

# "ETHICAL SUPPLY CHAIN PRACTICES AND RESPONSIBLE TRADE: THE MEDIATING ROLE OF ESG PERFORMANCE"

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## **Abstract :**

*Growing globalization has reinforced the need for firms to adopt ethical supply chain practices and responsible trade to meet evolving stakeholder expectations. This research examines the intricate relationship between ethical supply chain management and responsible trade, with Environmental, Social, and Governance (ESG) performance as a key mediating factor. Organizations that emphasize ethical supply chain practices—such as compliance with labor standards, environmental responsibility, anti-corruption policies, and supplier transparency—tend to demonstrate stronger overall ESG performance. By strengthening ESG performance, firms not only facilitate responsible trade practices but also enhance their public image, manage potential risks, and cultivate durable trust with stakeholders. Integrating theoretical perspectives such as stakeholder theory and institutional theory, this study elucidates how ethical practices provide normative and instrumental value, driving firms toward sustainable competitive advantage. Drawing on secondary data, case studies, and established ESG frameworks, the paper identifies mechanisms through which ethical supply chain practices influence ESG performance and how this performance shapes responsible trade outcomes. Evidence from the research indicates that firms with well-established ethical supply chain frameworks not only attain higher ESG ratings but also mitigate operational risks, achieve heightened regulatory compliance, and cultivate more resilient international trade relationships. In conclusion, the study offers strategic insights for organizational leaders, policymakers, and scholars, recommending the adoption of comprehensive frameworks to operationalize ethical conduct throughout supply networks and enhance responsible trade globally.*

**Keywords :** Ethical supply chain management, Responsible trade, ESG performance, Corporate sustainability, Stakeholder theory, Institutional theory, Sustainable development, Supply chain transparency, Global trade ethics, Risk management

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## **Introduction :**

Modern global business operations involve complex networks of suppliers, distributors, manufacturers, and intermediaries crossing national borders. As these networks expanded, so did concerns over unethical practices, such as child labor, unsafe working conditions, environmental degradation, corruption, and unfair trade.



Ethical supply chain practices—defined as the deliberate integration of moral principles into supply chain operations—are no longer peripheral to corporate strategy. They shape consumer preferences, influence investor decisions, and determine regulatory compliance. At the same time, responsible trade emphasizes fairness, transparency, respect for human rights, and environmental protection in international commerce. Ethical supply chain practices and responsible trade are therefore interdependent components of corporate sustainability.

Environmental, Social, and Governance (ESG) performance has emerged as a measurable indicator of how firms manage environmental and social issues and govern their operations. ESG performance not only acts as a reporting metric but also influences investment flows and strategic decision making. Its relevance as a mediating variable between ethical supply chain practices and responsible trade deserves thorough investigation.

This paper explores how ethical supply chain practices influence responsible trade outcomes through the mediating role of ESG performance. Specifically, it addresses the following questions:

1. What are ethical supply chain practices and responsible trade?
2. How does ESG performance mediate the relationship between ethical practices and responsible trade?
3. What strategies can firms adopt to improve ethical practices and ESG outcomes?

### **Literature Review :**

**Ethical Supply Chain Practices :** Ethical supply chain practices involve the implementation of organizational policies and operational actions aimed at maintaining moral and ethical standards throughout the entire supply chain, including sourcing, manufacturing, distribution, and end-of-life product management. These practices are multidimensional in nature and emphasize the enforcement of labor rights, protection of the environment, prevention of bribery and corruption, and systematic monitoring of suppliers to ensure compliance with ethical standards. By integrating these dimensions into supply chain operations, firms can promote transparency, accountability, and social responsibility across their networks, thereby strengthening sustainability and ethical performance in both domestic and global business environments.

**Labor Rights :** Ethical supply chains are designed to prevent worker exploitation, provide safe and healthy working environments, and uphold employees' rights to freedom of association and collective bargaining. These ethical principles are commonly implemented through formal mechanisms such as organizational codes of conduct, independent third-party audits, and internationally recognized social compliance certifications, including standards like SA8000, which help ensure consistent monitoring and enforcement of labor-related ethical practices across supply networks.

**Environmental Protection :** Key environmental dimensions of ethical supply chain management include sustainable sourcing of materials, effective waste reduction strategies, control of carbon emissions, and proactive pollution prevention. Firms often adopt structured



initiatives such as ISO 14001 environmental management systems to systematically manage environmental responsibilities and minimize the ecological impact of their supply chain operations.

