

# The impact of corporate respect for human rights on the competitiveness and long-term business stability

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## Abstract

Business enterprises operate in a constantly changing business environment. If they are to be successful in the long term they need to be constantly adapting to new situations and seeking new ways of improving their competitiveness. While the classic theories argue that businesses only have economic goals, modern ones emphasize the importance of broader social goals, such as ensuring long-term stability and protecting the interests of all stakeholders. This also involves respecting human rights but enterprises too often neglect this responsibility, seeing it as an unnecessary financial burden. In this paper the author argues that long-term respect for human rights has a positive impact on competitiveness and long-term business stability. The author first defines the basic terms before presenting the theoretical foundations for a positive correlation between corporate respect for human rights and competitiveness and long-term business stability. Finally, the author presents the results of her own empirical study.

*Keywords:* human rights law, business, competitiveness, corporate respect for human rights, long-term business stability, corporate social responsibility

*JEL Classification:* K38, L25, M14

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## 1. Introduction

Business enterprises are created with the aim of making a profit. To be successful in the long term, they also need to be stable and competitive in the long term. Long-term stability can be defined as a consistently steady state. The main indicators of long-term stability are business longevity and profitability. Business competitiveness can be defined as a company's ability to compete successfully with other businesses. Businesses that are stable and competitive in the long term do not focus solely on profitability and other financial targets but also pursue social goals, such as their ability to meet the needs of employees, non-governmental organizations, the local community and other stakeholder groups. They endeavor to ensure social

responsibility\* by acting in accordance with the basic values of society, respecting the natural environment and treating all stakeholders with respect (Waddock and Rasche, 2012, p. 4).

Human rights<sup>†</sup> are rights intended for individuals and the protection of those individuals' values. When the international human rights regime was first established, states were designated as the sole duty-bearers, but over time non-state actors – including businesses – have also come to be duty-bearers in the field of human rights protection.<sup>‡</sup> Under the UN Guiding Principles on Business and Human Rights (GPs),<sup>§</sup> businesses have a responsibility to respect human rights, but too often they neglect this responsibility, seeing it as an unnecessary financial burden.

This naturally raises the question of the impact of corporate respect for human rights on competitiveness and long-term business stability. The author defends the view that respect for human rights in the long term has a positive impact on business competitiveness and stability. The emergent theory of business and human rights is referred to, and a theoretical study of the impact of corporate respect for human rights on business competitiveness and long-term stability presented. It has not been intended to conduct a detailed analysis of the relationship between the two. The aim is simply to discuss some of the issues arising from the interactions between them.

The author starts by defining long-term stability, business competitiveness, and corporate respect for human rights. Then the theoretical foundations for a correlation between corporate respect for human rights, and competitiveness and long-term business stability are explored. And the results of own empirical study on the connection between corporate respect for human rights and the long-term stability of business enterprises in the Republic of Slovenia are presented.

## **2. Long-term business stability and business competitiveness**

While economic definitions of business enterprises are comparable (Kranjc, 2006, p. 29), legal definitions vary, since they depend on state regulation (Stephens, 2002, pp. 60-62). Kranjc (2006, p. 29) defines business enterprises as persons that conduct commercial transactions permanently, independently and with the aim of making a profit. Stephens (2002, p. 77) defines them as independent legal persons, subject to

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\* For more about socially responsible businesses see Sanford (2011).

† Throughout this paper, 'human rights' is used in the sense of human rights and fundamental freedoms.

‡ International organizations such as the World Bank, the World Trade Organization, NATO, etc., are also important duty-bearers in the field of human rights protection but have been intentionally omitted from this paper, since the focus here is entirely on business enterprises.

§ UN Doc. A/HRC/17/31, endorsed by the Human Rights Council in its Resolution 17/4 of 16 June 2011.

international and national regulation, capable of being held legally accountable for their actions. Business enterprises are bearers of rights and obligations: they can sue and be sued.

While classic theories (e.g. Friedman, 1970) argue that businesses only have economic goals, modern ones also emphasize the importance of broader, social goals.\*\* The classic view that the sole goal of business is the creation of profit is outdated and has been superseded. Modern theories also recognize the importance of broader social goals, such as achieving long-term stability, maintaining internal stability, promoting development, protecting the interests of all relevant stakeholders and the broader social community, and also respecting human rights (Korže, 2014, p. 7). Quairel-Lanoizelee (2016, p. 135) argues that “business enterprises are not just economic agents, but also actors in society whose activities have an impact on environmental and social conditions, therefore the society may require them to comply with prevailing norms and values”. Bertoneclj et al. (2011, p. 130) argue that a business can only be successful and competitive if it is able to adapt to changes in the environment and in market demands, while at the same time maintaining and improving its position in the business environment. They go on to say (Bertoneclj et al., 2011, p. 132) that businesses must avoid short-term actions that would harm society and the environment, and need to operate in a way that ensures long-term stability and effectiveness.

