

# 2025 SBA-GSIM Colloquium

## Investor reactions to supplier exploitation: Threat or opportunity for buying firms?

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### Abstract

Financial squeezing, abusing suppliers, or delaying payments are forms of supplier exploitation, which are considered illegitimate yet not uncommon in supply chains. This study explores whether such misconduct toward suppliers is a threat or an opportunity for buying firms by analyzing investor reactions. Based on a sample of 233 events collected from the Korea Fair Trade Commission (KFTC), we conduct an event study and provide strong evidence of negative investor reaction to supplier exploitation. This negative effect is strengthened for firms with more recent events and those with low media distraction but, surprisingly, is attenuated for firms with high buyer profitability. Prior studies have struggled to capture the economic impact of supplier exploitation due to the complex interplay between ethical concerns and investors' profit motives. To further test the effect of supplier exploitation and investigate the mechanism behind investors' reactions, we also conduct an incentivized vignette experiment. The experiment reveals that investors appear to prioritize profitability when they invest in profitable firms, discounting the true impact of supplier exploitation. Our study offers new insights and evidence on the impact of buyer misconduct toward suppliers on the buyer's market value.

**Keywords:** supplier exploitation, corporate misconduct, investor reaction, event study, vignette experiment, multi-method

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