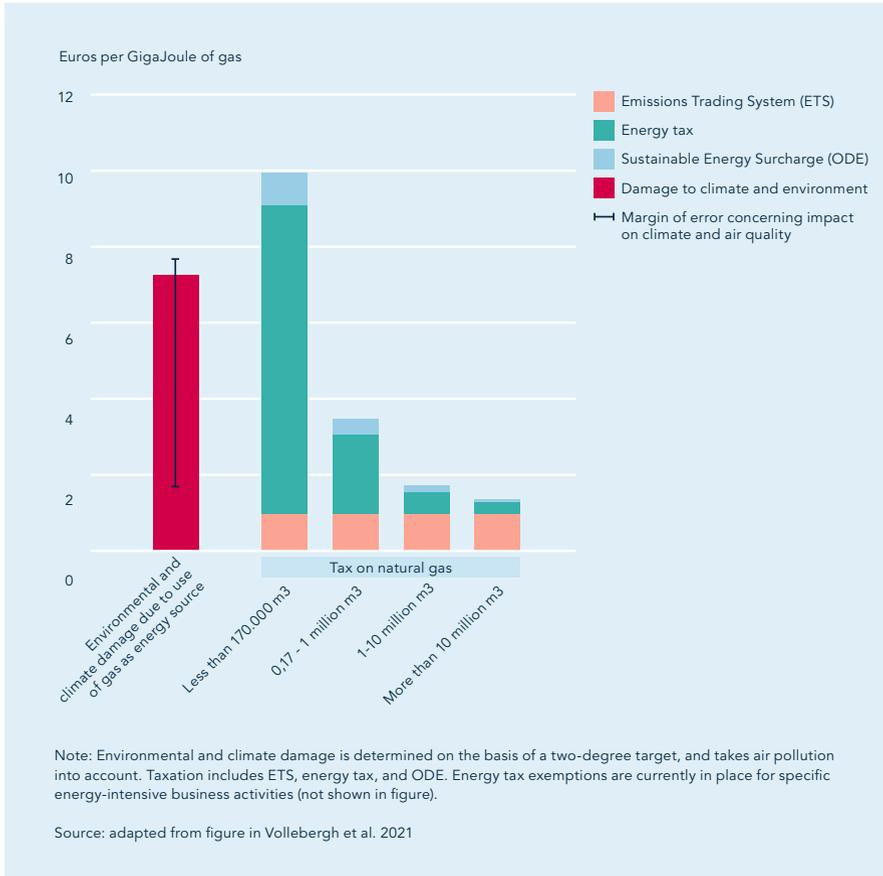
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<sup>7</sup>Bollen et al. (2019). When people purchase a means of transport, the level of other taxes, such as Dutch motor vehicle tax, also affects their decisions; see also Vollebergh et al. (2016).

<sup>8</sup>Parliamentary papers ii, 2021/22, 31,936, no. 894 (annex).

<sup>9</sup>See for example Verbeek (2023).

<sup>10</sup>The Netherlands Scientific Council for Government Policy (WRR) (2023).



**Fig. 4.2** Pricing instruments and environmental damage due to natural gas consumption by Dutch industry in 2018

Dutch exemptions from energy tax. The rationale behind this is that reduced taxes are essential for maintaining competitiveness. Other European countries also implement reduced tariffs or exemptions of this kind.<sup>11</sup>

Companies offloading social, environmental and economic costs onto society occurs in many places and it affects every aspect of welfare. The spotlight is currently on the adverse impact of business activities on the environment and climate, but there are also many hidden costs for the social and economic aspects of welfare.

The Netherlands Labour Authority, for instance, observed that companies employ various questionable schemes to cut labour costs. These range from compelling

<sup>11</sup>Blom et al. (2021).

workers to rent accommodation, undeclared work, bogus self-employment, and disguised forms of piecework.<sup>12</sup> This problem particularly impacts migrant workers. Employers in the Netherlands often use short-term labour migrants for physically demanding and hazardous tasks, where safety considerations are not always given top priority. Migrant workers make up the vast majority (98%) of the victims of labour exploitation in the Netherlands.<sup>13</sup> When substandard working conditions cause problems, with regard to housing or health, for example, society as a whole has to shoulder the costs, typically through public services.<sup>14</sup>

Problems also occur on the turnover side, when there's a market demand for products or services that have harmful effects on society as a whole. For example, the consumption of unhealthy and processed foods increases the risk of common diseases such as obesity and diabetes. Strong financial incentives drive the continued production or sale of these products. This is because the price of unhealthy items does not accurately reflect societal costs. Another example is the sharing economy, where the rental of private homes to tourists exacerbates housing shortages or causes nuisances for local residents.<sup>15</sup> Companies often enable consumers to pass on the negative impacts of consumption to society.<sup>16</sup> Sometimes, they even deliberately foster harmful consumption, either by advertising such products or by making them more addictive. For example, many supermarkets actively market calorie-rich and sugary drinks.

These externalities are deeply interwoven with the business model of companies like confectionery or tobacco manufacturers. Other companies have a wider range of options for mitigating the negative impact of consumption. A supermarket can decide which products to display at the checkout, while an online store can regulate its use of packaging material.

### ***4.1.1 Free-Riding on the Efforts of Others to Make a Positive Impact***

The numerous opportunities for offloading social, environmental and economic costs onto society hence form a significant obstacle for companies striving to make a more positive impact. A related challenge concerns free-riding on companies that do contribute to solutions for society. In situations where the societal benefits outweigh the private ones, there may be insufficient incentives to develop such

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<sup>12</sup>Netherlands Labour Authority (2021).

<sup>13</sup>Heyma et al. (2022); Netherlands Labour Authority (2022).

<sup>14</sup>Take, for instance, the recent debate in the Netherlands about bad working conditions at the major airport of Schiphol.

<sup>15</sup>Nieuwland and van Melik (2020).

<sup>16</sup>The Netherlands Scientific Council for Government Policy (WRR) (2014a).

business activities. This situation can lead to parasitic behaviour, where individual parties benefit from certain facilities, services, or products without having to pay for them, which then gives them a financial incentive not to contribute.

One of the areas in which this problem occurs is the data economy. The sharing of data among companies offers considerable potential for generating public value.<sup>17</sup> For example, startups can leverage data from other organisations to develop new products. Consider companies that incorporate public topographical information into their products or train their algorithms on datasets from other parties, enabling a computer to perform medical diagnoses. However, individual companies have little incentive to share potentially useful data if there is little to be gained by doing so. Data sharing is inefficient in these situations.<sup>18</sup> In the Netherlands, industry associations take a leading role in maximising the potential of data sharing. For example, the national trade association for insurers and the logistics sector are collaborating to explore the impact of sharing freight traffic data on efforts to improve insurance risk assessments.<sup>19</sup> Incidentally, when companies share data this also entails societal risks. Ensuring cyber security is not the only concern. From a competition perspective, data sharing becomes problematic, for example, when it excludes parties or when information exchange leads to price agreements.<sup>20</sup>

#### **Box 4.1 Sustainable construction offers limited rewards for companies**

The construction sector's production processes contribute significantly to the Netherlands' CO<sub>2</sub> emissions. The materials most commonly used in this sector are steel, concrete, and wood. The production of steel and concrete involves heating iron ore and limestone to very high temperatures in a furnace. Massive amounts of carbon are released during this process.

Using wood for construction is a more environmentally friendly option, yet it remains relatively uncommon in the Netherlands. Building with wood is expensive and demands specialist knowledge, which is not always available.<sup>21</sup> The methods used to calculate the environmental impact of buildings have also sparked a debate. Many believe the environmental advantages of bio-based materials such as wood are often overlooked.<sup>22</sup> For the time being, using steel and concrete presents a more financially attractive option.

(continued)

<sup>17</sup> Jones and Tonetti (2020).

<sup>18</sup> El-Dardiry et al. (2021).

<sup>19</sup> Data sharing coalition (2021).

<sup>20</sup> Crémer et al. (2019), See also Box 5.3.

<sup>21</sup> CE Delft (2021).

<sup>22</sup> CE Delft (2021).

**Box 4.1** (continued)

Furthermore, construction companies indicate that clients undervalue sustainability's long-term benefits, making progress difficult in this area. As one interviewee in the construction sector put it:

While it's trendy to claim that sustainability pays off, this seldom holds true in business cases. If a client commissions a sustainable head office and a contractor agrees to build it, then both will incur higher costs, yet the benefits accrue to employees who enjoy a more comfortable environment or to future generations who are less impacted by emissions.

As that counterpart points out, construction products continue to impact the living environment long after they have been commissioned. The built environment accounts for roughly 37% of energy consumption and about 13% of the Netherlands' total greenhouse gas emissions.<sup>23</sup> More sustainable construction has benefits for parties that are not directly involved in the transaction itself (such as future generations). Clients, however, do not directly reap these benefits, so they are less willing to pay for them.

The construction sector has tremendous potential to contribute to a more sustainable built environment. However, the only way to capitalise on these opportunities effectively is to ensure that the construction companies themselves also find a way to benefit.

Finally, parasitic behaviour can also be a problem for innovation activities. If others gain access to a company's internally developed innovative expertise, that company will forego some of the financial benefits. This 'leakage' of knowledge leads companies to invest less in innovation, also known as 'spillover effects'. Consequently, companies might end up investing too little in research and development.<sup>24</sup> For example, Box 4.2 shows that the chemical sector shares expertise sparingly, prompted by companies' concerns about revealing competitively sensitive information.

**Box 4.2 Knowledge sharing in the chemical industry**

Feedback from companies in the chemical industry shows that they are extremely cautious about sharing information, even when this could benefit the sector itself and society as a whole. This is particularly true of startups and scale-ups. They worry about larger companies appropriating their ideas and offering little or no compensation. If a rival company appropriates their innovations, this can undercut the innovator's business model, especially if

(continued)

<sup>23</sup>Netherlands Enterprise Agency (RVO) (2021).

<sup>24</sup>Bloom et al. (2019); Overvest (2020).

**Box 4.2** (continued)

the former can supply the products at lower prices. As one counterpart in the chemical industry put it:

If we were entirely transparent about our production process, we would lose control of our molecular assets which, in turn, would impact our earning capacity. If we were to disclose details of our production method this could potentially benefit the world, but we also need financial resources to expand production and drive ongoing innovation.

The spillover effects of R&D activities also mean that the knowledge base for existing technologies is often greater than that for innovation. This partially explains why research into existing ‘grey’ technology generally tends to be more lucrative than research into newer ‘green’ technology.<sup>25</sup> This triggers a vicious circle. Companies face obstacles in allocating resources to research that benefits society, opting instead to concentrate their innovation efforts on enhancing existing, less beneficial or even potentially harmful technologies. The knowledge developed in this way benefits those existing technologies, which raises the investment threshold for innovative activities, even among other companies.

### 4.1.2 Summary

- In many cases, it is enticing for companies to offload the detrimental impact of their business activities (on people and the environment) onto society. This is particularly so when prices for raw materials do not incorporate the costs of environmental and social damage.
- In addition, companies may engage in free-riding behaviour. When business activities greatly benefit society but offer little to the companies themselves, they often choose to profit from the business practices through which others make positive impact, instead of developing such activities themselves.

## 4.2 Dependencies

The interdependencies between companies significantly influence their capacity to establish a given business model. For instance, a company is often just another link in the chain, so its possibilities are constrained by its suppliers and buyers. A company also operates as a market player. The tactical choices it makes are

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<sup>25</sup> Aalbers et al. (2013); Aghion et al. (2016); Rusu et al. (2021).

influenced by the actions of competitors. In essence, as but one actor in a much broader context, the company's freedom to chart an independent course is restricted.

Globalisation has led to increased internationalisation and fragmentation in many supply chains.<sup>26</sup> As a result, companies often find it challenging to get a clear view of the entire chain. Conducting due diligence to identify potential shortcomings in the areas of environment, climate, and human rights within the chain demands both capacity and expertise. As suppliers often have suppliers of their own, the company relies on its direct supplier to shed light on production processes further up the chain.<sup>27</sup>

Small companies acting as suppliers can be greatly affected by the demands of the purchasing party.<sup>28</sup> If the customer is powerful, the supplier must comply with their wishes or risk losing turnover. This can have both positive and negative repercussions on companies' impact on society. For example, suppliers may find that some customers insist on commitments to uphold social or environmental welfare.<sup>29</sup> On the other hand, if the customer cares more about price, it's hard for an innovative supplier to develop activities that contribute to society, especially if this entails higher costs. Box 4.3 illustrates the various dependencies and power relations in the Dutch food industry, whose suppliers and product processors are often highly dependent on the requirements imposed by supermarkets.

#### **Box 4.3 Bargaining power in the Dutch food industry**

Many of the entrepreneurs in the food sector we spoke to frowned upon their customers' strong focus on price. They contend that this results in the harmful costs of food production being offloaded onto society. Many entrepreneurs find the concentrated market power of purchasing parties frustrating, particularly when attempting to market an alternative product that offers better health or biodiversity benefits.

This is primarily because supermarkets have a lot of power in deciding who gets access to the market. Many food manufacturers are unable to bypass the retail sector, so they rely heavily on the few major players in the Netherlands (Albert Heijn, Jumbo, Superunie). For a big Dutch supermarket group like Albert Heijn (part of Ahold Delhaize), even a major supplier only accounts for a few percentage points of total turnover. This creates a scenario in which the supplying party becomes highly dependent, resulting in an extremely unequal

(continued)

<sup>26</sup>Dedrick et al. (2010); Timmer et al. (2014).

<sup>27</sup>Pedersen and Andersen (2006); Social and Economic Council of the Netherlands (SER) (2000).

<sup>28</sup>de Krom and Prins (2019).

<sup>29</sup>Pedersen and Andersen (2006).

**Box 4.3** (continued)

negotiating position. As one counterpart from a medium-sized food manufacturer put it:

Albert Heijn accounts for 25 percent of our turnover, Jumbo for 20 percent. If we were to lose access to one of these supermarkets, we would need to reorganise immediately. From their point of view, the relationship is very different: we account for only 0.3 percent of Albert Heijn's turnover.

This lopsided power dynamic allows the retail sector (especially supermarkets) to exert considerable sway over the price at which products are purchased. Tight margins in the retail sector often cause supermarkets to negotiate lower purchasing prices with their suppliers. The entire chain feels the reverberations of these reduced purchasing prices. To be able to lower their prices producers will for instance negotiate with their own suppliers to obtain raw materials at a discounted rate. Pressure on the chain impacts the quality of a product. If there is an opportunity to pay less for raw materials, then cheaper alternatives must be sought—and that is often not the most sustainably produced or healthy option. This dynamic drives a 'race to the bottom', where there is little if any correlation between the price of a product and the costs of its production for society.

The fact that small suppliers are dependent on major buyers suggests that the latter enjoy greater room for manoeuvre, after all, they can exert control over companies elsewhere in the chain. But large firms also face competition.<sup>30</sup> If they are concerned about potential threats to their competitive position, they are more inclined to hesitate before making a positive impact. The next section will illustrate how vested interests obstruct change.

### 4.2.1 Summary

- Companies occasionally become ensnared within their own value chain. When their bargaining power is limited, they struggle to make significant changes to their value chain and business model.
- Powerful companies have more opportunities to spearhead changes within their value chain. However, by driving down prices they can also hinder change from smaller innovative companies that depend on them.

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<sup>30</sup>Meqdadi et al. (2019); Touboulic et al. (2014).

### 4.3 Vested Interests

Companies can profit from obstructing change if this serves to safeguard their own position. Some companies view addressing society's challenges as a threat, particularly if it leads to a reduction in the long-term consumption of certain products. Reduced oil usage does not serve the immediate interests of oil companies, nor do the interests of meat producers chime with a transition to reduced meat consumption. Or as the CEO of a low-budget drugstore chain put it: "When all is said and done, I am in the business of selling stuff. So it would be hypocritical of me to claim that I am against overconsumption."<sup>31</sup>

Companies can use a range of strategies to delay or thwart change. For instance, they could attempt to sabotage potential challengers or 'neutralise' them by means of a takeover. Takeovers of this kind stifle healthy competition in the digital economy, for example.<sup>32</sup> Companies with ample financial resources may also attempt to undercut challengers by temporarily slashing prices, thus boosting their own market share. As a result, challengers may find it difficult to scale up.

In addition, companies can close ranks and endeavour to protect their interests through collaborations, such as industry associations. These associations frequently prioritise the interests of the most powerful stakeholders. Relevant in this respect is the development of certain quality marks, designed to require only limited changes at incumbent firms. For example, various major food conglomerates worked together to roll out the Dutch '*Ik kies bewust*' ('I choose consciously') quality mark. In this case, the label wasn't necessarily awarded to healthy products but was, instead, based on a product's relative performance within a specific category.<sup>33</sup> Quality marks launched by established entities might provoke competition concerns if they cause other participants to be excluded from the market.<sup>34</sup> Several studies have shown that, within international forums such as roundtables focusing on soy, palm oil, and biomass, major incumbent firms often wield disproportionate influence when it comes to designing new standards.<sup>35</sup>

Finally, companies can safeguard their vested interests by influencing laws and regulations. Large, incumbent firms are well connected and possess the seasoned professionals, time, experience, and skills to lobby for policies that suit them. New and smaller companies or social enterprises, for instance, often lack influence in lobbying circles. Big companies with vested interests occasionally resort to unconventional tactics to influence public discourse. Take, for instance, actions by the tobacco, food, or fossil fuel industries designed to undermine scientific consensus on the harmful effects of smoking, sugar, and climate change.<sup>36</sup>

<sup>31</sup> Cited in: Van der Velden and Cornelissen (2021).

<sup>32</sup> Argentesi et al. (2019); Crémer et al. (2019).

<sup>33</sup> Elving and Steenhuis (2014).

<sup>34</sup> Authority for Consumers and Markets (ACM) (2016).

<sup>35</sup> Fuchs et al. (2011).

<sup>36</sup> See for example Oreskes and Conway (2011); Tomori (2021).

Related to the issue of vested interests, companies also tend to exhibit a degree of internal conservatism. Particularly when change or innovation involves market cannibalisation. This happens when new products or services compete with existing offerings from the same company. Transitioning towards more sustainable products and production processes might, for instance, clash with previous investments in human resources and economic capital (such as specific machinery or factories) at industrial companies.

Box 4.4 illustrates the key role played by market cannibalisation and vested interests in shaping the decisions of companies in the chemical industry. Adapting the business model to comply with new safety or energy usage standards might render previous investments futile. In interviews, representatives of chemical firms noted that interests of this kind fuel resistance to change within the sector.

**Box 4.4 Vested interests and market cannibalisation in the chemical sector**

The influence of vested interests soon becomes apparent in discussions with multinational corporations in the chemical sector. On the one hand, their dominant market position can be attributed to the enormous investments they have made over time. Leveraging their large scale and extensive network, they can procure raw materials affordably in bulk and market products globally. However, their scale can also become a liability. Virtually all the major chemical companies we interviewed pointed out that they have spent millions on retrofitting their existing plants, just to meet the very latest safety regulations. Business leaders stress that accelerated depreciation of their previous investments represents one of the most significant obstacles in the energy transition. Given the scale of the necessary investments, they are treading carefully, preferring to bide their time before taking major financial risks that could impact both themselves and their investors.

Some companies in the chemical sector show little inclination to change due to their legacy assets (outdated means of production). While the core of their business model remains profitable, it is so outdated that it will have to be completely replaced in the future, or there is even a risk that it may be completely banned. As one business leader in the chemical sector puts it:

We have a three-speed playing field here. A number of companies are spearheading sustainability initiatives. This group is growing. The midfield is showing some movement, but only out of necessity. Companies with legacy assets form the bulk of the third group. They mainly participate for the sake of appearances, while actively trying to sabotage the transition. Every company with legacy assets instinctively works to preserve that legacy.

The requisite changes towards business models that benefit society pose challenges not just for those companies with vested interests but also for other stakeholders, including employees, financiers, and citizens living near their plants. These changes render certain skills obsolete, which could well result in job losses. Changes

requiring substantial investments could potentially reduce dividend payments to shareholders in the short term. Suppliers would then lose some or all of their orders. When a large company is socially and economically important in a given region, there will also be broader ripple effects if it needs to adapt core activities.

When a company achieves a certain scale, its interests inevitably become entwined with those of numerous other parties, which poses challenges in distinguishing between private interests and the interests of society.<sup>37</sup> It could also imply that changes favouring the environmental dimension of welfare might also have short-term negative repercussions for the economic and/or social dimensions of welfare.

### 4.3.1 Summary

- Innovative ventures geared towards making a positive impact may not always serve companies' interests. It is often in a company's interest to cling to 'the status quo', especially if it has invested heavily in the past or if its employees have developed valuable expertise.
- Vested interests tend to hinder the introduction of market changes. Companies benefiting from the status quo often actively resist change in various ways, such as through lobbying tactics.

## 4.4 Passive Consumers

The preceding sections showed how easily companies can offload costs onto society and how dependencies or vested interests obstruct business models that offer solutions to society's challenges. However, these obstacles do not necessarily imply that alternative business models are inherently unprofitable.

After all, consumers have a say in the matter as well. As the demand for more sustainable or healthier products grows, companies are incentivised to reshape their business model accordingly. Thus, a business model's resilience hinges significantly on consumer behaviour. In this section, we will see that consumers frequently adopt a passive stance. This means that they don't always consciously choose products or services that promote the welfare of both people and the environment. Their behaviour is partly guided by unconscious purchasing habits. Or, when they do make a conscious choice, they often prioritise affordability over potential damage to society.

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<sup>37</sup>Claassen (2017); The Netherlands Scientific Council for Government Policy (WRR) (2012, 2019).

Dutch consumers say that they are increasingly inclined to integrate various dimensions of welfare into their spending.<sup>38</sup> Research conducted by Wageningen University & Research (WUR) indicates that ever more consumers in the Netherlands prioritise sustainable values in the food sector, such as animal welfare, environmental friendliness, and fairness. For instance, approximately 60% of respondents expressed their willingness to pay a premium for sustainable food.<sup>39</sup> In a 2020 international survey by Cap Gemini, 79% of consumers indicated either that they are already adjusting their purchasing preferences in response to a product's social, environmental, or economic impact, or that they were contemplating doing so in the future.<sup>40</sup> This trend tends to resonate more with younger generations than with older ones.

