

**Regulating Disclosure without Enforcement:
The Case of the UK Modern Slavery Act
and its Impact on Firms and Stakeholders**

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Abstract

This study employs a robust regression discontinuity design to evaluate the impact of the UK Modern Slavery Act's Transparency in Supply Chains (TISC) provision on corporate behavior. Findings reveal a reduction in modern slavery incidents among suppliers of regulated firms, with no comparable change within the firms themselves — highlighting a focus on external compliance driven by the regulation's supply chain emphasis. Financially, firms benefit from improved profit margins and reduced costs, while investor sentiment shifts from initial negativity to optimism by the third year post-regulation. Consumer behavior, however, remains largely unaffected. The regulation's effectiveness varies by context: firms with strong governance, competitive market environments, and socially conscious investors show greater improvements. Additionally, consumer-sensitive sectors experience higher sales growth and valuation gains. Overall, the success of TISC hinges on governance quality, market pressure, and stakeholder engagement, with the most responsive firms translating compliance into sustained reputational and financial advantages.

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1. Introduction

“Modern slavery” is an umbrella term that covers the offences of human trafficking and slavery, servitude and forced or compulsory labour (Home Office, 2015a) that still exist in the 21st century, distinguishing it from historical forms of slavery. It is an often-hidden crime that affects every country in the world and global estimates indicate that about 50 million people were living in modern slavery in 2021, while 27.6 million people were trapped in some form of forced labour, showing a worsened situation compared to the last assessment in 2016 (ILO, 2022).

Although forced labour mainly occurs in low-income countries, it is deeply connected to demand from higher-income countries. According to Global Slavery Index (2023), nearly two-thirds of all forced labour cases are linked to global supply chains. About US\$468 billion of G20 imports are goods at risk of modern slavery. G20 members have taken some action to address risks of forced labour within supply chains. Among the 176 countries assessed in the Global Slavery Index, the United Kingdom had the strongest government response reflecting substantial efforts to address risk factors, strengthen criminal justice mechanisms, and tackle forced labour in supply chains (Walk Free, 2023).

The UK Modern Slavery Act (henceforth MSA) passed in March 2015 represents one of the earliest and most extensive national-level legislation in the world addressing modern slavery. It has not only criminalised various forms of exploitation but also mandated corporate transparency in tackling forced labour and modern slavery in supply chains. Setting it apart from most jurisdictions, the UK has also implemented a global human rights sanctions regime targeting individuals involved in modern slavery abroad. These early and unique policy innovations make the UK a leading case for examining the regulatory impact on firm behaviour and supply chain practices.

As the vast majority of forced labour cases are found in the private sector¹ and, in practice, local governments are often unable to regulate labour abuses by suppliers located outside the local governments' jurisdiction (She, 2022), the UK has introduced a clause directly relevant to the firms, in Section 54 of the MSA, titled "Transparency in Supply Chains, etc." (henceforth TISC), which was formally brought into force on October 29, 2015. Under TISC, commercial organisations operating in the UK with an annual turnover of £36 million or more are required to publish an annual statement disclosing the steps taken (if any) to address modern slavery within their operations and supply chains. If no action has been taken, this must also be explicitly stated. The statement must be approved at the board level, signed by a senior executive, and made publicly accessible via a link on the company's website (Home Office, 2015b, 2015c).

By holding directors accountable and encourage public scrutiny, the UK government leaves the enforcement of compliance first to the disclosing firms, and then to the consumers, investors and Non-Governmental Organisations (NGOs) who can access the disclosed information and act accordingly. Hence, while firms are required to disclose their efforts to combat forced labour, the TISC has received substantial criticism on its effectiveness due to its light-touch approach. The UK government has expressly intended for the civil society to monitor compliance and apply pressure on businesses (Hansard, 2014), while adopting little state-level intervention (Home Office, 2019). Furthermore, companies can achieve compliance by stating they have taken no action and without addressing the modern slavery issue in a thorough and meaningful way, or by using minimal or boilerplate disclosures just to "tick the box". For example, an analysis of the first year of UK MSA disclosed statements produced by the FTSE 100 companies found that 42% of firms failed to meet the minimum requirements (Business & Human Rights Resource Centre, 2017).

Given its peculiar requirements and the discussed limitations, the TISC regulation provides a unique empirical context and an opportunity to examine whether and how this type of mandated

¹ In 2020, using police data, the Centre for Social Justice has estimated that there could be as many as 100,000 victims of modern slavery practices in the UK. For details, see the report "It Still Happens Here", Centre for Social Justice and Justice and Care, 2020.

non-financial disclosure without a strong governmental enforcement mechanism can influence effectively corporate behaviour, stakeholder reactions, and firm performance. This study therefore presents a comprehensive analysis of the impact of the introduction of MSA TISC regulation on the disclosing UK firms' profits and operating performance, and their behavior in relationship to reducing instances of modern slavery-related incidents. We also look at the MSA TISC impact on the disclosing firms' supply chains, where the regulation introduces mandatory disclosure of monitoring processes and supply chain risk assessments. Furthermore, we analyse the reaction of stakeholders (investors and consumers) by appraising changes in financial evaluation and sales growth following the mandated disclosure.

By adopting a robust regression discontinuity design to our estimations, we observe that after the adoption of the UK MSA-TISC (Section 54 - Transparency in Supply Chains) provision, regulated firms see a significant drop in modern slavery incidents among suppliers, but not within the firms themselves. This suggests firms are more focused on external compliance rather than internal reform, which is likely to be due to the regulation's emphasis on supply chain transparency. Financially, firms experienced improved profit margins and reduced costs, indicating operational benefits from better supplier management. Investor reactions are initially negative but turn positive by the third year after the regulation affect the firm, reflecting growing confidence in the firm long-term performance. However, consumer behavior remains largely unchanged, suggesting limited awareness or care about the impact of the regulation. The regulation's impact however varies by context: firms with stronger governance, operating in competitive markets, and with more pro-social institutional investors show greater improvements. Firms in consumer-sensitive sectors also see higher sales growth and larger valuation gains. Overall, the effectiveness of TISC depends on governance, market pressure, and stakeholder engagement, with the most responsive firms able to translate compliance into sustained reputational and financial gains.

At the onset of the introduction of this UK regulation, due to the fact that the MSA does not impose financial penalties for non-compliance and that enforcement is limited to reputational

risk or potential civil proceedings, there was some fear that firms engaging with the TISC disclosing requirement would not take the regulation seriously and publish vague or minimal statements without substantive action and showing any meaningful engagement. For instance, Schaper & Pollach (2021) argue that many firms have provided generic risk overview without case-specific examples or victim-centered remediation details. Mai et al. (2023) conduct a detailed content analysis of FTSE 100 companies' disclosure from 2013–2019, finding high compliance with minimum disclosure requirements post-MSA, a rise in disclosure volume, but with low quality, often symbolic rather than substantive, and fragmented disclosures across modern slavery statements, annual reports, and sustainability reports, with limited integration.

However, a systematic review of 48 modern slavery disclosure studies (written between 2016–2023) finds that the UK MSA has moved many firms beyond symbolic compliance and toward more substantive statements on due diligence, risk assessment, and remediation processes (Madhavika et al., 2024). Some of the mandatory criteria, such as explaining the consultation process with subsidiaries, have raised the baseline disclosure of corporate structure and operations. The literature also identifies a mix of incentives shaping MSA effectiveness. For example, activist pressure can boost compliance especially when firms receive peer-benchmarking data showing local competitors already meeting MSA requirements. Conducting a field experiment on activism from a leading human rights NGO, Lee et al. (2025) show that firms receiving letters from the NGO focusing solely on their legal obligation to disclose are less likely to comply if no relatable peer-context is provided, in particular for peers in the same geographic location. Albitar et al., (2025) examine the relationship between modern slavery disclosure and ROA for firms over the period 2013-2019, focussing on firms in the FTSE All-Share index and using a multivariate regression analysis. They show some positive association between modern-slavery disclosure and regulated firms' ROA, especially for those with higher quality of governance.

Our study contributes to widening this research on the impact of the UK MSA regulation, and of global modern-slavery disclosures more broadly in three ways. First, we adopt a

sophisticated identification strategy relying on RDD. Second, we look at the regulation impact on multiple aspects: the actual occurrence of slavery-related incidents (also within the supply chain), the firm profitability led by changes in operating costs, and the stakeholder reaction (both customers and investors). Third, we also performing a wide set of heterogeneity tests which establish that context matters for the regulation impact; in particular, we look at the role of internal monitoring (via corporate governance), consumers sensitivity, market competition, and pro-social attitude of institutional investors.

The paper is organised as follows. Section 2 reviews the institutional background, the relevant literature and develops the hypotheses of the study. Sections 3 and 4 illustrate the empirical methodology and the data used, respectively. Section 5 presents the results of our empirical tests and offers robustness checks. Section 6 provides the heterogeneity tests on the baseline results. Finally, Section 7 presents some critical discussion and concludes the study.

2. Institutional Background, Literature and Hypotheses Development

2.1 Institutional Background

The Modern Slavery Act (MSA) 2015 constitutes a major legislative effort to combat modern slavery in the UK. It has consolidated existing offences and introduced new provisions aimed at strengthening law enforcement and victim protection (Home Office, 2015b). Section 54 of the MSA, the Transparency in Supply Chains (TISC) clause, is the only provision in the Act that targets businesses. Specifically, the TISC clause requires commercial organisations in any sector, which supply goods or services, conduct business or are part of a business anywhere in the United Kingdom, and have a consolidated annual turnover of £36 million or more, to produce a slavery and human trafficking statement. This statement must outline the steps taken (if any) to prevent modern slavery within their operations and supply chains. If no such steps have been taken, the companies must still publish a statement stating this to be the case. The TISC clause also requires

the statement to be approved and signed by a director and published on the organization's website with a link in a prominent place on the homepage (Home Office, 2015c).²

Importantly, the TISC clause departs from traditional enforcement-oriented regulatory framework. The primary objective of Section 54 in the MSA is to prevent and mitigate modern slavery in organisations and their supply chains (Home Office, 2015c). However, compared to other UK corporate social responsibility mandates, such as the gender pay gap reporting requirements, and other human rights-related regulations such as the Duty of Vigilance introduced by France in 2017, the TISC provision is unique in that it lacks any formal role for the government in monitoring or enforcement. Rather than mandating specific due diligence actions and monitoring of compliance by the government, the TISC provision relies primarily on public scrutiny and board approval as key accountability mechanisms (Hsin et al., 2021). Specifically, the UK government's view is that the civil society can put pressure on businesses that are not doing enough to eliminate modern slavery from their operations and supply chains (Hansard, 2014). The regulation also aims to foster a "race to the top" culture, encouraging companies to compete in addressing modern slavery issues. Insufficient disclosure may result also in significant reputational damage (Home Office, 2015c). Moreover, approval by the board and signature from a director should create clear accountability by the senior leadership and discourage symbolic compliance, while promoting a more genuine engagement with modern slavery concerns.

With little government intervention, however, it remains unclear whether the TISC provision can bring effective changes in corporate behaviour to prevent modern slavery. There is still some risk that companies may fulfil the minimum reporting requirement simply by stating that they have taken no action, without providing further evidence or discussion. Additionally, although the TISC

² As a good example of TISC compliant document, the major UK pharmaceutical company AstraZeneca has published their December 2024 modern slavery statement the at this link:

https://www.astrazeneca.com/content/dam/az/PDF/Sustainability/Modern_Slavery_Act_Statement.pdf

The document is fifteen-pages long and signed by the CEO, Mr. Pascal Soriot in February 2025. It is comprised of a statement of commitment, a description of the business operations and supply chain, a clarification of the relevant policies and risk management strategies (including due diligence, training, and risk awareness) and of the ongoing compliance and monitoring procedures, besides describing the grievance mechanisms.

provision outlines six areas of information that a modern slavery and human trafficking statement may include, firms retain substantial discretion in their disclosures and may opt for using boilerplate language to merely comply with the provision. As a result, the regulation's effectiveness remains uncertain *ex ante*, as firms may lack sufficient incentives to address modern slavery issues in a substantive and meaningful manner that influences their business practices.

