Discussion of "The Value of Brand, Sustainability, and Ideology: Evidence from Government Procurement"

by Winston Wei Dou, Yan Ji, David Reibstein, and Di Tian

Dan Su

CKGSB

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THIS PAPER

- ▶ This is a very interesting and ambitious work

- ▶ **Research Question**: How do non-pecuniary firm characteristics—brand value, carbon emissions, and political ideology—shape U.S. federal procurement outcomes?

  - government procurement is economically significant (13–20% of GDP worldwide)

  - policymakers often pursue strategic goals (e.g. green purchasing, support for local or like-minded firms) alongside cost efficiency

THIS PAPER

- ▶ **rich dataset**: merged contract-level data from FPDS with firm-level brand (BAV), emissions (Trucost), and political alignment (PAC donations and executive registration) across four key industries

- ▶ **model**: a procurement auction where the buyer (government) derives utility from price and bidder attributes

  - a scoring-auction or equivalent mechanism is characterized, giving preferred bidders (strong brand, sustainable, or aligned firms) an effective "handicap" advantage in the competition
  - bidders with higher non-price scores can bid less aggressively (i.e. submit higher prices) yet still win
  - favored firms will enjoy a price premium or higher win probability, reflecting the buyer's willingness to pay for those attributes

- ▶ **evidence**:

  - non-price attributes significantly influence outcomes in IT and office management; weaker effects in the medical sector
  - decompose pecuniary vs. non-pecuniary drivers of contract allocation

COMMENT #1: IDENTIFYING GOVERNMENT PREFERENCES

▶ The paper estimates government preferences over three non-price firm attributes:

$(\omega_p, \omega_b, \omega_e) \Rightarrow$ Weights on political alignment, brand value, and carbon emissions

▶ Identification: use non-competitive contracts to infer firm distribution; compare the average characteristics θ_i of winning firms under full and open competition

COMMENT #1: IDENTIFYING GOVERNMENT PREFERENCES

▶ **Limitation #1: Competitive v.s. Non-competitive Solicitations**

potential selection bias issues

- non-competitive contracts are often granted under special provisions (e.g., urgency, national security, sole sourcing)

- these observations are non-random and may distort the inferred firm-type distribution if used without correction

COMMENT #1: IDENTIFYING GOVERNMENT PREFERENCES

▶ **Limitation #2: Use average θ_i of winning firms**

  implicitly assumes *independence* between firm efficiency and observable characteristics

  • brand value correlates with unobserved quality or efficiency $\rightarrow$ **overestimate** true preference

  • a "brand premium" might reflect underlying performance or reliability advantages rather than government preference per se

COMMENT #2: CORRELATION BETWEEN EFFICIENCY AND CHARACTERISTICS

▶ **Model assumption:** firm efficiency type k is independent of observable characteristics θ (e.g., brand value, emissions, political alignment)

▶ **This assumption may not hold empirically**

- *negatively correlated*: may understate the distortions caused by non-pecuniary preferences

- *positively correlated*: may understate the potential welfare gains from characteristic-based targeting

COMMENT #2: CORRELATION BETWEEN EFFICIENCY AND CHARACTERISTICS

► **Example: Negative Correlation**

- Suppose an employer offers $1,000 to hire a researcher for writing papers

- Winston (a Chinese) produces 10 papers/week; others produce only 1/week

- If θ (e.g., Chinese ethnicity) is not allowed in selection but correlates with productivity k, excluding it creates additional inefficiency

COMMENT #2: CORRELATION BETWEEN EFFICIENCY AND CHARACTERISTICS

► **Example: Positive Correlation**

The Green Value of BigTech Credit (Su, Wang, Wang, and Yu, 2025)

- Fintech platform assigns credit limits based on users' green behaviors, i.e., those demonstrating stronger green actions receive higher credit access

- two key findings: (1) this design enhances platform performance; (2) the green actions required are intentionally costly

- environmentally responsible users (observable) tend to exhibit greater financial discipline (non-observable)

- costly green behaviors serve as credible signals of borrowers' unobserved creditworthiness

COMMENT #2: CORRELATION BETWEEN EFFICIENCY AND CHARACTERISTICS

► **Ignoring the correlation between k and θ may bias counterfactual welfare analysis and policy conclusions**

- better modeling or robustness checks (e.g., conditional correlations or IV strategies) could strengthen the paper's claims