The degree to which this heightened awareness actually translates into modified consumer behaviour varies considerably, depending on the product or service in question. For example, according to research conducted by Statistics Netherlands (CBS), one-third of Dutch adults say that they are reducing their meat consumption. They are motivated by a range of different factors. Health concerns drive some consumers to alter their diet, while others are motivated by climate or animal welfare issues.<sup>41</sup> Despite people's expressed intention to eat less meat, however, Dutch meat consumption shows little sign of decreasing.<sup>42</sup> Similarly, homeowners who, in theory, are prepared to make their homes more sustainable do not always translate their aspirations into action. Some owners voice concerns over the prohibitive costs involved. Others acknowledge that they have not adequately explored insulation options or believe solutions will improve in the future.<sup>43</sup>

Several factors contribute to the disconnect between consumer preferences and market demand. This is partly a matter of price. Goods and services with a positive impact on society typically command higher prices than more harmful alternatives.<sup>44</sup> As a result, consumers, too, are inclined to offload the social or environmental costs of their consumption onto society. Furthermore, this behaviour could be prompted by shortcomings in knowledge or information. Consumers sometimes find it challenging to understand how their purchases impact society. They either doubt the claims of companies or do not fully understand the labelling.<sup>45</sup> Moreover, consumers are deterred from choosing an alternative product or service due to the cost and effort that might be involved in switching to another insurance provider or bank, for instance.<sup>46</sup>

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<sup>38</sup>See also Koch and Vringer (2023).

<sup>39</sup>Onwezen et al. (2020).

<sup>40</sup>Jacobs et al. (2020).

<sup>41</sup>Kloosterman et al. (2021).

<sup>42</sup>Dagevos et al. (2022).

<sup>43</sup>Steenbekkers et al. (2021).

<sup>44</sup>Selnes and Tacken (2019).

<sup>45</sup>Consumentenbond (2020); Jacobs et al. (2020).

<sup>46</sup>Farrell and Klemperer (2007).

Various psychological factors play a part in shaping people's purchasing habits. Generally, it's hard for consumers to take the long-term impacts of their consumption into account.<sup>47</sup> Short-sightedness makes consumers more inclined to prioritise products or services that meet their immediate needs, thereby downplaying the future impact of their actions. It also takes effort to break consumption patterns. This encourages the perpetuation of habits that have a negative impact on society.<sup>48</sup> Box 4.5 features a more in-depth exploration of factors that determine human choices.

#### **Box 4.5 Human choices: theory and practice**

Economic models and considerations are often based on the premise that consumers make rational choices. In this context, 'rational' implies that individuals strive to maximise their personal gains, and that they are capable of leveraging all available information when making decisions, of accurately assessing uncertainties and taking them into account, of disregarding emotions, and of understanding the consequences for both the short *and* long term. Moreover, rational choices demand stable preferences.<sup>49</sup>

It appears that consumers behave differently in practice. They may for instance factor in the common good when making decisions and settle for less than the maximum return. Systematic deviations from reality (biases) shape consumers' subsequent decisions, often without them realising it.<sup>50</sup> Choice preferences are not stable. The way in which a question is framed affects the choices people make.<sup>51</sup>

Furthermore, consumers often do not use all the information available to them. This could be due to a range of factors. In some cases there is too much information, in others it's just too complex. Producers respond to this. For instance, the default settings on websites often have a significant impact on the information consumers decide to share.<sup>52</sup> Furthermore, consumers frequently make decisions without thoroughly evaluating all available options. When it comes to clothing, for example, consumers often purchase the first product that meets their needs. Many products and services are often heavily influenced by habitual behaviour.

(continued)

<sup>47</sup>Trudel (2019).

<sup>48</sup>Verplanken and Whitmarsh (2021).

<sup>49</sup>Tiemeijer et al. (2009).

<sup>50</sup>The Netherlands Scientific Council for Government Policy (WRR) (2014b).

<sup>51</sup>Tversky and Kahneman (1981).

<sup>52</sup>Acquisti et al. (2015).

**Box 4.5** (continued)

Many biases make it challenging for people to factor risks into their decisions. They often favour a certain outcome, even if that option theoretically doesn't yield the highest returns. Furthermore, they struggle to accurately gauge opportunities.<sup>53</sup> For example, consumers tend to underestimate their own health risks, and their decision-making is partly shaped by existing patterns.

Moreover, emotions influence people's decisions and purchases. Whether it is rational or irrational, a person's 'feeling' can heavily affect their decision to buy a car or house. Companies capitalise on this through their marketing activities.

Lastly, individuals may find themselves torn between the short and long-term impacts of their decisions. Satisfying short-term needs then erodes the long-term goals they have set for themselves.<sup>54</sup> An inherent lack of self-control often causes people to make 'short-sighted' decisions.

These obstacles force consumers and companies into a deadlock. The difficulty in breaking existing consumption patterns weakens demand for products and services that benefit society. This deters companies from launching large-scale marketing campaigns for these products or services. The products' costs remain relatively high due to a lack of scale and experience, which curbs demand.

### 4.4.1 Summary

- Consumers say they are increasingly inclined to buy goods that have a positive impact on society. However, their actual purchasing habits do not always reflect this trend.
- In practice, consumers often do not fully consider their choices or opt for products and services that ultimately have a more detrimental impact on society than the alternatives. In addition, price, insufficient information, emotion, and a focus on the short term greatly affect consumer behaviour.
- Consumers and companies find themselves locked in a deadlock. Companies' efforts to make a positive impact struggle to gain traction, due to ingrained consumption patterns and a lack of demand for products that benefit people and the environment.

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<sup>53</sup>Kahneman and Tversky (1979).

<sup>54</sup>Thaler and Shefrin (1981).

## 4.5 Coordination problems

Before committing to investments, whether in production processes or in the development of new goods and services, companies will determine whether the expected gains offset the costs. Many of the factors involved are often shrouded in uncertainty. Consider, for example, the unpredictability of market trends and the possibility that research into a new product may not be fruitful. In addition, companies might experience coordination difficulties. It is often advantageous for companies to coordinate their activities and work together.

Insurers may find it beneficial to coordinate ethical data usage, for instance. Similarly, chemical companies might collaborate with suppliers of waste that can be used as raw material. In complex value chains, however, unequal power relations may be at play. This makes it difficult to coordinate effectively with other parties, as we have previously seen. Moreover, authorities often prohibit cooperation due to the ban on cartel formation. To illustrate how coordination issues can be an obstacle for companies seeking to make a greater positive impact on society, we showcase two examples: training personnel and improving the sustainability of production processes.

One of the most important ways in which companies can improve their impact on society is by prioritising investment in their employees. This not only benefits the employees themselves, but also society at large. Meaningful employment yields numerous benefits, such as improving health, enhancing welfare, boosting productivity, and fostering greater social cohesion.<sup>55</sup> All companies benefit when their employees (or potential employees) actively pursue personal development. This can, however, require extensive and complex coordination between different employers, employees, and training programmes. In addition, it is vital to abide by competition regulations. For example, competitors in the Netherlands are not permitted to make deals regarding the employment of specific individuals.<sup>56</sup>

Furthermore, companies lack incentives to train employees when the latter are likely to leave and take their skills elsewhere. Additionally, companies may feel no need to invest because employees have access to public training facilities. Effective collective action needs coordination and a certain degree of trust between private and public parties. Box 4.6 illustrates how companies in the construction sector achieve this, by jointly investing in knowledge and staff. Local authorities and knowledge institutions are of pivotal importance in this context. In the upcoming chapter, we will revisit this topic and assess potential government strategies in the areas of training and retraining.

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<sup>55</sup>WRR (2020).

<sup>56</sup>Authority for Consumers and Markets (ACM) (2022).

**Box 4.6 Attracting and retaining construction workers**

Construction companies are indispensable for addressing various challenges in the Netherlands, for instance around the energy transition and housing shortages. These challenges are further compounded by the ongoing high demand for construction workers. Innovations for more sustainable houses, such as prefabrication or timber frame construction, require a skilled workforce that is familiar with the range of modern construction techniques. Moreover, the construction sector is grappling with a shortfall in raw materials and building supplies. Accordingly, construction companies are now facing a greater shortage of manpower and resources. What strategies are they using to deal with this? We highlight three regional initiatives that are using unique partnerships to overcome obstacles related to manpower and resources.

Bouwteam Breda evolved in response to the tight labour market. Regional knowledge institutes and forty construction companies in the Breda region are spearheading this joint initiative. The construction companies pool their expertise and provide education, internships, and traineeships. By doing so, they are directly investing in the further training or retraining of future employees. This active, collaborative involvement in training represents a significant departure from past practices, in which construction companies mainly vied with one another for limited labour resources. Today, their focus is on boosting the overall intake through cooperation and reciprocal investments. As one of the entrepreneurs involved put it:

If we needed a new student, we didn't hesitate to pay recruitment agencies up to 15,000 euros to find one. That had to change. These days, we are actively involved in training. We give lectures ourselves and collaborate with architectural firms.

A second initiative has been launched in the Utrecht region. Construction companies in the region initiated discussions with ROC Midden Nederland (Central Netherlands Regional Education and Training Centre) in an effort to boost the recruitment of career changers into the construction sector. Substantial amounts of time and money are required for the requisite training, which deters many potential career changers from entering the construction industry. ROC Midden-Nederland has responded by developing a course—the Basic Construction Programme—that lowers the thresholds for career changers. The programme is primarily designed to acquaint individuals with the construction sector and equip them with the necessary tools for a potential transition to that industry.

A third initiative, the Pioneering foundation, demonstrates how sharing knowledge can expedite the energy transition within the construction sector.

(continued)

**Box 4.6** (continued)

The foundation operates in the eastern region of the Netherlands, fostering cooperation between companies, government agencies, and educational and knowledge institutions in that part of the country. The foundation not only aims to boost employment in the construction sector but also contributes to the exchange of knowledge and innovation regarding current challenges, such as expediting housing construction and making homes more sustainable.

Another instance where coordination problems hinder progress involves the sustainability of production processes and the essential, yet increasingly scarce raw materials needed for them. Companies that are keen to address environmental challenges face a growing obstacle, due to shortages of raw materials. The disruption of global trade chains during the coronavirus crisis showed that fluctuations in the supply of raw materials can leave firms vulnerable.<sup>57</sup> This vulnerability is particularly pressing for companies spearheading the energy transition. Many of the technologies used in that context depend on vital raw materials, such as lithium and rare earth metals. Companies need to recycle products, extend their lifespan, develop technologies that contain fewer essential raw materials, and save energy across the board to reduce dependence on such raw materials.<sup>58</sup>

Here too, companies will need to cooperate with waste management firms, for example, or with companies whose waste contains valuable materials. Partnering with the government to invest in a more circular use of these raw materials is certainly just as important. However, existing initiatives are still limited in scale and implemented too irregularly. Also, it is often unclear how the commitment and financing for many of these initiatives will be secured in the long term.<sup>59</sup>

### 4.5.1 Summary

- Investments that benefit society, such as employee training and the adoption of new production processes that recycle scarce materials, face coordination challenges. These types of investments hinge on collaboration, which may not always be permitted or commercially advantageous.

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<sup>57</sup>Brakman et al. (2020).

<sup>58</sup>Parliamentary papers II, 2022/23, 32,852, No. 224 (Annex, Raw Materials Strategy).

<sup>59</sup>Metabolic et al. (2021).

## 4.6 Limited Range of Financing Options

Financing is needed to set up a new business, expand an existing one, or make it more innovative and sustainable. Aside from equity financing, companies can tap into external funding through a variety of channels. A majority of Dutch companies secure this through a bank. However, entrepreneurs can also secure funding through non-banking channels, for example through private equity firms, venture capitalists, or crowdfunding. A key difference between the various types of financiers is the way in which they typically provide capital to a company. In most cases, banks provide debt financing. This might be a loan that is backed by collateral, for example. Private equity firms and venture capitalists inject risk capital in exchange for shares. As the name ‘venture capitalists’ suggests, this form of financing usually involves higher risks than other options. Unlike loans, risk capital does not require repayment.

Approximately 15% of Dutch small and medium-sized enterprises (SMEs) report that they face obstacles in accessing finance.<sup>60</sup> That may seem to be a relatively small percentage, but some of these companies inherently require minimal financing. Social enterprises (companies that explicitly prioritise positive impact on society over profits for their owners or shareholders), startups, and innovative companies face relatively greater challenges in attracting funding.<sup>61</sup> And these are the very companies that often come up with innovative solutions to society’s problems.

Hence, there are still too few financing options for such innovative companies. One reason is that—due to a lack of fair prices—the business case for investing in new solutions for society is less appealing (see also Sect. 4.1). Another reason is that—due to their innovative nature—these investments entail considerable financial uncertainty.<sup>62</sup> The situation in the Netherlands and Europe in general is more challenging in this regard, as companies quite often tend to rely on bank loans for their financing. In innovative or fast-growing companies, the necessary collateral may not always be readily available. In Europe, the primary alternative funding source for such companies (venture capital) is less accessible. Within the European Union (EU), companies secure only one eighth of the venture capital funding raised by their counterparts in the United States. Moreover, Europe only has a limited number of large venture capital funds. In 2018, the EU had just eight venture capital funds valued at over 250 million euros, whereas the US had seventy. The restricted availability of these funds constrains the growth of successful startups.<sup>63</sup>

Financiers’ lack of expertise raises the aforementioned obstacles to securing financing. For example, financial parties often lack the specific expertise needed to accurately assess the opportunities and risks inherent to a knowledge-intensive startup.<sup>64</sup> Financial markets are sometimes ill-equipped to satisfy the diverse

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<sup>60</sup>This concerns companies in the sector referred to as the ‘business economy’.

<sup>61</sup>Bouhuijs et al. (2021); Social and Economic Council of the Netherlands (SER) (2015).

<sup>62</sup>Dijk et al. (2021).

<sup>63</sup>European Commission, Directorate-General for Research and Innovation (2020).

<sup>64</sup>Advisory Council for Science, Technology and Innovation (AWTI) (2020).

financing requirements of innovative business models. For instance, investments in the circular economy typically have a longer payback period than those in the traditional economy, resulting in a higher demand for working capital.<sup>65</sup> In 2015, the Social and Economic Council of the Netherlands (SER) concluded that there was still a communication gap between social enterprises and investors. Especially in the case of new business models, financiers may be inclined to hold back and only invest once others have done so.<sup>66</sup>

### ***4.6.1 More Sustainable Financing with Alternative Management Structures?***

Aside from the financing market itself, a company's own management structure can create obstacles to financing. Companies structured as foundations, for instance, cannot issue shares.

In these cases, their legal structure constrains the range of potential funding streams. In companies that can issue shares, however, the existing shareholders have a hand in influencing the attractiveness of new investments. For example, some Dutch universities have imposed strict conditions on spin-offs emerging from academic research. The university or affiliated organisations are typically allocated a substantial portion of the shares in these companies. The original researcher only receives a nominal shareholding in the company. Having contributed to the research, the university expects something in return. However, this approach may dampen people's enthusiasm for transforming promising research into successful business models. It also becomes more challenging to secure funding from other financiers at a later stage, as discussed in Box 4.7. As a result, entrepreneurs miss out on economic opportunities, while sound ideas for tackling society's problems are left unexplored.<sup>67</sup> In 2023, the Dutch universities, together with various entrepreneurs, formulated conditions to alleviate these bottlenecks surrounding the transfer of intellectual property.<sup>68</sup> At the time of writing, the impact of these conditions remains unclear.

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<sup>65</sup> Van Tilburg et al. (2018).

<sup>66</sup> Social and Economic Council of the Netherlands (SER) (2015).

<sup>67</sup> Advisory Council for Science, Technology and Innovation (AWTI) (2020); Van Rijnsoever et al. (2021).

<sup>68</sup> Universities of the Netherlands (2023).

### **Box 4.7 Startups in the scaling-up phase**

Despite the Netherlands' growing appeal for startups in recent years, the numbers transitioning from knowledge-intensive startups to scale-ups have been disappointing. The scalability of its business model is the primary driver behind the rapid growth and value creation of a scale-up company.<sup>69</sup> In 2020, the Netherlands Advisory Council for Science, Technology, and Innovation (AWTI) highlighted several key obstacles to growth,<sup>70</sup> such as sluggish business model development, lack of ambition for expansion, early support that subsequently became a hindrance, and inadequate financing.

These obstacles also emerged during our interviews with innovative new companies. A prime example of how early support can become an obstacle to progress is when universities lay claim to shares based on intellectual property. As one startup owner in the circular economy field put it:

With such a paltry stake and no salary, entrepreneurs lack the incentive to fully commit to expanding the company... I had to hire lawyers and advisors to help me break free of the university's grasp.

In a broader sense, shareholders and other financiers shape the course taken by a company. To guarantee a more positive impact, financiers need to factor in the long-term effects of their investment decisions on the various social, economic and environmental dimensions of welfare. This is not self-evident. Financiers come in many shapes and sizes. Some may urge companies to prioritise activities beneficial for both the company and society in the long run, such as a healthy working environment or training.<sup>71</sup> However, other financiers may push the board to prioritise quarterly figures.<sup>72</sup> Especially when management relies on a restricted set of financial metrics (like return on equity), this can encourage short-sighted approaches, such as foregoing investments in innovation and employees in favour of excessive dividend payments or share buybacks. Even institutional investors like pension funds and insurers often prioritise short-term investment strategies in practice, partly due to their tendency to outsource investments.<sup>73</sup> In Box 4.8, we delve deeper into why certain insurers focus more on the short-term, and investigate the role of national and international regulations in dictating the structure of insurance companies' investment portfolios.

<sup>69</sup>Monteiro (2019).

<sup>70</sup>Advisory Council for Science, Technology and Innovation (AWTI) (2020).

<sup>71</sup>Hart and Zingales (2022).

<sup>72</sup>Barton and Wiseman (2014).

<sup>73</sup>The Netherlands Scientific Council for Government Policy (WRR) (2016).

**Box 4.8 Insurers and sustainable investments**

Insurers manage substantial amounts of money through their operations and use these funds for investment purposes. Insurers can foster the development of more innovative and sustainable business models by means of the choices they make in their investment portfolios.

At the moment, policymakers are actively formulating laws and regulations in the area of sustainability. The EU, in particular, has been introducing new requirements for information provision, reporting standards, and the categorisation of sustainable investments. The EU seeks to streamline financing for the transition to a sustainable economy by implementing initiatives like the Sustainable Finance Strategy and the Action Plan for Financing Sustainable Growth. As part of this strategy, insurers are required to disclose details of their products' sustainability features and risks.

However, there are limits to insurers' room for manoeuvre in investment matters. On the one hand, they are constrained by their interconnected relationship with—and reliance on—other financial players. On the other hand, regulatory constraints limit their room for manoeuvre. Solvency II, the European supervisory framework for the insurance sector, has been in effect since 2016. It imposes requirements on capital, risk management, business operations, and reporting. Insurers are required to maintain larger reserves for higher-risk investments, which obviously impacts their investment strategies. While our interviewees certainly recognised the importance of sustainable investing, they ultimately had to take these solvency requirements into account when making investment decisions. The sheer number of regulations poses its own risks, as a plethora of rules creates obstacles, particularly for small entrepreneurs. As one interviewee put it:

Numerous initiatives are already underway, particularly within the EU. We need to exercise greater caution before enacting even more regulations, as there will soon be too many for us to monitor the situation effectively. We need a more unified approach. Small insurers are losing sight of the bigger picture, leading them to steer clear of sustainable investing.

It's also apparent that many insurers have a poor grasp of sustainable investing.<sup>74</sup> Outsourcing tasks to asset managers is a common practice. Nevertheless, our interviews with insurers underscored the need for tactical decision-making in this regard, both in terms of investment in their own investment expertise and in the types of investment involved. As one medium-sized insurer points out: *"We can easily divest ourselves of our holdings if they don't suit us, since we don't invest in funds... We are so small that we can be very flexible in this regard."*

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<sup>74</sup>Holtland and Heinsbroek (2021).

Moreover, one key trend is that many assets are currently being managed by index investors.<sup>75</sup> Index investors diversify their investments across a broad spectrum of companies, aiming to track a given stock market index as closely as possible, for example. A large part of the index investor market in the US is concentrated in the hands of three major players, and it seems likely that Europe will follow suit.<sup>76</sup> Index investors typically take a passive approach to investment. For this reason, although they jointly manage an enormous asset pool, it's highly doubtful whether index investors will push companies to enhance their impact on society.<sup>77</sup> The widespread adoption of passive investing raises concerns that index funds might predominantly reward past success, potentially undermining shareholders' traditional focus on future performance. The growth of index investments means that they not only track the outcome but also, inadvertently, shape it to some extent.<sup>78</sup>

Entrepreneurs can also opt to integrate long-term societal goals into their legal framework. In this way, they can safeguard these goals from the risk of a short-term focus by shareholders or management. For instance, they could elaborate on the societal *raison d'être* in a company's articles of association.

Moreover, the Netherlands boasts a long-standing tradition of legal protective structures designed to secure the continuity of a company. For example, several listed companies hold priority shares or establish a 'continuity foundation' empowered to acquire a substantial number of preference shares in the event of an imminent hostile takeover.<sup>79</sup> An alternative approach would be to separate economic rights from voting rights, perhaps by issuing certificates. This model has been adopted by such major multinationals as Bosch, Zeiss, and Carlsberg.<sup>80</sup> In the Netherlands, Triodos Bank epitomises the use of this approach. These companies choose to make positive impact the focal point of their legal framework. The reasoning behind this is that legal entities/natural persons with voting rights do not stand to gain directly from maximising profits if this hampers efforts to address challenges in society. Although legal avenues for this purpose are already in place, companies do face obstacles when opting for a structure of this kind. Setting up such a structure demands more time and money, and these companies may also face additional challenges in securing financing.<sup>81</sup>

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<sup>75</sup>Fichtner et al. (2017).

<sup>76</sup>Boot (2022).

<sup>77</sup>Boot (2022).

<sup>78</sup>Wurgler (2011); Anadu et al. (2020); Authers (2018); Buller (2022).

<sup>79</sup>Boot (2017); Bootsma et al. (2015).

<sup>80</sup>Constructions of this kind are also referred to as 'steward ownership'.

<sup>81</sup>Børsting and Thomsen (2017); Pol (2022).

### 4.6.2 Summary

- For innovative companies to grow and/or modify business models for the benefit of society, access to financing is essential.
- These innovative companies lack sufficient access to such funding. Financiers, including institutional investors, often find their business models too speculative or not entirely in keeping with their own (short-term) return requirements.
- Companies can focus more on the long term by adopting alternative management structures that facilitate greater contributions to society. However, this requires expertise, time, and capacity.

## 4.7 Inconsistent and Incoherent Policies

Companies and markets are intertwined, each influencing the other. These markets may differ considerably from one another. For instance, in the pharmaceutical sector, medicines may not be placed ‘on the market’ until their efficacy and safety have been assessed and verified by a health authority. Conversely, launching an online clothing store might not entail too many formal procedures. Thus, the government has a pivotal role in shaping a market, by means of laws and regulations. Our empirical analysis shows that many companies primarily need clarity. Clear regulations make it easier for market entities to structure business models in a way that helps to resolve societal challenges. Instead, we see all sorts of government regulations obstructing the adoption of business models designed to have a positive impact on society.

