

When Do Public Supplier Lists Improve Profits and Sustainability Goals?

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» Research Questions Addressed

Under what conditions does a firm's commitment to publish its list of approved suppliers increase its expected profit as well as the environmental, social, and governance (ESG) efforts of its suppliers?

If a firm commits to publishing a "blacklist" of suppliers that fail ESG audits, what effect does this have on the firm's profits and supplier's ESG performance?

» Primary Findings

This study showed that under certain conditions, a firm's commitment to publishing a list of approved suppliers motivates suppliers to work towards eliminating safety, environmental, or other responsibility violations. It also increases the buying firm's expected profit.

Four conditions favor publishing an approved supplier list: The buying firm (1) has a low selling price or slim margin, (2) has a high cost of identifying and qualifying a candidate supplier, (3) faces a high likelihood that a supplier has responsibility violations that will be exposed, or (4) faces the potential for significant brand damage due to sourcing from a supplier with a responsibility violation.

The study also found that publishing a blacklist of suppliers that failed ESG audits increases supplier responsibility under some conditions but decreases it in others. One clear takeaway is that publishing both a blacklist *and* approved-supplier list is particularly effective with new, prospective suppliers that don't know if an audit will find them to be in violation or not.

» Keywords

Disclosure
Game theory
Supplier "blacklisting"
Supplier list
Supply-chain auditing
Supply-chain management
Transparency

» Relevant Sectors

Capital goods
Consumer goods
Materials

» Industries Appearing in Research

Apparel
Automotive
Electronics
Food and beverage
Luxury brands





» Highlights

This study predicts that supplier transparency would be most valuable in the apparel and electronics industries (wherein buying firms face increasing NGO scrutiny), especially for prominent firms that would suffer the greatest brand damage from exposure of supplier violations. The paper also provides a rationale for why firms in other industries have started to publish supplier lists for particular inputs regarding which they face the greatest scrutiny and potential for brand damage (e.g., palm oil in the cosmetics sector). Blacklisting should primarily be practiced in conjunction with publishing the approved supplier list and is expected to remain a relatively less utilized transparency strategy.

» Topic Overview

Under pressure to be more transparent, some buyers are publishing their supplier lists, which may incentivize suppliers to become more ESG-compliant. However, other buyers may then contract with those suppliers to the detriment of the original buyer. Consequently, buyers face a trade-off between responsibility and capacity in making transparency decisions.

Announcing which suppliers have failed ESG audits is uncommon, but some companies have adopted this practice, too. While such blacklisting may screen out irresponsible suppliers, it may also keep away responsible candidates who are unsure whether they would pass an audit. This is another trade-off faced by buying firms who aspire to be transparent.

» Implications for Sustainable Business

Buying firms should consider transparency, either in the form of publishing supplier lists or revealing the list of blacklisted suppliers, as a potentially profitable approach to mitigating social and environmental violations in their supply chains.

» Link to Academic Paper

Kalkanci, B. & Plambeck, E. (2020). Reveal the supplier list? A trade-off in capacity vs. responsibility. *Manufacturing & Service Operations Management*. <https://doi.org/10.1287/msom.2019.0795>

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