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The Relationship between Corporate Human Rights Responsibility Disclosure and Performance*

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Corporate Human Rights Responsibility (CHRR) has gained considerable attention in recent discussions of business and regulation. Consistent with prior research on corporate legitimacy, a growing number of companies has begun disclosing CHRR information in annual reports. However, it has not been identified whether the voluntary disclosure of CHRR indeed leads to actual improvements in CHRR performance levels. This study examines the relationship between CHRR disclosure and performance using data on the largest 1,000 Korean companies from 2006 to 2014. Given the lack of prior empirical research on CHRR measurement, this study uses the number of complaints received by the National Labor Relations Commission in South Korea as the measure of the human rights performances of each company. The CHRR disclosure is scored using the self-reported labor and human rights data in annual reports with the format of Global Reporting Initiative Guidelines. The empirical results show that CHRR performance is not consistently associated with the disclosure of human rights reports. Nevertheless, this study finds that only reporting in compliance with international guidelines affects human rights performances.

Keywords: Corporate Human Rights Responsibility, Business and Human Rights, Human Rights Disclosure, Human Rights Performance, Corporate Legitimacy

1. INTRODUCTION

The 2013 Rana Plaza collapse, which killed 1,135 and injured approximately 2,500 people in Bangladesh, demonstrated the tragic results of ignoring corporate human rights responsibility. Even though cracks had been found in the building the day before the collapse, the building's owner and five garment factories housed in it had ordered their workers to return the following day and continue production for 31 Western multinational corporations (MNCs) (Chowdhury, 2017: 1). This disaster was indeed a wake-up call for the global community to reconsider the impact of corporate behavior on human rights.

As a response to the significantly increasing influence and weight of business in global affairs, corporate human rights responsibility has emerged as a key aspect of corporate responsibilities during last several decades (e.g. Nolan, 2005; Weissbrodt, 2005; Leisinger, 2006; Wouters and Shanet, 2008). Although profit and growth have been generally perceived as the priority of corporations, prior research demonstrates that they are not inherently in conflict with evolving roles and responsibilities of business. In light of this, various dimensions of corporate social responsibilities beyond profit maximization for shareholders have been suggested by scholars (e.g. Carroll and Shabana, 2010). Freeman (1984, 1998)

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argues that the rights of all stakeholders, who are directly or indirectly affected by a company's activities, such as employees, consumers, sub-contractors, civil society and local community, should be equally taken into consideration in managerial decisions same as those of shareholders.

Despite these shifts in the scope and nature of corporate responsibilities, it is true that corporate human rights responsibility has not been spotlighted to a great extent, not only in most Corporate Social Responsibility (CSR) discussions, but also in most human rights discourses until relatively recently. As Wettstein (2012) points out, the conventional perception of corporate responsibilities may account for this lack of attention. First, corporate human rights responsibility has been regarded as part of corporate legal obligations rather than social responsibilities because CSR has been generally perceived as something fundamentally voluntary, philanthropic and subjective by nature (Robinson, 2003: 9). Second, human rights policies have been understood politically and legally as a domain of states rather than companies while CSR has been perceived as orthodox private sector activities for corporate social legitimacy (Wettstein, 2012).

Against such backdrop, we are led to ask questions such as what factors have brought about the changing conception of corporate human rights responsibility in the global economy? What circumstances have raised the public awareness of this issue and catalyzed the changes of corporate response? In the politico-economic context, economic globalization, which was accelerated by prevalent neo-liberalism and free trade sentiment in 1980s and 1990s, induced the heavy competition and 'race to the bottom' of developing countries in the international labor market. While developing countries vigorously strived to attract foreign capital and investment after the collapse of communism, the poor labor conditions of those countries deteriorated even more. To make matters worse, the complicity between local governments and multinational corporations (MNCs) exacerbated the situations. These aggravating problems culminated in the anti-sweatshop movement triggered by the media exposure of the exploitative working environments and human rights violations of MNCs such as Nike, Disney and Levi Strauss in the apparel and footwear industries during 1990s. This anti-sweatshop movement, which ignited a world-wide 'naming and shaming' campaign against those companies, is often cited as the turning point in the public perception of corporate human rights responsibility (e.g. Bartley, 2005; Nolan, 2005; Bartley and Child, 2007). On the one hand, using this momentum, the actors of international society like international organizations or civil society began to recognize the significance of complicated transnational business issues, which could not be controlled by the capability of any single state (Wolf, 2008; Scherer and Palazzo, 2011). On the other hand, companies started to adopt voluntary codes of conduct in response to public pressures and disclosed their human rights performance for social legitimation (e.g. Bartley, 2005).

The raised international awareness concerned with transnational corporate human rights accountability catalyzed the movement for human rights guidelines for business in the United Nations (UN). As a result, 'the UN Global Compact (2000)' stipulated human rights responsibilities as basic principles for business. However, its reliance on voluntary compliance brought about criticisms in terms of practicability. After a number of debates whether corporate human rights responsibility implementation mechanisms should be based on voluntary compliance or mandatory obligations, 'the Norms' were proposed by the UN Sub-Commission on the Promotion and Protection of Human Rights but they were finally rejected in 2004. Right after that, the newly appointed Special Representative of the Secretary General of the United States (SRSG), John Ruggie, commenced to examine the international guidelines to identify corporate human rights responsibility in 2005. The UN framework for business and human rights; '*Protect, respect and remedy*' was outlined by the SRSG's third report in 2008, with the following introductory comment (Ruggie, 2008; UN, 2011);

> "Business is the major source of investment and job creation, and markets can be highly efficient means for allocating scarce resources. They constitute powerful forces capable of generating economic growth, reducing poverty, and increasing demand for the rule of law, thereby contributing to the realization of a broad spectrum of human rights……
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> ……The root cause of the business and human rights predicament today lies in the governance gaps created by globalization—between the scope and impact of economic forces and actors, and the capacity of societies to manage their adverse consequences. These governance gaps provide the permissive environment for wrongful acts by companies of all kinds without adequate sanctioning or reparation. How to narrow and ultimately bridge the gaps in relation to human rights is our fundamental challenge."