2.2 *Literature Review and Hypothesis Development*

Earlier research related to firms' non-financial disclosure about their social impact has primarily focused on the voluntary disclosure practices around CSR (see Busco et al., 2019; Chen et al., 2015; Christensen, 2016; Dhaliwal et al., 2011; Gamerschlag et al., 2011; Muslu et al., 2019; Qiu et al., 2016, for some examples). In recent years, there has been a significant increase in research on CSR reporting mandates (Chen et al., 2018; Downar et al., 2021; Krueger et al., 2024; Liu et al., 2021; Nguyen et al., 2020). Below we review some examples of academic studies in this burgeoning literature.

The existing research demonstrates that CSR disclosure can improve external monitoring by analysts and institutional investors, leading to better managerial decisions, reduced pollution, and more efficient investments (Bushman & Smith, 2001; Lambert et al., 2007). However, it does incur direct costs (e.g., report preparation and certification) and indirect costs, such as increased CSR commitments, reducing short-term profitability, and can cause potential agency and moral hazard problems (Chen et al., 2018; Grewal et al., 2019). For example, Chen et al. (2018) report declining profitability post-disclosure. Firm characteristics influence CSR disclosure decisions. Larger firms tend to disclose more, likely due to greater public scrutiny and lower capital costs (Hahn & Kühnen, 2013; El Ghouli et al., 2011). Firms may also disclose CSR information to enhance their image or reputation (Cho & Patten, 2007; Fombrun & Shanley, 1990; Kim et al., 2014). The effectiveness of CSR disclosure depends on firms' reporting incentives (Lys et al., 2015; Christensen et al., 2021), which vary across industries. While Plumlee et al. (2015) find a positive link between disclosure quality and firm value, Cho et al., (2015) report no such association.

While most regulations pertain to the disclosure of environmental issues or firm CSR activities in general, the TISC provision presents a unique opportunity to examine the impact of firms' mandatory disclosure on human rights issues and modern slavery practices.

Despite lacking any formal governmental enforcement, the TISC provision relies on senior leadership and the civil society as accountability and monitoring mechanism. By requiring a director to sign the MSA statement, this regulation might create individual accountability at the highest level of the organization, reducing the moral hazard problem commonly associated with CSR reporting. Board-level approval should further strengthen internal monitoring by ensuring that the senior leadership is actively engaged in assessing the firm's supply-chain risks, thereby reducing information asymmetries between management and the board. This mechanism might help address agency concerns and lead to more substantive rather than symbolic compliance.

Additionally, by raising public awareness of modern slavery issues, the TISC disclosure involves consumers, investors and NGOs in the monitoring mechanism. For example, activist groups such as the Business & Human Rights Resource Centre (BHRRC) have been tracking the modern slavery statements produced by FTSE100 companies and assessing their quality. Also institutional investors might be a key source of pressure in shaping this reporting, as suggested by previous literature on CSR reporting (see Dimson et al., 2015; Gamerschlag et al., 2011; and Krüger, 2015). The disclosure requirements under the TISC clause can provide a tool for institutional investors to assess firms' ethical practices and supply-chain governance, enabling them to influence or adapt the disclosure (Dhaliwal et al., 2011). As such, firms are motivated to engage in visible compliance to maintain legitimacy and align themselves with the expectation of stakeholders (Suchman, 1995).

Lastly, prior research suggests that CSR disclosure mandates can reduce peer-benchmarking costs when standardized reporting includes information on firms' CSR activities and processes (Darendeli et al., 2022). This transparency allows investors and other stakeholders to identify and reward firms with stronger CSR performance. In turn, firms can leverage these reputational benefits

to differentiate themselves in competitive markets, using disclosure as a strategic tool to signal social responsibility and build stakeholder trust.

Given the discussion provided above, TISC-regulated firms may have some effective incentives to address modern slavery issues through internal reform or external monitoring. Hence, we develop the following first two hypotheses to better reflect the dual scope of the regulation and the differentiated pathways of compliance:

H1a: On average, firms under the TISC disclosure mandate take effective measures to address modern slavery issues in their organization following the adoption of the regulation.

H1b: On average, firms under the TISC disclosure mandate take effective measures to monitor and deter modern slavery issues in their supply chains following the adoption of the regulation.

Nevertheless, it is also possible that the light-touch nature of TISC may weaken firms' incentives to change their behaviour, allowing them to fulfil the requirement through vague and non-substantive claims about their actions (Islam & Van Staden, 2022). In such cases, the effectiveness of the disclosure regime may be limited, with minimal impact on firms' actual practices or operational performance. This possibility presents a challenge to the assumption that transparency alone can drive meaningful changes in behaviour.

Moreover, the resource-based view (RBV) suggests that addressing supply-chain risks can improve firm's operational efficiency and profitability. The TISC clause may incentivise firms to build a more strategic oversight of the suppliers and this can help detect quality issues, mitigate reputational crises, and reduce exposure to supply chain disruptions (Barney, 1991; Russo & Fouts, 1997). This may also lead to more efficient procurement processes and foster partnerships with high-quality suppliers, minimizing waste and inefficiency. When such ethical practices are truly embedded in the firm's routines and operational systems, they become difficult for competitors to replicate, thereby contributing to build a competitive advantage and achieve superior operating margins. Thus, we propose the following second hypothesis:

H2: On average, firms under the TISC disclosure mandate experience improved profitability and cost efficiency following the adoption of the regulation.

Additionally, the increased transparency brought by the TISC mandated disclosure may influence the behaviour of firms' stakeholders. Their responses are likely shaped by their assessment of the costs and benefits associated with TISC compliance. The increased transparency may provide additional information on firms' processes and risk management practices to avoid modern slavery issues in their operations and supply chains, which is particularly valued by socially responsible investors and consumers (Dhaliwal et al., 2011; Grewal et al., 2016), and so may affect their decision making. Socially-responsible consumers may decide to start purchasing or to purchase more from the disclosing firms (thereby inducing higher sales growth). Also, investors (even those without a more prominent socially-responsible stance) may expect that by promoting improved oversight and communication within supply chains the TISC provision can help firms optimize their supply chain processes, rationalize costs, and ultimately enhance operational efficiency. Hence, we formulate our third hypothesis as follows:

H3: On average, stakeholders (firm consumers and investors) react positively to the adoption of the TISC mandated regulation, so the disclosing firms experience higher sales growth and evaluation.

However, as mentioned earlier, addressing modern slavery risks may also generate significant costs. In addition to the direct compliance cost (i.e., drafting and publishing the statement) which may be limited, disclosing sensitive operating information may erode some of the firm competitive advantage (Verrecchia, 1983). Furthermore, firms may need to restructure their supply chains to mitigate modern slavery risks, which could disrupt operations and increase the associated costs. In some direct cases, eliminating forced labour may also result in increased labour costs, reducing cost advantages previously derived from exploitative practices (Islam & Van Staden, 2022). Since stakeholders' reactions are likely to depend on how they weigh these competing effects, we test H3 against its alternatives that the firms' key stakeholders do not react or react negatively to the adoption of the TISC mandated disclosure.

3. Methodology and Empirical Design

3.1 The RDD specification

The objective of our research is to estimate the effects of the UK MSA mandatory disclosure regulation provided by the TISC clause within the MSA on firms. The adoption of the regulation therefore represents the causal treatment in our empirical design. Companies in the UK are required to produce the disclosing statement if their global sales are equal or above £36 million at the end of the fiscal year. This determines a clear cutoff and creates an ideal setting for using a regression discontinuity design (RDD). Using this RDD, we compare firms which are just above the sales cutoff (treated firms) to the ones just below it (control firms) to identify the causal effect of the treatment. The RDD estimates the differences in outcome variables between regulated firms (subject to the TISC mandatory disclosure) and unregulated firms. Hence, the analysis is restricted to a set of firms that lie around the regulatory threshold. In other words, we compare firms that are required to produce a statement on modern slavery in their operations and supply chain (as they record sales above the threshold of £36 million) but only meet the criteria by a small margin, with firms that are not required to disclosed by a small margin. The firms ‘just below the threshold’ are used as the counterfactual for firms that are ‘just above the threshold’. The running variable in our RDD is the distance to threshold for a given firm in a given year.³

An underlying identification assumption in the regression discontinuity design which operates ‘in the margin’ is that firms’ assignment around the regulatory threshold is as good as random and that the firm sales would be a smooth function around threshold absent treatment (local continuity assumption). This implies that firms do not manipulate their sales to avoid being subject to the

³ RDD is considered to be an appropriated identification strategy when the treatment is assigned based on a cutoff requirement as in the case of the UK MSA-TISC provision (based on a global sales’ threshold of £36m). RDD focuses on the observations just below and above this threshold as they are likely to be highly comparable in key characteristics other than the regulatory treatment. This offers a more credible counterfactual than the traditional difference-in-difference setting (DiD), which relies on the parallel trend assumption (i.e. treated and control firms displaying similar trends in the outcome variables absent the policy). Also the DiD with propensity score matching would require matching treated and untreated firms from different parts of the sales distribution based on a number of selected variables but cannot account for unobservables. The matched firms may be systematically different, and the comparison may introduce bias. RDD can provide stronger causal identification and is more suitable to our case.

mandatory disclosure. It also implies that the main characteristics of treated and control firms should be similar prior to the regulation but may differ from each other later, due to the different treatment status. Thus, any discontinuity of the outcome variables on each side of the cutoff can be interpreted as evidence of the causal effect of the treatment (Cattaneo et al., 2020; Imbens & Lemieux, 2008; Lee & Lemieux, 2010).⁴

In this study, we use a nonparametric strategy to estimate the regression model, as widely recommended in the RDD research (see Cattaneo et al., 2020; Gelman & Imbens, 2019; Valentim et al., 2021). This strategy focuses on observations that lie closely to the cutoff and employ a polynomial method. In our specification, we choose a simple polynomial order of 1 (i.e. we use the local linear method) for our main tests, and weight the observations using triangular kernel which put more weight to observations closer to the cutoff, as recommended by Fan and Gijbels (2018).

To illustrate the methodology, we start with the simpler local linear model described by Equation (1):

$$Y_{it+1} = \beta_0 + \beta_1 D_{it} + \beta_2 X_{it} + \beta_3 D_{it} X_{it} + \beta_4 Controls_{it} + \varepsilon_{it+1}$$

$$s. t. |X_{it}| \leq h \quad \text{Eq.(1)}$$

where i and t indicate the firm and the fiscal year, respectively; Y_{it+1} is a vector of firm's outcome variables which will be better illustrated in section 4.2.2; X_{it} is the running variable, that is the standardized sales (i.e. the distance to the regulatory threshold) obtained by taking the natural logarithm of the firm sales and subtracting the logarithm of the cutoff value (£36m); D_{it} is a binary variable indicating the treatment and it is assigned a value of 1 when firm i generates consolidated sales £36m or more in year t , and zero otherwise. β_1 is the coefficient of interest that captures the discontinuity in the outcome variables at the standardised sales' threshold. β_1 measures the average difference in the outcome variables at time t between treated (regulated) and control (unregulated)

⁴ We provide some tests to verify the local continuity assumptions in section 4.3.

firms as determined by the TISC disclosure criteria. For example, a positive estimated β_1 coefficient indicates that the average of the outcome variable for the treated firms is larger than for the control firms. By including the interaction term $D_{it}X_{it}$ in Equation (1), the slope of the running variable is β_2 to the left of the cutoff (for control firms) and $\beta_2 + \beta_3$ to the right of the cutoff (for treated firms). The interaction term helps reduce bias and improve the model fit by allowing for different local trends on either side of the threshold. $Controls_{it}$ denotes the vector of control variables which are described in section 4.2.3. h is the optimal bandwidth that defines the range around the cutoff where observations are used to estimate the local treatment effect. In our baseline tests, we use the mean-squared error (MSE) approach to compute the optimal bandwidth, which relies on a trade-off between the bias and variance of the RDD point estimator (Calonico et al., 2014, 2020).