**Anti-Corruption and Transparency** : Ethical supply chains require transparent procurement processes that ensure fairness, accountability, and traceability in sourcing and purchasing decisions. Such transparency helps prevent favoritism and unethical practices while enabling stakeholders to evaluate supplier selection and contract management procedures. In addition, ethical supply chain governance demands rigorous due diligence mechanisms to identify, prevent, and mitigate risks related to bribery, corruption, and fraud across all tiers of suppliers. This includes the implementation of anti-corruption policies, compliance training, regular audits, and monitoring systems to ensure adherence to legal and ethical standards. Open and consistent communication with stakeholders—such as suppliers, employees, investors, regulators, and local communities—further strengthens ethical supply chains by promoting trust, collaboration, and shared responsibility. Through transparent reporting and stakeholder engagement, organizations can enhance accountability, address ethical concerns proactively, and align their supply chain operations with responsible business conduct and sustainable trade practices.

**Responsible Trade** : Responsible trade represents the extension of ethical business practices into the sphere of international commerce, emphasizing fairness, transparency, and sustainability in cross-border trade activities. It encompasses mechanisms such as fair trade agreements, equitable tariff and pricing structures, and strict adherence to internationally recognized labor and environmental standards, including conventions established by the International Labour Organization (ILO). Corporate accountability in global markets is a central element of responsible trade, requiring firms to take responsibility for the social and environmental impacts of their operations across national boundaries. International organizations, particularly the World Trade Organization (WTO), promote trade policies that support sustainable development objectives, address economic and social inequalities, and safeguard fundamental human rights. Furthermore, responsible trade is closely aligned with the United Nations Sustainable Development Goals (SDGs), notably those focused on promoting decent work and economic growth (SDG 8), ensuring responsible consumption and production patterns (SDG 12), and advancing climate action (SDG 13). Through this alignment, responsible trade contributes to inclusive economic growth while balancing economic objectives with social equity and environmental protection.

**ESG Performance as a Mediator** : ESG performance indicates the extent to which organizations embed environmental responsibility, social accountability, and sound governance practices into their core operational and strategic activities. ESG ratings, issued by specialized assessment agencies such as MSCI, Sustainalytics, and Bloomberg, serve as important evaluation tools for investors to assess a firm's sustainability performance, ethical conduct, and long-term risk profile.

An expanding body of academic research indicates that the adoption of ethical supply chain practices contributes positively to overall ESG performance. Specifically, proactive



environmental initiatives within supply chains are associated with higher environmental performance scores, while comprehensive labor policies strengthen social performance by improving employee welfare and workplace standards. Additionally, transparent and accountable governance frameworks enhance governance ratings by promoting ethical decision-making and regulatory compliance. Together, these elements demonstrate how ethical supply chain management serves as a critical driver of improved ESG outcomes across organizations.

In turn, firms with high ESG performance demonstrate more effective risk management by identifying, mitigating, and proactively addressing operational, financial, and reputational risks. These organizations also cultivate stronger relationships with a diverse range of stakeholders—including investors, customers, suppliers, regulators, and local communities—through transparent reporting, ethical decision-making, and socially responsible practices. Moreover, high ESG performance enables firms to comply more consistently with international trade norms, labor standards, and environmental regulations, thereby facilitating responsible and sustainable global commerce. As such, ESG performance serves as a crucial bridge, translating internal ethical supply chain practices into externally recognized commitments to responsible trade. By aligning corporate strategy with ESG principles, organizations can achieve long-term competitive advantage, foster trust across their supply networks, and contribute meaningfully to global sustainability and equitable economic development.

### **Theoretical Framework :**

This study draws primarily on **stakeholder theory** and **institutional theory**:

#### **Stakeholder Theory :**

Firms have a wide range of obligations to multiple stakeholders, including employees, suppliers, customers, local communities, regulators, and investors. Meeting these obligations requires organizations to act responsibly, transparently, and ethically across all operational and strategic activities. Ethical supply chain practices play a critical role in fulfilling these stakeholder expectations by ensuring fair labor standards, safe working conditions, environmental stewardship, anti-corruption measures, and supplier accountability. By implementing such practices, firms not only protect the rights and interests of their stakeholders but also enhance their legitimacy in the eyes of society and key market actors. Enhanced legitimacy translates into greater trust, improved corporate reputation, and stronger stakeholder engagement, which collectively contribute to the firm's long-term sustainability and competitive advantage. Additionally, adherence to ethical supply chain standards helps firms anticipate and mitigate potential risks—including legal, operational, and reputational threats—thereby safeguarding business continuity and reinforcing long-term viability in increasingly complex and globalized markets. Ultimately, ethical supply chain management allows organizations to balance economic performance with social and environmental responsibility, fostering sustainable value creation for all stakeholders.