Subsequently, 'the UN Guiding Principles on Business and Human Rights,' was announced in 2011 as the key international guidelines for business enterprises along with the recommendation for governments to promote a 'National Action Plan (NAP) on business and human rights.' Although its effectiveness in practice was questioned by critics due to its reliance on voluntary compliance, the international community responded in a relatively short period of time. As of January 2018, 19 states including UK, The Netherlands, Denmark, Spain, Finland, Lithuania, Sweden, Norway, Colombia, Switzerland, Italy, USA, Germany, France, Poland, Belgium, Chile, Czech Republic, Ireland have produced a NAP on business and human rights. In addition, 21 states are in the process of developing a national action plan, and either the NHRI or civil society in nine other states have taken the first steps in the development of a national action plan (UN OHCHR, 2018). This international trend may be perceived as a growing pressure for corporate managers to legitimize themselves from the perspective of human rights responsibility.

In parallel with rapid economic globalization and raised public awareness of corporate responsibilities, a new political role of business beyond mere compliance with legal obligations or philanthropic social contribution has been observed (e.g. Matten and Crane, 2005; Scherer and Palazzo, 2007). The vacuum of human rights responsibility due to the diminishing influence of the state as a primary protector and violator has been virtually filled in part by the expanding roles of business (Wettstein and Waddock, 2005). In this respect, the immediate public reactions to irresponsible corporate behaviors concerned with corporate human rights responsibility may be interpreted as highly enhanced expectations on business due to these changing politico-economic roles. Public pressures on business concerned with corporate human rights responsibility are increasing interconnected with real time world-wide communication technology. Given this, the growing voluntary compliance with human rights initiatives and their disclosure may reflect the changing conception of human rights responsibility by corporate managers.

First, an increasing number of companies are engaged in voluntary compliance with a variety of multi-stakeholder initiatives such as UN Global Compact, Global Reporting Initiative (GRI), Fair Labor Association, Fair Wear Foundation, Global Network Initiative, International Code of Conduct for Private Security Providers, Voluntary Principles on Security and Human Rights, Forest Stewardship Council, Social Accountability International, International Organization for Standardization (ISO), Rugmark, etc (Baumann-Pauly, Nolan, Labowitz, and van Heerden, 2016: 109).

Second, the numbers of corporate human rights disclosures are increasing. For instance, the UN Global Compact database presents that 9,670 companies from 161 countries have engaged in the UN Global Compact, and 51,166 public reports have been submitted as of 28 January 2018. Furthermore, regarding that GRI report forms include human rights performance categories, it is also noteworthy that 9,240 reports were added to the GRI Sustainability Disclosure Database between 2015 and 2016 taking the total to 33,828 as of 30 June 2016 (The GRI's annual report 2015-2016).

Despite the diffusion of corporate human rights disclosure, most of these international initiatives are based on voluntary compliance rather than legal obligations or mandatory monitoring systems. So, can we say that these disclosures reflect a 'real' level of human rights commitment? Although growing numbers of companies have presented their human rights performance in their annual reports, it is not clear whether these reports reflect a genuine effort towards more humane businesses or are just window dressing in response to social pressures or peer competition. Little empirical research has been done on the relationship between corporate human rights disclosure and performance despite the evolving roles and responsibilities of business in the global economy. Most prior research on human rights has focused on when and why states ratify international treaties, thus accepting constraints on sovereignty. And, by extension, how engagement with international human rights treaties influenced democratization and human rights policies in these countries. Likewise, most prior studies on corporate responsibility have focused on the relationship between social disclosure and social performance rather than the human rights disclosure-performance relationship. More problematic, these earlier studies provide mixed evidence on the relationship. Given these limitations of the existing literature, this study specifically examines the relationship between corporate human rights responsibility disclosure and performance within the framework of legitimacy.

2. LITERTURE REVIEW AND HYPOTHESIS DEVELOPMENT

The relationship between corporate human rights responsibility disclosure and performance has been marginalized in prior research despite the rapidly increasing influence of business in international society. Most human rights discourses have focused on the ratifications and commitments of states to international norms such as treaties. Little empirical examination has been conducted on corporate disclosure and performance with regards to international human rights responsibility guidelines. It is true that human rights behaviors of states and non-state actors like business enterprises may be inherently different. Nevertheless, prior research on the human rights treaty ratification and commitment mechanisms of states suggest important implications for this study. Hafner-Burton, Tsutsui, and Meyer (2008) worked to determine what factors drive states to ratify human rights treaties. Furthermore, they studied specifically why states with poor human rights performance, i.e., negative human rights records, have been engaged in international treaties in spite of subsequent constraints on their sovereignty (Harfner-Burton, Mansfield, and Pevehouse, 2008; Harfner-Burton, Mansfield, and Pevehouse, 2015). Their study points out the legitimation of state performance as the key factor to account for the behaviors of these states. This is remarkable because they suggest a comprehensive framework to complement the shortcomings of other theoretical approaches: 1) the coercion or inducement by great powers (Realism); 2) preemptive actions for consolidating domestic democracy in response to domestic oppositions by binding to the international regime (Liberalism); 3) socialization procession, i.e., the perceived value of engagement to international norms diffused by altruistic governments and groups (Ideational theory) (Moravscik, 2000).