However, as it is, Equation (1) fails to capture dynamic treatment effects. In other words, we need to consider two points: i) that the effects of the MSA regulatory disclosure requirement can be delayed or potentially persist for more than one period; and ii) that the outcome variables may be correlated over time, if they indeed respond to the same treatment. As we are interested in assessing a sequence of dynamic treatment effects on each of our outcome variables, we use the dynamic version of the regression discontinuity design, following Cellini et al. (2010), to capture any effect in the subsequent periods. For each firm i that reaches the disclosure threshold at time t , we examine the outcome τ periods later and modify Equation (1) into Equation (2) as below:

$$Y_{it+\tau} = \beta_0 + \beta_{1\tau}D_{it} + \beta_{2\tau}X_{it} + \beta_{3\tau}D_{it}X_{it} + \beta_4Controls_{it} + \varepsilon_{it+\tau}$$

$$s. t. |X_{it}| \leq h \quad \text{Eq. (2)}$$

where τ represents the number of years elapsed from the fiscal year t to the fiscal year when the outcome variable is measured. Importantly, we do not just focus on the year when the regulation was first introduced in the UK (the year 2015), as some firms may have reached the sales threshold for disclosure requirements in later years. Hence, t is not static.

Furthermore, as Cellini et al. (2010) point out, estimating Equation (2) may be inefficient if the error term includes unobserved characteristics that differ across companies (or years) but remain constant within each company over time (or within each year across firms). Hence, following Cellini et al. (2010), we pool data for multiple firms and τ periods and include firm (λ_i), calendar year (η_c), and relative year (α_τ) fixed effects. For each combination of firm and fiscal year (i, t) we select the observations from three periods ahead ($\tau = 1, 2$, and 3) to capture the dynamic effects, using the following model:

$$Y_{it+\tau} = \beta_0 + \beta_{1\tau}D_{it} + \beta_{2\tau}X_{it} + \beta_{3\tau}D_{it}X_{it} + \beta_4Controls_{it} + \alpha_\tau + \eta_c + \lambda_i + \varepsilon_{it+\tau}$$

$$s. t. |X_{it}| \leq h \quad \text{Eq.(3)}$$

The observations used to estimate Equation (3) are uniquely identified by the firm i , the fiscal year t , and the relative year τ . The coefficients $\beta_{1\tau}$, $\beta_{2\tau}$, and $\beta_{3\tau}$ are allowed to vary with τ . α_τ , η_c , and λ_i are fixed effects, respectively for the number of years that have passed since the focal fiscal year (e.g., if the firm entered treatment in 2016 and we are interested in the treatment impact on outcome variables in 2017, τ is set to be 1), for the fiscal year, and for the firm. We estimate standard errors clustered by firm i to account for the within-firm correlation over time, ensuring that the inference is robust to repeated observations over time for the same firm. Our main interest lies in estimating $\beta_{1\tau}$ to understand the causal effect of the TISC disclosure requirement in fiscal year t on the outcome variables τ periods later.

Following He et al. (2020), we estimate Equation (3) using the two-step approach suggested by Lee and Lemieux (2010). Specifically, we first run OLS regressions for each outcome variable $Y_{it+\tau}$ on the set of firms, calendar year and relative year dummies to get the vector of residualized outcome variables $\widetilde{Y_{it+\tau}}$. We then run separate RDD regressions for different relative years ($t+1$, $t+2$, $t+3$) on the residualized outcome variables $\widetilde{Y_{it+\tau}}$ as indicated in Equation (4):

$$\widetilde{Y_{it+\tau}} = \beta_0 + \beta_{1\tau}D_{it} + \beta_{2\tau}X_{it} + \beta_{3\tau}D_{it}X_{it} + \beta_4Controls_{it} + \alpha_\tau + \eta_c + \lambda_i + \varepsilon_{it+\tau}$$

$$s. t. |X_{it}| \leq h \quad \text{Eq. (4)}$$

The RDD results illustrated in section 5 refer to the estimation of this final model in Equation (4).

As we illustrate in section 4, the outcome variables are grouped according to the hypotheses being tested: To test hypotheses H1 and H2, we examine slavery-related incidents for the focal firm and its suppliers (*Focal Inc*, *Supplier Inc*) . For H3, we use operating profit margin (*OPM*) and net profit margin (*NPM*). To test hypothesis H4, we include the annual sales growth rate (*SaleG1Yr*) and the ratio between enterprise value and earnings before interests, taxation, depreciation and amortization (*EV/Ebitda*).

Notably, in contrast to several prior studies that do not include control variables in their RDD specifications, our baseline model (Equation 4) explicitly incorporates firm-level controls. The control variables are firm size (*Size*), profitability (*ROA*), leverage (*Lev*), cash holdings (*Cash*), R&D expenses (*R&D*) and the number of directors in the corporate board (*Board Size*). This helps to improve the precision of the estimates and reduce residual variation, while preserving the local identification power of the RDD design.

4. Data and Summary Statistics

4.1 Data and sample construction

To construct our sample, we start by looking at all UK firms covered by the Compustat database over the period from 2013 to 2023. We keep all firms headquartered in the UK and with available data on annual sales.⁵ For these firms, we collect other financial data from Compustat. Using the firm identifiers gathered from Compustat, we then merge the Compustat data to i) data on corporate slavery-related incidents occurrence taken from RepRisk; ii) data on board information from BoardEx; iii) supplier-customer pairs data from FactSet Revere; iv) institutional investor ownership data from FactSet Ownership; and v) customers' ESG performance data from Refinitiv. To explain,

⁵ While the TISC provision requires firms doing business in the UK to disclose (based on the global sales threshold), it does not specify a definition for “doing business in the UK”. So, we follow She (2022) and conservatively use firms headquartered in the UK.

as the TISC regulation involves not only the focal firms but also their supply chains, we also collect data about suppliers' modern slavery-related incidents from RepRisk using the supply chain information identified by FactSet Revere. We also classify industries based on whether they are highly sensitive to public perception following Lev et al. (2010) who identifies such industries with consumer goods or finance sector.

The full sample consists of 9,250 firm-year observations with 1,446 unique firms. The final samples used in each regression are narrowed due to the bandwidth selection. As the TISC regulation sets the total sales threshold for firm's mandatory disclosure at £36m, we define treated firms as those generating global sales of £36 million or higher in each year since 29th October 2015 (i.e. the date when the TISC clause was formally brought into force), and control firms as those with sales less than £36 million in the same year. There are 5,628 observations in treated group and 3,622 observations in control group in our sample.

Once a firm reaches that £36m global sales level, it becomes subject to the disclosure requirement under the UK MSA. Firms with global sales below the threshold are not legally required to disclose. This means that, in theory, a firm that meets the threshold in 2016 but falls below it in 2017 would be required to disclose in 2016, but not in 2017. The latest TISC guidance (published in March 2025) encourages firms to continue disclosing once they have met the threshold, but since our sample period ends in 2024, we reassess the firms' treatment status on a year-by-year basis. That means that firms may move in and out of treatment depending on their annual revenues. In our sample, only around 210 firm-year observations fall into this category.

4.2 Variables and summary statistics

In the RD analysis, the running variable is the continuous variable that determines which firm is assigned to the treatment (Imbens & Lemieux, 2008). Given the TSIC regulation requirement, we construct the running variable based on sales. Specifically, we take the natural logarithm of sales, as its value has a wide range going from £0.002 million to £65,762 million, then we centre it at the

cutoff level. Thus, the running variable is defined as $X = \log(\text{Sales}) - \log(36\text{m})$ which effectively measure the distance of the firm sales from the regulation threshold.

Our outcome variables can be categorized into three groups. The first group is comprised of variables measuring the occurrence of slavery-related incidents. Hypotheses H1 and H2 conjectures that the TSIC regulation on disclosure has brought a reduction of such incidents for the regulated firms and their supply chains. We identify the slavery-related incidents as the following categories of incidents in RepRisk: child labour, forced labour, human rights abuses and human trafficking. As hypothesis H3 postulates that firms exploit the regulation as an opportunity to optimize their supply chain processes and boost financial performance, we include as second group of outcome variables the operating profit margin (*OPM*) and the net profit margin (*NPM*) to capture the firm operational efficiency and profit gains. The third group of outcome variables proxy stakeholder responses (for hypothesis H4): the annual sales growth rate (*SaleG1Yr*) capturing customers' reaction and the ratio of enterprise value over earnings before interests, taxation, depreciation, and amortization (*EV/Ebitda*) capturing investors' evaluation after the mandatory disclosure has enhanced transparency.

Finally, following previous literature (Cousins et al., 2020; Dai et al., 2021; Liao et al., 2015; She, 2022), in the RD model of Equation (4) we include as control variables the firm size (*Size*) to capture firm's availability of resources, profitability (*ROA*), leverage (*Lev*) and cash holdings (*Cash*) to measure financial flexibility, R&D expense (*R&D*) to capture firm's investments in innovation and board size (*Board Size*) to account for the governance structure.

Tables 1 and 2 present respectively the variables' summary statistics for the whole sample and their means values separately for the treated and non-treated (control) firms. Treated firms which are affected by the TSIC provision at some point over the sample period are on average larger, less indebted, more profitable, but less cash rich than the control firms. They also present a higher number of modern slavery-related incidents (also in their supply chain), and experience lower growth in sales, but benefit from a higher investors' evaluation on average.

4.3 Manipulation tests

As explained in section 3, a valid RDD relies on the local continuity assumption which implies that the relationship between the running variable (used to assign the treatment) and each one of the outcome variables is smooth and continuous around the cutoff point (Cattaneo et al., 2020). The core idea is that firms just below and just above the sales cutoff point are similar in all relevant characteristics except for the treatment they receive. This assumption allows us to isolate the treatment effect by comparing the outcomes near the cutoff. It also ensures that firms cannot precisely manipulate the running variable (i.e., their sales in the financial statements) near the cutoff to avoid the TISC mandated disclosure requirement. As mentioned earlier, the direct compliance cost (i.e., drafting and publishing the disclosure statement) may not be too high, as firms are not required to take any further particular action beyond the preparation of an annual disclosing statement. Therefore, it is unlikely that firms would engage in strategic manipulation of reported sales just to avoid compliance. Nonetheless, we illustrate and provide two manipulation tests to formally assess the validity of the local continuity assumption in our RDD. We set these tests as a pre-condition to estimate the RDD models: if the variables pass these tests, then we can use them in our RDD regressions to test our three hypotheses.

4.3.1 Continuity in the density of the running variable

First, we visually inspect whether there is a discontinuous jump in the density function and distribution of the running variable around the threshold. Such discontinuity would be indicative of a non-random assignment of firms within the treatment and control groups on either side of the threshold. Figure 1 illustrates the histograms for the running variable and the density function with shaded 95% confidence intervals. As we can see, the distribution of the running variable around the threshold is generally smooth and continuous and the confidence intervals overlap.

Next, we more formally implement a manipulation test to examine whether in our sample there is a statistically significant difference in the number of firms on either marginal side of the cutoff. In other words, if firms do not systematically manipulate their sales to avoid the MSA TISC

regulation, the number of treated firms with sales *just* above the £36 million cutoff should be similar to the number of control firms with sales *just* below it. To implement this test, we use the local polynomial density estimator developed by Cattaneo et al. (2020) to separately estimate the density of the observations below and above the cutoff. As Table 3 shows, the estimated difference in the density of the running variable at the cutoff is -0.129, with a p-value of 0.897. As the difference is not statistically significant at all conventional levels, we cannot reject the null hypothesis that the density of the running variable is continuous and smooth at the cutoff. Both the plot in Figure 1 and the formal test in Table 3 support the assumption that firms do not manipulate their sales to avoid the treatment.

4.3.2 Predetermined covariates and placebo outcomes

The second type of manipulation test we run involves examining whether, in the vicinity of the sales cutoff, treated firms and control firms are similar in terms of their main characteristics *before* the treatment is assigned. Hence, we regress all the outcome variables and covariates taken at year $t-1$, that is one year before the treatment, on the running variable X , the dummy variable D , and their interaction. For brevity, in Table 4 we only present estimates, standard errors, and p-values related to the coefficient of the dummy variable. The results in Table 4 show that none of the RDD estimated coefficients for the outcome variables and covariates at $t-1$ is statistically significant, consistent with the assumption that these variables do not display any pre-existing difference between firms on either side of the threshold before the treatment takes place.

Overall, the two manipulation tests show that there is no systematic manipulation of the firm sales to avoid the MSA regulation and no discontinuity in predetermined variables, lending credibility to the RDD methodology.

5. Baseline Empirical Results

In this section, we present the baseline RDD regression results, offering also some graphical analysis and a battery of robustness checks.

