Beyond Compliance: Exploring the Impact of ESG-Driven Supply Chain Excellence on Firm Performance

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Abstract:

Environmental, Social, and Governance (ESG) is a framework used to evaluate the sustainability and ethical impact of an organization's operations. Originally rooted in socially responsible investing, ESG has gained significant attention as companies and investors increasingly recognize the importance of integrating these factors into decision-making processes. Companies not only strive to achieve cost efficiency and improve financial performance, but also recognize the need to incorporate ESG principles to build resilient, transparent, and responsible supply chains. The objective of this study is to explore both operational and financial performance of a firm, based on its supply chain's practices on ESG. Specifically, our study examines whether ESG alignment between suppliers and customers is associated with supply chain continuity and efficiency. We find that greater supplier–customer ESG alignment encourages the continuity in supply chain relationships. We also find that ESG alignment is linked to greater supply chain efficiency, measured by the cash-to-cash cycle (CCC), that is, higher (lower) alignment is associated with a shorter (longer) CCC. We argue that ESG alignment likely reduces friction and uncertainty in buyer–supplier relationships through beter information sharing, lower monitoring costs, and fewer social or legal disruptions.