First and foremost, Dutch government policy does not provide sufficient certainty. Companies operating in capital-intensive sectors, such as the chemical industry and agriculture, require clear conditions when making long-term investment decisions. In certain instances, it may take more than a decade for the owners of plants or factories to recoup the costs incurred in their construction. Rapid shifts in government goals or uncertainty regarding the timing of goal-setting by the government often undermine entrepreneurs’ confidence in justifying long-term investments or prompt them to postpone such investments.<sup>82</sup> For example, a recent poll conducted by the European Investment Bank revealed that 43% of European companies see regulatory uncertainty as a major obstacle to making investments aimed at mitigating climate change.<sup>83</sup> Forward-thinking and innovative entrepreneurs are exploring investment options in countries where there is more clarity about government policy. In Box 4.9 we illustrate this issue by showcasing regulations within the chemical sector.

If the Dutch government does remain committed to its chosen path and adapts the legal frameworks accordingly, it can greatly enhance companies’ efforts to make a

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<sup>82</sup> Aizenman and Marion (1993); Johnstone et al. (2011); Noailly et al. (2022).

<sup>83</sup> Kalantzis (2021).

positive impact on society. This means that the government also carefully assesses which risks the market can or cannot bear. The energy transition is a case in point. By enacting the Offshore Wind Energy Act, the government has improved the business case for companies venturing into offshore wind energy development. This act entails measures such as promptly clarifying permit requirements and guaranteeing seamless integration into the power grid. Thanks to this legal framework, offshore wind energy no longer requires subsidies.<sup>84</sup>

#### **Box 4.9 Chemical sector regulations**

A wide range of national and international regulations has been put in place to induce chemical firms to adopt behaviour that is beneficial or at least not harmful to society. The variation of these regulations poses difficulties for entrepreneurs. The limitations, conditions, subsidies, and permits involved can vary significantly from one country to another, or even from one region to another. A striking number of business leaders in the Dutch chemical industry have underscored the need for stricter regulations to meet societal objectives, particularly in the domain of sustainability. They're concerned that as long as it remains both possible and lucrative to manufacture chemical products in a way that pollutes the environment, companies will continue to do so.

Most of our interviewees feel that the Scandinavian countries and Germany outshine the Netherlands in terms of progressive regulation. In many interviews, the prevailing view was that while the Dutch government might lead in terms of safety regulations, it falls short when it comes to offering fundamental guidance for the transitions confronting the chemical industry.

The innovative chemical firms that we interviewed asserted that the Netherlands' key issue is its hesitancy to blaze a trail ahead of the EU. For these companies, neighbouring countries with tougher regulations are actually more appealing, as highlighted by one company manager:

We're in discussions with several German parties and waste processing firms.

Dutch legislation and the absence of recycling requirements here make establishing the factory there [in Germany] a viable option.

Despite having received financial support in the Netherlands, the company is actively considering relocating to a neighbouring country with stricter recycling policies. There it would have a better chance of successfully marketing its circular product.<sup>85</sup>

<sup>84</sup>Dieperink (2021); see also Sect. 5.4.5.

<sup>85</sup>See also Sect. 5.3.3.

Secondly, there is the problem of incoherent regulations and policies. Policy in one domain may undermine policy in another.<sup>86</sup> Companies then become discouraged or even feel that they are being penalised for their positive impacts on society. The term ‘policy externalities’ is often used in this context.<sup>87</sup> This policy incoherence arises partly because authorities compartmentalise policy domains, and partly because they struggle to coordinate policies across different levels of government (international, national, local).<sup>88</sup>

In some instances, compartmentalised policies result in stagnation or uncertainty. For example, energy projects in the deep subsurface—such as CO<sub>2</sub> storage—require permits under the Mining Act and the Environment and Planning Act. The lack of coordination between permit frameworks means that, even after securing one permit, some projects may be ordered to cease operations at a later stage. Tiered decision-making of this kind increases uncertainty for investors.<sup>89</sup> In 2022, the Netherlands Enterprise Agency (RVO) highlighted the fact that Dutch companies are grappling with government policies for business that are complex, competitive, and conflicting. For instance, many companies report that it is difficult to find sustainability subsidies for which they might be eligible. They often rely on outside agencies to help them navigate the maze of rules and schemes. It becomes even trickier when a business-related policy undermines other societal goals or when rules clash. Entrepreneurs in the agricultural sector indicate that they struggle to achieve their sustainability aspirations due to ‘rigid regulations’, such as those originating from zoning plans.<sup>90</sup> Here is another example: until recently, the Dutch government incentivised the adoption of low-emission flooring systems in livestock barns, to cut down on ammonia emissions, but these floors frequently pose challenges in terms of compliance with occupational health and safety guidelines.<sup>91</sup>

Differences in regulatory frameworks between countries can incentivise multinationals to relocate their operations elsewhere. International policy competition encourages multinational corporations to organise production in ways that minimise regulatory burdens. SMEs that mainly operate in a single country might face competitive disadvantage as a result. We also see cases in which policy incoherence emerges from a lack of coordination between the various administrative levels in the Netherlands. For instance, companies can access funds allocated to sustainability initiatives, but they may still face a wait of up to 6 or 7 years to obtain a permit from their local authority. These inconsistencies can be extremely damaging for companies, which lack the certainty required to formulate long-term plans. Ultimately, this inconsistency contributes to delays in initiating change.

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<sup>86</sup>Christiansen (2001); Lenschow et al. (2018); Organisation for Economic Co-operation and Development (OECD) (2021).

<sup>87</sup>Kalshoven and Verbraak (2018).

<sup>88</sup>See for example Smith (2004).

<sup>89</sup>Dieperink & Schipper (2021).

<sup>90</sup>Netherlands Enterprise Agency (RVO) (2022).

<sup>91</sup>SAVE Advisory group (2021).

### 4.7.1 *The Role of Enforcement*

Besides the substance of laws and regulations, the government's approach to enforcing legislation is a key element in establishing coherent policy. For example, the food industry is required to comply with laws that safeguard food safety. However, if lax enforcement permits companies to flout regulations, honest entrepreneurs often find themselves at a competitive disadvantage. After all, companies that sidestep the rules benefit from a lower cost structure.

This problem arises, for instance, in the oversight and enforcement of safety in various industries, including the chemical sector in the Netherlands. Various reports have indicated that safety assurance has become overly dependent on self-regulation. Moreover, the effectiveness of oversight and enforcement of business-related regulation is still unclear.<sup>92</sup> The government agencies involved include a variety of regional, national and European entities, which sometimes have divergent interests. For instance, provincial authorities may be reluctant to be tough on firms that are violating rules so as to avoid job losses, while the national government focuses on building support for the energy transition. In 2008, a Dutch Parliamentary Committee of Inquiry concluded that enforcement in the environmental agencies sector left much to be desired.<sup>93</sup> It pointed out that the supervisory landscape is too fragmented, and that the approach to problems lacks commitment and consistency. In March 2021, a new Parliamentary Committee of Inquiry released a report that echoed some of the above findings. It claimed that an unequal regulatory environment allowed some companies to sidestep sanctions for their infractions.<sup>94</sup>

However, when oversight is intensely focused on ensuring legal and regulatory compliance, the underlying public interests can sometimes be overlooked. For instance, if supervisors have a blinkered, legalistic perspective, they may not spot systemic risks until it is too late. Mere compliance with laws and regulations, in itself, does not guarantee that the intended policy goals will be achieved. For example, if supervisors focus too much on privacy considerations, they might overlook the societal opportunities and risks associated with artificial intelligence.<sup>95</sup> Thus, in 2013, the Netherlands Scientific Council for Government Policy (WRR) recommended that state supervisory authorities prioritise public interests and bolster the reflective function of government oversight and enforcement. "Supervisory authorities are uniquely placed to detect emerging problems, at an early stage, that may impact public interests or present opportunities."<sup>96</sup> So, effective oversight presupposes a certain understanding of how a sector influences the various

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<sup>92</sup>Ale and Mertens (2013); Social and Economic Council of the Netherlands (SER) (2023); Society and Safety Foundation (Stichting Maatschappij en Veiligheid) (2019); In 't Veld (2022).

<sup>93</sup>Parliamentary papers ii, 2007/08, 22,343, no. 201 (annex).

<sup>94</sup>Adviescommissie Vergunningverlening Toezicht en Handhaving (Advisory Committee on Permitting, Supervision, and Enforcement) (2021).

<sup>95</sup>Prins (2022).

<sup>96</sup>The Netherlands Scientific Council for Government Policy (WRR) (2013b).

dimensions of welfare. In the next chapter, we will revisit challenges in the field of oversight and enforcement of business-related regulation.

### 4.7.2 *Summary*

- Uncertainty about government regulations poses a significant obstacle for companies seeking to make a positive impact on society. Companies often encounter ambiguities regarding frameworks and permits, particularly when it comes to innovative business ventures.
- Policy incoherence presents another challenge, as entrepreneurs have to deal with conflicting rules. For example, one measure mandates activities that are deemed to be socially or environmentally beneficial, while other legislation expressly prohibits them.
- Effective oversight and enforcement is a key factor in the development of coherent policies.

## 4.8 Conclusion

In this chapter we explored the obstacles that companies encounter when seeking to make a positive impact on society. When entrepreneurs encounter challenges to their business model, their motivation tends to wane. Moreover, entrepreneurs face obstacles when attempting to make investments that contribute to society.

In some scenarios, there are insufficient incentives to stop harmful activities, and sometimes there are simply too few inducements to pursue positive activities. Companies often succumb to the temptation to offload environmental, social and economic costs onto society, because it offers significant financial benefits. Furthermore, companies are integral parts of a chain.

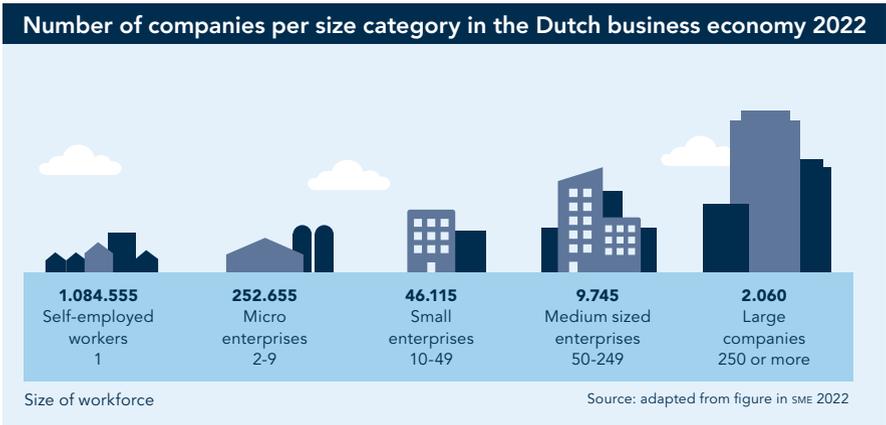
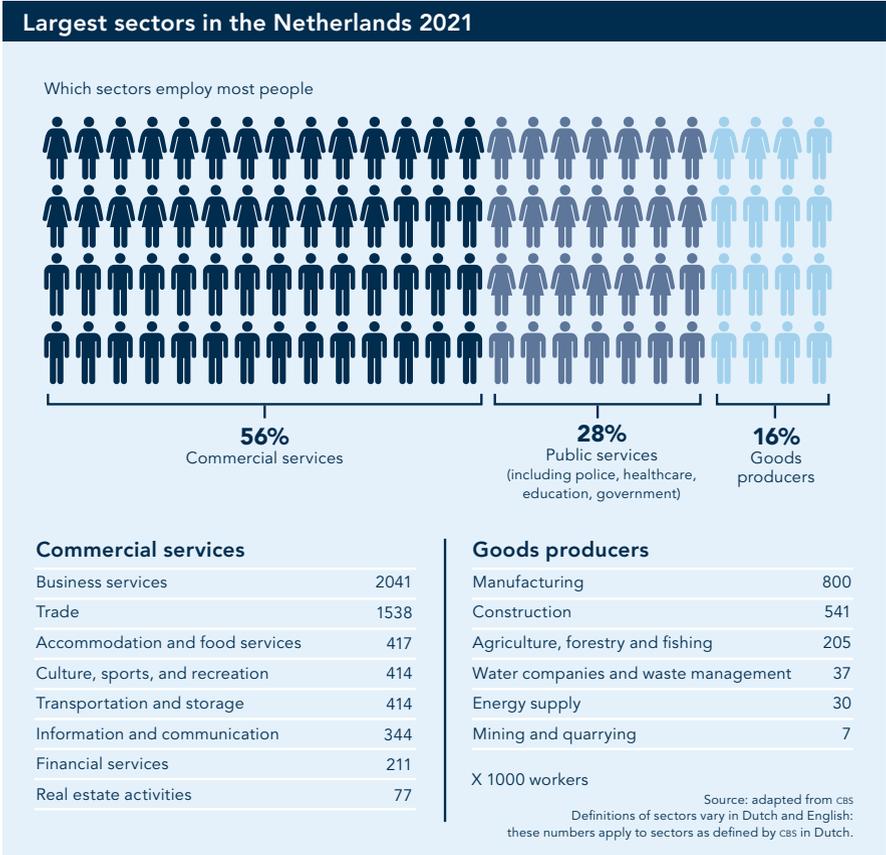
If companies within such a chain lack sufficient power, their scope for modifying their business model is greatly constrained. Changes designed to improve societal impact within a sector are obstructed by vested interests. Companies will try to capitalise on past investments as much as possible, even if this inflicts damage on society. Consumers can play a significant part in prodding companies to come up with healthier or more sustainable goods and services, but in practice they do not always choose to do so. To make purchasing decisions that are good for society customers need to be prepared, have adequate information, and have better alternatives to harmful products and services at their disposal.

Coordination problems obstruct investments in innovative solutions for society, for instance those related to employee training. Moreover, companies sometimes struggle to secure funding for this purpose. Finally, laws and regulations do not always produce favourable outcomes. When companies are faced with inconsistent

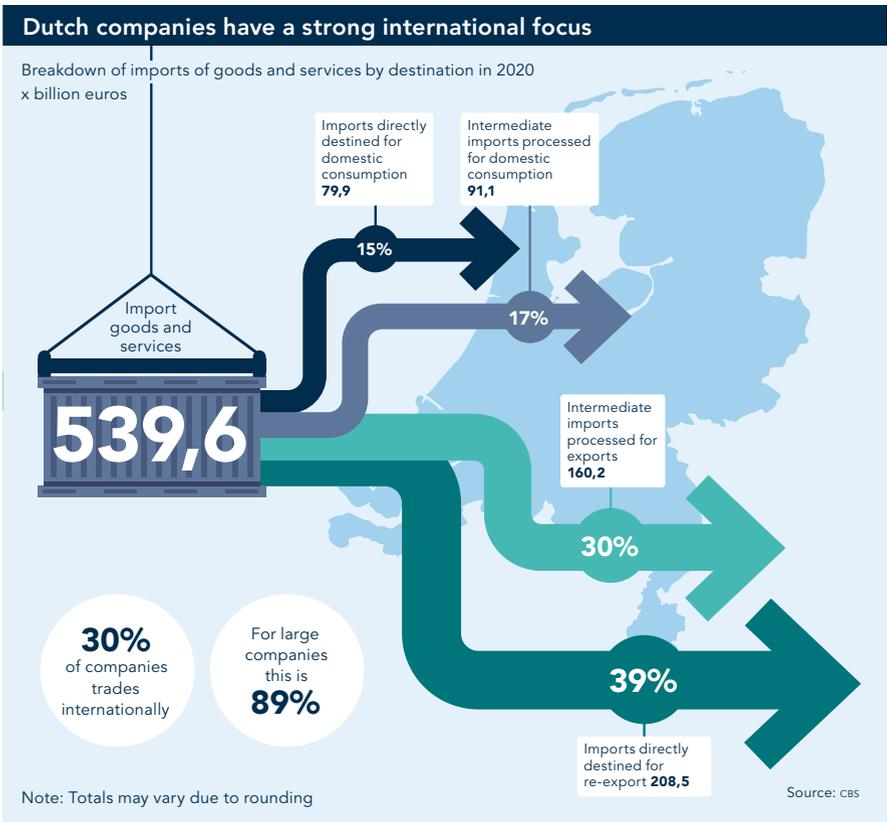
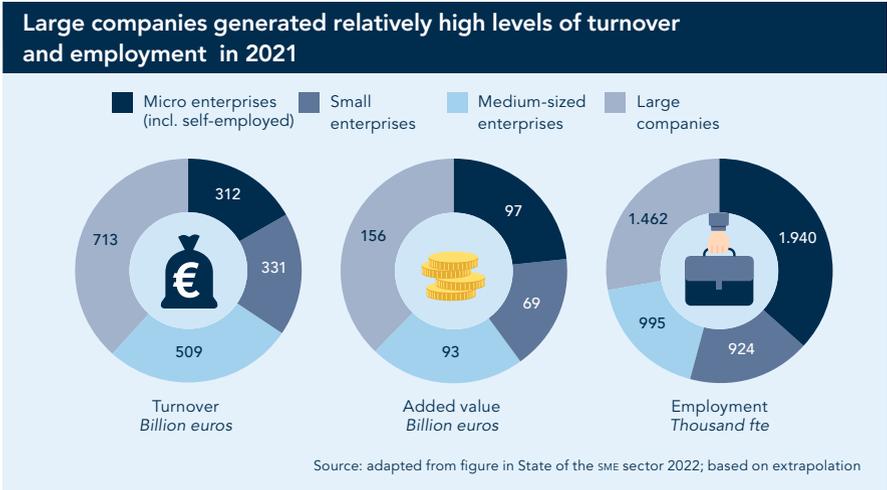
or incoherent regulations, paralysis sets in, investments dry up, or they may decide to relocate abroad.

There are more obstacles involved than the seven listed in this chapter. Depending on their context, companies may encounter many others in their efforts to make a more positive impact on society. What matters is that these obstacles touch upon the core activities such as innovation, production processes and products that companies use to compete for the favour of consumers, employees, and financiers. Entrepreneurs aiming to succeed in this endeavour, while at the same time addressing social, economic and environmental challenges, face a complex task. Forward-thinking companies stand out from those determined to maintain the status quo. As the former group struggles to boost its positive impact on society, companies engaged in established or outright harmful activities often find themselves with an abundance of growth opportunities.

These problems by no means imply that all firms are ensnared in a structure from which they cannot break free. For instance, some companies minimise obstacles themselves by making different choices, like prioritising local partnerships and investing in internal expertise and employee training. However, the government also has responsibilities in this regard. Thus, in the next chapter, we will delve deeper into the role that the government plays in resolving these obstacles or in preventing them from emerging in the first place.



**Infographic 2** Mapping the Dutch business landscape



Infographic 2 (continued)

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# Chapter 5

## Problems and Opportunities for Business-Related Government Policy



### Contents

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Chapter 4 centred around obstacles that prevent companies from making a positive impact. In this chapter, we shift the focus to policy. Government policies affect companies in many ways—from safety regulations to sustainability subsidies, and from research facilities to social security contributions. Governments not only set the parameters within which companies are allowed to operate. They also create the conditions necessary for companies to operate at all. Take physical infrastructure and education. Without good roads, supermarket chains would struggle to keep their shops stocked up, while pharmaceutical companies would not get far without employees who are trained at educational institutions, many of which are publicly funded. At the same time, companies themselves are instrumental for policy implementation, ranging from road building to developing digital teaching methods. And, of course, they play a part in funding the development of public amenities, through taxation.

Business-related government policies encompass many domains, such as sector-specific regulation, competition policy, innovation policy, labour market policy, and environmental policy. European regulations affect all these domains, including the prohibition of state aid in the context of EU competition policy, or the European CO<sub>2</sub> Emissions Trading System. This internationalisation offers many advantages, especially for a globally connected country like the Netherlands. Still, not all government policies are determined by Brussels: Member States have room for manoeuvre. The influence exerted by Europe varies across policy domains and, in all areas, Member States use the autonomy they possess to chart their own course. In this chapter, our focus turns to the national level. What strategy does the Dutch government use to enhance companies' positive impact on society, and what challenges and chances emerge in this context?<sup>1</sup>

For the purposes of our analysis, we draw an artificial distinction between two types of government interventions (Sect. 5.1): (1) modifying the context in which companies operate, and (2) facilitating transitions. Drawing on this distinction, we'll delve deeper into the instruments used to incentivise companies to make a positive impact on society, as well as the policy challenges we observe in the process (Sects. 5.2 and 5.3).

This analysis will enable us to pinpoint the two primary bottlenecks in business-related government policy. The first of these is the government's tendency to think in terms of vested interests. The Dutch government tends to shield a select group of companies from turbulence through mitigation measures, such as tax breaks and flexible oversight and enforcement frameworks. This tendency encourages a wait-and-see mindset among incumbent firms and undermines the need for entrepreneurs to innovate or adapt their business models. Secondly, we note that the government is sometimes out of touch with what really incentivises companies. Having a positive impact should be not just socially appealing but also commercially lucrative. Non-binding appeals to companies to do less harm or help address challenges in society have limited impact when their context undermines such endeavours (Sect. 5.4). In Chap. 6, we propose several solutions to overcome these bottlenecks.

## 5.1 Two Types of Government Intervention

Two varieties of government intervention are defined in this section (see Table 5.1). The first type focuses on modifying the context in which companies operate. The previous chapter showed how this context often hinders current efforts to make a positive impact on society. Companies face challenges such as a lack of 'real' prices, skewed dependencies within the chain, and insufficient demand for products that benefit society. The government can influence this context through taxation, subsidies, prohibitions, and directives (also in the area of information provision).

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<sup>1</sup>Naturally, the Dutch involvement in shaping European policies is integral to this.

**Table 5.1** Government interventions

Type of intervention	Modifying the context	Promoting transitions
Policy objective	Modify the context in which companies operate to ensure that doing business in a way that benefits society becomes the most lucrative option	Encourage companies to create products, services, and production methods that help resolve major problems in society and drive transitions
Potential instruments	<ul style="list-style-type: none"> <li>• Rewarding and pricing</li> <li>• Standard setting and enforcing regulation</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement and tendering policy</li> <li>• Innovation policy and infrastructure</li> <li>• Long-term funding</li> </ul>

The second type of government intervention is aimed at promoting transitions within—and via—the business community. Climate change, health, the labour market, and earning capacity present significant challenges that demand substantial adjustments from society as a whole, including companies.<sup>2</sup> The latter have a dual responsibility—they need to transform themselves while at the same time helping society to adapt by developing new products and services. Along the way, they will grapple with coordination challenges and a lack of funding options. As an economic actor, the government can push companies to make the necessary transitions. Procurement and tendering policies can make a big difference here. The government also has a pivotal role in creating the prerequisites for successful transitions, such as reskilling and new infrastructure.

The separation of government interventions into two types is somewhat contrived. Instruments aimed at modifying the context can also facilitate transitions, and vice versa. Through this distinction, we underscore the options available to the government. Sometimes better rules are all it takes to incentivise companies to make a more positive impact on society. In other scenarios, however, more is needed.

