Political Oversight and Public Contractor E&S Behavior

FIRS 2026 Conference

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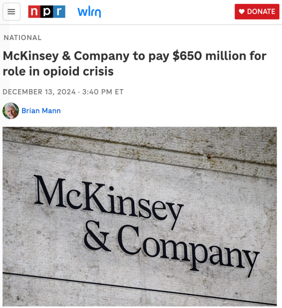
University of Michigan, Ross
May 28th, 2026

What They Have in Common? Major Government Contractors

Corporate Incidents

Feb 2021 — McKinsey


NATIONAL

McKinsey & Company to pay $650 million for role in opioid crisis

DECEMBER 13, 2024 · 3:40 PM ET

Brian Mann

$573M settlement with 47 states for advising Purdue Pharma to “turbocharge” OxyContin sales. Federal contracts continued at HHS, DoD, VA, Treasury.

Apr 2010 — BP


BP to Pay $18.7 Billion for Deepwater Horizon Oil Spill

The Deepwater Horizon oil rig burned in the Gulf of Mexico in April 2010. Gerald Herbert/Associated Press

Deepwater Horizon: 11 deaths, largest marine oil spill in U.S. history. BP was DoD’s largest fuel supplier; suspended from new federal contracts Nov 2012 – Mar 2014.

2018–19 — Boeing


Boeing Strikes Deal to Avoid Criminal Responsibility for 737 Max Crashes

A deal between the plane maker and the Justice Department, which was opposed by some of the families of those who died in the crashes, includes paying millions into a victims’ fund.

Demonstrators, including some whose relatives died in crashes of Boeing’s 737 Max planes, drew attention during a Senate hearing last June about Boeing’s safety culture. Eric Lee/The New York Times

737 MAX crashes: 346 deaths (Lion Air, Ethiopian Airlines). Worldwide FAA grounding; $2.5B DOJ settlement. KC-46, F-15EX, P-8 awards continued.

>> ***Three top federal contractors. Major E&S incidents. What can the gov’t do?***

The Quietest Big Stick

The federal government is the largest commercial counterparty in the U.S. economy

>> ***Government procurement dwarfs other potential monetary levers.***

Lever (FY 2024)	Amount
SEC monetary sanctions	$8.2 B
EPA penalties + commitments	$6.7 B
DOJ False Claims Act recoveries	$2.9 B
Total	**$17.8 B**

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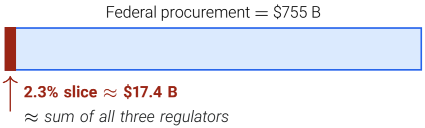
Federal procurement obligations	**$755.0 B**

A 2.3% shift in procurement equals *every* regulator above



Perspective on the Paper

Where does "government-as-customer" sit on the spectrum of E&S discipline?

>> ***Does federal procurement discipline contractor E&S misconduct, and does the strength of that discipline depend on the political principal overseeing each contracting agency?***

Numerous ways to discipline corporate E&S misconduct:

- *(Regulation)* Government as regulator — EPA fines, OSHA citations, DOJ settlements, SEC sanctions
- *(Activism)* Shareholder proposals, proxy fights, divestment campaigns
- *(ESG Funds)* Delegation of investor preferences — equity allocation, screening
- *(Banks & Credit)* Lenders reduce access to capital after incidents
- *(Private Customers)* B2B buyers cut off or shrink orders to non-compliant suppliers
- *(Government as Customer)* Procurement officers quietly shrink contracts to firms with E&S incidents ← **This Paper!**
- *(Workers & Consumers)* Strikes, boycotts, reputational backlash
- *(Media & NGOs)* Investigative reporting, RepRisk-style monitoring

What the Paper Asks

Does federal procurement discipline contractor E&S misconduct

Datasets and Classifications:

- ∼**1.5M federal contracts** (FPDS-NG, 2008–2020, $383B; publicly-listed contractors).
- **E&S incidents** from **RepRisk**, scored Severity 1 (mild) to 3 (severe).
- **Chair's political preferences** — voting scorecards for the House Appropriations Subcommittee chair that funds each agency:
  - → **LCV** — League of Conservation Voters (environmental scorecard).
  - → **AFL-CIO** — labor-union voting scorecard.