The voluntary ratification of treaties by states may not be sufficiently identified with other theories that do not contain the conception of legitimation, especially when they politically retain high domestic autonomy in human rights policies and then when they have demonstrated poor human rights performance even after the ratification. Two noteworthy implications are inferred from these studies. First, both state groups with good or poor performance records are similarly concerned with securing their legitimacy by presenting their human rights concerns internationally and domestically even though their ratifications of treaties are driven by different factors. Second, even states with poor human rights performance tend to willingly ratify treaties without the genuine intention of commitment, unless there are substantial counter forces to effectively put pressure on them to fulfill their treaty obligations (Hafner-Burton and Tsutsui, 2005; Harfner-Burton, Mansfield, and Pevehouse, 2008; Hafner-Burton, Tsutsui, and Meyer, 2008). The analytical framework of states' legitimation suggests meaningful directions how to conduct this research on the relationship between corporate human rights responsibility disclosure and performance.

Compared with the functions of states, which are meant to provide public goods, all activities in the private sector are for better financial performance. However, given that business enterprises are no less concerned than states with their legitimacy in terms of sustainability and vulnerability, prior research on states may provide a useful framework for an empirical examination of the relationship between corporate human rights responsibility disclosure and performance. Indeed, previous empirical studies of the motivations for voluntary compliance with international corporate human rights responsibility guidelines (Kim, Soh, and Yu, 2016) suggests that companies tend to comply with them for legitimizing their performance in response to external and internal pressures.

Consistent with the definition of organizational '*legitimacy*,' i.e., 'a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions' (Suchman, 1995: 574), companies seek to establish the congruence between social values pertaining to their performance and norms of socially acceptable conducts through the process of legitimation (Dowling and Pfeffer, 1975). Particularly, business enterprises are likely to be even more vulnerable than states regarding legitimacy due to their inherent dependency on public perceptions. Therefore, they strive to consolidate their reputation and sustainability by minimizing risks and uncertainties through the legitimation of their performances in various dimensions (Campbell, 2007). As a response to changing public perceptions, companies are inclined to voluntarily disclose corporate information in their annual reports as the representative type of strategic communication for bolstering corporate legitimacy (e.g. Deegan, 2002; O'Donovan, 2002; Cho and Pattern, 2007; Bebbington, Larrinaga, and Moneva, 2008; Van der Laan, 2009). Regarding considerable legitimation options for companies confronted with legitimacy threats, Lindblom (1994) identifies the following four strategies

a. Educating and informing its 'relevant publics' about (actual) changes in the organization's performance and activities;
b. Changing the perceptions of the 'relevant publics'- but not its actual behavior;

c. Manipulating perception by deflecting attention from the issue of concern to other related issues through an appeal to, for example, emotive symbols;
d. Changing external expectations of its performance.

Regarding Lindblom's suggestions, however, it is still not clear if the disclosing behaviors of companies for their legitimation were intended to reflect actual changes or only to favorably change public perceptions, even though there are numbers of prior studies which discussed social disclosure such as annual reporting from the perspective of corporate legitimacy (e.g. Patten, 1991, 2002; Deegan and Rankin, 1996; Clarke and Gibson-Sweet, 1999; Campbell, 2000; Wilmshurst and Frost, 2000; Deegan, Rankin, and Tobin, 2002; Campbell, Craven, and Shrives, 2003; Branco and Rodrigues, 2008). Thus, Oliver (1991) contends that organizational behaviors may vary from passive conformity to active resistance depending on the perceived nature and context of pressures by corporate rational actors, i.e., management. Under these circumstances, there have been studies that have tried to determine whether disclosed information, i.e., data in annual reports, is the reflection of real activities or only a type of cosmetic communication strategy towards shareholders and the public (Bowman and Haire, 1975; Fry and Hock, 1976; Abbott and Monsen, 1979; Ingram and Frazier, 1980; Freeman and Jaggie, 1982; Wiseman, 1982).

Although most of the prior research has been focused on corporate social or environmental disclosure-performance rather than specifically corporate human rights responsibility disclosure-performance, they demonstrate useful theoretical and methodological approaches for this study in the way that a) corporate social responsibility includes several areas such as standards, environmental stewardship and recognition of human rights (Ryznar and Woody, 2014: 1668); b) they are all related to the process of strategic legitimation in response to external pressures by corporate rational actors (see Oliver, 1991); c) environmental violations are deemed to be part of human rights issue, as we saw in the European Court of Human Rights (ECHR)'s decision on 9 December 1994 underlined by Lee (2007: 354):

> In recent years, state actors have been found to have violated articles of human rights conventions for failing to stop the activities of non-state corporate actors. For example, in the case of *López Ostra v. Spain*, the European Court of Human Rights (ECHR) found that Spain had violated Article 8 of the European Convention of Human Rights because the state failed to stop the activities of a waste-treatment plant whose operations caused nuisance and health problems for nearby inhabitants. In its decision, the court formally recognized that environmental degradation can obstruct one's enjoyment of human rights.[1]

'Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014' established the rules on disclosure of non-financial information by large public-interest entities with more than 500 employees for accountable, transparent and responsible business

[1] Article 8 of the European Convention of Human Rights, which provides:

"1. Everyone has the right to respect for his private and family life, his home and his correspondence.
2. There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others."

behavior and sustainable growth. It also requires these companies in the EU to disclose annual statements containing both environmental and social information in relation to environmental protection, social and employee-related matters, respect for human rights, anti-corruption and bribery matters by flexibly referring to international guidelines for business conduct such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, ISO 26000, the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, the Global Reporting Initiative, etc. Therefore, environmental performance disclosures are, in practice, increasingly synonymous with the issue of human rights performance as well. Literature from the two issue areas could be useful for cross-fertilization.

Moreover, it is also noteworthy that previous studies provide mixed evidence on the disclosure-performance relationship.