Of course, these interventions interact with each other. Take shipping, for example. The EU recently decided to integrate the maritime sector into the European CO<sub>2</sub> Emissions Trading System. That will make it more expensive to use fossil fuels. This creates a price incentive that will encourage shipping companies to invest in renewable energy fleets. However, the development of these fleets won't get far until this energy source is more widely available. Policy to promote renewable energy innovations can help, as can investments in infrastructure. In this way, renewable energy will become more readily available on a larger scale.

Both types of interventions allow the government to exert substantial influence on companies through its context, which includes employees, consumers, financiers, and NGOs. Getting these parties involved can yield positive results, both in terms of shaping the context and of driving transitions. Setting a benchmark for information provision, for instance, would enable consumers to make different assessments. If

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<sup>2</sup>In this book we understand the term earning capacity to mean ‘the ability to generate structural economic wealth and social well-being, now and in the future.’ TNO (2024), see also WRR (2013a).

the government allocates funding for long-term infrastructure projects, it can eliminate obstacles for private financiers to invest, even in the face of uncertain financial returns. We will, therefore, revisit the role of these stakeholders at several points in this chapter.

## 5.2 Modifying Companies' Context to Enhance Their Positive Impact

The government can influence current business models through policies that modify companies' operational contexts. This involves shaping market supply and demand, as well as the rules that market players are obliged to follow. The government can deploy an arsenal of instruments—including rewards, pricing, standards and rules, and enforcement—to influence companies. These instruments can also target consumers, for example, by imposing higher excise duties on alcohol and tobacco. Combining these instruments increases their potency. In practice, the government prioritises rewards over pricing, standards and rules, and enforcement. However, rewarding will remain largely ineffective if pricing instruments and standards and rules are not deployed alongside it.

### 5.2.1 Rewards and Pricing

Rewarding and pricing are designed to enhance or diminish the appeal of certain business activities. They can augment each other in this regard. Take the levy on gas and electricity in the Netherlands. Its proceeds are channelled into subsidies for renewable energy projects via the Sustainable Energy Production and Climate Transition Incentive Scheme (SDE++). Business-related policies in the Netherlands usually prioritise financial support over pricing strategies.<sup>3</sup> In this section, we present a brief analysis of this trend, along with the problems observed.

In many areas, the government provides financial support schemes to encourage certain behaviour by citizens and companies. It uses many strategies to this end, involving direct financial support schemes such as subsidies, tax exemptions, low-interest loans, guarantees, and so on.<sup>4</sup> In recent years, Dutch companies have primarily benefited from tax breaks that lessen their tax burden.<sup>5</sup> In 2022, schemes

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<sup>3</sup>Parliamentary papers ii 2021/22, 35925, no. 173 (annex). This trend is evident not just in the Netherlands but in other countries as well. For instance, consider the numerous government subsidies that the US has recently allocated to sustainability processes and other areas.

<sup>4</sup>Hufen (1990).

<sup>5</sup>Ter Weel et al. (2017).

within the profit sphere alone generated a total of approximately 14.5 billion euros, close to 1.5% of GDP in the Netherlands.<sup>6</sup>

It comes as no surprise that governments relatively often favour financial support schemes, a strategy widely referred to as the 'path of least resistance'.<sup>7</sup> However, this strategy entails its own problems. Financial support schemes tie up public funding, also in the case of tax breaks. Provided that this support achieves the desired outcomes, this need not be a concern. However, in practice, many support measures often fall short of achieving their goals. For instance, assessments of tax breaks reveal that only a handful of these schemes have demonstrably had a positive impact.<sup>8</sup> This begs the question of whether the public benefits merit the costs involved and whether resources could be more effectively allocated elsewhere.

In addition, support measures can occasionally entail adverse side effects. For example, in 2017, SEO Economic Research identified numerous entrepreneurial tax schemes in the Netherlands that were associated with significant disruptions to the labour market. Accordingly, the economic research bureau urged that serious consideration be given to abolishing these schemes.<sup>9</sup> Moreover, studies in the field of environment and energy have highlighted instances in which subsidies have occasionally done more harm than good.<sup>10</sup> A case in point is the promotion of biomass as a source of energy.<sup>11</sup>

Moreover, financial support schemes are not equally accessible to all companies. Take, for example, the struggle faced by smaller companies in finding and applying for subsidies. Companies find it difficult to free up the capacity required to handle the complex application process themselves. As one entrepreneur in the chemical sector put it:

SMEs are not adequately prioritised in the top sector [Dutch policy for stimulating innovation in 9 key sectors], and discussions of topics such as intellectual property in grant applications, for instance, take up too much time. We have steered well clear of SME subsidies within the top sector.

Larger companies are more likely to have the capacity, expertise, contacts, and experience needed to access various schemes. This point is illustrated by the 'innovation box', a tax break designed to reward innovative companies in the Netherlands. In 2019, this tax break involved €1.9 billion in tax relief, 80% of which went to just nineteen (large) companies.<sup>12</sup> In Sect. 5.3 we explain why it is by

<sup>6</sup>Furthermore, schemes like the Research and Development Promotion Act (WBSO), also reduce the burden of tax outside the profit sphere. Parliamentary papers II 2022/23, 36200, no. 2, Tables 9.2.1 and 9.2.2.

<sup>7</sup>Van Zanden (2022).

<sup>8</sup>Kranendonk and Wagteveld (2022); Rijksoverheid (2016); Van Zanden (2022).

<sup>9</sup>Ter Weel et al. (2017).

<sup>10</sup>Drissen et al. (2011); Social and Economic Council of the Netherlands (SER) (2022a).

<sup>11</sup>Government subsidies for the use of biomass have now been terminated. See Social and Economic Council of the Netherlands (SER) (2022a, p. 50).

<sup>12</sup>Van Hoorn et al. (2021).

no means certain that support of this kind really incentivises companies to pursue investments in innovative solutions for society.

### **Box 5.1 Awarding subsidies versus pricing instruments**

Awarding subsidies or other forms of government support for companies may be the path of least resistance for governments. From an economic perspective however, this is not always the most beneficial course of action. In this context, we explore some of the drawbacks associated with the use of subsidies vis-à-vis pricing instruments. We conclude that, in an optimal policy mix, subsidies are mainly used to support pricing instruments and normative instruments.

First of all, the use of subsidies rather than pricing instruments results in weaker market incentives. For example, Fischer and Newell determined which policy instruments are most effective at reducing greenhouse gas emissions while also incentivising innovation and the growing adoption of renewable energy.<sup>13</sup> They conclude that pricing instruments are the most effective strategy, as higher prices for harmful emissions will incentivise many market entities to change their business practices. A higher price for polluting emissions provides producers with an additional incentive to mitigate pollution in their production processes, encourages consumers to temper their demand, and gives renewable energy companies an incentive to ramp up their production.

Subsidies only benefit eligible companies, rather than providing market-wide incentives. Allocating a grant for R&D, for instance, will not alter consumer preferences. Consequently, subsidies typically generate smaller effects than other instruments.<sup>14</sup> However, it is worth noting that there are many types of subsidies and that no two markets are exactly alike. In some cases, the difference in effectiveness between subsidies and pricing instruments vanishes entirely.<sup>15</sup>

Furthermore, there is a risk that subsidies predominantly benefit incumbent firms. Using a simple economic model, Fullerton demonstrated that pricing instruments and subsidies can achieve similar reductions in harm, yet they result in significantly different distributions of costs and benefits.<sup>16</sup> He contrasted a pollution tax with a subsidy aimed at reducing production. Large incumbent firms reap the benefits of this subsidy, while the pollution

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<sup>13</sup>Fischer and Newell (2008).

<sup>14</sup>Fischer and Newell (2008).

<sup>15</sup>Fullerton (1997).

<sup>16</sup>Fullerton (2001).

**Box 5.1** (continued)

tax provides the government with additional income. The allocation of subsidies to incumbent parties distorts market competition. Moreover, the government will need to raise taxes elsewhere to finance these subsidies.<sup>17</sup>

In conclusion, subsidies can have unintended consequences. In the context of costs to society associated with climate change, people often refer to the 'green paradox'. Subsidies make alternatives to fossil fuels cheaper, causing the price of fossil fuels to fall and driving up demand. As a consequence, the extraction of fossil fuels accelerates to meet demand, potentially leading to increased short-term emissions of greenhouse gases. In scenarios like this, well-intentioned subsidies end up being counterproductive.<sup>18</sup>

Effective use of rewards such as subsidies should provide a gentle nudge in the right direction. For example, by encouraging innovative solutions for society or by setting flywheel effects in motion. Financial support schemes can be helpful when the societal benefits of an activity outweigh its private returns, thus making it advantageous for society to contribute to the development of this activity. For instance, unleashing the positive network effects that result from investments in electric charging infrastructure. However, the absence of pricing instruments and standards and rules often renders market changes unrealistic and increases the risk of unintended consequences.

In addition to the above doubts about the effectiveness of financial support schemes, there is an increasing call for pricing instruments.<sup>19</sup> Just as with financial support schemes, governments use this instrument in a wide range of domains. For example, imposing excise duties on tobacco and petrol, implementing high VAT rates on alcoholic beverages, or levying direct taxes on waste. However, there is also a shortfall of pricing instruments in various domains, such as unhealthy food, environmentally polluting raw materials, or products manufactured under poor working conditions.<sup>20</sup>

The use of pricing instruments presents a challenge. Some societal costs are not significant enough to justify a levy, and sometimes the anticipated impact of pricing instruments is minimal. Avoidance behaviour can undermine the effectiveness of pricing instruments. At the national level, the use of pricing instruments may result in 'offshoring', where some business activity relocates to other areas (see also Sect. 5.2.3). When such leakage effects do occur, pricing instruments prove more effective when implemented at the supranational level. However, this poses additional challenges—international coordination is often complicated, and there is a risk that

<sup>17</sup>Bovenberg and Goulder (2002).

<sup>18</sup>See for example van der Meijden and Withagen (2022).

<sup>19</sup>See Rijksoverheid (2023).

<sup>20</sup>Dijk et al. (2018); Van Giessen et al. (2021); Council for the Environment and Infrastructure (Rli) (2019).

policies will be selected that are not perfectly in line with the national context. Finally, there are certain aspects of life that cannot be expressed in monetary terms. For example, how can we assess the value of clean air or biodiversity? While pricing instruments can be potent tools, they are not a panacea.

At the same time, the power of pricing instruments should not be underestimated. The economic literature acknowledges that levying taxes on harmful activities is an efficient way of incentivising companies to mitigate damage (see also Box 5.1).<sup>21</sup> If a levy makes products containing substantial amounts of new plastic more expensive, companies will be prompted to favour more environmentally friendly alternatives, such as recycled plastic, which are exempt from the levy. Rather than just a few companies enjoying a slightly greater advantage from superior products due to subsidies, a pricing instrument set at a sufficiently high level will incentivise all companies to improve their products. This type of incentive has the potential to transform the entire market.

The political debate often centres on incumbent firms that would incur higher costs if pricing instruments were to be introduced, while companies that could actually benefit from these pricing measures receive less attention. Entrepreneurs who produce food items with a low sugar content, for example, would theoretically benefit from a sugar tax. A chemical company director seeking to bring a circular fuel product to the market puts it this way:

In practice, the CO<sub>2</sub> price is very low and varies from one market to another. The aviation sector presents a compelling business case for our circular product. If pricing instruments were to be introduced there, we would reap substantial benefits.

In short, without pricing instruments, innovative companies that focus on minimising harmful effects on society would find themselves at a competitive disadvantage. Pricing instruments can place their business models on a firmer footing. As such, policymakers have to consider both the activities deterred by pricing instruments and those that they incentivise.

It is, nonetheless, essential to consider the broader ramifications of pricing instruments. For instance, pricing instruments generate distributive effects. When the pricing of goods or services disproportionately impacts individuals with lower incomes compared to those with higher incomes or substantial wealth, it can exacerbate social tensions.<sup>22</sup> Furthermore, the efficacy of pricing instruments is greatly enhanced when they are integrated with other measures, particularly standards and rules, and information provision. See Box 5.2 for an example.

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<sup>21</sup> See Chap. 2 and Pigou (1924).

<sup>22</sup> See Netherlands Scientific Council for Government Policy (WRR) (2023).

**Box 5.2 Pricing instruments for unhealthy food**

The Dutch government aims to encourage healthier consumption by providing consumers with information, such as the Nutri-score (a five-colour nutrition label), and by entering into largely voluntary agreements with the food industry, such as the National Prevention Agreement. Pricing instruments are also used by the government. It has levied a tax on non-alcoholic beverages since 2016, which was increased on 1 January 2024 (but not for mineral water), partly in a bid to discourage the consumption of sugary beverages. The Netherlands Bureau for Economic Policy Analysis (CPB) has concluded that the levy is probably too low to actually incentivise people to change their behaviour.<sup>23</sup> The effectiveness of this policy mix leaves much to be desired. Obesity among Dutch people is steadily increasing.<sup>24</sup> Moreover, a large part of the food supply still contains excessive levels of sugar, salt, and fat, and is often cheaper than healthier alternatives. Despite commitments from companies in the food sector to amend this, little has changed.<sup>25</sup>

Further measures are required to foster healthier eating habits among the population. Evaluations of sugar taxes in the UK, France, and Norway suggest that a model where the tax increases in line with the sugar content is more effective.<sup>26</sup> Furthermore, the effectiveness of a sugar tax is determined by a multitude of factors, not just by the amount of the levy. For example, research in the US has demonstrated that adding “includes tax on sugary beverages” to price labels significantly enhances the impact of the tax.<sup>27</sup>

Especially in relatively affluent countries like the Netherlands, curbing the consumption of sugary products through pricing alone presents a considerable challenge.<sup>28</sup> A solution is more likely to involve a mix of robust policy measures. In addition to pricing instruments, this entails a ban on advertising, for example. In the UK, for instance, legislation has been passed banning the display of products high in fat, salt, and sugar in prominent locations (such as the checkout, entrance, or top of a shelving unit) in supermarkets.<sup>29</sup> Furthermore, soft drink manufacturers are not permitted to target advertising at

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<sup>23</sup>Hamelink et al. (2023).

<sup>24</sup>Statistics Netherlands (CBS) (2021).

<sup>25</sup>Ter Borg et al. (2021).

<sup>26</sup>Vellinga et al. (2020). As of 2021, more than 45 governments had implemented taxes on sugary beverages, but only a few have imposed taxes on unhealthy snacks; see: Popkin et al. (2021).

<sup>27</sup>Donnelly et al. (2021).

<sup>28</sup>Muhammad et al. (2019).

<sup>29</sup>Department of Health and Social Care (2020).

**Box 5.2** (continued)

children up to the age of sixteen. The effectiveness of individual policy measures can be maximised by strategically combining separate policy instruments.<sup>30</sup> With this approach, people are more likely to adopt healthier eating habits.

## 5.2.2 *Standards, Rules and Enforcement*

Setting standards through prohibitions and directives is another way in which the government influences companies. Standard setting is an effective instrument for eliminating certain activities from the market and, indeed, for creating new markets.<sup>31</sup> Standard setting can expedite the deterrence of practices in which costs are passed on, and often spurs companies to innovate more extensively. The ban on chlorofluorocarbons (CFCs) is a case in point. Within a few years of the ban being introduced, these substances—which deplete the ozone layer—were no longer being used in refrigerators.<sup>32</sup> If a ban of this kind is to be effective, monitoring and sanctions are needed. Thus, in this section, we explore the policy challenges linked to standard setting and government oversight and enforcement.

One initial observation concerns the use of dynamic standards. Here, the government incrementally tightens certain requirements, usually over a period of several years. This form of standardisation is applicable to household appliances, for example, which need to become progressively more energy-efficient over time. Dynamic standards become especially valuable when pricing instruments remain relatively limited and the costs of the harmful alternative are not fully passed on. Dutch policymakers are showing growing interest in dynamic standards, even though their use is currently limited.<sup>33</sup>

This growing interest is a positive development, as studies suggest that dynamic standards can bring about significant change. Take the car market, for instance. Studies have shown that the enforcement of fuel efficiency standards significantly spurred car manufacturers to develop new technologies for improved engine efficiency.<sup>34</sup> Tough standards that became stricter over time played a vital part in complementing the still relatively modest petrol tax. Applying consistent standards to every business enabled innovators to push ahead. It's uncertain whether this could have been achieved without standards and rules. In that case, environmentally harmful engines would probably have remained profitable for quite some time.

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<sup>30</sup>Hamelink et al. (2023).

<sup>31</sup>See, for example: Cohen and Tubb (2018); Vollebergh and van der Werf (2014).

<sup>32</sup>Ongering (2022); Young et al. (2021).

<sup>33</sup>PBL Netherlands Environmental Assessment Agency (PBL) (2017); Social and Economic Council of the Netherlands (SER) (2018, 2022a).

<sup>34</sup>Klier and Linn (2016); Rozendaal and Vollebergh (2021).

Since such engines were effectively banned from the market, it paved the way for innovation geared towards sustainability.

Another observation about standard-setting policies in the Netherlands concerns the reluctance to impose standards in certain areas, often in favour of non-binding agreements with companies and self-regulation. This is exemplified by agreements in the realm of International Corporate Social Responsibility (ICSR).<sup>35</sup> Other examples include agreements like the Netherlands Green Deal for Sustainable Care (aimed at promoting circularity and CO<sub>2</sub> reduction in healthcare) and the National Prevention Agreement (designed to foster healthier lifestyles). Such agreements are not just voluntary, they also give companies considerable control over their structure. Companies (frequently in industry associations and in coordination with government agencies) play a pivotal role in shaping the content of these agreements, covering areas like food safety in food chains, advertising standards for gambling or sports sponsorship, and real estate certification.

A prominent role for private parties is in keeping with the Dutch corporatist tradition (see Chap. 3). The decision to pursue this strategy is partially founded on the belief that dialogue enhances the quality of policy. Various advantages of self-regulation are emphasised in the literature, including speed, flexibility, and involvement.<sup>36</sup> When companies help shape rules regarding employee safety, for example, they can tailor their responses to the specific context and swiftly make adjustments as circumstances change. Self-regulation can sometimes be seen as a more pragmatic choice, particularly when faced with challenges related to feasibility and the coordination (and international alignment) of regulations.

However, this strategy does entail its own risks.<sup>37</sup> When large companies exert undue influence on agreements, they enhance their own competitive position to the detriment of others. In such cases, vested interests may work against the public interest. In practice, incumbent firms frequently wield considerable influence, overshadowing other actors in the arena like consumers or environmental organisations, who have less sway in shaping agreements or regulatory frameworks.<sup>38</sup>

Assessments of various self-regulatory arrangements show that the line between self-regulation and government regulation is often blurred.<sup>39</sup> Researchers, especially within industry, have long warned about the Dutch government's excessive dependence on self-regulation and its inadequate commitment to accident prevention.<sup>40</sup> One particularly critical evaluation focuses on the accountancy sector, concluding that the government may have given the four major accounting firms too much

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<sup>35</sup> See also Infographic 3—entitled ‘Snapshot of government policies for business’—in this report.

<sup>36</sup> Giessen (2007); Hauffer (2001); Welp et al. (2013).

<sup>37</sup> Giessen (2007); Society and Safety Foundation (Stichting Maatschappij en Veiligheid) (2018); Netherlands Scientific Council for Government Policy (WRR) (2021b).

<sup>38</sup> See for example Truijens et al. (2021).

<sup>39</sup> Corporate Governance Code Monitoring Committee Code (2021); Van der Valk et al. (2020).

<sup>40</sup> Ale and Mertens (2013); Society and Safety Foundation (2019).

leeway to determine their own standards of ethical conduct.<sup>41</sup> Box 5.3 illustrates the dilemmas faced by insurers as they self-regulate the ethical use of data.

### **Box 5.3 Artificial intelligence and data use by insurers**

Big data and artificial intelligence (AI) are gaining momentum.<sup>42</sup> Within the Dutch insurance sector, data collection and digital technologies are increasingly used to differentiate premiums.<sup>43</sup> This offers clear benefits for the insurer, and certain consumers enjoy lower premiums as a result. However, personalising price and conditions also carries the risk that some individuals may become uninsurable.<sup>44</sup> Within the industry, there is mounting interest in ethical data usage, with a strong emphasis on self-regulation.<sup>45</sup> In interviews, however, insurers themselves acknowledged that self-regulation sometimes falls short.

The expanding technical capabilities in the area of data use enable insurers to achieve extensive differentiation, through pricing and policy conditions. Here, complex ethical issues come into play. For example, are insurers permitted to use data regarding an individual's diet, exercise habits, or sleep patterns? And should they be allowed to identify patterns by using AI on social media? What effect does this type of business model have on the premiums of individuals who are unable to reduce their risks or unwilling to share their data? If the divide between those who are able to access inexpensive insurance and those who are unable to obtain insurance at all gets too wide, it will challenge the fundamental insurance principle of risk sharing. In our interviews, business actors in the sector cautioned that the insurance model and the solidarity that underpins it are at risk of erosion. As one counterpart put it:

We possess the data to accurately set prices for individuals according to their specific risks, yet this compromises the principle of solidarity.

Current policy is restricted and primarily centres on voluntary ethical frameworks and cooperation. While ethical frameworks like those established by the Dutch Association of Insurers offer some guidance on preventing problematic

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<sup>41</sup>Accountancy Monitoring Committee (2020).

<sup>42</sup>The Netherlands Scientific Council for Government Policy (WRR) (2021b).

<sup>43</sup>De Nederlandsche Bank (DNB) and The Dutch Authority for the Financial Markets (AFM) (2019).

<sup>44</sup>The Dutch Authority for the Financial Markets (AFM) (2021).

<sup>45</sup>This concerns not only privacy issues governed by the General Data Protection Regulation (GDPR), but also the extent to which data use enables insurers to engage in potentially problematic types of risk selection. See, among others, the European Insurance and Occupational Pensions Authority's (EIOPA) Consultative Expert Group on Digital Ethics in Insurance (2021); Mullins et al. (2021).

**Box 5.3** (continued)

data use, they are not obligatory and implementation differs significantly from one company to another. Fierce competition in the insurance industry means that if just one insurer were to adopt selection algorithms, this could drive the entire sector in that direction. Self-regulation in data use and personalisation thus presents insurers with a dilemma.<sup>46</sup> As one major insurer pointed out during our interviews:

Actually, we are allowed to do more with AI than we believe we could justify.