5.1 RDD regression results

We first present the quantitative results of the RDD models defined by Equation (4) for testing the three hypotheses H1, H2, and H3. For brevity, in each table we report only the RDD estimator $\beta_{1\tau}$ to understand the causal effect of the TISC disclosure requirement at fiscal year t on the outcome variables at year $t+1$, $t+2$, $t+3$, that is one, two, and three years later.

First, we examine whether compliance with the TISC regulation has any effect on deterring modern slavery-related incidents within regulated firms and their suppliers. As shown in Table 5, regulated firms experience a reduction in the number of modern slavery-related incidents caused by their suppliers following the adoption of TISC, while no significant change is observed for incidents caused by the focal regulated firms themselves. The result supports hypothesis H1b, showing that firms have responded to the regulation by pushing for better practices among their suppliers, albeit only in the first year after the disclosure mandate and at a significance level of 6%. This suggests that firms engage in some visible compliance efforts to improve supply chain practices immediately after the TISC adoption, though this effect does not persist in later years. The absence of statistically significant evidence for the reduction in the focal firm's incidents across all post-adoption years leads to a rejection of hypothesis H1a and suggests that firms are more likely to influence their suppliers' behaviour than to address internal issues. This may be because the TISC provision places explicit emphasis on supply chain transparency, thereby incentivizing firms to prioritize supplier monitoring over internal reforms. Alternatively, it is possible that, at least for some firms, strong internal controls were already in place before the TISC adoption, leaving limited scope for further improvement in the short to medium term. Our findings are consistent with those of Dai et al. (2021) and Chen et al. (2025) showing that corporate customers (the focal firms) can play an active role in deterring misconduct among their suppliers.

Next, we examine the effect of the TISC regulation from MSA on firm operating performance and profitability. In particular, we look at the firm's operating profit margin and net profit margin. Table 6 reports the RDD results ($\beta_{1\tau}$ estimates, standard errors and relative p-values) when the

outcome variable is the firm profitability over the three years following the TISC adoption. We find that regulated firms experience a statistically significant increase in operating profit margin during the first two years post-adoption, while net profit margin shows consistent and significant improvement over the full period. These findings suggest that compliance with the TISC provision is associated with sustained financial benefits. The results support hypothesis H2 that proactive supply chain management and reputational risk mitigation can yield operational and financial benefits.

To further assess whether the observed profitability gains are driven by enhanced operating efficiency through meaningful cost savings, we examine the impact of the TISC regulation on key operational costs. Using the same RDD framework, we analyze the impact on cost of goods sold (COGS) and selling, general, and administrative expenses (SG&A). As shown in Table 7, we find a statistically significant reduction in COGS and SG&A expenses during the 3-year window, reflecting better supplier management, streamlined operations, and internal administrative efficiencies. To comply with the TISC regulation, firms are required to strengthen the oversight of their existing suppliers through measures such as auditing and training. The increase in transparency and communication enables firms to get a better picture of their suppliers' operations, thereby improving procurement and production efficiency. Furthermore, as a result of the regulation, adherence to high human rights standards becomes an important criterion in suppliers' selection. This can lead to partnerships with higher-quality suppliers, resulting in fewer defective or delayed products and reduced supply chain interruptions, and thus improvements in operating margins.

Finally, we present the results of the RDD models that examine how stakeholders respond to modern slavery disclosures and test hypothesis H3. As shown in Table 8, we observe a dynamic pattern in investors' reaction. Investors' evaluation measured by the EV/EBITDA ratio significantly declines in the first year following the firm assignment to the TISC compliance but then it increases significantly by the third year. While regulated firms experience an immediate improvement in operating profit margin, EV/EBITDA falls in the first year. This may reflect investors' uncertainty

about the sustainability of those improvements. Investors may have concerns about the risk of supply chain disruption and the heightened regulatory scrutiny. However, over a longer horizon, as firms demonstrate sustained improvements in operational efficiency and build reputational credibility, investor confidence appears to recover. Investors begin to appraise the longer-term operational and reputational benefits, to view the firm's future cash flow prospects more favourably, thus leading to a rebound in firm valuation. However, we do not observe any significant impact of the MSA-TISC mandated disclosure on the firm sales growth. This result may suggest that consumers on average do not view the mandated disclosure as a meaningful signal or may lack awareness and incentives to change their purchasing behaviour.

Overall, our baseline RDD results indicate that, even though the TISC provision is considered a soft-touch disclosure regulation, it can still incentivize firms to adopt more ethical supply chain practices. It may also generate positive spillovers in terms of enhanced operational efficiency and improved profitability for the regulated firms. These sustained financial benefits appear to offset the initial investor uncertainty and ultimately lead to a positive market revaluation.

In Appendix, Figures A1 to A6 help visualize the results from the RDD regression. Specifically, we plot each of the outcome variables with significant RDD results (i.e. the residual Supplier Incidents, OPM, NPM and EV/Ebitda after controlling firm fixed effects, calendar year fixed effects, and relative year fixed effects) against standardized sales within the optimal bandwidth for each estimation. Each dot in the figures represents the sample average of the outcome variable within each bin of standardized sales, constructed using the quantile spaced mimicking variance method. The solid lines on either side depict separate local linear fits around the cutoff. As an example, Figure A1 shows a decline in the average number of modern slavery-related incidents among suppliers at $t+1$, as indicated by a drop just to the right of the standardized sales cutoff.

5.2 Robustness tests

Next, we conduct a battery of robustness checks for our RD methodology. First, we present placebo tests where we estimate the effect of the TISC mandate disclosure on the outcome variables at placebo cutoffs. Because the treatment status of the firms does not really change at these placebo cutoff points, we expect no significant impact. To prevent real treatment effects from interfering with our placebo tests, we adjust the way we select observations for the placebo cutoffs following Cattaneo et al. (2019) suggest. Specifically, for placebo cutoffs placed above the actual threshold, we include only the treated group, i.e. the yearly observations for firms with sales equal or above £36 million. For placebo cutoffs below this real threshold, we include only the control group, which consists of the yearly observations for firms with annual sales less than £36 million. This ensures that we only use the observations that share the same treatment status. Thus, any estimated treatment effect at these placebo cutoffs should be zero by design. We choose as placebo cutoff points £48 million sales for the treated group, and £24 million sales for the control group. We then redefine the standardized sales using these new cutoffs, i.e. $\log(\text{Sales}) - \log(48\text{m})$ for the treated group and $\log(\text{Sales}) - \log(24\text{m})$ for the control group. Using the same specification outlined in Equation (4), we re-perform the regressions and, for brevity, we report the results only for the outcome variables that present significant coefficients in the baseline tests where we included the whole sample of firms. Table 9 shows the RDD regression results using the placebo cutoffs (showing placebo $\beta_{1\tau}$ estimates, standard errors and relative p-values). The coefficients of the dummy D_{it} for all outcome variables become statistically insignificant for both placebo cutoffs through the 3-year period following the introduction of the MSA regulation, as we expected. The results strengthen the validity of our RDD.

Second, in the baseline tests, we use the mean-squared error (MSE) approach to select the optimal bandwidth for point estimation. This approach chooses the bandwidth that minimizes the MSE of the RD estimator while ensuring equal bandwidths on either side of the cutoff. For robustness, we try to use as alternative bandwidth selectors: (i) MSE-SUM that is a common MSE-

optimal bandwidth selector based on the sum of the regression estimates; (ii) CER-RD that is a common Coverage Error Rate CER-optimal bandwidth selector for the RD treatment effect estimator; and (iii) CER-SUM that is one common CER-optimal bandwidth selector for the sum of the regression estimates.⁶ The results in Table 10 based on different bandwidth selectors are qualitatively similar to the results generated in the baseline tests, which indicates that the estimation of the treatment effect is not sensitive to the selection of bandwidths and supports the robustness of our results.

Third, we use alternative kernels to re-estimate our models. In the baseline tests, we use the triangular kernel along with the MSE-optimal bandwidth, as it provides a point estimator with optimal properties. We now consider as alternative kernels the Epanechnikov kernel, which applies a quadratic decay to weights within the bandwidth and assigns zero weight beyond it; and the Uniform kernel, which assigns equal weight to all observations within the bandwidth and zero weight to those outside. Table 11 shows that the results are not sensitive to the choice of kernel.

Fourth, we use different form of polynomial terms capturing the potential non-linear relationship between the outcome variables and the running variable. As we mentioned in Section 3.1, inference based on local low-order polynomials (local linear or local quadratic) is preferred according to Gelman & Imbens (2019). Hence, we use only quadratic polynomials to check the robustness of our results which is confirmed by Table 12.

6. Heterogeneity tests

6.1 Heterogeneous effects of the TISC mandated disclosure on slavery-related incidents and firm profitability

As the UK MSA and the TSIC clause do not rely on government enforcement, we now conduct some heterogeneity tests to understand whether and to what extent the impact of this disclosure on the regulated firms depend on the level of internal and external monitoring and pressure firms

⁶ CER, or Coverage Error Rate, focuses on the accuracy of confidence intervals, while MSE, or Mean Squared Error, evaluates the accuracy of estimators in general. In the context of regression discontinuity designs, CER-optimal bandwidths are chosen to optimize the coverage of confidence intervals, while MSE-optimal bandwidths aim to minimize the mean squared error of the estimated treatment effect. We refer the reader to Calonico et al. (2020) for more technical details.

receive from board accountability and public scrutiny. We re-run the baseline RDD tests separately on sub-samples of firms split by three characteristics: (i) CEO duality, i.e. whether the CEO is also a board member, signalling the possibility of stronger transparency and coordination of the leadership decision-making with board monitoring; ii) level of market competition in the industry where the firm operates, adding more external pressure to the firm; and (iii) the percentage of institutional ownership which serves as a stronger external monitoring mechanism.

First, we split the sample based on whether the firm's CEO also serves as a board member and re-run our tests on each sub-sample. Table 13 illustrates that, following the MSA TISC regulation, firms where the CEO also sits on the board show more pronounced improvements in supply chain behaviour, with a sharper reduction of slavery-related incidents, and a stronger positive impact also on their profitability. The CEO-board duality helps mitigate information asymmetry between the top management and the board, thereby reducing the potential for symbolic compliance (Jensen & Meckling, 1976). Moreover, the tighter alignment between the top executive and board oversight may enable firms to allocate resources more effectively to monitor suppliers and support meaningful integration of responsible supply chain practices, which translates into long-term cost efficiency.

Second, we split the sample into firms operating in high- and low-competition industries using the Herfindahl-Hirschman Index (HHI), calculated by squaring the sales-based market share of each firm within a 2-digit SIC-defined industry. As shown in Table 14, we observe a more pronounced effect of the TISC mandated disclosure among firms operating in highly competitive markets. Compared to firms with greater market power, those in highly competitive environments face stronger incentives to differentiate themselves. As social and environmental responsibility serves as a source of competitive advantage (Porter & Kramer, 2006), proactively addressing slavery risks may help firms reduce procurement inefficiencies, build stakeholder trust, and mitigate supply chain disruptions, which contribute to improved margins.

Lastly, we split the sample based on the median level of institutional ownership. Consistent with Dyck et al. (2019), we find that firms with higher institutional ownership experience more substantial reduction in supplier-related incidents. This supports the view that institutional investors act as external monitors that amplify social scrutiny and pressurize firms to adopt more substantive compliance efforts. Moreover, our findings align with Jo and Harjoto (2011), who argue that institutional investors can promote long-term value creation through improved ESG performance.

Collectively, these results suggest that the effectiveness and benefits of the TISC provision are moderated by governance structure, market pressure, and investor monitoring. Firms facing stronger internal and external accountability are more likely to respond meaningfully to the regulation and are better positioned to translate regulatory compliance into sustained operational and financial performance.

6.3 Heterogeneous effects of the TISC mandated disclosure on firm stakeholders

Next, we examine how stakeholder responses to the mandated disclosure vary across firms based on customer sensitivity and whether the firms have pro-social investors.