Main set of tests:

- **H1** — Post-incident contract amount (does discipline exist?).
- **H2** — Severity-3 $\times$ chair PC1 (does political oversight scale it?).
- **H3** — Firm's future incidents and mid-execution modifications (real effects?).

What the Paper Finds (Among Many Things)

Three hypotheses, two readings each

Hypothesis	Outcome	Plain-English reading
H1 (Discipline)	Contract amount post Severity-3	$\sim$1 in 9 follow-on dollars disappears
	Competed vs. sole-source	Effect runs only through the competed door
H2 (Oversight scales it)	Severity-3 $\times$ chair PC1	$\sim$5–7$\times$ bigger cut where the chair cares
	Where it bites	Services, cost-plus, differentiated — not commodities
H3 (Real effects)	Future E&S incidents, $t{+}1$–$t{+}3$	High-oversight-tilted firms reoffend less
	Contract modifications	More friction for non-improvers; none for improvers

$>>$ ***Procurement disciplines E&S misconduct — oversight scales it, and firms respond.***

My View of the Research, Literature

Where this paper sits and what it contributes

1. **Customer-driven discipline of supplier E&S behavior**
   - → **Gantchev, Goldman & Zhang (2026)** — Evidence that the *government as customer* disciplines E&S misconduct.
   - → Bisetti, She & Žaldokas (2026) — private corporate customers reshape supplier E&S after media-covered incidents.
   - → Schiller (2018); Dai, Liang & Ng (2021) — supplier-customer ESG transmission.
   - → Flammer (2018); Brogaard, Denes & Duchin (2024); Chen et al. (2025) — good E&S helps win government contracts (the *converse* question).
   - → ...
2. **Political economy of public procurement**
   - → **Gantchev, Goldman & Zhang (2026)** — Appropriations chair preferences move agency contracting choices.
   - → Brogaard, Denes & Duchin (2021) — political influence in contract renegotiation.
   - → Cohen, Coval & Malloy (2011); Goldman, Rocholl & So (2013) — political connections and contract receipt.
   - → Tahoun (2014); Liaukonytė & Žaldokas (2024) — politicians, scrutiny, and corporate behavior.
   - → ...
3. **Relational contracting & the boundaries of the firm/buyer**
   - → **Gantchev, Goldman & Zhang (2026)** — Discipline concentrates where contracts are hardest to write.
   - → Williamson (1985); Joskow (1987); Baker, Gibbons & Murphy (2002).
   - → Macchiavello & Morjaria (2015) — relational contracting in commodity supply.
   - → ...

>> ***Discussion goal: sharpen identification, separate channels, separate E&S preference from partisanship.***

Comment 1 — Map the Full Menu of Government Adjustment Margins

The paper measures 2 of ∼15 margins on the menu; the 12% is one cell

Time →

PRE-AWARD	AT AWARD	DURING EXECUTION	POST-CONTRACT / FUTURE

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Past-performance screen CPARS, integrity record			

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Past-performance screen CPARS, integrity record	**★ Contract amount** Paper's headline result -12% **after Severity 3** *MEASURED*		
	Contract duration at award		
	Contract type (cost-plus, FFP) *used as control*		
	Explicit green / E&S clauses *excluded by design (<1% of sample)*		

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DURING EXECUTION

- **★ Modification count**
  Amount, time, admin (placebo)
  MEASURED
- **Direction / magnitude of mods**
  count only; sign & size not used
- **Monitoring / audit intensity**
- **Cure notices / withheld pay**
- **CPARS rating produced**
  feeds future awards

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	Explicit green / E&S clauses *excluded by design (<1% of sample)*	**CPARS rating produced** *feeds future awards*	**Reassignment to competitor**

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POST-CONTRACT / FUTURE

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- **Termination for convenience**
- **Non-renewal of option years**
- **Follow-on contract decisions** — Does the relationship continue? ***arguably the cleanest test***
- **Reassignment to competitor**

>> *The 12% conditional-on-award is one cell of a much bigger action grid. Which margin is actually adjusting?*