First, they suggest that social disclosure may reflect real social performance, which is consistent with the theoretical framework of legitimacy. The test results of Bowman and Haire (1975), which used annual report data from eighty-two food-processing corporations, show that social disclosure with annual reports may be considered as a reasonable surrogate for real activity. They argue that corporate social responsibility is not in fundamental conflict with the interests of the investor, i.e., maximizing profits. In many cases, adequate corporate responsiveness to social concerns using voluntary annual reports is perceived by investors not only to increase chance for successful business, i.e., sustainability, but also to reduce potential risk pertaining to corporate legitimacy. Conducting a content analysis of the annual reports of the Fortune 500 published by Ernst & Ernst, Abbott and Monsen (1979) also demonstrate that the self-reported social disclosure can be a significant measure to analyze the dimensions of corporate response to external pressures. The study of Al-Tuwaijri, Christensen, and Hughes li (2004) also demonstrates the positive relationship between prior environmental disclosures and current environmental performance. In their research, while environmental disclosures were measured based on a content analysis of four categories of environmental information reported in SEC10Ks, i.e., toxic waste, financial penalties, Potential Responsible Party designation for the cleanup, and oil and chemical spills, it is particularly noteworthy that environmental performance was quantitatively measured with the ratio of recycled waste to total waste instead of the qualitative rankings of the CEP, which is the most frequently used in prior studies. In the study by Luo and Tang (2014) voluntary carbon disclosures had a significant positive association with actual carbon emissions. Therefore, the research results suggest that companies' voluntary carbon disclosures with the Carbon Disclosure Project (CDP) reports indicate their actual carbon performance measured with two main indicators: carbon emission and mitigation. All these results support the argument that social and environmental disclosure may reflect actual performance.

Second, in accordance with the legitimation strategies (Lindblom, 1994), the following research reveals that companies burdened with poor social or environment performance are likely to disclose more social or environmental information for their legitimation. Fry and Hock (1976) argue that companies tend to emphasize social responsiveness more in their annual reports when they are under attack for being unresponsive based on their examination of 135 companies in fifteen industry groups from banking to mining. Furthermore, the environmental disclosures of 51 manufacturing companies including the president's letter, management's discussion and analysis (MD&A), and financial statement note sections of annual reports were analyzed in Hughes, Anderson, and Golden (2001)'s research. They examined whether a company's environmental disclosures reflect actual environmental performance by comparing these data to three performance ratings of sample companies compiled by the Council on Economic Priorities (CEP): good, mixed, and poor. They found that the disclosures are not useful in indicating a company's actual performance levels because of the following reasons; first, test results did not show significant differences between the disclosures of good and mixed performers, second, poor performers appeared to disclose more information than the other two groups did.

Third, in contrast with the above research results, a significant relationship was not found in another group of studies. In their research on the relationship between companies' environmental disclosure-performance as part of corporate responsibility estimation, Ingram and Frazier (1980) concluded that they could find merely a weak association. In other words, these results indicate that the content analysis scores of disclosures in annual reports do not strongly relate to the indices of companies' environmental performance devised by the CEP. The lack of external monitoring of companies' social disclosures, i.e., the absence of auditing by the third party, is suggested to account for this. Managers may use their own discretion and the biased selection of reporting information for legitimizing corporate performance. Taking account of no conclusive empirical evidence between social disclosure and performance, Freeman and Jaggi (1982) paid particular attention to 10Ks in which the US Securities and Exchange Commission (SEC) has required companies to disclose pollution information since 1973. This was done because the authors noted that Ingram and Frazier (1980)'s study only used annual reports rather than total disclosure information. Annual reports, special social reports and 10Ks were meticulously examined and then these data were tested against the CEP pollution indices. The results also showed that there was no significant association between pollution disclosure-performance. In Wiseman (1982)'s research, a sample of 26 of the largest companies in the steel, oil, and pulp and paper industries were selected for the test, taking into consideration the greatest environmental problems and expenditures of these industries. He analyzed the relationship between environmental disclosure and performance by using the annual reports and CEP indices of these companies. The results show that corporate environmental disclosures are not related to the companies' actual environmental performance. The findings of Rockness (1985) also support the results of previous research, demonstrating no association between the contents of annual reports' environmental disclosures and performance. He suggests that standard setting levels and analytical interpretation may account for the different results between his research and previous ones (Bowman and Haire, 1975; Fry and Hock, 1976; Abbott and Monsen, 1979). Given this mixed evidence on the relationship between social disclosure and performance, as Ullman (1985) points out, they may attribute to the limitation due to the weaknesses in sample and research methods.

These prior studies on the relationship between social disclosure and performance suggest hypothetical implications for this study although they do not specifically focus on the relationship between corporate human rights responsibility disclosure and performance. An increasing number of companies have voluntarily disclosed their corporate human rights responsibility information through quality annual reporting. As shown by prior studies, companies tend to be sensitive to public pressures because social legitimacy is deemed to be an invaluable asset and its lack a great vulnerability, which requires them to respond to shifts in public perceptions. Therefore, companies are inclined to disclose their corporate human rights responsibility performance to bolster their sustainability through proactive legitimation.

Nevertheless, the raised awareness of corporate human rights responsibility may drive corporate rational actors, i.e., managers, in two opposite directions. On the one hand, the managers may regard corporate human rights responsibility compliance as an opportunity to enhance their competitiveness and sustainability while they simultaneously commit themselves to social expectations. Managers may be more sensitive to their legitimacy due to their increased visibility and vulnerability after corporate human rights responsibility disclosures. Thus, the disclosing companies are more likely to try to improve their performance regardless of their original intentions at the beginning stage. On the other hand, other managers may merely perceive corporate human rights responsibility as an additional burden to be dealt with as inexpensively as possible without endangering their socially responsible image. In this respect, corporate human rights responsibility disclosures depend on the strategic decisions of rational actors in companies who want to enhance corporate legitimacy, as Lindblom (1994) suggests. Thus, CHR disclosures may imply two hypothetical assumptions; Their actual performance is described on their annual reports as it is, otherwise, the data on their reports are discretionarily filtered for legitimizing their performance.