A third observation that touches on the above points concerns the risk that the government isn't doing enough to counter lobbying effectively. Lobbies perform a vital role, by bringing potential policy bottlenecks to the attention of politicians and policymakers. However, this poses a risk of 'regulatory capture', where individuals or organisations (including companies, NGOs, and trade unions) influence policymakers to shape regulations that benefit their own specific interests.<sup>47</sup>

Here, the government needs to exert sufficient counterforce. Yet, according to an Organisation for Economic Co-operation and Development (OECD) comparison of 41 countries, the Netherlands lags far behind in terms of rules and agreements on lobbying.<sup>48</sup> While some countries mandate accountability for lobby contacts, the Netherlands merely offers non-binding guidelines, as outlined in the Integrity Code of Conduct for the Central Government Sector (2019). While measures are in place to regulate European politicians and policymakers, there is no mandatory register of lobbyists for ministers and top civil servants. To date, some recommendations from the Council of Europe's Group of States against Corruption (GRECO)—the entity within the Council of Europe that helps states to tackle corruption—have been partially implemented, while others have not been implemented at all.<sup>49</sup>

The absence of transparency hampers efforts to gauge the extent to which companies influence policymaking. Nevertheless, there are signs that the interconnectedness between incumbent firms and policymakers is substantial and, in certain instances, even problematic. For example, the Dutch Parliamentary Committee of Inquiry into gas extraction in Groningen revealed that gas companies wielded considerable influence over decisions about shutting off the gas supply and structurally reinforcing people's homes.<sup>50</sup> Previous studies into government oversight and enforcement in Dutch industry painted a similar picture. This oversight is partly carried out by relatively small regional environmental agencies, known in Dutch as

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<sup>46</sup>Doll et al. (2022).

<sup>47</sup>Doll et al. (2022).

<sup>48</sup>Organisation for Economic Co-operation and Development (OECD) (2021).

<sup>49</sup>Group of States against Corruption (2021).

<sup>50</sup>Parliamentary Committee of Inquiry into natural gas extraction in Groningen (2023); Kammer and Middel (2022).

‘omgevingsdiensten’. Research shows that these agencies are particularly vulnerable to the risks posed by interconnectedness. Directors, supervisory authorities, and company representatives regularly encounter one another in the course of their work, indeed they often switch jobs. In small communities, it’s hard for people to keep their distance when “they could be supervising a company today and seeking employment at the same company tomorrow.”<sup>51</sup>

This brings us to the final observation and policy challenge identified here—the fragmentation of the supervisory landscape in the Netherlands.<sup>52</sup> The oversight and enforcement of business-related regulation often involves multiple government agencies operating at local, national, and international levels. The fragmentation observed in Dutch business-related policies mirrors a broader trend in which the national government increasingly delegates responsibilities to local and provincial authorities.<sup>53</sup> Studies indicate that this form of fragmentation or decentralisation need not necessarily pose an issue, provided it’s clear who bears ultimate responsibility.<sup>54</sup>

However, it’s often unclear who is ultimately responsible. Consider, for example, the monitoring and enforcement of a safe living environment. Local and provincial authorities assign specific tasks to each of the 29 regional environmental agencies responsible for this work. They have the authority to issue permits to companies for activities like waste management and groundwater extraction, and to take enforcement decisions. Various committees have harshly criticised this fragmentation, pointing out the unevenness of the supervisory field and the inadequacy of the enforcement instruments.<sup>55</sup>

The system penalises some companies (and citizens) for minor infractions, yet those who commit major breaches often slip through the net. Studies into the Hazards of Major Accident Decree confirm this picture.<sup>56</sup> Nine out of ten companies break the rules. Moreover, a small group of companies flout the rules repeatedly, deliberately weighing the cost savings involved against potential fines for negligence. Authorities either do not fine them at all, or impose such minimal fines that it

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<sup>51</sup>Welp et al. (2013, p. 218).

<sup>52</sup>Netherlands Scientific Council for Government Policy (WRR) (2013b); see also Sect. 4.7.1.

<sup>53</sup>In 2019, local governments in the Netherlands accounted for a relatively large share of the country’s government spending, placing it ninth on an international ranking of 28 countries; see Van Rijn (2020).

<sup>54</sup>See, for example: Hamers et al. (2021); Council for Public Administration (ROB) (2016); ROB (2019).

<sup>55</sup>Adviescommissie Vergunningverlening Toezicht en Handhaving (Advisory Committee on Licensing, Supervision, and Enforcement) (2021); Parliamentary papers ii 2007/08, 22,343, no. 201. See also Dutch Safety Board’s 2018 report, which criticises the poor management of safety risks at the Chemelot industrial estate.

<sup>56</sup>For companies working with hazardous substances, specific regulations exist regarding the prevention of major accidents involving dangerous substances. Depending on the amount of hazardous materials within a company, the “Hazards of Major Accident Decree 1999” (Brzo 1999, this is the Dutch implementation of Seveso II) or the “Additional Risk Assessment and Evaluation (ARIE) applies. The research for this book focused on the former.

is more advantageous for these companies to accept the occasional sanction than to keep their safety procedures up to standard.<sup>57</sup>

### ***5.2.3 Policy Case Study: Offshoring and Inward Investment Effects of CO<sub>2</sub> Levies***

When the government implements pricing and standard-setting instruments, the rules of the game for companies instantly change. If the rules differ from one place to another, this can create an uneven playing field. This situation exposes companies to risks when they are competing against companies in areas with more lenient regulations. Yet, the actual size of the risks involved remains uncertain. In this section, we explore this issue by focusing on a specific policy case: CO<sub>2</sub> levies.

When one country imposes higher CO<sub>2</sub> levies than others, companies emitting substantial amounts of CO<sub>2</sub> within its borders may find themselves at a competitive disadvantage against similar firms elsewhere. This disadvantage can be so great that the company is compelled to relocate certain activities—or even the entire firm—to a country with lower taxes. The alternative is simply to concede market share to overseas competitors. When revising the rules for companies, the government must recognise that a leakage effect of this kind poses a genuine risk. However, it's unclear how often this happens in practice. Moreover, when the focus is on leakage effects, the potential inward investment effects of divergent rules are often overlooked.

The theoretical literature does not provide a clear answer regarding the severity of leakage effects.<sup>58</sup> Many studies suggest that these effects exist, but they also indicate that their magnitude can vary considerably. The risk of leakage effects hinges, in part, on the costs companies must bear to relocate production to other countries and on the extent to which customers switch to foreign products.<sup>59</sup> Other studies stress that not all activities are affected to the same extent—stricter climate policies can also provide a competitive edge for innovative companies with less carbon-intensive activities. Studies show that, in addition to leakage effects, there's also the potential for inward investment effects. Strict national policies draw in more sustainable foreign companies, as their cleaner technology gives them a competitive edge.<sup>60</sup>

The empirical literature also fails to give clear-cut answers regarding leakage effects.<sup>61</sup> In a review article, the OECD concludes that there is little evidence to suggest that carbon leakage has been a significant issue in practice.<sup>62</sup> A recent study

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<sup>57</sup> Kluin et al. (2020).

<sup>58</sup> Misch and Wingender (2021), pp. 16–17).

<sup>59</sup> See, for example, Branger and Quirion (2014) for a summary.

<sup>60</sup> See for example Cole et al. (2017); Dijkstra et al. (2011); Elliott and Zhou (2013).

<sup>61</sup> Misch and Wingender (2021), pp. 17–20).

<sup>62</sup> Ellis et al. (2019).

on carbon costs and leakage effects in 32 countries, conducted by the Netherlands Bureau for Economic Policy Analysis (CPB), arrived at the same conclusion. On average, climate policy has not stifled the performance of industrial companies sufficiently to trigger leakage effects.<sup>63</sup> This could result from the fact that countries showed little variation in climate policy, possibly due to a preference for international solutions. A study conducted by CE Delft on the Dutch situation also unearthed no evidence of significant leakage effects resulting from the implementation of the European Emissions Trading System (EU ETS), nor of impacts on the competitiveness of companies whose products are subject to pricing instruments.<sup>64</sup> Climate policy's limited ambition to date might have contributed to this situation. Take the European Emissions Trading System as an example. The recent low price of emissions allowances, the allocation of free allowances to companies, and the exemption of certain sectors have all had only limited effects.<sup>65</sup> Hence, the limited impact of climate policy on the displacement of CO<sub>2</sub> emissions and economic activity up to now provides no guarantees for future climate policy.<sup>66</sup>

International Monetary Fund (IMF) researchers have found evidence that small, open economies, in particular, can be sensitive to leakage effects when national policies become significantly stricter. However, it's worth mentioning some caveats in this regard.<sup>67</sup> A study exploring the risk of leakage effects for industrial activities in the port of Rotterdam highlighted the considerable expense faced by many companies when relocating their activities. The study's authors suggest that companies are less inclined to relocate existing factories or facilities, but are more likely to invest in new ones abroad.<sup>68</sup> Several studies in other countries also found empirical evidence demonstrating that stricter environmental legislation is linked to the presence of inward investment effects.<sup>69</sup> In practice, it thus appears that both leakage and inward investment effects may take place at different times.

One strategy for mitigating the risk of leakage effects is to compensate for any potential competitive disadvantages by means of import duties. Europe has decided to integrate stricter climate policy with the introduction of the Carbon Border Adjustment Mechanism (CBAM). Certain imported products, like cement, iron and steel, aluminium, electricity, and fertilisers, which involve high CO<sub>2</sub> emissions during production, will be subject to a levy.<sup>70</sup> This approach would make it less lucrative for European customers to switch from European products to non-European alternatives. The effectiveness of this approach depends on the design of the CBAM and on the success of efforts to counter avoidance behaviour.

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<sup>63</sup>Trinks and Hille (2023).

<sup>64</sup>De Bruyn et al. (2018); Verde (2020).

<sup>65</sup>Dutch Emissions Authority (NEA) (2022). Prices for emissions are expected to keep rising.

<sup>66</sup>See Vollebergh and Brink (2020).

<sup>67</sup>Misch and Wingender (2021).

<sup>68</sup>Gianoli and Bravo (2020).

<sup>69</sup>Guo et al. (2023); Kim and Rhee (2019); Yu and Li (2020).

<sup>70</sup>Marcu et al. (2020); PBL Netherlands Environmental Assessment Agency (PBL) (2020a).

After all, forecasting the impact of strict national or European climate policy on Dutch general welfare is no easy task.<sup>71</sup> Especially for an open economy like the Netherlands, opting for effective international solutions yields many benefits compared to charting an independent national course. Conversely, international agreements often emerge from trade-offs and compromises, resulting in solutions with limited ambition being favoured more often than not. For this very reason, the aforementioned potential benefits of pursuing an independent course should not be overlooked. National levies can give a boost to CO<sub>2</sub>-saving innovation, which could enhance the future competitiveness of Dutch companies.<sup>72</sup> In this context, inward investment effects might result in a scenario where a strict climate policy actually improves the business and investment climate for activities with minimal CO<sub>2</sub> emissions.

### 5.2.4 Summary

- The government has a wide array of policy instruments, enabling it to tailor the context in which companies operate. To be successful, business-related government policy must strike the right balance between rewarding, pricing, standards and rules, and enforcement.
- Dutch policy focuses more on rewarding than on pricing. This hinders policy effectiveness. Without pricing, standards and rules, harmful business models can continue at the expense of innovative business models that would benefit society.
- Standards and rules put companies on an equal footing, but results may differ from one company to another. Ambitious standards and rules can offer innovative companies a competitive advantage.
- Instead of setting standards, the Dutch government relies heavily on voluntary agreements or self-regulation, which are primarily tailored to incumbent firms.

## 5.3 Advancing Transitions for Today's Challenges

In the food industry, there's a lot of talk about innovation for the future, but few companies actually follow through. This is due to strong competition and narrow margins. (Food factory director)

The central theme of the previous section was how government policies can reconfigure the context in which companies operate, prompting them to make a more positive impact on society. Here we examine ways in which policies can ensure

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<sup>71</sup>This book uses the terms 'general welfare' or in short 'welfare' to indicate a broad view of welfare that includes social, economic and environmental dimensions. See also Chap. 2.

<sup>72</sup>This concept is also referred to as the 'Porter hypothesis'. See Porter and van der Linde (1995).

that companies actively help society to make necessary transitions, for instance regarding health, reskilling, or energy use. The fundamental principle is that today's challenges for society compel companies to make strategic choices that cause them to retain their social 'license to operate' while also remaining viable. To reshape business strategies to more effectively address these challenges, the government can use instruments similar to those it uses to modify market conditions. For instance, implementing dynamic regulations to boost the annual usage of recycled materials could motivate the above-mentioned food company to invest in packaging innovations. Introducing incremental levies on plastic can also contribute to this.

However, there is a lingering question about whether society can take the necessary steps in time and at a scale sufficient to effectuate a transition. The government also requires a different type of policy intervention designed to actively foster business initiatives, such as sound commissioning practices and efficient procurement and tendering policies. Furthermore, it can structure innovation policy to incentivise companies to pioneer new products and processes that address societal challenges, such as circular agricultural techniques. The government can also promote the funding of long-term projects. Finally, it contributes to the development of public (and semi-public) goods and services.

Among other measures, this might entail implementing a new system of renewable energy provisions, while also offering reskilling in sectors such as technology and healthcare. The following sections reveal that the Dutch government is increasingly prioritising these types of catalytic policy interventions. The government faces a daunting task in this regard—it must lead without overshadowing the entrepreneurial drive of companies.

### ***5.3.1 Commissioning Practices and Procurement and Tendering Policies***

Up to this point, we've discussed instruments that the government, as a relative outsider, uses to modify the regulatory framework for companies. Yet, the government functions as an economic entity in its own right, and—in that capacity—has significant influence over the products and services offered by companies. The purchasing power of governments is a key policy instrument for advancing transitions in society.<sup>73</sup> In 2019, the Dutch government allocated 86.6 billion euros to the procurement of various services and products (amounting to about a quarter of all government expenditure).<sup>74</sup> This procurement volume makes the government a

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<sup>73</sup>Organisation for Economic Co-operation and Development (OECD) (2003); Tátrai and Diófási-Kovács (2021); Wang et al. (2020).

<sup>74</sup>Team Significant Synergy (2021).

major customer for Dutch companies. In 2019, around 15% of all products and services were purchased by local and national governments.<sup>75</sup>

Many companies, particularly those in sectors like construction, catering, company clothing, and electronics, regard the government as an important—possibly *the* most important—customer. This gives the government the ability to specify requirements for the requested products and production processes. For example, when companies are tendering for new roads, the government can impose conditions on the type of asphalt to be used, or the percentage of people with barriers to employment that the contractor must employ. Additionally, because of its procurement volume, the government has the capacity to generate more demand for certain products, such as vegetarian and organic meals in government agencies' cafeterias.

In the Netherlands, various government schemes are prompting procurement officers to examine the societal impact of the products and services they purchase more thoroughly. Previously, the main emphasis was on price-quality ratios, but in recent years, there has been a shift towards prioritising public goods such as sustainability and innovation.<sup>76</sup> Key programmes in the Netherlands are: Socially Responsible Procurement, Innovation-Oriented Procurement, and the Circular Procurement Green Deal. In this context, Pianoo (the Dutch government's procurement expertise centre) offers a 'criteria tool' (procurement evaluation tool) that enables government agencies to better assess the impacts of their procurement and tendering processes on the environment and on the social dimension of general welfare. The government also explores the potential for awarding more contracts to SMEs, by means of measures such as the Better Public Procurement programme.

It's difficult to gauge the extent to which government agencies have truly begun to prioritise social impact in their procurement policies. Assessments become more challenging due to the involvement of diverse government agencies, the relatively recent inception of some programmes, or their modification over time. Those assessments that have been completed reveal a mixed picture. In particular, it seems that government agencies are becoming increasingly aware of socially responsible public procurement.<sup>77</sup> Furthermore, CE Delft reports that the Netherlands ranks among the frontrunners in Europe for green public procurement. This research agency also noted that government departments are increasingly incorporating socially responsible criteria in public procurement. In 2015, 39% of all processes reflected this trend, a figure that had climbed to 49% by 2020.<sup>78</sup> However, it was not possible to demonstrate whether this actually leads to improved products and services. We found government agencies in the Netherlands that often set minimum requirements beforehand, but seldom, if ever, reassessed them during the contracting phase.<sup>79</sup>

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<sup>75</sup>National Institute for Public Health and the Environment (RIVM) (2021), p. 3).

<sup>76</sup>Ministry of Economic Affairs and Climate Policy (2018).

<sup>77</sup>De Graaff et al. (2018, 2020). Rijksoverheid (2021).

<sup>78</sup>De Graaff et al. (2020).

<sup>79</sup>De Graaff et al. (2020).

The division of procurement and tendering responsibilities presents a policy challenge. There is currently a lack of central guidance. Different ministries and local government departments use different rules. There are instances when both environmental criteria and international social conditions are enforced but, in other cases, only environmental criteria are implemented.<sup>80</sup> Civil society organisations accuse government agencies of applying criteria without possessing adequate knowledge and failing to consult experts from the non-profit sector.<sup>81</sup>

One notable trend is the growing consensus among companies that the opportunities socially responsible public procurement has to offer are not fully utilised in the Netherlands. In numerous interviews and surveys, companies identify public procurement policy as a very promising instrument for encouraging more responsible business practices. Creating a sudden surge in demand for products that meet specific requirements ignites a race to the top, compelling companies to excel in order to secure government contracts for public procurement. Entrepreneurs aiming to shake up the status quo face hurdles when municipalities exhibit limited practical ambition for sustainability standards, or when central government imposes requirements but conducts only cursory compliance checks.

Another relevant policy to mention here is the government's role as a launching customer. This form of procurement policy aims to launch new products and services that currently lack a market. The government supports a provider, facilitating the delivery of essential technologies, products, or services for a transition and, as the initial major customer, remains closely involved during their market launch. In this way, companies will face fewer uncertainties as they begin to scale up. Once the market achieves a certain level of stability, the government will step aside.<sup>82</sup> The more the government acts as a launching customer, the greater the likelihood of achieving successful transitions.<sup>83</sup> However, there is still considerable uncertainty in the Netherlands regarding the specifics of how local and national government agencies will fulfil this role. Acting as a launching customer is often considered to be an integral part of public procurement and tendering policies, with each ministry, implementing organisation, and local authority devising its own strategy without sufficient coordination or evaluation of what works best in this role.<sup>84</sup>

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<sup>80</sup>Policy and Operations Evaluation Department (IOB) (2019). International social conditions (ISCs) are intended to eliminate social injustices in the procurement chain, such as child labour and inhuman working conditions.

<sup>81</sup>CSR Platform (2021).

<sup>82</sup>Brockhoff (2003); CPB Netherlands Bureau for Economic Policy Analysis (CPB) (2021).

<sup>83</sup>Advisory Council for Science, Technology and Innovation (AWTI) (2021); Brennenraedts et al. (2021); Dierikx et al. (2018).

<sup>84</sup>In this context, Pianoo (the government's procurement expertise centre) is one of several bodies issuing guidelines and good examples. See also Dierikx et al. (2018).

### 5.3.2 *Encouraging Innovation*

Many companies use innovation to tailor their products or services more closely to customer needs or to enhance the efficiency of their production processes. These innovations have the potential to advance societal goals, yet they do not always do so. Some consumers might find a new app for ultra-fast grocery delivery useful. However, if this innovation is based on 'dark stores' that lead to traffic congestion and unsafe driving in densely populated areas, it can pose problems for the neighbourhood. This section explores strategies for motivating companies to develop innovations that benefit society.<sup>85</sup> What kind of policies does the government use to achieve this, and what hurdles must they overcome?

Previously, we explored the divergent tracks of generic and specifically targeted innovation policies in the Netherlands.<sup>86</sup> The first track is exemplified by tax breaks such as the Research and Development Promotion Act (WBSO) and the Innovation Box. In the second track, the focus often lies on supporting specific sectors, technologies or, more recently, societal goals. One observation is that, in recent years, Dutch innovation policy has increasingly centred on specific sectors and themes. Since 2018, this has been operationalised within the framework of the Mission-Driven Top Sectors and Innovation Policy. This policy aims not just to drive innovation in specific sectors vital to the Netherlands, like Agri & Food and Logistics, but also to cultivate innovations that help solve challenges for society. Policy instruments prioritise blending financial support schemes (via various funds and subsidies) with public-private partnerships between companies and knowledge institutions.<sup>87</sup>

Secondly, there is an increased focus on regional innovation capacity. Over the past few years, the Dutch government has been working to increase incentives for companies to promote innovation within regional contexts, such as the Chemelot and Delfzijl industrial clusters (located in the provinces of Limburg and Groningen respectively) or the high-tech ecosystem of Brainport Eindhoven. In the Netherlands, industrial and innovation policy has long been intertwined with regional dynamics, but the spotlight on regional innovation capacity is a relatively recent development.<sup>88</sup> Since 2013, there has been a gradual proliferation of regulations and initiatives in this context. Take, for instance, the SME Innovation Incentive, aimed

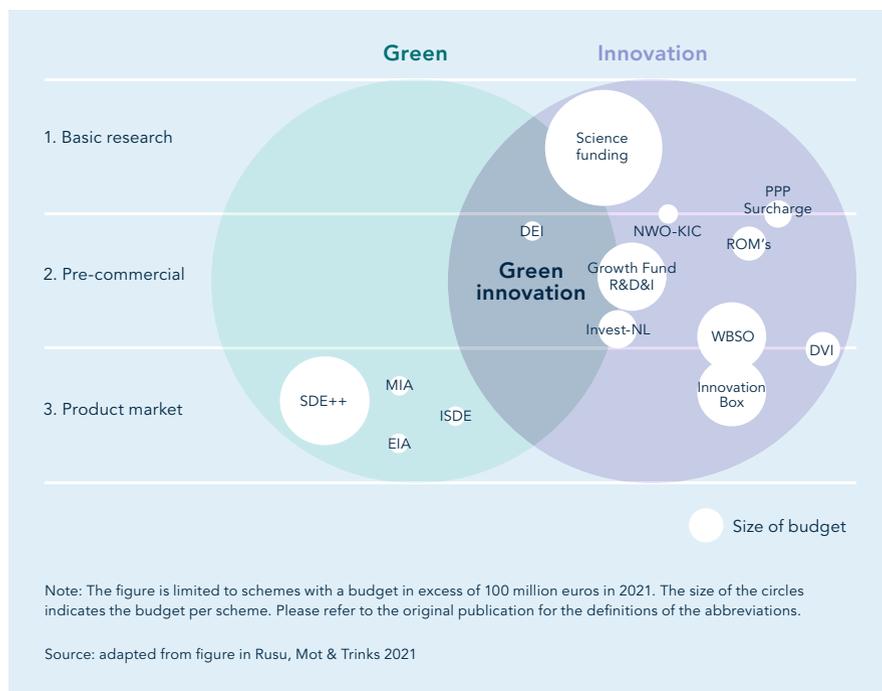
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<sup>85</sup> See also the Advisory Council for Science, Technology and Innovation (AWTI) (2021) and the Organisation for Economic Co-operation and Development (OECD) (2015), which distinguish between invention and innovation with practical benefits for people, the economy, or society. AWTI (2018) emphasises the importance of not classifying small, continuous changes as innovation, since that would mean virtually everything could be seen as innovative. It is prudent to reserve the term 'innovation' for developments that truly possess the breadth and sustainability to catalyse significant changes for people and businesses.