First, we split the sample based on whether the firms operate in high customer-sensitive industries (the consumer goods or finance sector, as identified by Lev et al., 2010). As shown in Table 16, firms operating in more consumer-sensitive sectors experience significantly higher sales growth following the TISC regulation adoption, particularly in the second and third year after the adoption. These firms also see a substantial increase in valuation by the third year. In contrast, non-consumer-sensitive firms show no significant sales response and a sharper initial decline in valuation. Our findings are consistent with the literature showing that CSR activities can enhance firm value and future revenue growth for firms with high customer awareness (Auger et al., 2003; Lev et al., 2010; Servaes & Tamayo, 2013).

Table 17 shows the results of the heterogeneity tests based on the presence of pro-social institutional investors in the firm. More specifically, a firm is considered as having pro-social investors if at least one institutional investor that is a PRI signatory holds 5% or more of the firm's

shares those where investors that have signed the UN Principles for Responsible Investment (PRI) hold at least 5% of the firm's outstanding shares. We find that firms with PRI-signatory institutional investors experience a significant drop in valuation in the first year, but also a stronger and more statistically significant rebound in valuation over the subsequent two years. This pattern aligns with the findings of Dimson et al. (2015) who show that ESG-oriented institutional investors engage actively with firms to drive meaningful improvements. This successful engagement can lead to improved performance in those firms and higher evaluation.

Taken together, these findings highlight that stakeholder responses to the TISC disclosure-based regulation are highly context-dependent. Firms operating in consumer-sensitive industries and those funded and overseen by more ESG-oriented investor are more likely to internalize the regulatory intent and translate compliance into reputational and financial gains.

7. Summary of Findings and Concluding Discussion

Our study shows that TISC-regulated firms under the UK MSA experience a reduction in the number of modern slavery-related incidents caused by their suppliers following the adoption of the TISC disclosure mandate, while no significant change is observed for incidents caused by the regulated firms themselves. Firms engage in visible compliance efforts to improve supply chain practices immediately after the TISC adoption, but the effect does seem to not persist in later years. The absence of statistically significant evidence on the reduction in the regulated firm's modern-slavery incidents across all post-adoption years suggests that firms are more likely to influence their suppliers' behaviour than to address internal issues. This may be because the TISC provision places explicit emphasis on supply chain transparency, thereby incentivizing firms to prioritize supplier monitoring over internal reforms. Alternatively, it is possible that, at least for some firms, strong internal controls were already in place before the TISC adoption, leaving limited scope for further improvement in the short to medium term.

Further, we observe that regulated firms experience a statistically significant increase in operating profit margin during the first two years post-adoption, while net profit margin shows

consistent and significant improvement over the full period. To complement this result, our study also shows a reduction in COGS and SG&A expenses during the 3-year window, reflecting better supplier management, streamlined operations, and internal administrative efficiencies. The increase in transparency and monitoring enables firms to get a better picture of their suppliers' operations, thereby improving procurement systems and production efficiency. Furthermore, the regulation can lead to partnerships with higher-quality suppliers, resulting in fewer defective or delayed products and reduced supply chain interruptions, with improvements in operating margins.

When we look at stakeholder reactions to the TISC modern-slavery disclosure, we find that investors' evaluation significantly declines in the first year following the firm compliance to TISC but then significantly increases by the third year. Investors may have initial concerns about the risk of supply chain disruptions and heightened regulatory scrutiny. However, over a longer horizon, as firms demonstrate sustained improvements in operational efficiency and build reputational credibility, investor confidence appears to recover. We do not observe any significant impact of the MSA-TISC mandated disclosure on the firm sales growth. This result may suggest that consumers on average do not view the mandated disclosure as a meaningful signal or may lack awareness and incentives to change their purchasing behaviour in favour of the regulated firms.

We provide however a number of heterogeneity tests to better understand under which conditions the TISC benefits can materialise more substantially. We observe that firms where the CEO also sits on the board show more pronounced improvements in supply chain behaviour, with a sharper reduction of slavery-related incidents, and a stronger positive impact on their profitability. A tighter alignment between the top executive and board oversight and lower information asymmetry may enable firms to allocate resources more effectively to monitor suppliers and support meaningful integration of responsible supply chain practices, which translates into long-term cost efficiency. We also observe a more pronounced effect of the TISC mandated disclosure among firms operating in highly competitive markets that face stronger incentives to differentiate themselves. Furthermore, we find that firms with higher institutional ownership experience more substantial

reduction in supplier-related incidents. This supports the view that institutional investors act as external monitors that amplify social scrutiny and pressurize firms to adopt more substantive compliance efforts. More specifically on stakeholder reaction, firms operating in more consumer-sensitive sectors experience significantly higher sales growth following the TISC regulation adoption, particularly in the second and third year after the adoption. These firms also see a substantial increase in valuation by the third year. In contrast, non-consumer-sensitive firms show no significant sales response and a sharper initial decline in valuation. Firms with pro-social institutional investors experience a significant drop in valuation in the first year, but also a stronger and more statistically significant rebound in valuation over the subsequent two years.

Collectively, these results suggest that the effectiveness and benefits of the TISC provision on supply chain monitoring, costs, and firm profitability are moderated by governance structure, market pressure, and investor monitoring. The findings also highlight that the stakeholder responses to the TISC disclosure-based regulation are highly context-dependent. Firms facing stronger internal and external accountability, operating in consumer-sensitive industries and funded and overseen by more pro-social investors are more likely to respond more meaningfully to the regulation, are better positioned to translate regulatory compliance into sustained operational and financial performance, to internalize the regulatory intent, and translate compliance into reputational and financial gains.

Our study is nested in an interesting ongoing debate around the effectiveness and impact of the UK MSA and the TISC clause amongst scholars and lawmakers which has not yet settled. Academic researchers are sceptical. For instance, LeBaron & Rühmkorf (2017) argue that compared to laws like the UK Bribery Act, which imposes criminal liabilities to offending companies, the MSA has had less impact on corporate strategy and supply chain governance, particularly because of its reliance on voluntary extent of reporting extent and of absence of mandatory due diligence. Lawmakers have also reviewed the law. In 2024 the House of Lords Select Committee named 'The Modern Slavery Act 2015: Becoming world-leading again' has summarised ways for the new Labour Government to take action and make the UK world-leading in the battle against modern slavery

once again. The report recommended that the Government should introduce: (i) legislation requiring companies meeting the threshold to undertake modern slavery *due diligence* in their supply chains and to take reasonable steps to address problems; (ii) proportionate sanctions for organisations that do not comply with supply chain requirements; and (iii) publications of modern slavery statements to be made mandatory. The Government has published its response to this report in mid-December 2024. Although supportive of the need for change, many recommendations were met with re-confirmation of current processes and procedures or comments that legislation needed to be considered as part of a wider review. With respect to supply chains, no tangible commitments were made to implement the committee's recommendations. While this may be an underwhelming response to the expressed need of changing the Act provisions and enforcement methods, on 25 March 2025, the Home Office has published an updated version of its Transparency in Supply Chains Guidance.⁷ The updated guidance provides much greater detail on the type of content an MSA statement should contain and a number of case studies to aid understanding. The guidance states that responsible organisations are those which acknowledge the risks, take active steps to identify and mitigate these risks, remediate harms, and can demonstrate publicly that they are tracking progress and continuously improving. Through this guidance, and by focusing on transparency, accountability, and sustained progress, the UK Government seeks to inspire a 'race to the top' culture where organisations aim to lead the way in tackling modern slavery in their businesses and supply chains.⁸

While the recent House of Lords' recommendations point at introducing mandatory due diligence and sanctions for non-compliance, our study is interesting in that it shows that the current type of mandated disclosure (without any Government role in enforcement and sanctions) has already showed some material impact on firms' behaviour and supply-chain monitoring, with

⁷ Details at: [Transparency in supply chains: a practical guide \(accessible\) - GOV.UK](#)

⁸ Furthermore, the new UK Procurement Act 2023 strengthens the exclusion regime in relation to modern slavery, to prevent exploitative companies convicted of certain offences under modern slavery legislation from securing government contracts.

consequences on cost efficiency and accounting profits, albeit often in heterogenous, contextual and delayed way. Our study also shows that stakeholders initially view disclosures as costly, insufficient or performative, and this causes a lower valuation from investors. However, over time the Act's effectiveness builds up and is shaped by internal governance, stakeholder pressure, and industry norms. It is reasonable to assume that the reinforced TISC guidance may show further impact in this sense, and this can be subject to investigation of future research.

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Tables and Figures

Table 1. Summary statistics

Variables	N	Mean	SD	p25	p50	p75	p99
<i>Firm Characteristics:</i>							
Sales	9,250	1,819	10,617	12.280	79.730	551.400	30,042
Standardized Sales (X)	9,250	0.683	2.912	-1.076	0.795	2.729	6.727
MSA Exposure (D)	9,250	0.608	0.488	0.000	1.000	1.000	1.000
Size	9,243	4.889	2.605	3.047	4.651	6.617	11.760
Cash	9,242	0.181	0.194	0.050	0.108	0.241	0.858
Lev	9,235	0.490	17.390	-0.147	0.059	0.243	1.590
R&D	8,847	-0.109	2.150	-0.082	0.016	0.066	0.395
ROA	9,250	0.040	0.196	0.000	0.000	0.025	0.491
Board Size	7,069	6.685	2.206	5	6	8	13
<i>Outcome Variables:</i>							
Focal Inc	9,250	0.108	0.904	0.000	0.000	0.000	3.000
Supplier Inc	9,250	2.226	9.581	0.000	0.000	0.000	52.500
SaleG1yr	8,849	1.187	35.980	-0.039	0.079	0.249	6.327
EV/Ebitda	7,801	6.306	135.200	-0.703	7.254	12.880	158.800
OPM	9,241	-3.737	49.820	-0.022	0.094	0.196	0.714
NPM	9,250	-4.976	87.240	-0.177	0.016	0.080	0.734
COGS	9,245	1.203	13.590	0.331	0.547	0.732	7.917
SG&A	9,016	3.133	40.360	0.145	0.308	0.592	42.960
<i>Moderators</i>							
Comp. Market	9,250	0.480	0.500	0	0	1	1
CEO on board	9,250	0.594	0.491	0	1	1	1
IO	9,250	0.494	0.500	0	0	1	1
PRI Inv.	9,250	0.487	0.500	0	0	1	1
Cust. Sens.	9,250	0.439	0.496	0	0	1	1

Table 2. Sample composition and mean values of variables over treated and control samples

Variables	Observations		Mean		Difference in Means	p -value
	Treated	Control	Treated	Control		
<i>Firm Characteristics:</i>						
Sales (in £ millions)	5,628	3,622	2,982.744	10.605	2972.139	0.000
Standardized Sales (X)	5,628	3,622	2.516	-2.167	4.683	0.000
Size	5,626	3,617	6.389	2.556	3.833	0.000
Cash	5,626	3,616	0.129	0.263	-0.135	0.000
Lev	5,624	3,611	0.119	1.067	-0.948	0.011
RD	5,628	3,622	0.015	0.079	-0.064	0.000
ROA	5,532	3,315	0.03	-0.341	0.371	0.000
Board Size	4,488	2,581	7.498	5.271	2.228	0.000
<i>Outcome Variables:</i>						
Focal Inc	5628	3622	0.174	0.005	0.169	0.000
Supplier Inc	5628	3622	2.865	1.234	1.631	0.000
SaleG1yr	5532	3317	0.21	2.815	-2.605	0.001
EV/Ebitda	4903	2898	9.436	1.011	8.425	0.008
OPM	5626	3615	0.149	-9.786	9.936	0.000
NPM	5628	3622	0.013	-12.728	12.741	0.000
COGS	5627	3618	0.557	2.207	-1.651	0.000
SG&A	5459	3557	0.26	7.543	-7.282	0.000
<i>Moderators</i>						
Comp. Market	5628	3622	0.426	0.564	-0.137	0.000

CEO on board	5628	3622	0.624	0.549	0.074	0.000
IO	5628	3622	0.554	0.401	0.153	0.000
PRI Inv.	5628	3622	0.583	0.340	0.243	0.000
Cust. Sens.	5628	3622	0.458	0.409	0.049	0.000

Table 3. Manipulation test: Difference in density of the running variable (X=standardized sales) around the sales cutoff

Running Variable	X
Diff. in density around the cutoff	-0.129
p-value	0.897
BW (h) – left	1.608
BW (h) – right	1.470
Eff. Obs.	3,711

Table 4. Placebo RDD regressions on predetermined outcome variables and covariates

Panel A.