Hence, we predict that corporate human rights responsibility reporting may or may not properly reflect corporate human rights responsibility performances in the reporting companies given the mixed results of prior research on social disclosure and performance relationship (Bowman and Haire, 1975; Fry and Hock, 1976; Abbott and Monsen, 1979; Frazier, 1980; Freeman and Jaggie, 1982; Ingram and Wiseman, 1982; Hughes et al., 2001; Al-Tuwaijri et al., 2004; Luo and Tang, 2014). Thus, it is hypothesized that

Hypothesis 1a. Corporate human rights responsibility disclosure is positively associated with corporate human rights performance.

Hypothesis 1b. Corporate human rights responsibility disclosure is negatively associated with corporate human rights performance.

3. DATA

The empirical analysis of this study covers the largest 1,000 Korean companies from 2007 to 2014. The companies are selected using the 2014 One Thousand Large Korean Companies' List made by the Korea Contents Media (KCM). The KCM list was compiled based on criteria such as sales, profit, and assets. The top 1,000 large Korean companies are most commonly analyzed and much information on the companies are widely available. This advantage outweighs the disadvantages of possible bias from sample selection. However, this group of companies does not represent all Korean companies, only a considerable proportion of them. One should note that according to the data of Statistics Korea, when self-employed people are excluded, 24 percent of workers in the country are employed by the large companies in 2013 (Yu, 2015). There may exist some systematic difference between large companies and small and medium size companies: on the one hand, companies with a large amount of sales, profit, assets may be more capable of accommodating the demands of employees and less likely to abuse human rights. The high visibility of large companies may also influence positively on human rights disclosure and performances; on the other hand, more human rights violations may occur in large companies compared to small and medium size companies as big employers are likely to exploit their employees' inclination to stay working at a stable and coveted workplace.

As the measure for the dependent variable, corporate human rights performances, this study uses the number of complaints submitted by employees to the National Labor Relations Commission (NLRC) on the issues of unfair dismissal, unfair labor practice, and discrimination. The NLRC, administrative commission and independent quasi-judicial body composed of tripartite representatives from employees, employers, and public interests, mediates and adjudicates disputes between labor and management (National Labor Relations Commission, 2017). Filing a labor complaint at the NLRC is required by law before the dispute goes to the court, except in some special cases. As a measure of human rights performances of companies, the number of complaints against a company is expected to increase as human rights abuses of the company grow. The complaints against more abusive companies are expected to be higher than in less abusive companies.

One of the greatest concerns in using the number of complaints as a measure of human rights performances is that people are likely to take actions including filing complaints or lawsuits as they become more aware of their human rights. If this is the case, more complaints against a company do not necessarily mean more human rights abuses but more awareness among its employees. This study considers the following two possibilities. First, the differences in number of complaints among companies may be the results of these differences in awareness. In that case, it is still possible to find a within-unit effect of disclosure reducing complaints with the fixed effect estimation method. Second, it seems unlikely that increasing awareness explains all of the complaints. The empirical analysis of this study over the period from 2007 to 2014 shows that the Pearson correlation coefficient between year and number of complaints is only -.001 and there is no systematic influence of time found in the models with year-fixed effect. This study also employs the number of complaints which resulted in a favorable ruling at the NLRC under the assumption that human rights awareness in society in general has less influence on the decisions at the NLRC than the complaints from employees and finds similar results.

To measure the main explanatory variable, corporate human rights disclosure, this study employs the corporate human rights responsibility reporting data built by Kim et al. (2016). Kim et al. (2016) collected information about whether a certain company has released annual human rights reports following the guideline of the Global Reporting Initiative (GRI) from 2006 to 2014 and what indicators of the GRI framework the company has filled in. This study uses two measures for human rights disclosure, Reporting and GRI indicators score. Reporting is a binary measure of whether a company released an annual human rights report or not. If a company prepared and releases a report following the G3, G3.1 or G4 guidelines of the GRI, score 1 is assigned in the reporting year, otherwise, score 0 is assigned. The GRI indicators score indicates the number of labor and human rights performance indicators on an annual human rights report released by a company. The measure is the sum of separate scores for 28 indicators. A binary score is coded for each indicator in the GRI guidelines. If a pertinent indicator was fully reported, score 1 is assigned; partially reported, score 0.5 is assigned; not reported, score 0 is assigned. The GRI indicators score, as the sum of separate scores, ranges from 0 to 28. Both the Reporting and GRI indicators score are lagged one year to reduce simultaneous bias.

This study also explores the influence of nine other variables on corporate human rights performances. Annual sales and number of employees are used as a measure of company size. Larger companies are likely to show their commitment to international business and human rights norms and implement them due to their high visibility (Brammer and Pavelin, 2006; Branco and Rodrigues, 2008). Number of employees should also be included as a control variable in statistical models because the number of complaints, all things being equal, is expected to be higher in companies with a larger number of employees. This study also estimates all the models with an alternative measure of the number of complaints per employee and the results are almost identical. The zero correlation between number of employees and number of employees will be negative. The listing on the stock market variable has been reported to have a correlation with the amount of social information releases as well as the amount of total information release, as social visibility is perceived to be influenced by increases in information release (Elsakit and Worthington, 2014). For human rights performances, a stock market listing may give higher visibility to listed companies and influence their human rights performances. Public companies are likely to make a commitment to international business and human rights norms in line with government respect for international norms. Data on annual sales, number of employees, listing on stock market, and public companies come from the DART database system of the Financial Supervisory Service (FSS).