<sup>86</sup> See also Chap. 3.

<sup>87</sup> Rathenau Instituut (2020).

<sup>88</sup> See Annex 1 of Advisory Council for Science, Technology and Innovation (AWTI) (2021) for a historical review of this policy. See also Diederren (2013).



**Fig. 5.1** Policy instruments for incentivising green technology and innovation in the Netherlands

at fostering innovative partnerships between top sectors, SMEs, and provincial authorities. Moreover, a growing number of ‘development and innovation ecosystems’ are being set up throughout the country.<sup>89</sup> The idea is that robust regional networks support successful entrepreneurship and amplify positive impact on society.<sup>90</sup>

At both national and regional levels, innovation policy is increasingly geared towards addressing major problems for society. Nevertheless, we see various policy challenges in this area. One initial challenge relates to the reach of innovation policy. As Fig. 5.1 shows, most of the funding is currently allocated to general tax breaks. The effectiveness of these schemes in fostering innovations that benefit society remains uncertain. The Innovation Box tax break, in particular, appears problematic. The CPB referred to it in 2018 as a ‘subsidy for profitable companies that were innovative in the past’, a sentiment echoed by other studies.<sup>91</sup> Consequently,

<sup>89</sup>See also Vankan et al. (2020) for a sample of research and innovation ecosystems in the Netherlands.

<sup>90</sup>Van Rijnsoever et al. (2021); Vankan et al. (2020).

<sup>91</sup>Bijlsma and Overvest (2018); Den Hartog et al. (2015); Mohnen et al. (2017); Velzing (2022).

companies that are genuinely innovating in a way that fosters general welfare through their new products or production processes miss out on public funding.

This also raises questions about the accessibility of innovation schemes for smaller companies. The situation is not entirely clear-cut. Research highlights the Netherlands' success in promoting forward-thinking startups, particularly through initiatives like the Seed Capital Scheme, but it also identifies scaling up as a significant challenge.<sup>92</sup> Just 5.6% of Dutch companies with over 10 full-time employees succeed in navigating the transition from startup to scale-up.<sup>93</sup> Within a regional ecosystem involving diverse partners, companies that have developed valuable innovations, such as recycling chemical waste streams to create pharmaceutical products, run into regulatory constraints and have insufficient funding for relaunching. As a result, they may not be able to obtain a permit for recycling waste, for example. According to a recent analysis by the Rathenau Instituut, this is symptomatic of the occasional challenges encountered when collaborating with knowledge institutions. While the knowledge institutions do provide opportunities for fundamental research, they offer little support for capitalising on market opportunities.<sup>94</sup>

Finally, there are the difficulties involved in fostering innovation that is tailored to today's challenges. Broadly constructed tax breaks serve as the focal point (in financial terms) of innovation policy, while policies that do address specific challenges face critical scrutiny.<sup>95</sup> Most critique concerns policy fragmentation and limited scope. In a recent analysis of regional innovation policy, the Advisory Council for Science, Technology and Innovation (AWTI) refers to a "spectrum of clusters, campuses, incubators, accelerators, hotspots, workshops, valleys, and deltas".<sup>96</sup> Partnerships are currently being forged in numerous settings to tackle challenges in circularity or healthcare, for instance, but there is a lack of structural financing, capacity, and connection. The Regional Energy Strategy (RES) is a case in point, with each region devising its own plan for public-private innovations to drive the energy transition. The AWTI and the Netherlands Environmental Assessment Agency (PBL) caution against adopting an overly insular approach. While the selected innovations may indeed have a local impact, there are questions concerning their effectiveness at national level.<sup>97</sup>

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<sup>92</sup>Brennenraedts et al. (2021); Rijksoverheid (2020).

<sup>93</sup>Advisory Council for Science, Technology and Innovation (AWTI) (2020a).

<sup>94</sup>Van Rijnsoever et al. (2021).

<sup>95</sup>Advisory Council for Science, Technology and Innovation (AWTI) (2020b).

<sup>96</sup>Advisory Council for Science, Technology and Innovation (AWTI) (2021).

<sup>97</sup>Advisory Council for Science, Technology and Innovation (AWTI) (2021); Matthijsen et al. (2021); PBL Netherlands Environmental Assessment Agency (PBL) (2020b).

### 5.3.3 *Long-Term Funding*

Many companies will need to make significant changes to future-proof their business models. In the next two sections we explore policies that not only incentivise companies to engage in transitions for today's challenges but also help sustain the changes they make. This can involve many different policy instruments.<sup>98</sup> This subsection highlights measures for long-term funding, while the next one explores collective prerequisites for advancing transitions, such as reskilling and infrastructure.

For transitions to be sustained, long-term funding is often indispensable. For example, companies will need to implement changes in their production processes, but it's not always clear if and when these will pay off. For example, chemical companies could potentially eliminate their current fossil-intensive processes by using hydrogen produced through electrolysis. However, given the uncertainty about its scalability, companies are unsure if they will recoup their investments later.<sup>99</sup> As highlighted in the previous chapter, companies frequently face challenges in obtaining adequate funding to implement these types of fundamental changes. They hit roadblocks when banks are unwilling to provide credit (or only at high interest rates) for innovative projects, or when investors expect short-term returns. How can policies incentivise this type of funding, and what policy challenges must be overcome in the process?

Broadly speaking, the Dutch government uses two strategies to incentivise long-term funding for business sector transitions. Firstly, there is policy regarding the funding provided by banks, private equity funds and institutional investors. These parties significantly influence companies through their investment decisions. They are pivotal players in the dynamics of companies. A robotics startup, for instance, can grow faster when ample venture capital is in place. However, there is no guarantee that financiers will prioritise investments in business models that benefit society. Over the past few years, policymakers at national and European levels have actively pursued greater incentives for investments with societal returns. Providing information takes precedence, for example, via standards for reporting on the social and environmental impact of companies or the recently introduced EU Taxonomy for sustainable investments (see also Box 5.4).

Secondly, the Dutch government itself uses funding streams. The National Growth Fund and Invest-NL stand out in this regard. These funding instruments both have relatively broad aims. Both instruments are intended to help future-proof

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<sup>98</sup>For example, instruments in the realms of pricing, standard setting, and innovation can propel transitions within the business sector. In spearheading the transition to a circular economy, the government could use levies or dynamic regulation, for example, to strengthen recycling in the packaging industry. Moreover, there is overlap with innovation policy. Consider the mission-driven top sector policy, which specifically aims to incentivise innovation for the energy transition. See also Sect. 2.4.2.

<sup>99</sup>Van der Meer (2021).

the Dutch economy. Invest-NL is an investment agency that has the most specific mandate in this area, namely to “support and facilitate the realisation of transition tasks when the market fails to do so”.<sup>100</sup> Invest-NL holds €1.7 billion in funds earmarked for loans. The National Growth Fund allocates funding for projects, in the form of subsidies. It also has a larger budget, with €20 billion earmarked for spending between 2020 and 2025.<sup>101</sup>

#### **Box 5.4 Challenges in sustainability reporting**

Companies are increasingly required to disclose details of their impact on society. How many jobs (including permanent ones) has the company created, does it contribute to innovation, and how much does it recycle? The Corporate Sustainability Reporting Directive tightened EU legislation in this area. Companies are facing growing pressure from financial entities to disclose details of their impact on society, including their ESG ratings.<sup>102</sup> Supervisory authorities are also urging them to comply.<sup>103</sup>

Verifying the published information is just one of the challenges involved. Supervisory authorities such as the Netherlands bank (DNB) and the Dutch Authority for the Financial Markets (AFM) attempt to assess the quality of sustainable reporting in the Netherlands, though they lack the mandate to verify the submitted data themselves. After all, these are still—to some extent—outside the framework of the law. Moreover, these organisations operate at national level, while the influence of companies extends far beyond the borders of their own country. Financiers can handle this via global credit rating agencies, yet these agencies remain dependent on data that companies may or may not be willing to provide. If investors are willing to accept lower returns for investments deemed ‘sustainable’, this incentivises companies to brand themselves accordingly. If investigations reveal that sustainability claims lack firm support, this amounts to greenwashing.<sup>104</sup> The lack of uniform criteria for evaluating the reported impact further complicates this issue. Consultancy and accountancy firms often formulate their own

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<sup>100</sup>Parliamentary papers II 2018/19, 35,123, no. 2.

<sup>101</sup>Boot (2021); Brennenraedts et al. (2022); Netherlands Enterprise Agency (RVO) (2022). In 2024 it was decided to shut down the National Growth Fund.

<sup>102</sup>ESG stands for Environmental, Social and Governance. Financiers hire credit rating agencies to assess companies' ESG ratings. Consulting and accountancy firms also provide services to gather and analyse details of ESG performance. Companies usually collaborate with such firms to present this data in the form of sustainability reports, impact statements, or integrated annual reports. Relying in part on this data, financiers can decide whether to invest, exclude, or engage. In the latter case, a financier might try to shape a company's decisions by voting at shareholder meetings, for instance.

<sup>103</sup>See for example the European Central Bank (ECB) (2022).

<sup>104</sup>The Dutch Authority for the Financial Markets (AFM) (2020).

**Box 5.4** (continued)

sustainability criteria and, occasionally, even at the behest of the companies they are assessing. This blending of services poses risks to both integrity and credibility. Consultancy firms present the sustainability criteria, which are still somewhat ambiguous, as authoritative standards to consultancy assignments. This enables accountants to issue (limited) assurance statements for impacts that cannot actually be easily measured or independently verified.<sup>105</sup>

Supervisory authorities in various countries are now becoming increasingly proactive. Germany, for example, has been conducting investigations into sustainability claims made by DWS Group, an asset management company. In the Netherlands, too, the Netherlands Authority for Consumers and Markets (ACM) is investigating misleading sustainability claims, notably among energy suppliers and in the clothing industry.<sup>106</sup>

The two aforementioned funding strategies share several overlapping policy challenges. One is that private financial entities continue to offer limited incentives for financing transitions in society. The provision of bank credit to SMEs is heavily standardised. This dynamic complicates the integration of qualitative lending factors—which are certainly important for innovative projects—into the lending process.<sup>107</sup> For instance, companies with circular business models often hold collateral with less liquidity, which could potentially impede lending.<sup>108</sup> Gaps are now appearing in exactly those areas where the potential impact of funding is greatest, such as socially responsible companies, startups, and scale-ups.<sup>109</sup>

Even on a larger scale, the financial sector still lags behind, especially in the energy and climate sectors.<sup>110</sup> According to the Dutch monetary authority DNB this arises from the “mismatch between risk-return preferences of private financiers and the profile of the required investments”.<sup>111</sup> Particularly in the field of climate and energy transitions, both DNB and the Dutch Council for the Environment and

<sup>105</sup>Boiral et al. (2020); Michelon et al. (2019).

<sup>106</sup>Netherlands Authority for Consumers and Markets (ACM) (2021); ACM (2022).

<sup>107</sup>Netherlands Scientific Council for Government Policy (WRR) (2016).

<sup>108</sup>Van Tilburg et al. (2018).

<sup>109</sup>Bouhuijs et al. (2021).

<sup>110</sup>The Dutch financial sector has a global CO<sub>2</sub> footprint of approximately 82 megatons, corresponding to about 45% of the Netherlands’ total CO<sub>2</sub> emissions in 2019. The activities of banks and pension funds account for most of these emissions. See: De Nederlandsche Bank (DNB) (2020); International Union for Conservation of Nature (IUCN) & the Dutch Association of Investors for Sustainable Development (VBDO) (2021); van der Pol & Woutersen (2022); The Dutch Authority for the Financial Markets (AFM) (2022); Council for the Environment and Infrastructure (RLI) (2022).

<sup>111</sup>De Nederlandsche Bank (DNB) (2021), p. 30).

Infrastructure (RLI) conclude that investing in emission-intensive projects remains more financially attractive than opting for sustainable alternatives.<sup>112</sup>

The government needs to lead the way in making transition-focused investments more appealing. This can be achieved through a mix of interventions. Pricing instruments are one option, alongside financial investments, such as those made through Invest-NL. It is essential to specify which transitions will receive support, although bottlenecks are apparent in this area. Various studies have shown that the Dutch government's coordination of transitions in society is ineffective.<sup>113</sup> While it does set objectives—typically too many rather than too few—it does not appear to have a comprehensive strategy. For example, while there is certainly a focus on the energy transition, scant attention is paid to the associated raw materials issues or the anticipated impact of both transitions on food security.<sup>114</sup> The Advisory Council for Science, Technology and Innovation (AWTI) reports a lack of coordination across departments.<sup>115</sup> Indeed, many different parties are involved, but the main focus is on consultation. The fragmentation of the aforementioned funding streams also impacts both the allocation of funds and their policy frameworks.<sup>116</sup>

Sometimes, ambiguity and a failure to prioritise societal goals seem to stem from the feeling that the government should not step into entrepreneurs' shoes. Instead, the prevailing belief is that the market is the best judge of the viability of business models. This approach favours existing business models and established practices. That too is, in fact, a choice, albeit one that does not always lead to the best outcomes for society at large.

### 5.3.4 *Preconditions for Reskilling and Infrastructure*

What are the key prerequisites for transitions in society and how can the government bolster them, particularly when it comes to reskilling and infrastructure? Reskilling is about equipping employees with new skills that allow them to take on the jobs and tasks that transitions will require.<sup>117</sup> According to recent estimates, forty thousand workers in the Netherlands would need reskilling every year to keep pace with the

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<sup>112</sup>De Nederlandsche Bank (DNB) (2021); Council for the Environment and Infrastructure (RLI) (2022).

<sup>113</sup>Advisory Council for Science, Technology and Innovation (AWTI) (2020b); Frenken and Hekkert (2017); Social and Economic Council of the Netherlands (SER) (2022a).

<sup>114</sup>Denkwerk (2022); Social and Economic Council of the Netherlands (SER) (2022a).

<sup>115</sup>Advisory Council for Science, Technology and Innovation (AWTI) (2020b).

<sup>116</sup>CPB Netherlands Bureau for Economic Policy Analysis (CPB) (2021); Council for the Environment and Infrastructure (RLI) (2021); Social and Economic Council of the Netherlands (SER) (2021).

<sup>117</sup>The term 'reskilling' is used here. A key point here is that reskilling doesn't necessarily have to involve formal training programmes, it can also take place 'on the job'. Skills obtained in previous roles could certainly remain relevant in this context. See also Denkwerk (2019); Zahidi et al. (2020); PwC (the brand under which the member firms of PricewaterhouseCoopers International Limited (PwCIL) operate) (2021).

demands of the labour market. This often involves the technical and digital skills required to address various major challenges in society, ranging from public health to food safety.<sup>118</sup> Furthermore, there's a demand for fresh skills in particular domains, like installing solar panels, erecting charging points, or using wooden structures and prefabricated components in construction. Thus, reskilling is an essential prerequisite for driving societal change. However, reskilling itself poses a transition challenge in and of itself, both in the Netherlands and elsewhere. It's estimated that half of the global workforce will require new skills.<sup>119</sup>

The previous chapter showed that companies sometimes neglect to invest adequately in their employees and their skill development. To encourage this, the government is pursuing a policy aimed at Lifelong Learning (LLL).<sup>120</sup> Research shows that current reskilling initiatives vary widely in terms of their success at reaching employees.<sup>121</sup> Significant disparities exist within the labour force. For example, individuals with a weak labour market position—for instance, those with a relatively low educational level, temporary contracts, bogus self-employment, health issues, or a migration background—have fewer opportunities for personal development in the workplace. They also feel that they have less personal control over their careers and tend to pursue fewer training opportunities than individuals with a stronger labour market position.<sup>122</sup>

The fragmented policy landscape in the Netherlands is mirrored by the abundance of initiatives in the area of Lifelong Learning. Many different stakeholders are involved and expectations regarding their roles, particularly those of companies, are often unclear. With regard to the latter, SMEs find it particularly challenging to join Lifelong Learning initiatives. On average, SMEs invest fewer resources in reskilling than larger companies.<sup>123</sup> Despite their pressing need for training subsidies, smaller companies often miss out, perhaps because they are relatively inconspicuous, for example, or because a substantial upfront payment is required.<sup>124</sup> Self-employed workers are often overlooked completely. Another challenge is the lack of focus.<sup>125</sup> Dutch Lifelong Learning policy only partially addresses the challenges involved in reskilling. Most schemes prioritise training individual employees or else

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<sup>118</sup> Denkwerk (2019); Organisation for Economic Co-operation and Development (OECD) (2022); Netherlands Scientific Council for Government Policy (WRR) (2021a) Sustainable healthcare, a matter of choice. People, resources and public support.

<sup>119</sup> Zahidi et al. (2020). Incidentally, this challenge is certainly nothing new. See also WRR (2013a) (Towards a learning economy) and WRR (2020) (Better Work) for details of how employee training benefits the Netherlands' productivity and improves people's prospects in the labour market.

<sup>120</sup> See also Infographic 3—entitled 'Snapshot of government policies for business'.

<sup>121</sup> Social and Economic Council of the Netherlands (SER) (2022b).

<sup>122</sup> Van Echtelt et al. (2016); Netherlands Scientific Council for Government Policy (WRR) (2020).

<sup>123</sup> Netherlands Committee for Entrepreneurship (2019).

<sup>124</sup> Association of Dutch Municipalities (VNG) (2022).

<sup>125</sup> CPB Netherlands Bureau for Economic Policy Analysis (CPB) (2021, 2022).

they exclusively target specific sectors. At an individual level, people still lack clear guidance concerning the types of training programmes that are available to them.<sup>126</sup> Certain sectors occasionally focus on transitions in society. However, policies aimed at reskilling often fall short in terms of connecting with individuals seeking (or needing) career changes. This is due to the fact that, in the Netherlands, training opportunities and the requisite funding are often linked to sector-specific agreements, placing them beyond the reach of those outside the respective sectors and of the many workers who are self-employed these days. Policies that do actively target career change often remain project-driven and discretionary.<sup>127</sup>

Infrastructural improvements are needed to tackle a range of transitions in society. Major infrastructural adjustments are essential and these cannot proceed without direction. The energy transition, in particular, presents a variety of challenges for the Netherlands.<sup>128</sup> For example, sustainability necessitates electrification, which is already placing strain on the Dutch power grid.<sup>129</sup> The transition to electric vehicles could potentially face delays due to limited charging infrastructure and power capacity.<sup>130</sup> The Netherlands needs to develop a long-term economic blueprint to guarantee a future-proof energy infrastructure. In addition to other factors, this suggests that the government is actively considering how energy demand will change as the circular economy expands, aiming to identify areas where future energy demand will be high.

In addition, a robust digital infrastructure can inspire companies to initiate changes that benefit society. The Netherlands possesses one of the world's most advanced network infrastructures.<sup>131</sup> The opportunities to strengthen the Dutch position mainly involve coordinated data gathering, while ensuring the security of underlying data.<sup>132</sup> For instance, by accessing healthcare data without infringing on individuals' privacy, companies can create innovative products that enhance healthcare.<sup>133</sup>

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<sup>126</sup> Wilthagen (2023).

<sup>127</sup> CPB Netherlands Bureau for Economic Policy Analysis (CPB) (2022).

<sup>128</sup> See also Sect. 5.3.5, which discusses the case of offshore wind energy.

<sup>129</sup> Dutch Broadcasting Foundation (NOS) (2023).

<sup>130</sup> De Wilde et al. (2022).

<sup>131</sup> Roelandt et al. (2021).

<sup>132</sup> Bijlsma et al. (2021); El-Dardiry et al. (2021).

<sup>133</sup> The Health-RI growth fund initiative capitalises on coordinated data collection within the healthcare sector. The CPB Netherlands Bureau for Economic Policy Analysis (CPB) has determined that government backing for this initiative is justified, due to its positive spill-over effects; see CPB (2021).

### 5.3.5 Case Study: Offshore Wind Energy

The case of ‘offshore wind energy’ illustrates how the Dutch government, in partnership with the business sector, can effectively address society’s challenges. The combination of policy instruments has played a significant role in this respect. The government modified the conditions to make offshore wind energy projects more enticing for companies. However, before the market was ready to take the plunge, the government took the lead.

The Netherlands is committed to achieving a climate-neutral energy system by 2050. The proposed energy mix leans heavily on offshore wind turbines, due to favourable geographic factors, such as relatively strong winds and vast expanses of sea (see also Fig. 5.2).<sup>134</sup> The year 2007 marked the opening of the first Dutch offshore wind farm near Egmond aan Zee. With 36 turbines generating 108 MW, this comparatively compact park supplies power to around 100,000 households. At that time, offshore wind energy was not even close to being financially viable. The park’s development hinged largely on government funding. Consequently, the government worked to cut costs, while seeking to kindle interest among companies. This endeavour met with success. Meanwhile, costs have dropped to the point where subsidising the construction of wind farms is no longer necessary. Offshore wind energy is an example of how the government can influence change and play a part in shaping the course of innovation.