Comment 1 (cont'd) — The Parallel Regulatory Track

Even setting the action grid aside, formal regulatory tools sit outside the paper's frame by construction

PRE-AWARD	AT AWARD ★	DURING EXEC ★	POST-CONTRACT

★ = *measured by the paper*

PARALLEL TRACK · **Formal regulatory tools (excluded from sample by construction)**

Suspension	**Debarment**	**Inspector General referral**	**DOJ / qui tam referral**
BP, Nov 2012 – Mar 2014: a ***100% reduction*** *for 16 months*	*FAR Subpart 9.4 · SAM.gov exclusion list*	*investigation, audit, public report*	*False Claims Act, civil & criminal*

>> ***How do we map the current findings with respect to the full menu of options?***

Comment 1 — Suggested Tests

Bring the missing margins onto the same paper

- **Suggestion 1 — The extensive margin (don't-award).**
  - → *Data:* SAM.gov debarment/suspension list + FPDS-NG award counts.
  - → *Decompose* post-incident behavior into: (i) debarment, (ii) silent non-award, (iii) award-smaller.
  - → *Why:* BP went on the extensive margin — paper currently sees a 0 because it conditions on award.
- **Suggestion 2 — The execution margin beyond modifications.**
  - → *Data:* CPARS ratings, stop-work orders, terminations-for-default (FPDS-NG codes), option-year non-exercise.
  - → *Why:* these are the levers that bind for repeat contractors.
- **Suggestion 3 — A unified "discipline intensity" index.**
  - → *Combine:* extensive (debarment/non-award) + intensive ($ decline | award) + execution (mods/terms).
  - → *Test:* re-run the oversight interaction on the index.
  - → *Why:* tells whether oversight scales *total* discipline, or just reshuffles *which* margin gets pulled.

>> ***Together they map the full grid the paper's question really asks about.***

Comment 2 — Substitution Cuts the Other Way?

Customer discipline should be easiest on commodities, hardest on complex goods — the paper finds the opposite

Easiest to discipline

commodities, many suppliers

- Cookies, fuel, paper, janitorial.
- Many qualified suppliers; switching is cheap.
- Punish a bad one → buy from another next quarter.
- Threat to switch is *credible*.

Paper's finding (Table 5): null.

Hardest to discipline

complex goods, sole-source lock-in

- Aircraft, weapon systems, complex services.
- One or two qualified suppliers; billion-$ switching costs.
- No credible Plan B.
- Threat to switch is *empty*.

Paper's finding (Table 5): strong effect.

>> The paper finds the strongest discipline in the hardest-to-substitute cell, exactly where the buyer's threat to switch is empty. For discipline to bite, the buyer needs a stick. In the locked-in cell, there isn't one.

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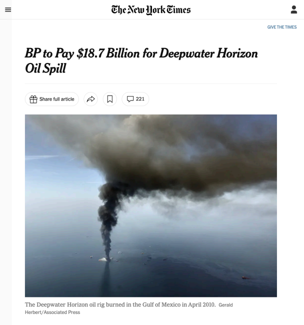


The New York Times

GIVE THE TIMES

BP to Pay $18.7 Billion for Deepwater Horizon Oil Spill

Share full article 221

The Deepwater Horizon oil rig burned in the Gulf of Mexico in April 2010. Gerald Herbert/Associated Press

- Largest U.S. marine oil spill.
- BP **suspended** from new federal contracts Nov 2012–Mar 2014.

Hardest to discipline

Boeing — aircraft, sole-source

The New York Times

GIVE THE TIMES

Trump Administration | LIVE War in the Middle East 9m ago | Trump's Physical Exam | Justice Department's Tar

Boeing Strikes Deal to Avoid Criminal Responsibility for 737 Max Crashes

A deal between the plane maker and the Justice Department, which was opposed by some of the families of those who died in the crashes, includes paying millions into a victims' fund.

Listen · 4:36 min | Share full article

Demonstrators, including some whose relatives died in crashes of Boeing's 737 Max planes, drew attention during a Senate hearing last June about Boeing's safety culture. Eric Lee/The New York Times

- 737 MAX (2018–19): 346 deaths; worldwide FAA

Comment 2 — Substitution Cuts the Other Way?