The existence of a labor union is expected to be associated with firmer commitment and better performances. However, labor unions may also increase human rights awareness among employees, and it is possible that the labor union variable is related with more complaints. Labor Union variable is coded by the authors based on the observations that there existed one or more enterprise unions in a company in a given year. Two variables, Consumer proximity and Environmental Sensitivity are included to estimate the impact of industry type on human rights disclosure and performances. The nature of critical social issues varies systematically across different industries (Brammer and Pavelin, 2006), and companies in different industry sectors are expected to react differently to various social issues including human rights issues. Companies in consumer-oriented industries are anxious to build a positive corporate image and are vulnerable to public criticisms (Cowen, Ferreri, and Parker, 1987; Branco and Rodrigues, 2008; Vogel, 2010). Companies in environmentally sensitive industries have experienced high-level public awareness on environmental issues as well as pressure from government and are likely to legitimize their behavior in front of the public as well as their stakeholders (Deegan and Gordon, 1996; Branco and Rodrigues, 2008). Consumer proximity and Environmental Sensitivity are coded by the authors following the method employed by Branco and Rodrigues (2008) to classify industry types. The authors modified their classification of high-profile companies better known to the final consumers and environmentally sensitive companies to take into account the unique characteristics of Korean industries and markets (see Kim et al., 2016).

The human rights performances of competitors in the same industry and by companies in the same conglomerate group are used as measures for peer pressure. The social practices of prestigious and highly visible competitors or peers are observed and imitated by others (e.g. Davis and Greve, 1997; Sherer and Lee, 2002). The measures of two variables, Human rights performances of competitors and Human rights performances in the same group were developed by the authors. The former is the average number of complaints of all other companies in the same industry of the company of interest and the latter is calculated on the basis of the number of complains of companies in the same conglomerate group. Both variables are lagged one year to reduce simultaneous bias.

A lagged dependent variable of one year is included in all the models to control for past performances. In studying the topic of human rights practices, the lagged dependent variable, that is, human rights performances of a company in the previous year, is expected to influence the dependent variable, that is, human rights performances in the following year.

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
Corporate Human Rights Performance Number of Complaints Received by the National Labor Relations Commission	8000	.470	4.153	0	255
Corporate Human Rights Disclosure					
Reporting	8000	.064	.245	0	1
Score Based on the GRI Indicators	8000	1.030	4.321	0	28
Annual Sales	7057	9.32e+09	2.41e+11	79000	1.43e+13
Number of Employees	6333	1827.12	5251.173	1	101970
Labor Union	8000	.448	.497	0	1
Listing on Stock Market	8000	.442	.497	0	1
Public Companies	8000	.039	.194	0	1
Consumer Proximity	8000	.244	.429	0	1
Environmental Sensitivity	8000	.408	.491	0	1
Human Rights Performance of Competitors	8000	.738	1.241	0	17.375
Human Rights Performance in the Same Group	8000	.396	1.215	0	15.5
Ownership Concentration	3225	42.095	16.149	2.94	100
Foreign Share	3324	12.652	14.520	0	89.73
Export Ratio	2005	30.1	.321	0	100
Exogenous Variables					
Reporting by Competitors	8000	.657	.475	0	1
Reporting in the Same Group	8000	.161	.367	0	1
Score on the GRI Indicators by Competitors	8000	.738	1.241	0	17.375
Score on the GRI Indicators in the Same Group	8000	.396	1.215	0	15.5
Environmental Reporting	8000	.008	.090	0	1
BEST Sustainability Reporting	8000	.017	.130	0	1

This study adopts Ownership concentration, Foreign share, and Export ratio to explain corporate human rights disclosure and performances. Many theoretical studies identify these three variables as influential elements in human rights disclosure and performance (e.g. Cormier and Magnan, 2003; Tagesson, Blank, Broberg, and Collin, 2009; Vogel, 2010; Elsakit and Worthington, 2014). Their theoretical expectations include the negative effect of ownership concentration, positive effect of foreign shareholders, and positive effect of export on human rights disclosure or performances. The three variables come from the TS-2000 database system of the Korea Listed Companies Association. Only listed companies release information about ownership concentration, foreign shares, and export ratio, and special attention is required to interpret the results with the variables.

Among the instrumental variables, Reporting by competitors, Reporting in the same group, GRI indicators score of competitors, and GRI indicators score in the same group are made in the same way that the Human rights performances of competitors and in the same group are calculated. The two other variables, Environmental reporting and Business Ethics Source of Top Performance Sustainability (BEST) reporting are coded by the authors based on the observations that a company released a report on its corporate social responsibility management according to the guidelines provided by the Korean government in a given year. More discussion on instrumental variables follows in the next section. Table 1 presents descriptive statistics for each of the variables used in the empirical analysis of this article.

4. ESTIMATION STRATEGY

The empirical analyses of the study estimate the effects of corporate human rights disclosure, whether a company releases human rights information and how carefully the company goes about reporting, on corporate human rights performances, how well human rights of employees are protected. The baseline model uses the ordinary least square (OLS) estimation method. However, as discussed above, human rights awareness may differ from company to company and human rights performances captured by number of complaints are explained more through omitted company-specific fixed factors including awareness than corporate human rights disclosure. The panel fixed effect estimation method is used to correct possible errors from omitted company-specific fixed factors. Using lagged explanatory variables in the panel fixed effect estimation are considered as a method to correct reverse causality bias. In theory as well as in practice, companies which have built good human rights practices are more likely to adopt internationally recognized human rights norms.

Using the panel fixed effect estimation method with lagged explanatory variables is one of the popular methods to identify a causal effect correcting omitted variable bias as well as reverse causality bias. But fixed effect estimation can only control for time-invariant effects but not for time-variant effects. If there are time-variant omitted factors, the instrumental variable method can be alternative to panel fixed effect estimation method. Thus, this study also estimates the effect of corporate human rights disclosure on corporate human rights performances with the instrumental variable method.