Several factors have contributed to the relative profitability of offshore wind energy. By enacting the Offshore Wind Energy Act, the government has mitigated the risks involved in investing in offshore wind energy. Until recently, companies themselves were responsible for proposing potential wind farm sites and assessing their suitability. Nowadays the government allocates zones, and the Netherlands Enterprise Agency (RVO) assesses factors such as wind speeds and water conditions in those areas. This data is then made available to private parties. Furthermore, the government—working through the state-owned national grid operator TenneT—is tasked with ensuring that the wind farms are promptly connected to the power grid. As a result, the wind farms themselves face fewer business risks.<sup>135</sup>

In 2011, the government brokered deals with private firms to incentivise innovation through cost reductions. The target was to achieve a 40% decrease in offshore wind energy costs within 10 years.<sup>136</sup> Initially, this reduction was to be achieved through productivity gains and innovations, including the development of larger blades and enhancements to drive systems.<sup>137</sup>

Even with declining costs, there’s no guarantee that wind energy will remain financially viable in the years ahead. A recent study by the Netherlands Organisation for Applied Scientific Research (TNO) indicated that the future profitability of

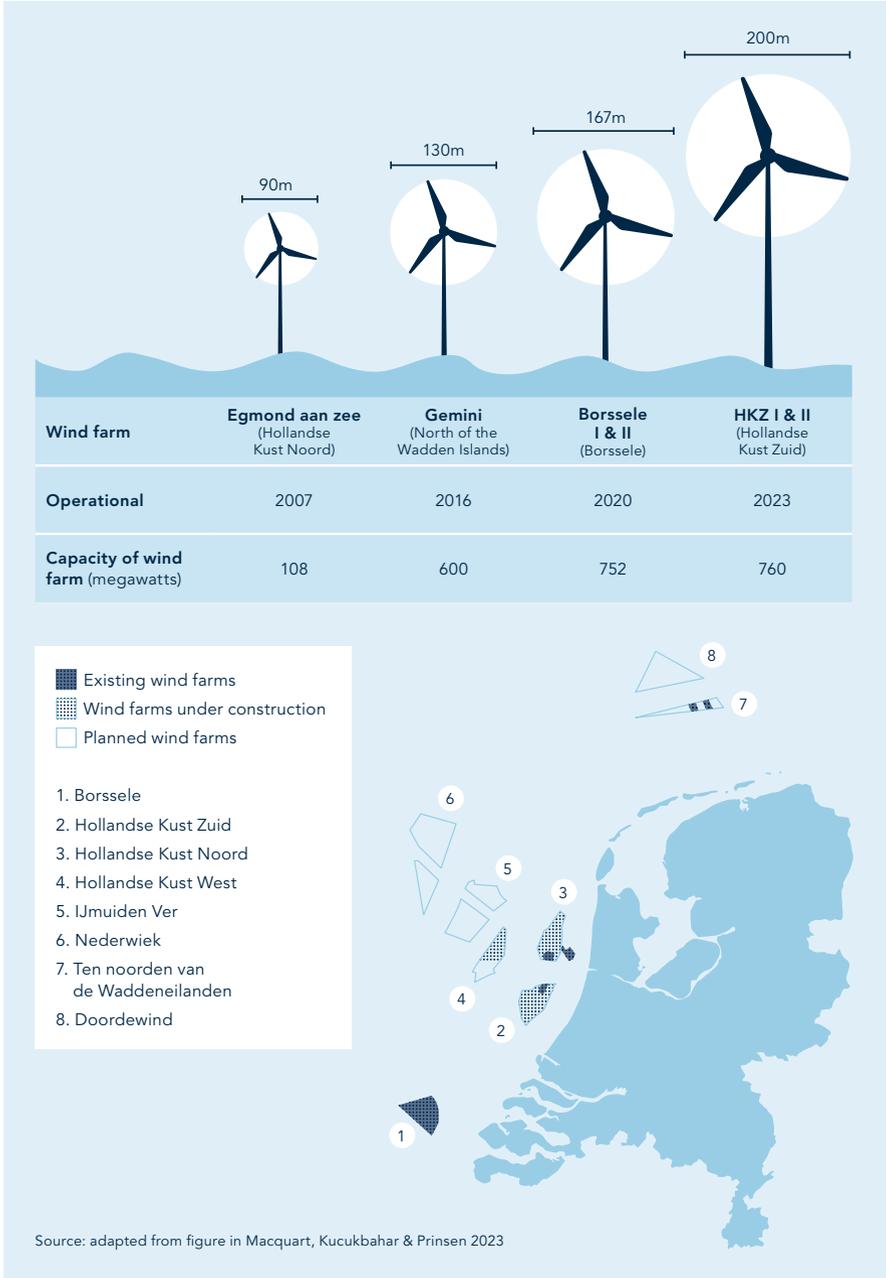
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<sup>134</sup> Boot et al. (2014).

<sup>135</sup> Court of Audit (Algemene Rekenkamer) (2018); Dieperink (2022).

<sup>136</sup> Rijksoverheid and NedZero (formerly the Dutch Wind Energy Association) (2011).

<sup>137</sup> Hagenbeek et al. (2022); Nejad et al. (2022).



**Fig. 5.2** Overview of Dutch offshore wind farms and capacity in MW (status of 2023)

offshore wind farms depends partly on trends in electricity demand.<sup>138</sup> A shortfall in demand could trigger overproduction, driving prices down and undermining the business case for wind energy. Sufficient demand, such as that arising from industrial sustainability initiatives is, therefore, a key determinant of the viability of offshore wind energy. Should industry find it relatively attractive to avoid transitioning to sustainability, for instance due to lower electricity or CO<sub>2</sub> prices or exemptions, this will affect the demand for electricity and, ultimately, the willingness of private parties to invest in wind energy.

To further increase the scale of wind energy, it is essential to expand the public grid infrastructure.<sup>139</sup> According to wind energy firms such as Ørsted and Van Oord, permit applications and construction procedures are still too slow.<sup>140</sup> So there are still plenty of challenges to overcome. Nevertheless, this case does illustrate how a combination of policy instruments can effectively incentivise companies to take part in tackling transitions in society.

### 5.3.6 Summary

- The government has enormous purchasing power. Socially responsible public procurement has been on the rise in recent years, but the approach is fragmented. As a result, the government misses opportunities to advance transitions that benefit society.
- Dutch innovation policy features a wide array of non-targeted tax breaks. As a result, companies are not maximising their innovative potential to address society's challenges effectively. Furthermore, innovators attempting to tackle challenges often find that incumbent firms have a competitive advantage.
- Long-term funding is indispensable for companies striving to push ahead with fundamental transitions. Currently, insufficient financing is available for risky long-term investments in the Netherlands, which is at least partly due to a lack of clear direction by the government.
- Reskilling and infrastructure are preconditions for today's transitions. However, Dutch policies targeting Lifelong Learning are still not effectively reaching those employees who stand to gain the most from reskilling.

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<sup>138</sup> Gonzalez-Aparicio et al. (2022).

<sup>139</sup> Stead et al. (2020).

<sup>140</sup> Dutch Broadcasting Foundation (NOS) (2022).

## 5.4 Conclusion

To increase companies' positive impacts on society, it is essential to have effective market incentives and to promote broadly supported transitions. The government has a plethora of instruments that it can use for this purpose. It is essential to choose the right combination, to ensure mutual reinforcement. The government could, for instance, better tackle sustainability challenges in the construction sector by implementing public procurement criteria, banning outdated materials, and providing subsidies for alternative material use. From the above sections, it's clear that the Dutch government is already rolling out policies in many areas to incentivise companies to make a more positive impact on society. Consider the initiatives regarding social procurement policy or the various funds supporting high-risk, long-term investments.

Still, there is room for improvement. Broadly speaking, two key bottlenecks are currently impeding effective business-related policies. First and foremost, the government shies away from actively challenging companies to implement changes. Instead of strong interventions, particularly with regard to pricing instruments and standards to limit harmful impacts, the government often opts for the path of least resistance—financial support schemes. Incumbent firms find it easier to access such support. Consequently, companies seeking to disrupt the status quo find themselves at a disadvantage. This is regrettable, as it nurtures a culture of indecision and dependency among companies. As a result, they fail to fully leverage their capacity for devising innovative solutions. Secondly, there's a lack of recognition for the practical challenges that companies face when seeking to make a more positive impact. Ultimately, these efforts need to be commercially viable. Non-binding appeals for activities that benefit society won't necessarily resonate with every company.

Various factors are responsible for these two bottlenecks. One key factor seems to be a concern that, as an open economy, the Netherlands might jeopardise its own interests if it were to implement strong business-related policies. Instead, it keeps coming up with new financial support schemes, such as flexible tax regimes for multinationals, in the hope that these schemes may improve the Dutch business climate. What is often overlooked here is that this type of pampering also works to the detriment of Dutch companies. Lacklustre policies place companies seeking to maximise their positive impact on society at a competitive disadvantage. Robust and proactive policy initiatives actually present more opportunities for productivity in our economy. Prioritising sectors such as offshore wind energy sparks further innovations and pioneering business activity. By and large, the business climate does better when public resources are used to structurally strengthen productivity (by means of training and infrastructure, for example) rather than to fund tax benefits for a limited group of companies.

Strengthening the government itself also helps to improve the business environment. One common theme that emerged in our interviews was that entrepreneurs are grappling with convoluted and conflicting regulations, coupled with a lack of

capacity and insufficient expertise among supervisory authorities. This is also evident from a constant flow of reports stressing the need for a quality improvement within the Dutch government. This is necessary to formulate effective policy and to implement it, as well as to oversee compliance. If the Dutch government is to foster a resilient and dynamic business community, it must be able to resist pressure from entrenched players.

The following chapter presents several recommendations for revising business-related government policy. Clear and strong rules are an indispensable requirement. As long as companies find it more advantageous to develop harmful activities rather than to adopt good practices, alternative interventions will prove ineffective. The government needs to embrace ambitious combinations of pricing instruments, standards and rules, while bolstering its control of oversight and enforcement. This also implies exercising greater restraint with financial support schemes, and prioritising solutions that serve society. In conclusion, we can address today's challenges by adopting more transition-driven public procurement and tendering policies and by unleashing long-term investments for society.<sup>141</sup>

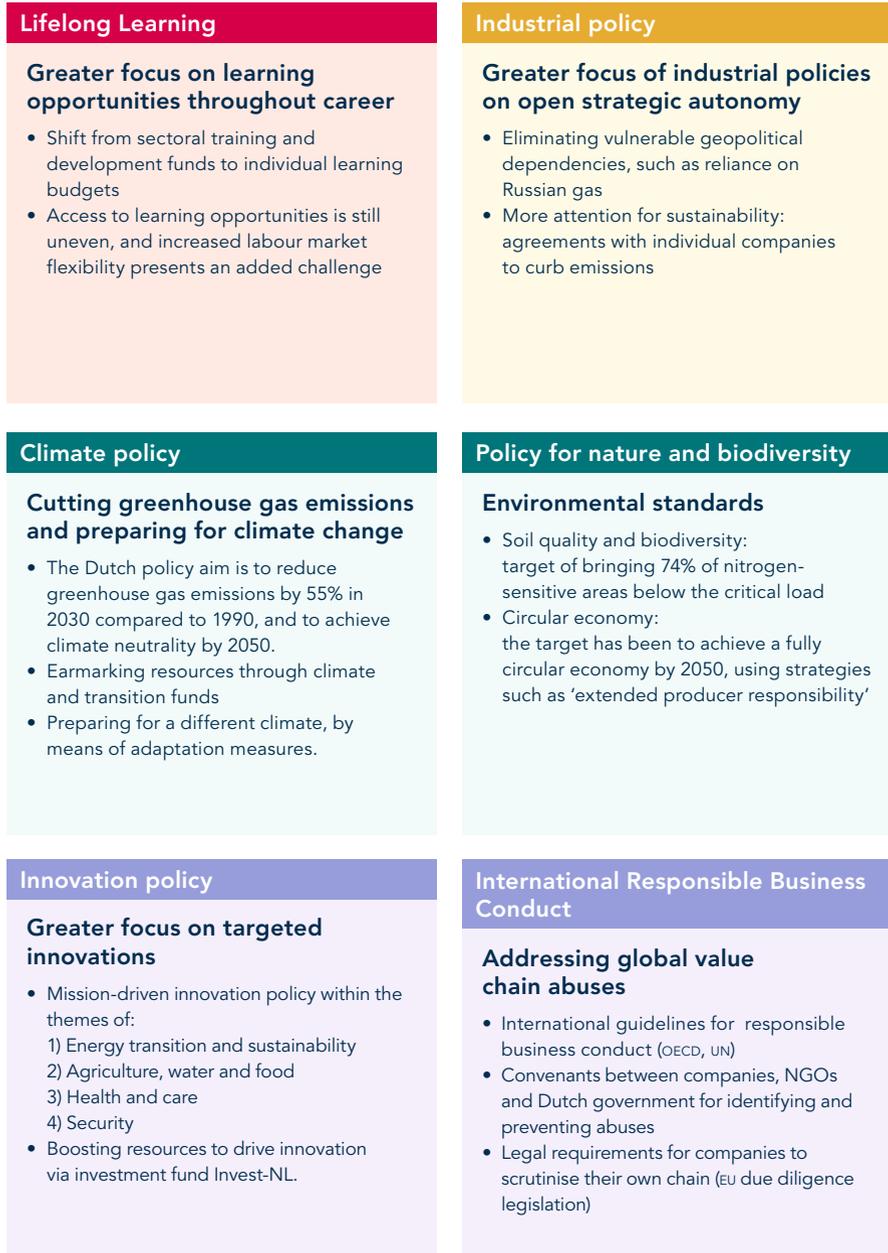
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<sup>141</sup> See Chap. 6 for further elaboration on these and other policy recommendations.



**Infographic 3** Snapshot of business-related policies in the Netherlands

Some key developments in Dutch policy domains



**Infographic 3** (continued)

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# Chapter 6

## Policy to Unlock Companies' Benefit for Society



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Our societies are faced with pressing challenges in areas such as climate change, the labour market, public health, and earning capacity.<sup>1</sup> The government cannot tackle these tasks alone. It requires initiatives by members of the public, civil society organisations, and, critically, companies. Entrepreneurship has the power to tackle societal challenges. Despite companies continuously devising new solutions, there is a failure to fully harness their inventiveness.

In the Dutch context this book has focused on, companies frequently offload costs onto society, whether by accident or design. And when companies do take action to tackle societal challenges, circumstances work against them. For example, they may struggle to find financiers for product innovations that only yield returns in the long

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<sup>1</sup>In this book we understand the term earning capacity to mean 'the ability to generate structural economic wealth and social well-being, now and in the future.' TNO (2024), see also WRR (2013a).

term. Other entrepreneurs may find themselves powerless to reshape their production chains to effectively safeguard nature and protect human rights. Or there is a lack of 'real' pricing. For example, producing new plastic is a more cost-effective option than recycling old plastic. It's also cheaper to hire temporary flex workers than to invest in staff training. Companies that try to make a positive impact on society find themselves at a competitive disadvantage, compared to companies that make no such effort.

Policy has the potential to help but currently in the Netherlands it is often part of the problem. Policy makers waver, hesitate, or offer the wrong incentives. There is a need for proactive policies that will challenge and motivate companies to make a greater contribution. Politicians must take the lead in prioritising societal challenges. Next, the government must structure the context in which companies operate so that making a more positive impact on society becomes automatic for them. It must motivate companies to go the extra mile and embark on the transitions needed to make our society future-proof.

## 6.1 Paradigm Shift in Business-Related Policies

The government guides the activities of companies via numerous policy domains. For example, business-related policy includes the regulation of specific markets and sectors, the formulation of innovation policy, labour market policy, environmental policy, financial regulation, corporate governance rules, and much more besides. Rules, financial incentives, and government provisions are implemented in sectors like innovation, the labour market, and the environment. These are all designed to encourage companies to make a positive societal impact.

In this book we conclude that the government's current policies do not adequately mobilise companies to do good business in the Netherlands.<sup>2</sup> We have identified two key bottlenecks. The first bottleneck involves the government's approach to engaging companies in addressing societal challenges. The government tends to think in terms of the status quo. It shields incumbent firms from turbulence through mitigation measures, such as tax breaks and overly flexible oversight and enforcement frameworks. Large energy consumers in industry currently benefit from exemptions on energy taxes, for example. This pampering encourages companies to adopt a wait-and-see approach, depriving innovators of opportunities to tackle challenges. By pre-emptively shielding companies from problems, the government eliminates any incentive for them to innovate or modify their business models.

While a strategy of shielding individual companies or sectors may appear advantageous, the track record of Dutch government policies for companies has consistently shown that such policies actually erode companies' problem-solving

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<sup>2</sup>The key concept of 'doing good business' in this book is about the positive impact that companies have on society—socially, economically, and environmentally. See also Chap. 1.

capabilities. Take, for instance, the trade barriers and lenient cartel legislation of the 1930s, the unrestricted financial support schemes for struggling companies in the 1970s and 1980s, or the generous tax regime for multinationals and lax regulation of the financial sector leading up to the financial crisis in 2008. These types of policies not only damaged society, they also eroded the trust in companies and government that is such a key element in cultivating a robust business climate. Shielding particular companies or activities from adversity is seldom a recipe for success.

Secondly, the government lacks a realistic grasp of the context in which companies operate and of the extent to which that context spurs companies to help find solutions for society. In this book, we identified significant obstacles in this area. In some scenarios there are no incentives to discontinue harmful activities, while in other cases there are too few incentives to pursue positive activities. Investing in innovation, enhancing work quality, developing healthier food products, and making production processes more sustainable should all be both socially appealing *and* commercially lucrative. Conversely, steps should be taken to discourage or outright prohibit activities that cause harm to people and the environment.

The government's current strategy relies too much on companies voluntarily making a positive impact. Encouraging companies to help address societal problems without considering their context—the decisions of consumers, financiers, and employees—is a sure path to disappointment. That's unfortunate, because in these times of major social, environmental and economic challenges, the involvement of the business community is indispensable. Indeed, past experience has shown that it doesn't have to be this way. Active policies that invigorate companies yield better results for both companies and society than passive measures. In the wake of the Second World War, Dutch policy galvanised the government, employers, and employees into joint efforts to rebuild the Netherlands. And earlier, during the era of industrialisation, the synergy between legislation, public initiatives, and entrepreneurial ventures contributed to improved living and working conditions.

### ***6.1.1 Stop Pampering, Start Challenging Companies***

The Netherlands Scientific Council for Government Policy (WRR) is, therefore, calling for an overhaul of business-related policies—stop pampering and start challenging companies to find solutions for society. Companies don't need protecting; what they do need is the freedom to operate and a clear understanding of the regulatory context. It is incumbent upon the government to ensure that companies have a positive impact on society through their business practices. Entrepreneurs need room to seize the initiative and innovate in response to societal challenges. The only way to ensure that latitude is to set clear boundaries for companies *and* their context, which also means consumers and financiers. In the absence of such clarity, harmful practices are given free rein, while well-intentioned companies struggle to make a difference. In addition, motivation is needed. Urge companies to deploy their resources where they are most urgently needed in society.

The government plays a key role in this. It has the capacity to shape the mindset of the business sector, instilling the belief that having a positive impact is the most rational and financially rewarding approach to business.

Hence, the Dutch government needs to pursue proactive business-related policies. It should show firm commitment to increasing companies' positive impact on society, both within the EU and nationally. Given the international focus of Dutch business, European policy naturally exerts considerable influence. Nonetheless, it is also desirable for the Netherlands to chart its own independent course. It's entirely possible to implement more ambitious national policies across different themes and sectors without the Netherlands running afoul of European directives or jeopardising its standing as an open economy. For example, imposing national requirements on the marketing of unhealthy food is unlikely to weaken the international competitiveness of supermarkets.

Proactive policies also unlock opportunities for the Dutch business and investment climate. A progressive national stance in areas such as offshore wind energy or circular agriculture can catalyse further innovations and innovative initiatives. This encourages the development of fresh comparative advantages for our economy. It moreover requires the Dutch government to be realistic about which activities the Netherlands can, and should, still sustain. For example, the era of abundant, affordable natural gas is over. Activities that depend heavily on this resource and that cannot adapt are no longer viable, making it unwise for the government to keep supporting them through, for instance, subsidies or tax breaks. During the 1980s, in the Netherlands, it became evident that such policies lead to the inefficient and ineffective use of government resources. Redirecting these resources, for instance, towards infrastructure to boost the structural productivity of the Dutch economy would be a more effective strategy.

In this book, the Netherlands Scientific Council for Government Policy (WRR) does not advocate for 'greater state intervention'. Here, we urge the Dutch government to adopt a different strategy for motivating companies to make a positive impact: challenge companies to discover solutions for society, rather than continually trying to shield them, and ensure companies can move forward rather than backwards in today's transitions. The first step is to embed this policy shift within institutions. One of our recommendations hence shows how a public-private bank can compel the government to maintain greater policy consistency. Secondly, there is a need for substantial investments to enhance the knowledge and skills of public authorities. It's essential to develop expertise for robust regulatory bodies (whether these are regional supervisory authorities or the Ministry of Infrastructure and Water Management) that can engage with companies on an equal footing. Competent governance is an essential prerequisite for a thriving business sector.

We propose three main recommendations for policy (Fig. 6.1):

1. *Ensure that good business pays off.* Commit to an ambitious mix of pricing instruments, standards and rules and tighten government control of oversight and enforcement.



**Fig. 6.1** Visual summary of recommendations

2. *Exercise restraint with financial support.* Reasses existing subsidies and tax breaks and only offer support as a temporary boost for solutions that benefit society.
3. *Unleash long-term investments for society.* Make procurement and tendering policies more transition-oriented and set up a public-private investment bank to help steer transformative investments.

## 6.2 Ensure That Good Business Pays Off

Companies with solutions for society will only be meaningful at scale if the more harmful alternative is made comparatively expensive, for instance through taxation, or by prohibiting it altogether. This provides companies with clarity. The government should, therefore, be ambitious in its use of pricing instruments and standards for companies and consumers alike. In addition, a seamless integration of these instruments increases the chances of success. It also means that the current policy needs to be simplified. Otherwise, neither companies nor the government will have a clear picture of the situation. Also, it is imperative that the government assumes greater control of oversight and enforcement. Complex regulations and half-hearted

supervision are holding back companies that genuinely want to make a more positive impact on society. Clear, coherent frameworks are needed to accommodate initiatives aimed at addressing challenges.

**Recommendation 1. Ensure that good business pays off**

- Commit to an ambitious mix of pricing instruments, standards and rules
- Tighten government control of oversight and enforcement

### ***6.2.1 Commit to an Ambitious Mix of Pricing Instruments, Standards and Rules***

The prices of goods and services should reflect both the private and societal costs of production and consumption. If this is not the case, companies and consumers will have an incentive to offload their costs onto society. Imposing levies helps to deter harmful activities, while at the same time incentivising the development of alternative products and production methods. In that respect, there's considerable room for improvement, especially in the areas of unhealthy and unsustainable food, resource depletion, and CO2 emissions.

This calls for clear standards, enshrined in laws and regulations. Standards and rules involve enforceable norms, such as imposing a ban on microplastics in cosmetics or on advertisements that promote gambling. It may also entail requirements to augment the positions of consumers and financiers, such as better information provision. Standards and rules are equally vital for the labour market, to prevent abuses, such as bad housing for labour migrants provided by unscrupulous employment agencies.<sup>3</sup> The gradual tightening of standards ignites a race to the top, with companies vying to be the first to offer socially superior alternatives.<sup>4</sup> This also opens doors for innovative companies with relatively little bargaining power in their own value chain.

A policy that purposefully combines pricing instruments with standards and rules not only has the best chance of achieving results, but is also realistic about the behaviour of citizens and consumers. Simply altering prices, as such, cannot break ingrained purchasing habits. Shops and supermarkets must also meet requirements concerning transparency, advertising, and product range. For instance, the healthy eating case study discussed in Chap. 5 shows that adding informative labels can drive change. When consumers understand why certain food items—such as those taxed for high sugar content—cost more, they are prompted to start looking for alternative options.<sup>5</sup> However, merely providing information is not enough. The integration of pricing instruments and standards and rules continues to be important,

<sup>3</sup>See, for example, the 2023 Council of State advisory report.

<sup>4</sup>See Chap. 5; Klier and Linn (2016); Rozendaal and Vollebergh (2021).