Open Question of Why?

$>>$ ***Why does discipline concentrate in complex / cost-plus / differentiated cells?***

1. The paper's defense (Section 5) is a partial answer.

- If operational disruption hit *every* product line of an affected firm, both segments would fall.
- Commoditized segments *don't* fall in Table 5 $\Rightarrow$ *uniform* disruption is genuinely ruled out.

2. What's still open — product-specific disruption.

- Severity-3 incidents hit a firm's *core* business: engineering, certification, regulatory, litigation.
- Boeing post-MAX: aircraft engineering disrupted; office supplies unaffected. BP and McKinsey follow the same within-firm pattern.
- Within-firm cross-product disruption *looks identical to* Table 5's heterogeneity.

Comment 2 — Substitution Cuts the Other Way?

Four within-firm tests separate discipline from operational disruption

- **Suggestion 1 — Within-firm, across-products.**
  - → Firms with differentiated and commoditized lines (Honeywell, GE, 3M), compare post-incident response across lines.
  - → Operational disruption $\Rightarrow$ both lines hit; discipline $\Rightarrow$ asymmetric.
- **Suggestion 2 — Geographically distant incidents.**
  - → Does a Boeing labor incident in Renton predict smaller defense-aircraft awards in St. Louis?
  - → A remote-site hit is hard to reconcile with operational disruption $\Rightarrow$ discipline.
- **Suggestion 3 — Peer-firm contemporaneous control.**
  - → Within agency $\times$ product $\times$ year cells, net out using non-incident peers.
  - → Removes aggregate operational frictions that hit everyone at once.
- **Suggestion 4 — Federal vs. private sales.**
  - → Compare post-incident federal contracts to commercial sales, controlling for product mix.
  - → Federal falls more $\Rightarrow$ buyer-specific discipline; both fall together $\Rightarrow$ operational.

$>>$ ***Any one of the tests helps clarify the buyer-specific discipline channel.***

Comment 3 — Oversight or Partisanship

E&S Procurement Policy Flips With Party

May 2021 — switched ON

npr wlrn DONATE

POLITICS

Biden Wants To Measure How Climate Change Impacts America's Finances

MAY 20, 2021 · 5:58 PM ET

Scott Horsley

EO 14030 “Climate-Related Financial Risk” (May 20, 2021). Whole-of-government climate financial-risk strategy.

Nov 2022 — extended to procurement

FEDERAL REGISTER
The Daily Journal of the United States Government
NATIONAL ARCHIVES

Proposed Rule

Federal Acquisition Regulation: Disclosure of Greenhouse Gas Emissions and Climate-Related Financial Risk

A Proposed Rule by the Defense Department, the General Services Administration, and the National Aeronautics and Space Administration on 11/14/2022

PUBLISHED DOCUMENT: 2022-24569 (87 FR 68312)

DoD/GSA/NASA propose the Federal Supplier Climate Risks & Resilience Rule (Federal Register, Nov 14 2022). Major contractors (>$50M) disclose Scope 1/2/3; set science-based targets.

Jan 2025 — switched OFF

BROOKINGS

COMMENTARY

Trump is dismantling climate rules. Industry is worried.

Trump revokes EO 14030 day 1 via “Initial Rescissions of Harmful Executive Orders”; FAR rule withdrawn (Jan 2025). Both reversed within weeks of the new administration.

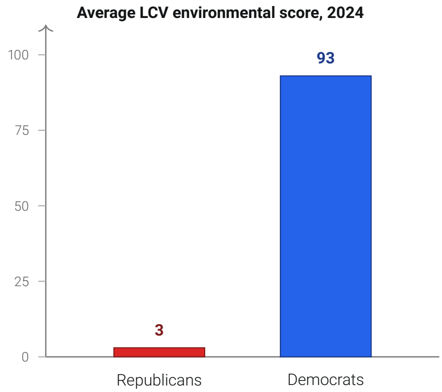
>> The E&S-procurement lever turns on and off with party control.

Comment 3 — Oversight or Partisanship?