Lagged Outcome Variables	Focal Inc	Supplier Inc	Customer Inc	OPM	NPM	SaleG1Yr	EV/Ebitda
Coef.	0.023	-0.523	-0.029	-1.038	-1.771	-2.072	6.380
Std. Err.	0.023	1.926	0.934	0.973	1.353	2.710	13.559
BW (h)	0.726	1.648	1.912	0.722	0.708	2.552	2.101
Eff. Obs.	1,827	3,839	4,303	1812	1,784	5,232	3,858

Panel B.

Lagged Controls	Size	Cash	Lev	R&D	ROA	Board Size
Coef.	0.078	-0.007	-0.012	0.002	0.004	0.070
Std. Err.	0.091	0.019	0.041	0.007	0.026	0.167
BW (h)	1.338	1.907	0.787	1.575	1.124	1.339
Eff. Obs.	3,199	4,288	1,957	3,711	2,628	2,405

Table 1. Impact of the TISC mandatory disclosure on regulated firms and suppliers' slavery-related incidents

The reported bandwidths $BW(h)$ are computed using the mean-squared error (MSE) approach proposed by Calonico, Cattaneo, and Titiunik (2014), which defines the range (of log sales) around the cutoff used for the local estimation. The effective number of observations refers to the number of observations within the selected bandwidth used in each estimation. Standard Errors are clustered at firm level and reported below the estimated coefficients $\beta_{1\tau}$ (see Equation 4). ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Outcome Variables:		Focal Inc	Supplier Inc
Individual regression for			
outcome at:			
t+1	Coef.	-0.003	-1.462*
	Std. Err.	0.005	0.798
	BW (h)	1.250	1.496
	Eff. Obs.	1978	2337
t+2	Coef.	-0.004	0.206
	Std. Err.	0.005	0.900
	BW (h)	0.858	1.243
	Eff. Obs.	1202	1655
t+3	Coef.	0.007	-0.262
	Std. Err.	0.007	0.822
	BW (h)	1.171	1.678
	Eff. Obs.	1268	1729
	Controls	Y	Y
	Firm FE	Y	Y
	Cal. Year FE	Y	Y
	Rel. Year FE	Y	Y

Table 2. Impact of the TISC mandatory disclosure on regulated firms' profitability

The reported bandwidths BW(h) are computed using the mean-squared error (MSE) approach proposed by Calonico, Cattaneo, and Titiunik (2014), which defines the range (of log sales) around the cutoff used for the local estimation. The effective number of observations refers to the number of observations within the selected bandwidth used in each estimation. Standard Errors are clustered at firm level and reported below the estimated coefficients $\beta_{1\tau}$ (see Equation 4). ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Outcome Variables:		OPM	NPM
Individual regression for outcome at:			
t+1	Coef.	0.180**	0.276*
	Std. Err.	0.085	0.146
	BW (h)	0.510	0.587
	Eff. Obs.	842	981
t+2	Coef.	0.134***	0.158**
	Std. Err.	0.043	0.073
	BW (h)	0.810	0.722
	Eff. Obs.	1131	1003
t+3	Coef.	0.088	0.310***
	Std. Err.	0.056	0.097
	BW (h)	0.586	0.538
	Eff. Obs.	669	616
	Controls	Y	Y
	Firm FE	Y	Y
	Cal. Year FE	Y	Y
	Rel. Year FE	Y	Y

Table 3. Impact of the TISC mandatory disclosure on regulated firms' operating costs

The reported bandwidths BW(h) are computed using the mean-squared error (MSE) approach proposed by Calonico, Cattaneo, and Titiunik (2014), which defines the range (of log sales) around the cutoff used for the local estimation. The effective number of observations refers to the number of observations within the selected bandwidth used in each estimation. Standard errors are clustered at firm level and are reported below the estimated coefficients $\beta_{1\tau}$ (see Equation 4). ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Outcome Variables:		COGS	SG&A
Individual regression for outcomes at time:			
t+1	Coef.	-0.042*	-0.092
	Std. Err.	0.021	0.054
	BW (h)	0.598	0.497
	Eff. Obs.	1001	818
t+2	Coef.	-0.028	-0.078*
	Std. Err.	0.014	0.047
	BW (h)	0.512	0.840
	Eff. Obs.	714	1174
t+3	Coef.	-0.030*	-0.029
	Std. Err.	0.016	0.032
	BW (h)	0.510	0.641
	Eff. Obs.	573	729
	Controls	Y	Y
	Firm FE	Y	Y
	Cal. Year FE	Y	Y
	Rel. Year FE	Y	Y

Table 4. Impact of the TISC mandatory disclosure on regulated firms' stakeholders

The reported bandwidths BW(h) are computed using the mean-squared error (MSE) approach proposed by Calonico, Cattaneo, and Titiunik (2014), which defines the range (of log sales) around the cutoff used for the local estimation. The effective number of observations refers to the number of observations within the selected bandwidth used in each estimation. Standard errors are clustered at firm level and are reported below the estimated coefficients $\beta_{1\tau}$ (see Equation 4). ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Individual regression for outcomes at time:	Outcome Variables:	SaleG1Yr	EV/Ebitda
	$\beta_{1\tau}$		
t+1	Coef.	-0.252	-14.235**
	Std. Err.	0.414	6.111
	BW (h)	0.646	1.764
	Eff. Obs.	1080	2581
t+2	Coef.	-0.051	1.982
	Std. Err.	0.390	7.094
	BW (h)	0.862	1.574
	Eff. Obs.	1200	1976
t+3	Coef.	-0.190	16.94***
	Std. Err.	0.459	5.438
	BW (h)	1.672	1.051
	Eff. Obs.	1713	1092
	Controls	Y	Y
	Firm FE	Y	Y
	Cal. Year FE	Y	Y
	Rel. Year FE	Y	Y

Table 5. Impact of the TISC mandatory disclosure on regulated firms' outcomes using placebo cutoffs

Individual regression for outcomes at time:	Outcome variables: Placebo cutoffs:	Supplier Inc		OPM		NPM		EV/Ebitda	
		log(£48m)	log(£24m)	log(£48m)	log(£24m)	log(£48m)	log(£24m)	log(£48m)	log(£24m)
t+1	$\beta_{1\tau}$								
	Coef.	-0.473	-0.656	-0.004	-0.806	0.090	-0.737	-17.060	-2.059
	Std. Err.	1.250	1.588	0.049	0.769	0.198	0.786	18.989	7.491
	BW (h)	0.423	0.393	0.387	0.381	0.391	0.402	0.351	0.349
	Eff. Obs.	570	647	537	630	540	660	490	570
t+2	Coef.	-0.315	-3.828	-0.006	0.004	0.122	-0.170	-12.436	3.999
	Std. Err.	0.982	2.076	0.029	0.225	0.073	0.338	6.612	10.045
	BW (h)	0.367	0.357	0.378	0.242	0.412	0.261	0.433	0.383
	Eff. Obs.	440	503	445	354	477	375	470	517
t+3	Coef.	-1.171	1.626	-0.064	0.186	-0.089	-0.613	-15.031	-11.019
	Std. Err.	1.766	1.962	0.082	0.272	0.090	0.416	18.367	10.702
	BW (h)	0.500	0.448	0.344	0.374	0.378	0.372	0.532	0.363
	Eff. Obs.	432	494	329	435	346	434	433	402
	Controls	Y	Y	Y	Y	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y	Y	Y	Y	Y

Table 10. Robustness check: Alternative bandwidth selectors in RDD

Individual regressions for outcomes at time:	Outcome variables :		Supplier Inc			OPM	
	BW selectors	MSE-SUM	CER-RD	CER-SUM	MSE-SUM	CER-RD	CER-SUM
t+1	$\beta_{1\tau}$						
	Coef.	-1.242*	-1.760*	-1.564*	0.214**	0.103*	0.099*
	Std. Err.	0.702	0.940	0.863	0.108	0.062	0.060
	BW (h)	1.846	1.052	1.298	0.540	0.359	0.380
t+2	Eff. Obs.	2740	1681	2045	904	599	620
	Coef.	-0.005	0.841	0.514	0.141***	0.178***	0.176***
	Std. Err.	0.807	1.103	1.016	0.049	0.046	0.045
	BW (h)	1.444	0.876	1.018	0.821	0.571	0.579
t+3	Eff. Obs.	1888	1218	1389	1151	800	815
	Coef.	-0.353	0.094	0.070	0.091	0.121**	0.118**
	Std. Err.	0.783	1.052	1.003	0.057	0.054	0.057
	BW (h)	1.798	1.190	1.275	0.543	0.416	0.385
	Eff. Obs.	1826	1292	1377	620	463	424
	Controls	Y	Y	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y	Y	Y
	Outcome variables:		NPM			EV/Ebitda	
	BW selectors	MSE-SUM	CER-RD	CER-SUM	MSE-SUM	CER-RD	CER-SUM
t+1	$\beta_{1\tau}$						
	Coef.	0.282*	0.122	0.121	-13.62**	-15.145**	-15.265**
	Std. Err.	0.146	0.104	0.103	5.791	7.468	7.105
	BW (h)	0.606	0.413	0.426	1.937	1.242	1.364
t+2	Eff. Obs.	1011	679	699	2781	1918	2089
	Coef.	0.202***	0.215**	0.261***	2.158	2.866	2.601
	Std. Err.	0.081	0.086	0.092	7.447	8.109	8.309
	BW (h)	0.580	0.509	0.409	1.455	1.112	1.028
t+3	Eff. Obs.	819	707	570	1842	1436	1346
	Coef.	0.249***	0.288***	0.301***	15.969***	16.431**	16.235***
	Std. Err.	0.085	0.103	0.096	5.116	6.637	6.090
	BW (h)	0.710	0.382	0.504	1.206	0.747	0.857
	Eff. Obs.	801	420	564	1243	795	922
	Controls	Y	Y	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y	Y	Y

Table 6. Robustness check: Alternative kernels in RDD

Outcome Variables:		Supplier Inc		OPM	
Alternative Kernel:		Epanechnikov	Uniform	Epanechnikov	Uniform
t+1	$\beta_{1\tau}$				
	Coef.	-1.422*	-1.300*	0.261*	0.230*
	Std. Err.	0.792	0.717	0.148	0.148
	BW (h)	1.443	1.397	0.589	0.583
	Eff. Obs.	2243	2192	984	977
t+2	Coef.	0.068	-0.156	0.117***	0.060***
	Std. Err.	0.886	0.774	0.043	0.041
	BW (h)	1.202	1.242	0.802	0.774
	Eff. Obs.	1601	1654	1116	1076
t+3	Coef.	-0.293	-0.640	0.078	0.126**
	Std. Err.	0.809	0.684	0.055	0.052
	BW (h)	1.592	1.770	0.644	0.418
	Eff. Obs.	1658	1788	432	466
	Controls	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y
Outcome Variables:		NPM		EV/Ebitda	
Alternative Kernel:		Epanechnikov	Uniform	Epanechnikov	Uniform
t+1	$\beta_{1\tau}$				
	Coef.	0.316*	0.501*	-11.993**	-19.122**
	Std. Err.	0.173	0.285	5.044	7.580
	BW (h)	0.576	0.518	2.189	1.035
	Eff. Obs.	962	859	3090	1622
t+2	Coef.	0.148**	0.083	2.464	1.087
	Std. Err.	0.082	0.072	7.451	9.112
	BW (h)	0.815	0.721	1.406	1.094
	Eff. Obs.	1144	1001	1791	1418
t+3	Coef.	0.314***	0.185**	16.867***	16.909***
	Std. Err.	0.101	0.107	5.248	5.010
	BW (h)	0.588	0.438	1.053	1.013
	Eff. Obs.	669	487	1093	1062
	Controls	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y

Table 7. Robustness check: Alternative polynomial (quadratic function) in RDD

Outcome variables:		Supplier Inc	OPM	NPM	EV/Ebitda
$\beta_{1\tau}$					
t+1	Coef.	-1.755*	0.302**	0.373*	-16.315*
	Std. Err.	0.928	0.159	0.186	7.968
	BW (h)	2.434	1.188	1.235	2.265
	Eff. Obs.	3473	1877	1949	3188
t+2	Coef.	0.705	0.143**	0.158	2.327
	Std. Err.	1.160	0.082	0.118	9.055
	BW (h)	1.797	1.015	0.998	2.108
	Eff. Obs.	2248	1385	1364	2467
t+3	Coef.	-0.272	0.108	0.356***	19.194***
	Std. Err.	0.933	0.070	0.111	6.621
	BW (h)	2.943	0.950	1.010	1.696
	Eff. Obs.	2668	1067	1113	1670
	Controls	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y