#### **Institutional Theory :**



Organizations often conform to normative and coercive pressures, such as regulatory requirements, industry standards, and societal expectations, to secure legitimacy and maintain their social license to operate. In this context, the adoption of ethical supply chain practices and responsible trade behaviors can be understood as strategic responses to these institutional pressures, allowing firms to align their operations with both legal mandates and stakeholder norms. ESG performance functions as a tangible and measurable indicator of this conformity, providing external stakeholders—including investors, regulators, and consumers—with evidence of the organization's commitment to ethical, social, and environmental responsibilities. By demonstrating compliance with institutional expectations through high ESG ratings, firms not only enhance their legitimacy but also strengthen trust, attract socially conscious investors, and improve competitive positioning in both domestic and global markets. This dynamic illustrates the interplay between institutional theory, corporate ethical behavior, and ESG performance, highlighting how external pressures can drive the integration of responsible practices within organizational operations.

The conceptual framework guiding this study posits that ethical supply chain practices influence responsible trade outcomes through the mediating role of ESG performance. In this model, ESG performance serves as the mechanism that translates internal ethical commitments—such as labor standards, environmental stewardship, anti-corruption measures, and supplier transparency—into externally recognized responsible trade behaviors.

Formally, the relationship can be represented as:

### **Ethical Supply Chain Practices → ESG Performance → Responsible Trade Outcomes**

This framework highlights that while ethical practices form the foundation of corporate sustainability, their impact on global trade and stakeholder perceptions is amplified and operationalized through measurable ESG performance indicators.

### **Methodology :**

This study adopts a conceptual and qualitative research approach, primarily relying on content analysis of secondary data sources. These sources include peer-reviewed academic journals, industry and market reports, corporate sustainability disclosures, and established ESG frameworks. To provide practical insights, illustrative case studies are incorporated, demonstrating real-world implementation of ethical supply chain practices and their impact on ESG performance and responsible trade. By synthesizing findings across multiple sources, the study identifies recurring patterns, relationships, and theoretical linkages among the key constructs.

The methodology follows three key steps:

1. **Defining Variables :** Establishing clear operational definitions for ethical supply chain practices, ESG performance metrics, and responsible trade outcomes to ensure conceptual clarity and consistency.
2. **Gathering Evidence:** Conducting a comprehensive review of scholarly literature, corporate sustainability reports, industry publications, and relevant trade policy



documents to collect empirical and conceptual insights.

3. **Analytical Mapping:** Examining the relationships between ethical supply chain practices and ESG performance, and tracing how these influences extend to responsible trade behaviors, thereby constructing a conceptual framework that integrates internal organizational ethics with external trade responsibilities.

This approach allows for a rigorous qualitative exploration of how ethical supply chain management contributes to ESG outcomes and supports sustainable and responsible international commerce.

### **Findings and Discussion :**

#### **ESG Performance and Responsible Trade :**

High ESG performance functions as a strategic enabler of responsible trade, providing firms with competitive advantages and facilitating compliance with international standards.

**Market Access :** Global buyers increasingly favor suppliers with strong ESG credentials, often requiring high sustainability standards as prerequisites for trade partnerships. Firms demonstrating robust environmental, social, and governance practices gain preferential access to international markets, enhancing their competitiveness and credibility.

**Policy Compliance :** Organizations with elevated ESG performance are better equipped to navigate and comply with evolving trade regulations, such as carbon border adjustment mechanisms, import restrictions related to forced labor, and other sustainability-driven policy requirements. Proactive ESG integration allows firms to mitigate regulatory risks and maintain seamless cross-border operations.

**Investor Preference :** Financial stakeholders are progressively allocating capital toward companies with superior ESG ratings. Strong ESG performance signals ethical conduct, transparency, and long-term risk management, thereby incentivizing firms to adopt responsible trade practices and align operational strategies with sustainability objectives.

For example, companies included in prominent sustainability indices frequently gain preferential access to responsible investment funds and attract international partners committed to ethical sourcing and supply chain accountability. These cases illustrate that ESG performance not only reflects internal ethical and governance standards but also serves as a tangible mechanism for promoting responsible, sustainable, and globally compliant trade practices.