COMMENT #3: *War Dogs*

- **Modeling assumptions:**
  - cost function is assumed to be *homogeneous of degree 1* in project size
  - firms are assumed to compete *non-cooperatively*

COMMENT #3: *War Dogs*

▶ **Concern #1: endogenous supply response**
  - large firms may self-select into bidding for large contracts, while smaller firms target smaller procurements
  - ignoring this endogenous matching may bias the estimated preference parameters, as observed outcomes confound supply-side dynamics with government demand
  - **suggestion**: model participation as a function of project scale and firm characteristics, or restrict estimation to a common contract size

▶ **Concern #2: repeated interactions and relational contracting**
  - many firms engage in long-term relationships with government buyers
  - this relational contracting may introduce cooperation, favoritism, or reputation effects inconsistent with one-shot competition
  - **suggestion**: empirically test for dynamic contracting patterns or incorporate state dependence in bidding behavior. Or you can use first-time contracts only to back out the preference

▶ **Concern #3**: some firms serve as **intermediaries** for entities that are not permitted to conduct business directly with the U.S. government

COMMENT #4: TIME-SERIES HETEROGENEITY AND OMITTED DYNAMICS

▶ **Sample period:** 2000–2020—a timeframe characterized by substantial variation in political leadership, procurement priorities, and regulatory frameworks

- e.g., the Obama–Trump transition, expansion of the Buy American Act, and evolving sustainability mandates

▶ **Temporal or persistence relevance of characteristics**

- political alignment may have had persistent salience across administrations

- sustainability likely gained prominence in later years (especially post-2010), reflecting shifting public sector values

- static preference parameters may obscure these temporal shifts

COMMENT #4: TIME-SERIES HETEROGENEITY AND OMITTED DYNAMICS

► **Brand value concerns:**

- brand value mainly captures the value to consumers
- in B2G or B2B settings, brand reputation may proxy for omitted variables: e.g., firm size, industry tenure, geographic proximity to contracting agency, lobbying intensity, or historical relationship
- this complicates interpretation of the estimated "brand premium"
- my suggestion: change to national security

► **Suggestion:**

- allow preference parameters to vary over time or across administrations
- include interactions with presidential terms or policy shocks to capture structural breaks
- explore heterogeneity in procurement agencies' valuation of non-price attributes across time

COMMENT #5: TOWARD CONCRETE POLICY IMPLICATIONS

▶ While the paper presents compelling empirical evidence, the policy relevance of its findings deserves further development.

▶ Some suggestions, FYI

COMMENT #5: TOWARD CONCRETE POLICY IMPLICATIONS

► **Incorporating non-price attributes:**
  - should procurement agencies formally incorporate brand value, sustainability scores, or ideological alignment into scoring criteria
  - what safeguards are needed to ensure transparency and prevent misuse

► **Evolution of procurement rules:**
  - how should the regulator adapt to reflect growing emphasis on ESG objectives
  - is there scope for updating procurement norms to better align with climate and social responsibility goals

► **Cross-agency standardization:**
  - to what extent should procurement scoring criteria be standardized across federal agencies to ensure consistency and fairness

► **Efficiency–equity trade-offs:**
  - embedding political alignment or ESG criteria may introduce trade-offs between allocative efficiency and perceived equity or neutrality
  - discussion of these trade-offs could guide better policy design and public accountability

MINOR COMMENTS

▶ **Functional form**

- linear preferences over observable characteristics (brand, emissions, ideology)
- consider testing for non-linearities or including interaction terms (e.g., ideology $\times$ emissions) to capture richer substitution patterns

▶ **Sample representativeness**

- PAC donation and executive voter registration data are likely skewed toward large, publicly listed firms
- suggest applying sampling weights or conducting robustness checks on a balanced subset of firms to validate external validity

▶ **Data construction**

- clarify the degree of persistence in firm-level variables across the sample period
- address potential measurement errors or missingness in Trucost and BAV data coverage

▶ **Typos**: in keywords list, "Political idealogy"

SUMMARY

▶ **A great and well-polished paper!**

▶ Important question, solid technical skills, novel insights, ...

▶ I learned a lot from reading it

▶ A novel auction framework incorporating ideological and ESG-type features: possibly more interesting stories in China

▶ **Good luck with the publication!**