The key idea of the instrumental variable method is to find and isolate an exogenous variation in the endogenous variable and identify its causal effect on the outcome variable. If a valid exogenous variable(s), which is (are) correlated with the endogenous variable but uncorrelated with the error term, is (are) found, whether human rights disclosure has a direct, independent effect on human rights performances can be confirmed. The two stage least squares (2sls) regression models employ instrumental variables including Reporting by competitors, Reporting in the same group, GRI indicators score of competitors, GRI indicators score in the same group, Environmental reporting and Business Ethics Source of Top Performance Sustainability (BEST) reporting, and lagged human rights reporting. The human rights disclosure by competitors in the same industry or peers in the same conglomerate group are thought to influence on human rights disclosure of the company of interest, independent of internal factors of the company including human rights performances, the dependent variable. The adoption of two government reporting guidelines are also employed as instrumental variables which have an influence on human rights reporting but are not correlated and are independent of other factors. The inclusion of lagged values of endogenous variable as an instrumental variable has been debated but recommended by many studies (e.g. Barro, 1996; Reed, 2015).

5. RESULTS

Table 2 presents the results of the OLS estimations and the fixed effect estimations. The coefficients of corporate human rights disclosure, the key explanatory variable, both Reporting and GRI indicators score, have a negative sign but only the coefficients of GRI indicators score variable have a statistical significance. The results indicate that human rights performances of companies are not influenced by whether or not companies simply release their human rights report but by how careful companies handle their human rights reporting. The correlation between GRI indicators score and Number of complaints are confirmed in the panel fixed effect model estimation. When a company produces a careful report complying with international guidelines, the company is more likely to have better human rights performances. As shown in Table 2, other explanatory variables discussed in

Table 2. Corporate Human Rights Disclosure and Performance (Single Stage)

	OLS	Fixed Effect	OLS	Fixed Effect
Corporate Human Rights Disclosure				
Reporting	-.090(.238)	-.209(.258)		
GRI Indicators Score			-.056(.013)***	-.041(.014)**
Annual Sales	-.000(.000)	.000(.000)	-.000(.000)	.000(.000)
Number of Employees	.000(.000)***	.000(.000)***	.000(.000)***	.000(.000)***
Labor Union	.227(.108)*		.258(.107)*	
Listing on Stock Market	-.040(.108)		-.003(.107)	
Public Companies	2.595(.402)***		3.099(.399)***	
Consumer Proximity	.168(.129)		.153(.129)	
Environmental Sensitivity	.059(.107)		.074(.107)	
HR Performance of Competitors	-.026(.071)	-.016(.073)	-.023(.071)	-.010(.073)
HR Performance in the Same Group	.004(.073)	-.020(.082)	.025(.073)	-.015(.082)
Lagged Dependent Variable	.343(.012)***	.117(.012)***	.342(.012)***	.118(.012)***
Constant	-.124(.090)	.267(.052)	-.145(.090)	.272(.052)
N	6272	8268	6272	.8268
R^2	.1929	.1717	.1952	.1693

^p<.10, *p<.05, **p<0.01, ***p<.001 (two-tailed).
The results with three more variables including Ownership concentration, Foreign share, and Export ratio are available from the authors. None of them show statistical significance.

the previous theoretical or empirical studies mostly do not have a significant and consistent effect on human rights performances of companies as expected. Only Number of employees has a positive effect on Number of complaints, which confirms that there is a zero correlation between the variable. Labor union and Public companies have a significant effect, but the direction of the effect is opposite to what was expected. The link between labor unions and more complaints could be explained by the role of unions in educating and representing workers about their rights and subsequent increased awareness of violations. For the positive correlation between public companies and the number of complaints, it may have to do with the private companies' practices of softening forced layoffs with substantial amounts of compensation. In contrast, employees of public companies are more likely to resort to the dispute resolution process of the NLRC.

Table 3 shows the 2sls estimations of the effect of corporate human rights disclosure on human rights performances. The lower panel of Table 3 shows the results of the first stage of the models. Human rights disclosure, either reporting or GRI indicators score is explained through the variables including Annual sales, Number of employees, Labor union, Listing on stock market, Public companies, and most of all, instrumental variables, human rights disclosure measured with GRI indicators score, Environmental reporting, and BEST sustainability reporting have significant effect on corporate human rights reporting. Four of five instruments are significant predictors of the endogenous variable. The coefficients on the four instruments are statistically significant at the level of .001. The instruments are very strong and there is no weak instrument problem. The partial R^2 is between .3008 and .3645 and the Cragg-Donald F-statistic ranges from 1097.86 to 2295.83. Based on the Cragg-Donald F-statistic, the null hypothesis that the instruments are weak is rejected far beyond the critical values of a 10% maximal IV size that Stock and Yogo (2002) propose.

The results of the second stage of the models, shown in the top panel, are almost identical with the single stage models. The negative and significant effect of GRI indicators score on Number of complaints is confirmed in the models with the instrumental variable method. The results once again suggest the importance of careful reporting. The positive correlations between Labor union and Number of complaints and between Public companies and Number of complaints are also found. The Sargan-Hansen statistic offers a standard to accept or reject the null hypothesis that all instruments are uncorrelated with the error term. When GRI indicators score by competitors in the same industry, GRI indicators score in the same group, and lagged GRI indicator score of the company or interest are used as instrumental variables, Sargan-Hansen statistic is sufficiently small (the reported p-values are sufficiently large) for not rejecting the null hypothesis that the instruments were uncorrelated with the error term at the level of .10. When two more variables, Environmental reporting and BEST sustainability Reporting are added to the three instrumental variables, the overall results appear the same but the exogeneity of the two additional instruments are in question. The results of the Durbin-Wu-Hausman chi-square test, shown at the bottom of the second stage results, confirm that it is not necessary to discard the coefficients estimated with the single stage OLS regression method. The consistent estimations of the coefficients in the 2SLS regression estimation are not so different. In summary, the empirical analyses of this study found no consistent effect of corporate human rights disclosure on corporate human rights performances. Rather, only careful reporting has a significant impact on human rights performances.

