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Governing or Absorbing Supplier ESG Risk? Discipline, Lock-In, and Portfolio Compensation in Buyer Sourcing

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Abstract

Supplier environmental, social, and governance (ESG) controversies create a governance problem for downstream buyers. A buyer may exit the controversial supplier, remain locked into a risky relationship, or adjust other parts of its supplier portfolio. We empirically study when supplier ESG controversies become governable sourcing events and when they are instead absorbed into existing buyer-supplier relationships. We assemble roughly 5.2 million cases in which a buyer is connected to a supplier at the moment the supplier suffers a negative ESG controversy, and track four responses: durable exit, retention despite recurring same-category risk, movement in the supplier's ESG score, and de-risking among the buyer's other suppliers. Identification uses matched comparisons and a within-buyer difference-in-differences design. Controversy does not usually trigger exit: durable exit characterizes about one-fifth of relationships, while retention despite continued same-category risk, the modal response, accounts for about two-thirds. A matched first-time controversy raises durable exit by about four percentage points, but a recurring controversy does not; instead recurrence sharply raises continued exposure, most strongly for the most embedded, hardest-to-replace suppliers. Exposed buyers do not compensate elsewhere, and apparent ESG-score improvements largely reflect mean reversion rather than buyer pressure. Buyers govern novel risks selectively, absorb chronic risks in embedded relationships, and do not offset focal exposure through broad portfolio de-risking. Managers and regulators should judge responsible sourcing not only by whether a buyer exits a focal supplier, but by whether the underlying ESG risk is novel, chronic, or embedded.

Keywords

Responsible sourcing, supplier ESG controversies, buyer–supplier relationships, supply chain risk, and relational lock-in.

Biography

Ali Shantia is an Associate Professor of Operations and Supply Chain Management at HEC Paris, France. His research focuses on sustainable supply chain and operations management, with particular emphasis on optimal policy and incentive design, developing mechanisms that encourage firms and their customers to adopt sustainability measures across supply chains. He studies incentives for investment in measures that improve the efficiency of input

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use, affecting firms' cost structure, risk exposure, and environmental performance, including forces within supply chains, uncertainty in input-price markets, cash constraints and financial hedging mechanisms, and industry competition and firm strategy. He earned his Ph.D. in Supply Chain and Operations Management through a joint program between HEC Paris and Luiss Guido Carli in Rome. Ali has extensive experience teaching supply chain management at the master's and MBA levels and has developed elective courses on sustainable supply chains and supply chain transformation.

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