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IMPACT OF CUSTOMERS' ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES ON SUPPLIERS' GREEN INNOVATION

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Abstract

Environmental, social, and governance (ESG) practices have become a central component of corporate strategies and regulatory agendas worldwide, particularly in the context of climate change and sustainable development. While existing research has demonstrated the benefits of ESG engagement for firms themselves, much less is known about whether such practices generate spillovers along supply chains and affect the behavior of upstream partners. This study fills this gap by investigating how customers' ESG performance shapes suppliers' green innovation. Using panel data of China's A-share listed firms from 2009 to 2021, we employ panel regression models to estimate the effect of customers' ESG performance on suppliers' innovation outcomes. We find that customers' ESG engagement significantly promotes suppliers' green innovation, with stronger effects when customers hold greater bargaining power. We further find that customers influence suppliers through two primary channels. First, ESG-oriented customers impose stronger environmental requirements, which enhance suppliers' environmental awareness and motivate them to innovate. Second, customers' ESG engagement facilitates the transfer of green knowledge and resources, thereby improving suppliers' efficiency in adopting green innovations. Overall, our findings suggest that customers' ESG performance generates meaningful spillover effects along supply chains by fostering suppliers' green innovation. This underscores ESG as an important governance mechanism that advances sustainability across supply chains and contributes to systemic green upgrading, offering valuable implications for policymakers, firms, and stakeholders committed to China's dual-carbon targets and broader sustainable development goals.

Key words: ESG; green innovation; supply chain; spillover effects

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