Table 3. Corporate Human Rights Disclosure and Performance (2SLS Estimation)

	Human Rights Performance (2nd Stage)			
	(1)	(2)	(3)	(4)
Corporate Human Rights Disclosure (Instrumented)				
Reporting	-.092(.401)	.410(.394)		
GRI Indicators Score			-.063(.024)**	-.044(.024)^
Annual Sales	-.000(.000)	-.000(.000)	-.000(.000)	-.000(.000)
Number of Employees	.000(.000)***	.000(.000)***	.000(.000)***	.000(.000)***
Labor Union	.227(.108)*	.213(.108)*	.262(.108)*	.250(.108)*
Listing on Stock Market	-.040(.109)	-.064(.109)	.001(.108)	-.013(.108)
Public Companies	2.596(.442)***	2.309(.440)***	3.161(.445)***	2.973(.444)***
Consumer Proximity	.168(.129)	.176(.129)	.151(.129)	.156(.129)
Environmental Sensitivity	.059(.107)	.052(.107)	.076(.107)	.070(.107)
HR Performance of Competitors	-.026(.071)	-.029(.071)	-.022(.072)	-.024(.071)
HR Performance in the Same Group	.004(.074)	-.006(.074)	.028(.074)	.020(.074)
Lagged Dependent Variable	.343(.012)***	.343(.012)***	.342(.012)***	.342(.012)***
Constant	-.124(.090)	-.113(.090)	-.148(.090)	-.140(.090)
N	6272	6272	6272	6272
R^2	.1929	.1923	.1952	.1951
Sargan Statistic (chi-sq p-value)	3.056(.217)	78.226(.000)	.917(.632)	81.569(.000)
DWH chi-sq Test Statistic (p-value)	.000(.995)	2.538(.111)	.099(.752)	.427(.513)
	Human Rights Disclosure (1st Stage)			
	HR Reporting		GRI Indicators Score	
Included Variables				
Annual Sales	.000(.000)	.000(.000)^	-.000(.000)**	-.000(.000)*
Number of Employees	.000(.000)***	.000(.000)***	.000(.000)***	.000(.000)***
Labor Union	.015(.005)**	.014(.005)**	.269(.086)**	.237(.086)**
Listing on Stock Market	.024(.005)***	.022(.005)***	.395(.086)***	.364(.085)***
Public Companies	.288(.017)***	.257(.017)***	5.303(.319)***	4.665(.326)***
Consumer Proximity	-.006(.006)	-.007(.005)	-.151(.104)	-.158(.103)
Environmental Sensitivity	.008(.005)	.007(.005)	.148(.087)^	.155(.087)^
HR Performance of Competitors	.004(.003)	.004(.003)	.115(.057)*	.098(.057)^

Table 3. (continued)

	Human Rights Disclosure (1st Stage)			
	HR Reporting		GRI Indicators Score	
HR Performance in the Same Group	-.000(.003)	-.001(.003)	.110(.061)^	.087(.061)
Lagged Dependent Variable	.000(.001)	-.000(.001)	.008(.010)	.001(.001)
Excluded Variables				
HR Reporting of Competitors	.004(.005)	.006(.005)		
HR Reporting in the Same Group	.048(.007)***	.047(.007)***		
GRI Indicators Score of Competitors			.043(.036)	.058(.036)
GRI Indicators Score in the Same Group			.233(.034)***	.240(.034)***
Environmental Reporting		.193(.023)***		1.647(.418)***
BEST Sustainability Reporting		.155(.019)***		2.901(.353)***
Lagged HR Reporting/GRI Indicators Score	.619(.011)***	.586(.011)***	.572(.012)***	.549(.012)***
Constant	-.020(.005)	-.020(.005)	-.319(.074)	-.316(.074)
N	6272	6272	6272	6272
R^2	.5430	.5523	.4765	.4830
Shea Partial R^2	.3513	.3645	.3008	.3095
Cragg-Donald Wald F statistic (p-value)	.2295.83(.000)	1477.26(.000)	1707.23(.000)	1097.86(.000)

^p<.10, *p<.05, **p<0.01, ***p<.001 (two-tailed).

6. CONCLUSION

As international business and human rights norms have expanded and a new focus on implementation mechanisms has come to light, business organizations as well as society in general are growing concerned about human rights in business sectors. The increasing number of voluntary compliances of companies with corporate human rights reporting guidelines can be interpreted as a norm cascade following the norm emergence. However, it is not yet clear if business organizations are wholeheartedly adopting the new norms because the establishment of binding norms in the private sector is unprecedented. At the moment, implementation mechanisms do not exist, and everything hinges on voluntary decisions of companies. This study investigated the effectiveness of corporate human rights disclosure as an instrument of internalization of international business and human rights norms.

As we saw with the literature on corporate social and environmental reporting, the linkage between disclosure and performance is complex. It was also the case in this research. Corporate human rights responsibility performance was not consistently associated with the disclosure of human rights reports. Nevertheless, the empirical analyses showed that only reporting in compliance with international guidelines affects corporate human rights performances. The effect of careful reporting was confirmed with the panel fixed effect method and the instrumental variable method. In the panel fixed effect estimation, the within-unit effect of careful reporting is found, which suggests that a company is more likely to protect human rights as the company adopted the international human rights reporting guidelines with care and release an elaborative report on its human rights performances. In the 2sls regression estimation, the effect of careful reporting is found after controlling for the reverse causality bias. Ultimately, it is the quality of the reporting that matters, not the report itself.

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