

Obfuscating Responsibility: Global Performance Indicators and Supply Chains

Soohyun Cho

Postdoctoral Fellow, Princeton University

IPES 2023

Firms and International Norms



- Environmental
- Social
- Governance



↑ **Environmental**



↑ Environmental

↓ Social

TECH / APPLE / BUSINESS

Former employees say **Apple stood by while suppliers violated Chinese labor laws** / Less protected temporary workers were used to meet demand

By [Ian Carlos Campbell](#)

Dec 9, 2020, 9:05 PM EST | [0 Comments](#) / [0 New](#)



TECH / APPLE / BUSINESS

Former employees say Apple stood by while suppliers violated Chinese labor laws / Less protected temporary workers were used to meet demand

By Ian Carlos
Dec 9, 2020



Forbes

FORBES > INNOVATION > TRANSPORTATION

EDITORS' PICK

Battery Push By Tesla And Other EV Makers Raises Child Labor Concerns

Research Question

Why do firms \uparrow **Environmental**, while \downarrow **Social**?

Existing Literature

Various norms **in isolation** & **State-level**

- **Labor norms** Distelhorst and Locke 2018; Greenhill, Mosley and Prakash 2009; Malesky and Mosley 2018; Neumayer and De Soysa 2005; Vogel 2009; Mosley and Uno 2007
- **Environmental norms** Vogel 2009
- **Economic liberalization** Brooks and Kurtz 2012; Simmons, Dobbin and Garrett 2006; Simmons and Elkins 2004
- **Human rights** Kim 2013; Simmons, Lloyd and Stewart 2018
- **Democratic governance** Gleditsch and Ward 2006; Houle, Kayser and Xiang 2016

Theory

competition in supply chains + bundled norms (ESG index)



substituting norms

Theory

competition in supply chains + bundled norms (ESG index)



improving ESG global performance indicators (GPIs)

Theory

competition in supply chains + bundled norms (ESG index)



improving ESG global performance indicators (GPIs)



cognitive shortcut Brooks, Cunha, and Mosley 2015
firms' limited resources (reprioritization)

Theory

competition in supply chains + **bundled norms (ESG index)**



improving ESG global performance indicators (GPIs)



cognitive shortcut Brooks, Cunha, and Mosley 2015
firms' limited resources (reprioritization)



substituting norms

Substituting Norms

- Environmental \uparrow , labor norms \downarrow

Substituting Norms

- Environmental \uparrow , labor norms \downarrow
- E norms
 - fixed costs > recurrent (marginal) costs
 - easier to measure and monitor & stakeholder demands
 - expected benefits are less uncertain

Substituting Norms

- Environmental \uparrow , labor norms \downarrow
- E norms
 - fixed costs > recurrent (marginal) costs
 - easier to measure and monitor & stakeholder demands
 - expected benefits are less uncertain
- S norms
 - fixed costs < recurrent (marginal) costs (e.g., wage raises, further improvements to working conditions) Habib and Hasan 2019; Vogel 2007

Hypothesis

Customer firms → Supplier firms

H1a: ESG commitment E ↑, S ↓

H1b: ESG regulations E ↑, S ↓

Dependent Variables

Supplier firms' E Scores, S Scores

$$E_{sup,t}/ESG_{sup,t} = \frac{E \text{ Pillar Score}_{sup,t}}{ESG \text{ Score}_{sup,t}} \quad (1)$$

$$S_{sup,t}/ESG_{sup,t} = \frac{S \text{ Pillar Score}_{sup,t}}{ESG \text{ Score}_{sup,t}} \quad (2)$$

Independent Variables

[H1a] Customer firms' commitment to ESG policy

- Participation in the UN Global Compact (UNGC) principles

[H1b] **Treatment:** ESG regulations in customer firms' countries

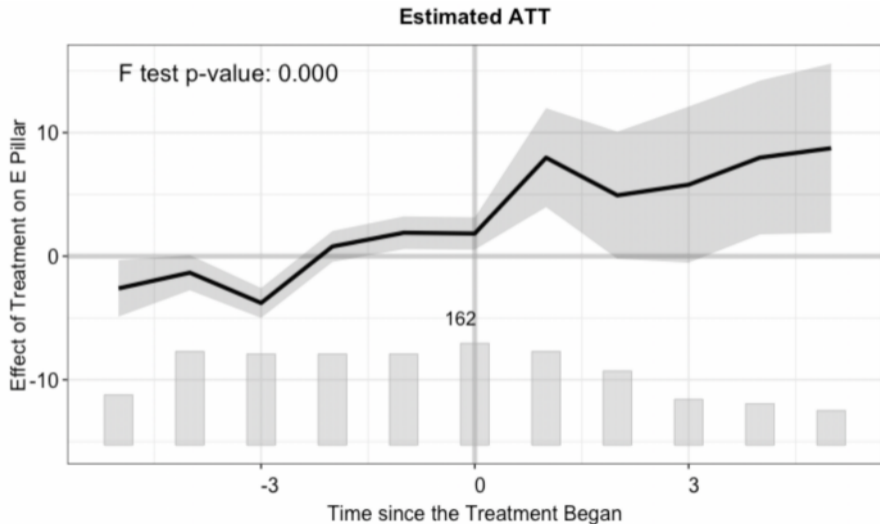
Empirical Evidence

	<i>DV: Supplier Firms' Scores</i>		
	ESG	E/ESG	S/ESG
	(1)	(2)	(3)
Customers UNGC (ESG Commitment)			
Firm Controls	✓	✓	✓
Firm-pair FE	✓	✓	✓
Year FE	✓	✓	✓
Observations	11,698	11,698	11,698