The Scores Behind "Oversight" Are Nearly Pure Party

>> "E&S-sensitive chair" and "Democratic chair" are nearly the same variable.

(LCV and AFL-CIO scores are bimodal by party, with PC1 inheriting it)



LCV environmental scorecard:

- **2024**: Republicans avg **3%**; Democrats / Independents avg **93%**.
- **2018**: Senate D **95%** vs. R **8%**; House D **90%** vs. R **8%**.
- AFL-CIO scorecards show the same split.

So PC1 of LCV + AFL-CIO:

- Two near-collinear, near-bimodal inputs.
- PC1 essentially separates Democratic from Republican chairs.

Comment 3 — Oversight or Partisanship?

Is PC1 About E&S, or About Party?

Paper's reading — preferences

- Chairs who *care* about E&S push agencies to discipline harder.
- Interaction reflects *policy preferences* of the principal.

Alternative — party

- Democratic chairs simply run agencies differently than Republican ones.
- PC1 can't separate the two — LCV/AFL-CIO are near-pure party indicators.

	ln(initial amount)					
Oversight score =	PC1		Sum		I[Sum>1]	
	(1)	(2)	(3)	(4)	(5)	(6)
Severity 1	-0.009	-0.004	-0.009	-0.004	-0.009	-0.004
	(0.017)	(0.019)	(0.017)	(0.018)	(0.017)	(0.019)
Severity 2	-0.008	-0.018	-0.008	-0.018	-0.008	-0.017
	(0.018)	(0.015)	(0.018)	(0.015)	(0.018)	(0.015)
Severity 3	-0.085***	-0.095***	-0.022	-0.031	-0.036	-0.046
	(0.031)	(0.027)	(0.042)	(0.039)	(0.037)	(0.033)
Severity 3 × Oversight score	-0.044**	-0.045***	-0.078***	-0.079***	-0.146***	-0.147***
	(0.017)	(0.016)	(0.029)	(0.028)	(0.052)	(0.049)
Controls	Y	Y	Y	Y	Y	Y
Firm × Agency	Y	Y	Y	Y	Y	Y
Contract award month	Y	Y	Y	Y	Y	Y
Agency × Year	Y	abs.	Y	abs.	Y	abs.
Product × Year	Y	abs.	Y	abs.	Y	abs.
Agency × Product × Year	-	Y	-	Y	-	Y
Observations	800764	796964	800764	796964	800764	796964

>> ***Both are real findings — but not the same finding. "Political oversight" shifts to "partisan control of appropriations."***

Comment 3 — Suggested Tests

Separating "E&S-sensitive principal" from "Democratic principal"

- **Suggestion 1 — Party-indicator horse race.**
  Replace PC1 with a "Democratic chair" dummy in Table 4. If the interaction coefficient is similar in size, the finding is essentially a partisan effect. Report both side-by-side.

- **Suggestion 2 — Within-party residual variation.**
  Binscatter PC1 against party affiliation; the residual should have visible mass. Then re-estimate the interaction using only the within-party residual. Shows "E&S sensitivity" has bite once partisanship is taken out.

- **Suggestion 3 — Election-driven event study** *(the headline test).*
  Within-(firm × agency) variation around the 2010 and 2018 chamber flips. RD-in-time at chair transitions, plus a speed-of-response check (immediate vs. slow).

- **Suggestion 4 — Governance / accounting falsification.**
  Re-run Table 4 on non-E&S incidents (governance, accounting fraud). A null pins the result to E&S specifically; a positive coefficient means high-PC1 chairs are generically "tough," not E&S-specific.

>> ***If the finding survives all four, the political-oversight framing lands. If not, the contribution shifts to "partisan control matters."***

Excited for This Paper!

Important question, big data, a portable new measure

>> ***Paper at the intersection of political economy, procurement, and corporate E&S behavior.***

- Leading evidence of the **government-as-customer** channel for E&S discipline.
- Great data work: **FPDS-NG + RepRisk + LCV/AFL-CIO + subcommittee mapping** in a single panel.
- **A portable new measure** (agency-level political E&S sensitivity) that I expect to see used widely.

The *quietest big stick* has been swinging all along.
This paper shows us how hard, where, and by whose hand.