Table 8. Heterogeneity tests: changing impact of TISC regulation on modern slavery-related incidents and firm profitability depending on CEO duality

The bandwidth(h) is computed using the mean-squared error (MSE) approach proposed by Calonico, Cattaneo, Titiunik (2014), which defines the range (in log sales) around the cutoff used for local estimation. The effective number of observations refers to the number of observations within the selected bandwidth used in each estimation. Standard errors are clustered at the firm level and reported below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Panel A. Impact on slavery-related incidents

Individual regressions for outcomes at time:	Outcome variables: $\beta_{1\tau}$	Focal Inc		Supplier Inc	
		CEO on board	CEO not on board	CEO on board	CEO not on board
t+1	Coef.	0.001	-0.013	-1.777**	-0.987
	Std. Err.	0.006	0.009	0.854	1.681
	BW (h)	1.281	1.279	1.354	1.451
	Eff. Obs.	1466	552	1553	603
t+2	Coef.	-0.002	-0.005	-0.715	0.575
	Std. Err.	0.005	0.009	0.800	1.155
	BW (h)	0.795	0.929	1.766	1.977
	Eff. Obs.	764	384	1620	625
t+3	Coef.	0.001	0.014	-0.395	0.122
	Std. Err.	0.005	0.020	0.851	1.566
	BW (h)	1.158	1.469	1.374	2.200
	Eff. Obs.	893	431	1059	562
	Controls	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y

Panel B. Impact on firm profitability

	Outcome variables: $\beta_{1\tau}$	OPM		NPM	
		CEO on board	CEO not on board	CEO on board	CEO not on board
t+1	Coef.	0.179*	-0.034	0.338*	0.168
	Std. Err.	0.102	0.103	0.195	0.141
	BW (h)	0.507	1.345	0.581	1.308
	Eff. Obs.	580	570	677	561
t+2	Coef.	0.180***	-0.042	0.377***	0.080
	Std. Err.	0.045	0.080	0.103	0.128
	BW (h)	0.732	1.131	0.440	0.858
	Eff. Obs.	698	434	416	363
t+3	Coef.	0.226***	-0.074	0.324***	0.106
	Std. Err.	0.062	0.085	0.095	0.150
	BW (h)	0.465	0.831	0.752	0.811
	Eff. Obs.	349	292	576	287
	Controls	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y

Table 9. Heterogeneity tests on changing impact of TISC on modern slavery-related incidents and firm profitability depending on level of market competition.

The bandwidth(h) is computed using the mean-squared error (MSE) approach proposed by Calonico, Cattaneo, Titiunik (2014), which defines the range (in log sales) around the cutoff used for local estimation. The effective number of observations refers to the number of observations within the selected bandwidth used in each estimation. Standard errors are clustered at the firm level and reported below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Panel A. Impact on social-related incidents

Individual regressions for outcomes at time:	Outcome variables: $\beta_{1\tau}$	Focal Inc		Supplier Inc	
		High Comp	Low Comp	High Comp	Low Comp
t+1	Coef.	0.006	-0.012	-3.574**	0.592
	Std. Err.	0.009	0.007	1.598	0.460
	BW (h)	1.140	1.204	1.277	1.333
	Eff. Obs.	961	892	1061	988
t+2	Coef.	-0.006	0.004	-0.024	-0.106
	Std. Err.	0.006	0.004	1.340	0.293
	BW (h)	0.863	1.059	1.707	1.277
	Eff. Obs.	638	669	1148	800
t+3	Coef.	-0.004	0.015	0.243	-0.238
	Std. Err.	0.007	0.014	1.760	0.583
	BW (h)	0.741	1.413	1.458	1.228
	Eff. Obs.	443	712	810	629
	Controls	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y

Panel B. Impact on firm profitability

	Outcome variables: $\beta_{1\tau}$	OPM		NPM	
		High Comp	Low Comp	High Comp	Low Comp
t+1	Coef.	0.279	0.096	0.412	0.148
	Std. Err.	0.183	0.080	0.257	0.111
	BW (h)	0.537	0.709	0.572	0.824
	Eff. Obs.	469	554	504	639
t+2	Coef.	0.178***	0.112*	0.250***	0.037
	Std. Err.	0.052	0.071	0.101	0.110
	BW (h)	0.758	0.603	0.701	0.750
	Eff. Obs.	559	405	517	487
t+3	Coef.	0.223***	-0.036	0.463***	-0.002
	Std. Err.	0.078	0.086	0.118	0.121
	BW (h)	0.420	0.653	0.418	0.822
	Eff. Obs.	243	352	241	443
	Controls	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y

Table 10. Heterogeneity tests on changing impact of TISC on modern slavery-related incidents and firm profitability depending on institutional ownership

The bandwidth(h) is computed using the mean-squared error (MSE) approach proposed by Calonico, Cattaneo, Titiunik (2014), which defines the range (in log sales) around the cutoff used for local estimation. The effective number of observations refers to the number of observations within the selected bandwidth used in each estimation. Standard errors are clustered at the firm level and reported below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Panel A. Impact on slavery-related incidents

Individual regressions for outcomes at time:	Outcome variables: $\beta_{1\tau}$	Focal Inc		Supplier Inc	
		High IO	Low IO	High IO	Low IO
t+1	Coef.	-0.002	-0.004	-2.133*	-0.419
	Std. Err.	0.006	0.012	0.990	1.403
	BW (h)	1.104	1.337	1.342	1.642
	Eff. Obs.	1211	625	1482	766
t+2	Coef.	0.002	0.000	0.007	-0.446
	Std. Err.	0.005	0.009	0.884	1.130
	BW (h)	1.090	1.247	1.555	1.982
	Eff. Obs.	1049	457	1464	684
t+3	Coef.	0.012	-0.007	0.222	-0.256
	Std. Err.	0.010	0.007	0.830	1.349
	BW (h)	1.291	1.025	1.903	1.147
	Eff. Obs.	1052	296	845	320
	Controls	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y

Panel B. Impact on firm profitability

	Outcome variables: $\beta_{1\tau}$	OPM		NPM	
		High IO	Low IO	High IO	Low IO
t+1	Coef.	0.163***	0.348	0.294***	0.337
	Std. Err.	0.061	0.295	0.103	0.304
	BW (h)	0.510	0.696	0.569	0.717
	Eff. Obs.	553	392	620	400
t+2	Coef.	0.199***	0.174**	0.322***	0.020
	Std. Err.	0.055	0.080	0.096	0.143
	BW (h)	0.427	0.677	0.390	0.730
	Eff. Obs.	393	298	355	311
t+3	Coef.	0.097	0.147	0.286**	0.081
	Std. Err.	0.063	0.089	0.115	0.136
	BW (h)	0.426	1.336	0.420	0.992
	Eff. Obs.	320	351	315	285
	Controls	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y

Table 16. Heterogeneity tests on changing impact of TISC on stakeholder reactions depending on customer sensitivity

The bandwidth(h) is computed using the mean-squared error (MSE) approach proposed by Calonico, Cattaneo, Titiunik (2014), which defines the range (in log sales) around the cutoff used for local estimation. The effective number of observations refers to the number of observations within the selected bandwidth used in each estimation. Standard errors are clustered at the firm level and reported below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

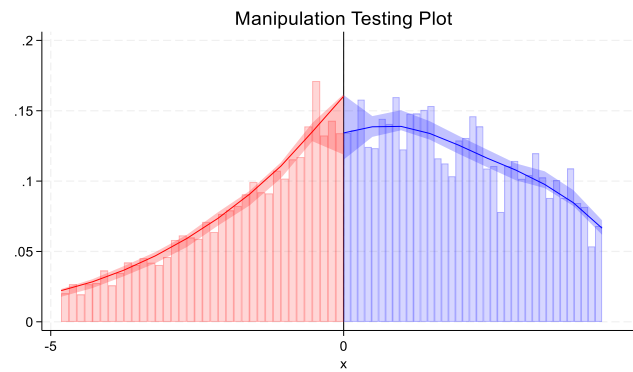
Individual regressions for outcomes at time:	Outcome variables: $\beta_{1\tau}$	SaleG1Yr		EV/Ebitda	
		Cust. Sens.	Non-Cust. Sens.	Cust. Sens.	Non-Cust. Sens.
t+1	Coef.	0.147	0.399	-5.931	-18.715**
	Std. Err.	0.133	0.707	11.344	8.605
	BW (h)	0.668	1.940	1.259	1.565
	Eff. Obs.	442	1697	792	1411
t+2	Coef.	0.266***	-0.159	-22.994	13.777
	Std. Err.	0.099	0.658	13.101	8.737
	BW (h)	0.703	0.991	1.133	1.787
	Eff. Obs.	389	832	583	1295
t+3	Coef.	0.192**	-0.303	17.371**	9.615*
	Std. Err.	0.102	0.723	7.429	4.929
	BW (h)	0.733	2.340	1.392	1.807
	Eff. Obs.	329	1357	571	1060
	Controls	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y

Table 17. Heterogeneity tests on changing impact of TISC on stakeholder reactions depending on customer investors signatory of PRI

The bandwidth(h) is computed using the mean-squared error (MSE) approach proposed by Calonico, Cattaneo, Titiunik (2014), which defines the range (in log sales) around the cutoff used for local estimation. The effective number of observations refers to the number of observations within the selected bandwidth used in each estimation. Standard errors are clustered at the firm level and reported below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Individual regressions for outcomes at time:	Outcome variables: $\beta_{1\tau}$	SaleG1Yr		EV/Ebitda	
		PRI Inv.	Non-PRI Inv.	PRI Inv.	Non-PRI Inv.
t+1	Coef.	0.270	0.045	-18.594**	-8.240
	Std. Err.	0.681	0.166	9.209	7.569
	BW (h)	2.281	0.808	1.611	1.937
	Eff. Obs.	2081	542	1550	997
t+2	Coef.	0.069	0.307	15.752*	-17.901
	Std. Err.	0.603	0.113	9.394	13.430
	BW (h)	2.245	0.545	1.307	1.272
	Eff. Obs.	1724	315	1093	576
t+3	Coef.	-0.331	0.243	11.604*	12.453*
	Std. Err.	0.754	0.102	5.592	7.096
	BW (h)	2.297	0.674	1.596	1.351
	Eff. Obs.	1419	317	1024	483
	Controls	Y	Y	Y	Y
	Firm FE	Y	Y	Y	Y
	Cal. Year FE	Y	Y	Y	Y
	Rel. Year FE	Y	Y	Y	Y

Figure 1. Density of running variable (X=standardized sales) around the sales cutoff



Appendix

Figure A.1 RD plot on residual Supplier Incidents (at $t+1$) against standardized sales