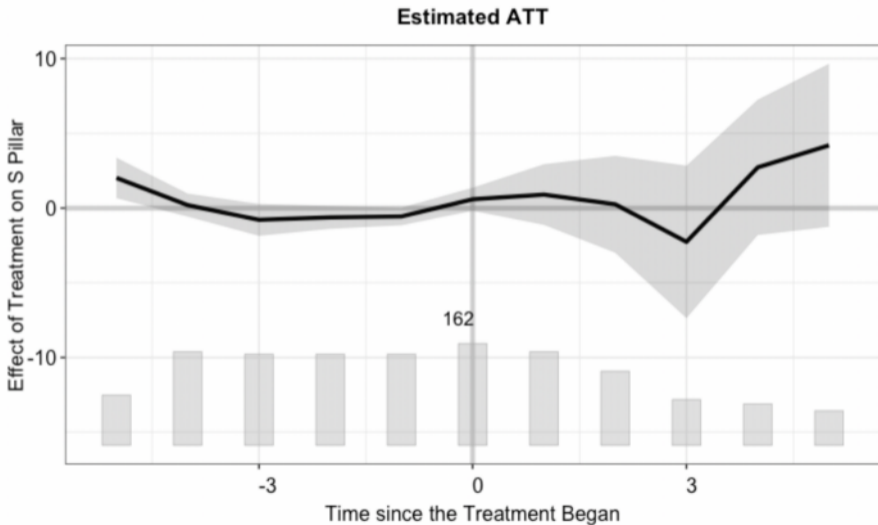
Empirical Evidence: E ↑, S ↓

	DV: <i>Supplier Firms' Scores</i>		
	ESG (1)	E/ESG (2)	S/ESG (3)
Customers UNGC (ESG Commitment)	0.015*** (0.004)	1.735*** (0.571)	-0.105 (1.046)
Firm Controls	✓	✓	✓
Firm-pair FE	✓	✓	✓
Year FE	✓	✓	✓
Observations	11,698	11,698	11,698

ESG Regulations and Suppliers' E Scores



ESG Regulations and Suppliers' S Scores



Additional Tests

- S = Individual labor rights + collective labor rights
 - **Individual:** working conditions, wages, working hours
 - **Collective:** rights to strike, freedom of association, union

Additional Tests

- S = Individual labor rights + collective labor rights
 - **Individual:** working conditions, wages, working hours
 - **Collective:** rights to strike, freedom of association, union
- Collective labor rights: procedures that **enable** rights

Additional Tests

- $S = \text{Individual labor rights} + \text{collective labor rights}$
 - **Individual:** working conditions, wages, working hours
 - **Collective:** rights to strike, freedom of association, union
- Collective labor rights: procedures that **enable** rights
- **Individual** labor rights \$ < collective labor rights \$\$

Anner 2012; Mosley and Uno 2007

Empirical Evidence: **Collective** Labor Rights

	DV: <i>Suppliers' Collective Labor Rights</i>			
	Union		Freedom of Association	
	(1)	(2)	(3)	(4)
Customers' UNGC	-0.023*** (0.006)		-0.009 (0.009)	
Customers' ILO		0.007 (0.005)		-0.033*** (0.010)
Firm Controls	✓	✓	✓	✓
Firm-pair FE	✓	✓	✓	✓
Year FE	✓	✓	✓	✓
Observations	7,599	7,463	17,111	16,925

Empirical Evidence: Individual Labor Rights

	DV: Suppliers' Individual Labor Rights					
	Flexible Hours		Workforce Scores		Working Conditions	
	(1)	(2)	(3)	(4)	(5)	(6)
Customers' UNGC	0.003 (0.009)		0.022*** (0.005)		0.007* (0.004)	
Customers' ILO		0.031*** (0.010)		0.008 (0.006)		-0.003 (0.005)
Firm Controls	✓	✓	✓	✓	✓	✓
Firm-pair FE	✓	✓	✓	✓	✓	✓
Year FE	✓	✓	✓	✓	✓	✓
Observations	17,404	17,133	17,511	17,240	17,388	17,117

Conclusion

- GPIs are used and abused by firms to access supply chains

Conclusion

- GPIs are used and abused by firms to access supply chains
- Substituting norms and obfuscating social responsibility

Conclusion

- GPIs are used and abused by firms to access supply chains
- Substituting norms and obfuscating social responsibility
 - E ↑, while S
 - individual rights ↑, while collective rights

Broader Implications

- **Firms** as political and strategic actors

Broader Implications

- **Firms** as political and strategic actors
- Allocating responsibility across **multiple** norms

Broader Implications

- **Firms** as political and strategic actors
- Allocating responsibility across **multiple** norms
- Beyond **binary**: California effect + race to the bottom



Thank You!

Soohyun Cho

soohyun.cho@princeton.edu