Companies reluctant to pay extra to confirm suppliers' sustainability claims

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Many companies proclaiming ethical credentials resist paying a premium to test their suppliers' sustainability claims, new research suggests.

A team from Bayes Business School (formerly Cass), City, University of London, studied responses from 234 managers with procurement decision-making powers.

While buyers' purchasing decisions are not solely price-driven, the team found, they are often happy to accept suppliers' reassurances about sustainability rather than pay a premium for third party verification. Despite accepting that independent verification improves the credibility of suppliers' claims, the study found that the typical margin buyers are prepared to pay was not statistically significant.

The paper says, "…buyers did not attribute significant additional value to third-party-verified sustainability disclosures when compared to self-disclosures. This finding underscores a substantial level of implicit trust that buyers place in the sustainability signals emanating directly from their suppliers."

While buyers predictably ranked price as the most important factor in decisions (scoring 24 percent on the Bayes metric), it was only narrowly ahead of 'product disclosure' (21 percent). Disclosure around the suppliers' processes scored 18 percent, while information about their sourcing networks scored 15 percent.

The two key advantages of 'blockchain disclosure' (see below)—regular updating of information and the level of data security—trailed in as the least important factors in buyers' decision-making, scoring 13 percent and 8 percent, respectively.

Co-author Sukrit Vinayavekhin, a Ph.D. fellow in management at Bayes, said, "While it is assumed that buyers prefer suppliers who loudly declare their sustainability virtues, we wanted to understand what forms of sustainability disclosure they see as having real value. Our study found no statistically significant evidence of a willingness on the part of the

managers to pay a premium for the sort of reliability and credibility provided by third-party verification."

This raises questions about possible greenwashing and virtue signaling by companies.

The research revealed that buyers see self-disclosure around sustainability as better than no disclosure at all. This suggests suppliers could gain a competitive advantage by using voluntary self-disclosure strategically. With limited resources, suppliers may be more likely to secure contracts by self-disclosing information on a range of factors rather than focusing on relatively costly third-party verification for a single factor.

While buyers preferred claims about the product that are substantiated through third-party verification, this was only by a small margin over self-disclosure and the figures are not considered statistically significant.

Co-author Professor Feng Li, Chair of Information Management at Bayes, said, "Some of the biggest retail names find themselves in the unwelcome glare of the media spotlight when suppliers' dubious practices are exposed. These companies usually claim they believe their suppliers are meeting the highest standards in terms of both their workforce and sustainability. Our study might explain that contradiction and suggests buyers should be investing in third-party verification."

Co-author Dr. Aneesh Banerjee, Associate Professor of Management at Bayes, said, "Decision-makers are always working under constraints and must make trade-offs when making difficult choices. This context is no different. Our work suggests that if suppliers have third-party-verified sustainability claims, they do have a competitive advantage over other suppliers. For instance, they have a higher chance of being selected—but they should not expect buyers to pay more for it."

Buyers are willing to pay a premium for the use of blockchain-driven information disclosure, with a margin of around 8 percent for secure information (which cannot be changed by a supplier) and around 10 percent for information updated daily. Even though these figures are considered statistically significant, they are the least important elements in buyers' decision-making.

A blockchain platform is based on robust technology that records transactions—delivering operational efficiencies, traceability, and secure records in complex supply chains. In the context of information disclosure, data on a blockchain platform is verified in real-time through a peer-to-peer network, providing another level of assurance that the data cannot be changed afterward.

The paper says, "Suppliers may use blockchain to assist the disclosure processes, but they should not expect the direct benefits from the technology itself. From our findings, buyers value the disclosed information and its update frequency regardless of the underlying technology used. Thus, suppliers should focus on providing information (about the product, their processes, and sourcing)) to maximize the full potential of blockchain usage."

The research is published in the *Journal of Purchasing and Supply Management*.

More information: Sukrit Vinayavekhin et al, "Putting your money where your mouth is": An empirical study on buyers' preferences and willingness to pay for blockchain-enabled sustainable supply chain transparency, *Journal of Purchasing and Supply Management* (2024). DOI: 10.1016/j.pursup.2024.100900

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