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## ***Corporate Social Responsibility and Human Rights Abuses: An Empirical Analysis on Large Corporations***

Most of the research on Corporate Social Responsibility (CSR) focuses either on the motivations for CSR adoption or on the impact of CSR on corporate financial and economic performance. A generally neglected question is whether CSR effectively reaches its goal to promote a socially responsible behavior in corporations (Karnani, 2011). Prior research has shown that corporations can be simultaneously socially responsible and socially irresponsible (Strike et al., 2006), but there exists very little evidence about whether the adoption of CSR brings, over time, a more responsible behavior, and therefore reduces corporate involvement in direct and indirect human rights abuses. Instances of human rights abuses range from damages to human health caused by corporate operations (Shell Oil is a case in point), to cases of workers discrimination on the job (see the 1948 Universal Declaration of Human Rights). Paradoxically, we observe growing CSR adoption among the largest corporations and, at the same time, information about corporate misconduct and human rights abuses seem to be on the rise.

In this paper we try to answer the following questions:

1. Are firms that have adopted CSR policies less (more) likely involved in human rights abuses?
2. Are firms with a longer experience in CSR less likely to be involved in human rights abuses?
3. Does the adoption of CSR impact differently corporate involvement in direct vs. indirect abuses?

We have built a novel firm-level dataset containing 140 among the largest US, EU and Asian (Japan and South Korea) corporations, selected out of Forbes 500 (2006), using a stratified sampling technique and selecting randomly 5 of the largest corporations in 28 sectors (including primary, manufacturing and service industries).

For each firm we have gathered information about CSR adoption as well as the year in which it was first introduced at corporate level, along with other firm-level indicators. For the same firms we have collected evidence of alleged corporate-related human rights abuses, drawing on the Business and Human Rights Resource Centre (BHRRC) webpage ([www.business-humanrights.org](http://www.business-humanrights.org)) - which is considered to be the world's

leading independent information hub on the positive and negative impact exerted by MNCs on human rights

worldwide. We have operationalized these qualitative information into variables and created a pooled unbalanced panel firm-level dataset. In the analysis we focus on the 1990-2006 cohort. We test whether CSR adoption and years since CSR adoption affect the probability that a firm is involved with a reported human right

abuse at time  $t$ . To do so we run LPM and Pooled Probit models and we control for endogeneity using 2SLS (in the LPM) and Bivariate Probit Model (for the Probit specification). In all models we include industry dummies, time dummies and controls for the characteristics of firms.

We find that firms adopting CSR are more likely involved in human rights abuses than non-adopters. This finding can be explained in two ways. On the one hand, firms adopting CSR become subject to higher scrutiny by NGOs and the media and therefore any of their abuses is more likely to be reported, and to become known to the wider public. On the other hand, this result is in line with critical theorists' argument that CSR is a windowdressing tool: firms that want to commit abuses (or have a higher probability to be reported) may at the same time invest heavily on CSR as to maintain good relationships with governments as well as to minimize the

negative reputation impact deriving from the abuses. Likewise, firms that have nothing to hide may find it less stringent to adopt CSR. Moreover, we find that, once a firm has adopted a CSR policy, the likelihood of being involved in human rights abuses decreases over time. This result is particularly robust for direct abuses, which are abuses committed directly by the corporation or by its subsidiaries operating abroad. We do not find consistently significant impact about indirect abuses, which are committed by third parties (e.g. suppliers, Government agencies etc.) with only an indirect complicity of the corporation. We interpret the reduction of direct abuses over time through theories of firm-level learning, and we argue that large corporations need time to change their routines as to minimize the involvement in abuses. However, the fact that indirect human rights abuses seem not to follow the same decreasing trend as direct ones points at a possible process of "outsourcing" of human rights abuses, as well as at an inherent difficulty of corporations in controlling abuses committed by third-parties.