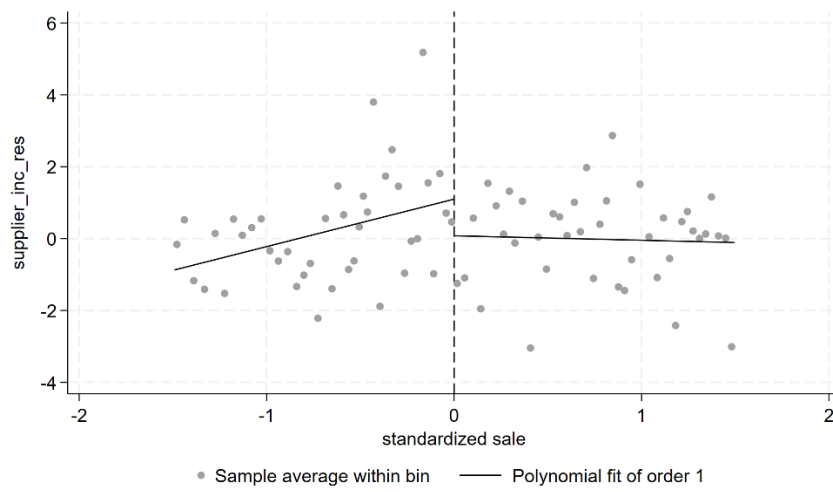


Figure A.2 RD plot on residual OPM (at $t+1$) against standardized sales

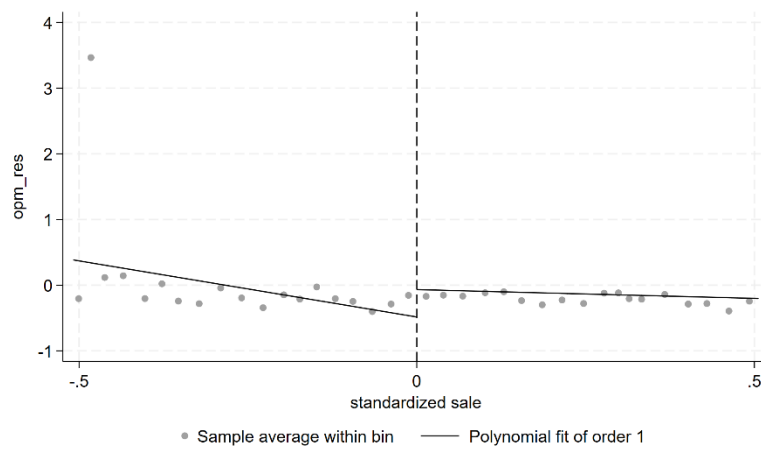


Figure A.3 RD plot on residual OPM (at $t+2$) against standardized sales

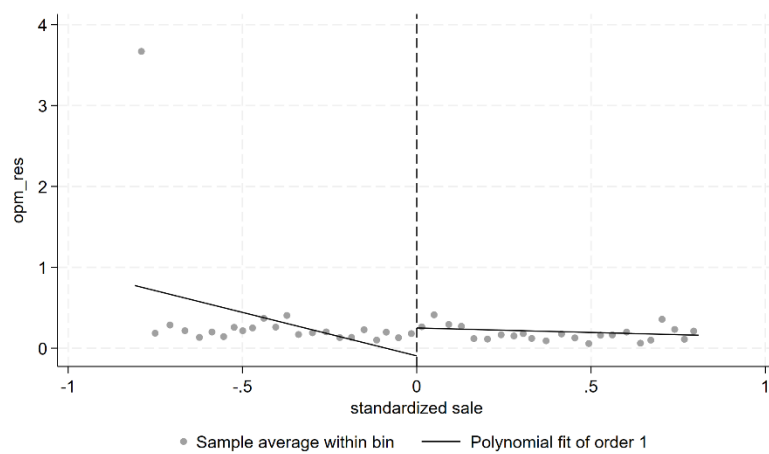


Figure A.4 RD plot on residual NPM (at $t+1$) against standardized sales

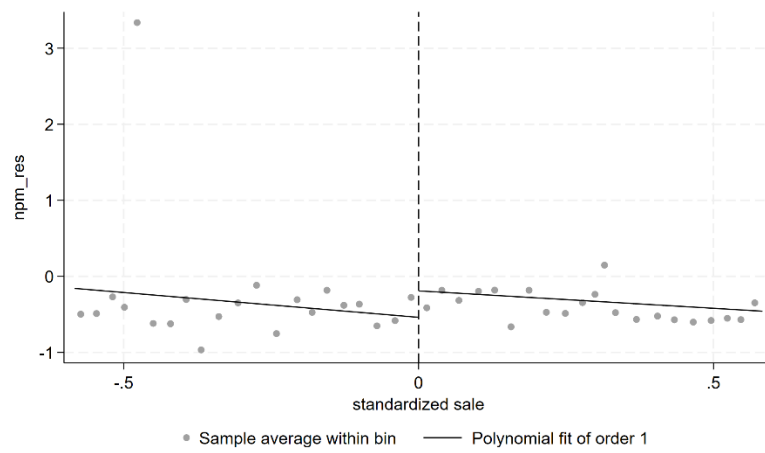


Figure A.5 RD plot on residual NPM (at $t+2$) against standardized sales

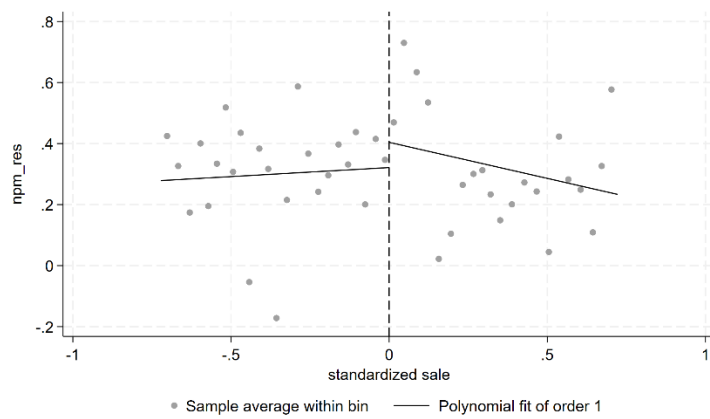


Figure A.6 RD plot on residual NPM (at $t+3$) against standardized sales

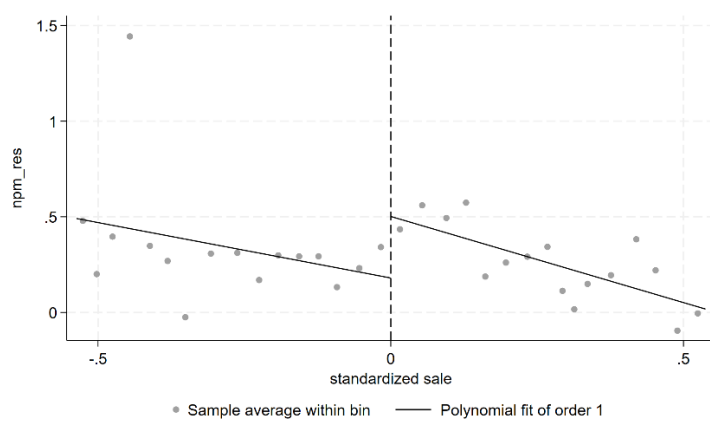


Figure A.7 RD plot on residual EV/Ebitda (at t+1) against standardized sales

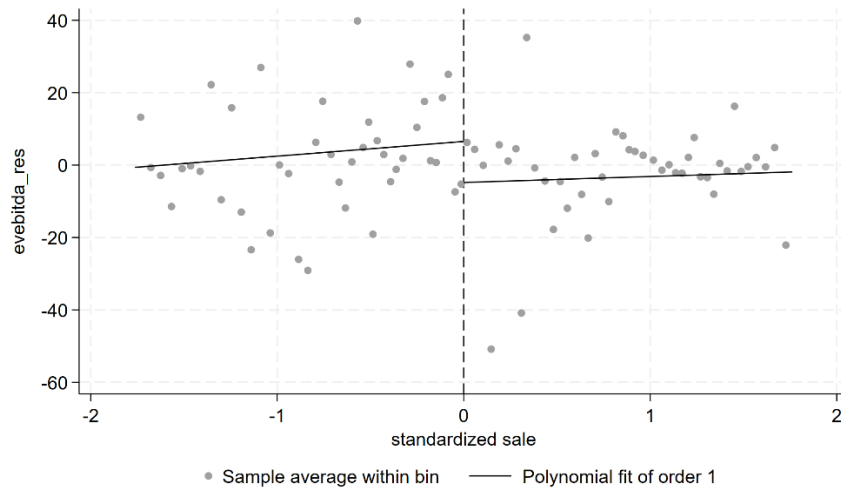


Figure A.8 RD plot on residual EV/Ebitda (at t+3) against standardized sales

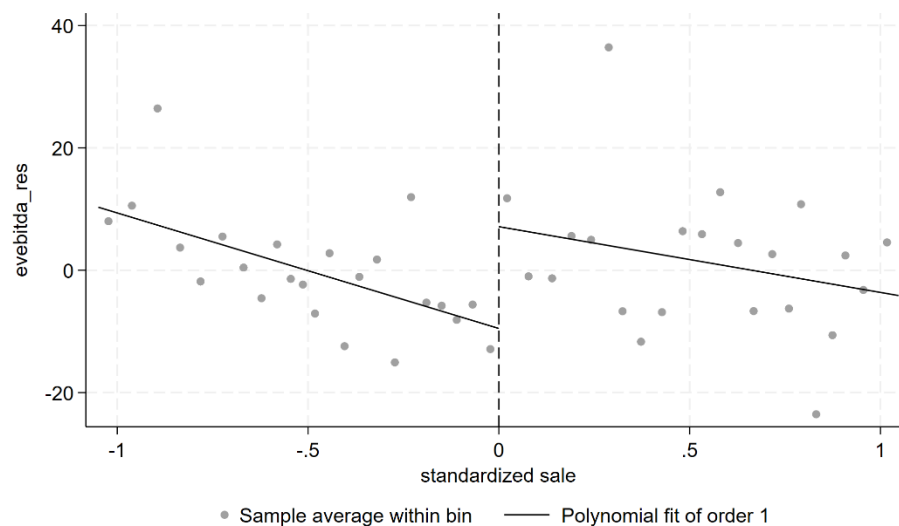


Table A.1 Variable Definition

Variables	Definition	Source
<i>Independent Variables:</i>		
X	Standardized sales obtained as log of actual sales minus log of the sales' cutoff value: $\log(\text{sale}) - \log(36)$.	Compustat
MSA Exposure (D)	Dummy variable indicating the treatment based on legal exposure. D equals 1 if the firm meets the MSA disclosure threshold in a given year (i.e. generate sales not less than £36m in that fiscal year); and 0 otherwise.	Compustat
<i>Control Variables:</i>		
Size	The natural logarithm of total assets.	Compustat
Cash	Cash and short-term investments scaled by total assets.	Compustat

Lev	Leverage computed as net debt, defined as long-term debt plus debt in current liabilities minus cash and short-term investments, scaled by total assets.	Compustat
RD	Research and development expenditures scaled by total assets. Missing values are replaced with 0.	Compustat
ROA	Earnings before extraordinary items scaled by the average of total assets.	Compustat
Board Size	Number of directors at the annual report date	BoardEx
<i>Outcome Variables:</i>		
Focal Inc	Focal firms' modern slavery related issues identified by RepRisk: Child labor, Forced labor, Human rights abuses, Human trafficking. Missing values are replaced with 0.	Revere; RepRisk
Supplier Inc	The average suppliers' modern slavery related issues identified by RepRisk: Child labor, Forced labor, Human rights abuses, Human trafficking. Missing values are replaced with 0. To isolate the monitoring effect, we remove the suppliers that are directly affected by the UK MSA.	Revere; RepRisk
NPM	Net profit margin: Earnings before extraordinary items divided by total sales.	Compustat
OPM	Operating profit margin: Operating income divided by sales.	Compustat
COGS	Cost of goods sold divided by sales.	Compustat
SG&A	The selling, general, and administrative (SG&A) expenses scaled by sales.	Compustat
SaleG1yr	The annual growth rate of net sales	Compustat
EV/Ebitda	Enterprise value (market value plus net debt, defined as long-term debt plus debt in current liabilities minus cash and short-term investments) to EBITDA (earnings before interests, tax, depreciation and amortisation)	Compustat
Comp. Market	A binary variable that equals 1 if the firm operates in a high competitiveness industry. Herfindahl-Hirschman Index (HHI) is calculated by squaring the sales-based market share of each firm in the same industry, identified by the 2-digit SIC code. An industry is considered to be higher (lower) competitive if its HHI is below(above) the sample median.	sic code form Compustat
CEO on Board	A binary variable that equals 1 if the firm's CEO is a board member as well in that year; 0 otherwise	BoardEx
IO	A binary variable equal to 1 if the firm's institutional ownership is above the sample median for that year, and 0 otherwise.	FactSet Ownership
Cust. Sens.	A binary variable equal to 1 if the firm operates in the consumer goods or finance sector (industries classified as highly sensitive to public perception by Lev et al. (2009)), and 0 otherwise.	Lev et al. (2009)
PRI Inv.	A binary variable that equals 1 if the firm is assigned to the group with prosocial blockholders if at least one of its institutional investors is a PRI signatory and holds at least 5% of the firm's shares.	FactSet Ownership; PRI signatory directory