#### **Mediation Effect of ESG Performance :**

ESG performance plays a pivotal mediating role in the relationship between ethical supply chain practices and responsible trade, serving as the mechanism through which internal ethical initiatives translate into externally recognized trade behaviors.

#### **Legitimacy and Reputation :**

Implementation of ethical supply chain practices enhances ESG outcomes, which

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signal organizational legitimacy and credibility to regulators, investors, and international trading partners. High ESG scores demonstrate adherence to social, environmental, and governance standards, strengthening stakeholder trust and reputational capital.

### **Risk Management :**

Integrating ESG principles enables firms to proactively identify and mitigate environmental, social, and governance-related risks. This early detection supports responsible trade decision-making by preventing operational disruptions, compliance violations, and reputational damage in global markets.

### **Strategic Alignment :**

ESG performance aligns internal organizational values and ethical practices with external stakeholder expectations, facilitating entry into markets with stringent ethical, environmental, and social requirements. By translating internal policies into measurable and verifiable outcomes, ESG metrics provide tangible benchmarks that influence trade contracts, investor decisions, and regulatory compliance.

Without robust ESG performance, ethical supply chain initiatives may remain confined to internal operations, limiting their impact on trade behavior. Strong ESG indicators, however, operationalize ethics into actionable standards that guide responsible trade, enabling firms to demonstrate accountability, sustain competitive advantage, and uphold global sustainability commitments.

### **Practical Implications :**

#### **For Managers :**

- Embed ethical codes and standards throughout all tiers of the supply chain, extending beyond immediate suppliers to ensure comprehensive compliance and accountability.
- Utilize established ESG reporting frameworks, such as the Global Reporting Initiative (GRI) or Sustainability Accounting Standards Board (SASB), to systematically measure performance and transparently communicate sustainability efforts to stakeholders.
- Provide training for procurement and supply chain teams on ethical risk assessment, compliance procedures, and responsible sourcing practices to strengthen operational governance.

#### **For Policymakers :**

- Promote the implementation of ESG disclosure mandates to standardize reporting practices and enhance comparability across firms and sectors.
- Align trade incentives and policy support with adherence to ethical supply chain practices and ESG standards, thereby encouraging sustainable and responsible trade behaviors.



- Facilitate capacity-building initiatives, particularly for small and medium-sized enterprises (SMEs), to enable compliance with ethical trade and ESG requirements.

#### **For Researchers :**

- Conduct empirical investigations to test the mediating role of ESG performance using primary data and advanced analytical techniques such as structural equation modeling.
- Examine industry-specific differences in the adoption of ethical supply chain practices and their impact on trade outcomes.
- Explore the potential of digital technologies, including artificial intelligence and blockchain, as tools to enhance supply chain transparency, monitor compliance, and improve ESG measurement and reporting.

These practical recommendations provide actionable guidance for key stakeholders, demonstrating how the integration of ethical supply chain management and ESG performance can facilitate responsible trade and sustainable business practices.

#### **Conclusion :**

This study highlights the critical interplay between ethical supply chain practices, ESG performance, and responsible trade in modern global business contexts. Evidence demonstrates that firms that systematically implement ethical supply chain measures—including robust labor standards, environmental stewardship, anti-corruption policies, and supplier transparency—consistently achieve higher ESG performance. In turn, strong ESG outcomes act as a mediating mechanism, translating internal ethical practices into tangible, externally recognized commitments to responsible trade. High ESG performance enhances market access, facilitates compliance with evolving regulatory frameworks, attracts investor interest, and strengthens organizational legitimacy and reputation.

The findings underscore that ethical supply chain management is not merely an internal operational concern but a strategic enabler of sustainable global commerce. By integrating ESG principles, organizations can better manage risks, align internal values with external expectations, and meet the growing demands of socially conscious stakeholders. For managers, policymakers, and researchers, the study offers actionable insights: embedding ethics across supply tiers, standardizing ESG reporting, aligning trade incentives with sustainability goals, and leveraging emerging technologies such as AI and blockchain to enhance transparency and compliance.

Overall, the research contributes to theory and practice by establishing ESG performance as a crucial mediator linking ethical conduct with responsible trade outcomes. It reinforces the importance of aligning business operations with stakeholder expectations, institutional norms, and global sustainability standards, thereby fostering resilient, ethical, and competitive supply networks in an increasingly interconnected economy.



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