<sup>5</sup>See Box 5.2 and Donnelly et al. (2021).

given the redistributive effects of pricing instruments and, consequently, their acceptance within society.<sup>6</sup> For example, the impact of energy taxes will be softened if, at the same time, housing associations and other landlords are obliged to insulate rental properties, thus making it easier for residents to save energy.<sup>7</sup>

### **Policy insights: tackling acid rain**

The key to making positive impact pay off for companies is often a matter of effectively combining the right policy instruments. The strategy used to combat acid rain in the Netherlands in the 1980s and 1990s illustrates this point effectively. Sulphur dioxide and oxides of nitrogen emitted by traffic, agriculture, and industry severely affected the natural environment across large areas of northwestern Europe,<sup>8</sup> and posed risks to public health. In 1985, the Netherlands, together with other European countries, signed the S protocol. The participating countries pledged to cut sulphur dioxide emissions by 30%.

Industries in the Netherlands were mandated by government regulations to adopt flue gas desulphurisation systems as part of their compliance measures. The government also actively incentivised the adoption of three-way catalytic converters in passenger cars to cut nitrogen oxide emissions. It employed strategies such as differential fuel taxes for leaded and unleaded petrol. Ultimately, leaded petrol was banned and catalytic converters were made mandatory. The combination of standards and pricing instruments made it possible to hit the year 2000 emission targets much earlier, in the mid-1990s.<sup>9</sup> As a result, this has largely mitigated the problem of acid rain in the Netherlands.<sup>10</sup>

## ***6.2.2 Tighten Government Control of Oversight and Enforcement***

To ensure that doing good business pays off, we must bolster government oversight and enforcement of business-related regulation. Companies stand to gain more from strong, consistent policies than from unpredictable ones. In the Netherlands, we see a tendency to prioritise new regulations over ensuring compliance with, or conformity to, existing rules. This creates uncertainty for companies, which hampers innovation

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<sup>6</sup>See also the Netherlands Scientific Council for Government Policy (WRR) (2023).

<sup>7</sup>The Dutch government currently incentivises the insulation of homes, but this is not mandatory. It is essential to avoid passing such costs on to tenants to the point where they are still saddled with hefty costs.

<sup>8</sup>Buijsman (2008).

<sup>9</sup>Netherlands Environmental Assessment Agency (PBL) (2020).

<sup>10</sup>Environmental Data Compendium (EDC) (2019).

and deters long-term investment. For example, in this book, we observed startups and scale-ups in the chemical industry grappling with increasingly complex safety protocols and permits.<sup>11</sup> Meanwhile, regional environmental agencies—which have been very vocal about their capacity problems for many years—are now feeling the strain from the demands of their supervisory duties. For this reason, we advocate a firm commitment to policy coherence and enforcement. When assessing new and existing regulations, think about how they will affect business innovation, whether they are consistent with other policies, *and* ensure that they are always subject to expert oversight.

Stronger oversight and enforcement are essential. Both require a quality boost.<sup>12</sup> The importance of policy implementation is often sidelined in political and policy discourse. It is outsourced to private parties, who are not always equipped to handle it. For example, the Dutch Human Environment and Transport Inspectorate has recently voiced concern about the lack of independence among certification agencies. These agencies not only carry out inspections but also offer advice and insurance to companies, even those using extremely hazardous production processes.<sup>13</sup> The government needs to be more vigilant when monitoring compliance with regulations. Fruitful cooperation with the private sector demands supervisory authorities that have the expertise to actively engage with companies on an equal footing while also providing a counterbalance.<sup>14</sup>

Finally, there is a need for increased vigilance concerning the influence of companies on policy. Regulatory capture by incumbent firms poses a significant risk to the interests of society. Powerful market entities often profit from maintaining the status quo, seeking only minor adjustments that do not substantially impact their position. Governments should guard against being swayed by entities with powerful vested interests. The revelations from the parliamentary committee of inquiry on natural gas extraction in the Dutch province of Groningen merit attention in this context.<sup>15</sup> These findings demonstrated the considerable control gas companies had over the policy making process regarding the continuation of gas extraction and the limited reinforcement of homes. The Dutch government is not doing enough to curb regulatory capture risks of this kind.<sup>16</sup> Here, too, a degree of resilience and expertise is required. It is important to ensure that governments have sufficient knowledge to

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<sup>11</sup> See Sects. 4.7 and 5.2.

<sup>12</sup> See also recommendations on this topic, from sources such as Advisory Council for Science, Technology and Innovation (AWTI) (2021); Rathenau Instituut (2020).

<sup>13</sup> The Human Environment and Transport Inspectorate (ILT) (2023).

<sup>14</sup> This also entails focusing on the 'reflective function' of supervision—actively prioritising, mirroring, and nurturing the public discourse about the representation of societal interests in the sector in question. Netherlands Scientific Council for Government Policy (WRR) (2013b: 15).

<sup>15</sup> This inquiry explores topics such as the link between gas extraction and earthquakes in the northern province of Groningen, and how the government agencies and companies involved responded to the resultant damage to homes. See also Sect. 5.2.2.

<sup>16</sup> See Sect. 5.2.2 and Group of States against Corruption (2021).

counter private parties effectively. Maintaining transparency is paramount in this regard. There is a need for greater clarity concerning contacts with lobbyists.

### **Policy insights: a public register of lobbyists**

The involvement of lobbying in policy development isn't inherently problematic provided that the stakeholders adhere to their respective roles—governments are the ultimate policymakers, not lobbying organisations and companies. This requires clarity about who is trying to influence policy and when. Hence, the Organisation for Economic Co-operation and Development (OECD) recommends the creation of a public register to house information about lobbying activities and lobbyists.<sup>17</sup> Ireland maintains this type of transparency. Legally mandated registers of lobbyists contain the names of registered lobbyists, as well as details of their interactions with officials and ministers, and the topics discussed. This sheds light on the interests being represented in administrative circles. The Irish register embodies good policy, offering clarity for lobbyists and ensuring accessibility to a wide audience by consolidating all information in one place.<sup>18</sup>

Another option for policymakers is to demand transparency about lobbying activities (in addition to creating a register).<sup>19</sup> Lithuania, for example, requires lobbyists to disclose details of their contacts with officials and ministers for every legislative process in which they are involved. Poland requires government agencies themselves to publish information about lobbying activities, through what are known as 'legislative footprints'. In the Netherlands, the 'explanatory memorandum' for legislation provides an incentive to share information regarding any lobbying activities that took place during the development of the relevant legislation. In practice, however, this has not yet resulted in a great deal of transparency.<sup>20</sup>

## **6.3 Exercise Restraint with Financial Support**

Many financial support schemes for companies, like subsidies and tax benefits, are only minimally effective in improving companies' positive impact on Dutch society. The WRR, therefore, urges restraint when offering financial support schemes to the business community. Besides subsidies, our primary concerns here are tax breaks and tax schemes that favour large companies. Such policies should be based on the 'no support, unless' principle. Time-limited financial support schemes should only

<sup>17</sup> Organisation for Economic Co-operation and Development (OECD) (2023b).

<sup>18</sup> Council of Europe (2017).

<sup>19</sup> European Parliament Research Service (EPRS) (2019).

<sup>20</sup> Group of States against Corruption (2021); Transparency International Nederland (2023).

be considered if a boost is needed to achieve a breakthrough that will help address major societal problems.

**Recommendation 2. Exercise restraint with financial support**

- Reassess existing subsidies and tax breaks
- Only offer support as a temporary boost for solutions that benefit society

### ***6.3.1 Reassess Existing Subsidies and Tax Breaks***

Financial support schemes are the path of least resistance. Yet, they often achieve very little. They may even be counterproductive, if companies drag their feet in adopting the appropriate behaviour and become dependent on public funds. In addition, there is also a risk that the main beneficiaries of this instrument will be large, incumbent firms, as smaller innovative companies may lack the capacity to access it. Financial support schemes also divert public funding that, in many cases, could be better spent elsewhere, to improve the Dutch business climate. For instance, investing in high-quality vocational training, rapid transport links, or a robust electricity grid.

The Dutch tax system is far too complex due to the large number of tax breaks, which also makes it difficult to assess their effectiveness. Furthermore, a convoluted tax system also makes supervision and control by the Tax Administration more challenging.<sup>21</sup> There is a clear need to streamline this system and curb the continual introduction of new schemes. To this end, set clear criteria that the tax system must satisfy. In addition, identify schemes that help to perpetuate detrimental business models or outcomes, and discontinue them. The innovation box serves as an example in the Dutch context. This tax break only appeals to companies that are already generating profits, and primarily benefits a small group of large, profitable companies. At the same time, the actual level of innovation and its impact on resolving societal problems remain uncertain.<sup>22</sup> As a result, public funds do not reach those areas where they could have the greatest positive impact on society. Market challengers who are yet to turn a profit often hold considerable innovation potential. However, these companies fail to meet the eligibility criteria for the innovation box. As a result, this instrument rather appears to subsidise primarily vested interests.

Both subsidies and other financial support schemes need to prioritise temporariness and prerequisites more effectively. In the context of this reassessment, it's essential to contrast the financial support instrument with other potential avenues, such as tax instruments and standard setting. Compared to pricing, standards and rules, rewarding companies for positive actions is a relatively palatable solution as it

<sup>21</sup> See Sect. 5.2.1; Cnossen and Jacobs (2019); Stevens (2022).

<sup>22</sup> See Sect. 5.3.2 and Velzing (2022).

elicits less political and social opposition.<sup>23</sup> Yet, this strategy does have drawbacks. In essence, financial reward schemes for companies may end up as ‘the taxpayer supports’ rather than as ‘the polluter pays’. To avoid this, policy makers could make use of an assessment framework such as the one developed by the Netherlands Bureau for Economic Policy Analysis (CPB) for evaluating tax measures.<sup>24</sup>

### ***6.3.2 Only Offer Support as a Temporary Boost for Solutions That Benefit Society***

Exercising restraint doesn’t imply that every financial incentive for companies is pointless. Sometimes, a gentle nudge is all it takes to improve a company’s chances of having a positive impact on society. Certain types of support can incentivise companies to contribute more to society. Indeed, it may be necessary to provide support in times of crisis or when social changes cause a stalemate in the market. Strategic geopolitical considerations are another factor. The ongoing debate about how the EU should respond to the billions in subsidies granted to American companies under the Inflation Reduction Act (IRA) is a prime example.<sup>25</sup>

The government would be well advised to design potential financial support schemes that offer targeted incentives for companies to tackle societal challenges. See the construction case study discussed in Chap. 4. Construction companies seeking to replace harmful concrete with circular materials, such as wood, frequently face challenges in attracting customers or obtaining financial backing.<sup>26</sup> Offering temporary subsidies to individuals eager to pursue circular building practices might rapidly increase demand, particularly when combined with measures like a levy on concrete structures. Most importantly, the solution is what matters—not the preservation of business activities. Competitions can also drive the development of innovative solutions for society.<sup>27</sup> Targeted instruments to drive technology diffusion can boost market demand for innovative solutions. The Dutch Sustainable Energy Production and Climate Transition Incentive Scheme (SDE++) illustrates this concept. This scheme eliminates the unprofitable component for renewable energy projects which incentivises the development of techniques for CO2 reduction.<sup>28</sup>

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<sup>23</sup>Parliamentary papers II, 2021/22, 35,925, no. 173.

<sup>24</sup>Hamelink et al. (2023).

<sup>25</sup>The EU has responded to the IRA by relaxing its state aid rules. At the time of writing, the ramifications for Dutch government policies for business remain unclear.

<sup>26</sup>See Sect. 4.1.

<sup>27</sup>Overvest (2020).

<sup>28</sup>Rusu et al. (2021).

### **Policy insights: targeted competitions for innovations**

Sometimes companies and their context just need a gentle nudge to overcome an obstacle and contribute solutions for society. Targeted temporary support—through public competitions, for example—can galvanise companies' knowledge for the requisite activity. In this way, the government can seek an innovative remedy to a societal problem.<sup>29</sup> The top-rated entry will be awarded financial support to help develop the innovative concept. The public competition can also function as a preliminary phase to the tendering procedure, and being awarded the contract is the prize.<sup>30</sup> Austria, for instance, has pioneered a national platform to bridge the gap between supply and demand for innovations.<sup>31</sup> The platform enables companies or individuals to showcase their innovations, while government agencies can use it to present specific issues. For example, the Austrian Federal Ministry of Climate Action, Environment, Energy, Mobility, Innovation and Technology has posed the question of how official patrol boats can navigate the Danube in a climate-friendly way, while minimising emissions.<sup>32</sup> The winners are then invited to participate in an innovation partnership. This implies their involvement in the tender process, should the idea be implemented.

While innovation competitions are still relatively rare in the Netherlands, this instrument is not entirely unknown. For instance, in 2017 and 2022, the municipality of Almere held competitions to develop sustainable techniques for processing raw materials within the city.<sup>33</sup> The recycling company that won the competition was granted municipal support to build a sustainable concrete plant. Since then, Almere has constructed cycle paths using recycled and green concrete sourced from construction rubble and biomass.<sup>34</sup>

## **6.4 Unleash Long-Term Investments for Society**

Climate change, the labour market, health, and earning capacity pose significant challenges. We find them at the forefront of everyone's thoughts, from the government to companies, and individual Dutch citizens. Few dispute the need for significant changes. The primary concern is the ambiguity of current policy and the tentative nature of the approach. The government and the business sector are stuck in a stalemate, with each side waiting for the other to make a move. Chapter 4

<sup>29</sup> CPB Netherlands Bureau for Economic Policy Analysis (CPB) (2016).

<sup>30</sup> Pianoo (2017).

<sup>31</sup> Brennenraedts et al. (2021); IÖB Innovation Platform Austria (2022).

<sup>32</sup> IÖB Innovation Platform Austria (2022); the official patrol boats supervise shipping traffic on the Danube.

<sup>33</sup> Municipality of Almere (2022); Pianoo (2017).

<sup>34</sup> Metropolitan Region Amsterdam (2019).

highlighted cases in which companies faced challenges in pursuing innovations, primarily due to insufficient demand or inadequate funding opportunities. Breaking this impasse requires a different approach to collaboration, one where the government provides clear guidance and partners with the business sector to bolster long-term investment. Hence, the focus here is not on subsidies and tax support, but on ways in which the government can facilitate significant and long-term investment in Dutch business and society.

**Recommendation 3. Unleash long-term investments for society**

- Make procurement and tendering policies more transition-oriented
- Set up a public-private investment bank to help steer transformative investments

### ***6.4.1 Make Procurement and Tendering Policies More Transition-Oriented***

Procurement policy is a powerful instrument for motivating companies to have a more positive impact on society. Our analysis highlights various prime examples of public procurement policy and of government agencies operating as key clients, as in the case of offshore wind energy.<sup>35</sup> Such interventions merit more frequent and more effective use. Currently, aspirations in this domain frequently lack binding commitments, and there is minimal scrutiny of the extent to which government agencies translate their words into actions. Local authorities lack the necessary coordination and funding to manage contracts efficiently.<sup>36</sup> This represents a missed opportunity, given the massive impact of government tenders. These offer great potential to incentivise companies to develop products and innovations that facilitate transitions. After all, the government often ranks as one of their largest customers.

The government needs to embrace its role as a major client more assertively. However, procurement and tendering policies geared towards addressing societal challenges are not enough. The government must also possess the necessary expertise to award the correct contracts and to diligently supervise their execution by companies. In this regard, both national and local governments will need to undergo a paradigm shift in their views concerning quality in procurement.<sup>37</sup> Quality entails more than just meeting the main objective of the contract. It is also about the extent to which the project contributes to broader goals, such as employment, education, the circular economy, or energy conservation. Implementing such an approach requires expertise, guidance, and support. It is especially important that central

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<sup>35</sup> See the case study on offshore wind energy in Chap. 5.

<sup>36</sup> Barendregt et al. (2021).

<sup>37</sup> OECD (2020).

government sets clear priorities for municipalities and provinces, and then empowers local government organisations to take control of the contracts they manage.

### **Policy insights: centralised public procurement**

The Dutch government operates nineteen separate public procurement organisations ('inkooppunten' in Dutch), whereas New Zealand has centralised its procurement policy and strongly prioritises comprehensive societal goals in social, economic, and environmental domains.<sup>38</sup> Every 2 years, the government reports on its compliance with the criteria for procurement with a broader impact. At the same time it indicates the number of jobs generated through government procurement and gives details of the training involved. Government suppliers must adhere to predefined standards.<sup>39</sup> For example, a company specialising in electric cars was contracted to replace all official government vehicles.<sup>40</sup>

One example that resonated with our counterparts in the construction sector involved the two-step tendering procedure used in the UK and elsewhere.<sup>41</sup> During the design phase, the client and contractor work together to develop a project, establishing a range of criteria, including those for sustainability. The pricing of construction does not take place until the design phase has concluded. This ensures that the spotlight isn't immediately on the price. Factoring risks into the first phase and engaging the contractor in every step of the process reduces uncertainty, making the prospect of long-term business investments more attractive.

## **6.4.2 Set Up a Public-Private Investment Bank to Help Steer Transformative Investments**

Simply refining government procurement practices isn't enough. Transitions involve enormous investments. Neither the government nor the business community itself can fund these investments single-handedly. Nor, indeed, would that be a desirable state of affairs. Substantial modifications, in energy infrastructure or employee reskilling, for instance, require public *and* private funding. Existing funding streams in the Netherlands fall short in this respect. The financial sector lacks the long-term focus required for investments with uncertain future returns. The situation becomes even more challenging when policy lacks consistency. If the future policy outlook remains too uncertain, financiers will back out. Public funds and investment vehicles

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<sup>38</sup> OECD (2022).

<sup>39</sup> Code of Conduct suppliers.

<sup>40</sup> OECD (2022): 60, practical example Rightcar.

<sup>41</sup> See, for example, the tendering strategy for high-speed lines in the UK: HS2 (2014).

like the Dutch National Growth Fund and Invest-NL are not yet viable alternatives, partly due to a lack of stability or limited financial resources.<sup>42</sup>

A well-designed public-private investment bank can help build a more resilient society for the future. Banks like this consolidate the expertise and capital needed for transitions. For example, integrate existing funds into such a bank and give it a clear mission. This kind of arrangement incentivises the government to stay the course, while also helping to mitigate some of the uncertainty that is currently wreaking havoc in the financial market. After all, should it veer off course, that would directly undermine the bank's portfolio. When private parties are involved in long-term challenges, the amount of capital available for these projects increases. Public-private investment banks offer an excellent opportunity for institutional investors, such as pension funds, to adopt a more long-term approach to their portfolios. However, it is also prudent to involve other private financiers, to ensure that no single party can influence the bank's mission. Ultimately, a public-private bank has the potential to counter financial market volatility *and* wavering government policies.

## 6.5 In Conclusion

Companies possess great strength and ingenuity. This plays a critical role in our efforts to tackle societal challenges in the areas of climate, the labour market, public health, and earning capacity. In preparing this book, we interviewed a wide range of companies, from small chemical start-ups to medium-sized family businesses in the construction industry, and large multinationals in the food and insurance sectors. In these and other sectors, we saw ambitious companies actively pursuing solutions to today's challenges. While one such company aims to reuse waste streams, others manufacture nutritional supplements that reduce the use of antibiotics in livestock or improve the effectiveness of healthcare treatments. Society undermines itself when such ambitions are left untapped.

Throughout this book, we have highlighted the dangers of pampering. Shielding companies with vested interests fosters a wait-and-see attitude, and also undermines the ambitions of companies that are keen to make a difference. Clear and strict regulatory frameworks maximise the power of companies. We therefore advocate for an overhaul of policy—stop pampering and start challenging companies to benefit society. The government needs to focus on ambitious blends of pricing instruments, standards and rules while tightening its hold on oversight and enforcement. In this way, it can help ensure that making a positive impact on society pays off (recommendation 1). We also recommend a more cautious approach to financial support schemes. The new principle must be that support should not be provided unless the interests of society warrant it, and only then under stringent conditions with

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<sup>42</sup>See Sect. 5.3.3.

transparency regarding the long-term impact (recommendation 2). Finally, the government should promote long-term investments in society by adopting a more transition-oriented approach to its tendering policy. Moreover, we advocate for the creation of a public-private investment bank to help the government stick to its planned course for addressing society's major challenges (recommendation 3).

The government has work to do. This by no means suggests that companies should adopt a wait-and-see attitude. On the contrary. Companies generate added value to society by actively seeking out new opportunities and possibilities, which is the essence of entrepreneurship.

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# Appendix: References for Infographics 1 and 2

## Infographic 1

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# List of Abbreviations

CLAs	Collective labour agreements
CO <sub>2</sub>	Carbon dioxide
R&D	Research & Development
AGM	Annual General Meeting of shareholders
CEO	Chief Executive Officer
PBL	Netherlands Environmental Assessment Agency ( <i>Planbureau voor de Leefomgeving</i> )
CBS	Statistics Netherlands ( <i>Centraal Bureau voor de Statistiek</i> )
WUR	Wageningen University & Research
SME	Small and medium sized enterprises
SER	Social and Economic Council of the Netherlands ( <i>Sociaal-Economische Raad</i> )
NGOs	Non-governmental organisations
SDE++	Dutch incentive scheme for sustainable energy production and climate transition
VAT	Value-added tax
Rli	Council for Environment and Infrastructure
Nutri-score	Nutrition label
CPB	Netherlands Bureau for Economic Policy Analysis ( <i>Centraal Plan Bureau</i> )
CFCs	Chlorofluorocarbons
WRR	Netherlands Scientific Council for Government Policy ( <i>Wetenschappelijke Raad voor het Regeringsbeleid</i> )
ICSR or CSR	(International) Corporate Social Responsibility
DNB	The central bank of the Netherlands and financial supervisory authority
AFM	Dutch authority for financial markets ( <i>Autoriteit financiële markten</i> )
EIOPA	European Insurance and Occupational Pensions Authority

OECD	Organisation for economic co-operation and development
GRECO	Group of States against Corruption
ROB	Council for Public Administration ( <i>Raad voor Openbaar Bestuur</i> )
EU ETS	European Emissions Trading System
IMF	International Monetary Fund
CBAM	Carbon Border Adjustment Mechanism
Nea	Dutch Emissions Authority ( <i>Nederlandse Emissieautoriteit</i> )
RIVM	Dutch National Institute for Public Health and the Environment ( <i>Rijksinstituut voor Volksgezondheid en Milieu</i> )
ISCs	International Social Conditions
AWTI	Advisory Council for Science, Technology and Innovation ( <i>Adviesraad voor wetenschap, technologie en innovatie</i> )
RES	Regional Energy Strategy ( <i>Regionale Energie Strategie</i> )
RVO	Netherlands Enterprise Agency ( <i>Rijksdienst voor ondernemend Nederland</i> )
ESG	Environmental, Social and Governance
ECB	European Central Bank
ACM	Netherlands Authority for Consumers and Markets ( <i>Autoriteit Consument en Markt</i> )
IUCN	International Union for Conservation of Nature
LLL	Lifelong Learning
MW	MegaWatt
TNO	Netherlands Organisation for Applied Scientific Research ( <i>Nederlandse organisatie voor toegepast natuurwetenschappelijk onderzoek</i> )
GDP	Gross Domestic Product
SDG	Sustainable Development Goals

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