Globalization has brought new challenges to business operations. Before globalization, businesses were only competing with other businesses from the same country, which meant that they were all bound by the same regulations. With globalization, businesses started operating multinationally, and became subject to regulations imposed by a variety of national governments. The lack of unified legal and social standards meant there was no level playing field for businesses. Businesses therefore started trying to maintain their position by lowering social standards, jeopardizing the functioning of society and the environment as a result. In recent years, care for the environment and society as a whole has become an important topic, resulting in an increase in the number of initiatives aimed at ensuring sustainable business operations. It is in the best interests of society for businesses to be both competitive and stable in the long term.

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\*\* There is a longstanding debate in business ethics whether businesses have an ethical responsibility only to their shareholders and maximization of its returns (stockholder theory) or they have an ethical responsibility also to the environment in which they operate. Therefore they must consider the interests of all stakeholders when making business decisions (stakeholder theory).

### *Definition and indicators of long-term business stability*

There is no established legal definition of long-term stability. It combines “stability” and “long-term”. Stability is defined as “a situation in which things happen as they should and there are no harmful changes” or “the ability of something to remain balanced and not fall or shake” (Macmillan Dictionary, n.d.). In the business context, stability is described as a state that is not subjected to large or erratic fluctuations (Deardorff, 2014). “Long-term” is defined as “continuing to exist, be relevant, or have an effect for a long time in the future” (Macmillan Dictionary, n.d.). It is not clear what counts as a “long time”, as it depends on circumstances. It is, however, unarguably a period longer than 12 months, as this is the established definition for long-term instruments in financial statements, but normally it is substantially longer than this. From these definitions, long-term business stability can be defined as a state of continuous gradual business progress, absent from large or erratic fluctuations that lasts for a long period of time.

The main indicators of long-term business stability are longevity and profitability. Long-term stability not only requires the business to be making a profit, but also to be part of the social environment. Only this is to ensure its long-term survival. Long-term stability also requires respect for legislation, employees and other stakeholders, as well as constant operational improvements and innovation. Long-term stability is associated with terms such as sustainable development, business ethics and corporate social responsibility.

### *Definition and indicators of business competitiveness*

Competitiveness can be defined as “the ability of a company or a product to compete with others” (Summers, 2000). Quairel-Lanoizelee (2016, p. 134) similarly defines competitiveness as “the ability and performance of a firm, sub-sector or country to sell and supply goods and services to face competition successfully”. Ambastha and Momaya (2004) define competitiveness as a multidimensional concept that can be used at national, industry and company levels. There are several commonly accepted indicators that quantify and qualify competitiveness at the national level, but which are absent at the industry or company levels (Vilanova et al., 2009, p. 59).

A number of benchmarks to assess national competitiveness have been issued. These include the World Economic Forum’s Global Competitiveness Report and the Institute for Management Development’s World Competitiveness Yearbook. The indicators for international competitiveness, as identified in the World Economic Forum’s Global Competitiveness Index, are grouped into 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial

market development, technological readiness, market size, business sophistication, and innovation (World Economic Forum, n.d.).

At the company level there are a number of rankings that evaluate businesses on the basis of various factors, e.g. brand equity (Forbes), reputation (Reputation Institute) or human rights (Business and Human Rights Resource Centre), but there is no commonly accepted ranking for competitiveness. Traditionally, the best indicator of competitiveness at a company level was believed to be productivity (Porter, 1985). Over time, however, this has changed, and intangible capital such as knowledge, relationships and reputation has become increasingly important (Lowell, 2007, p. 56). Vilanova et al. (2009, p. 59) propose 5 key dimensions of competitiveness: performance (i.e. earnings, growth, profitability), quality (of products and services, the ability to satisfy customer expectations), productivity (higher production and lower use of resources), innovation, and corporate image.

### **3. Corporate respect for human rights**

Even though there is no uniform definition of human rights, there is a common understanding that these are rights intended for the individual and the protection of his or her values. Korže (2006) shares the view that human rights are one of the fundamental ways of understanding modern economic, political and legal systems and procedures, since a person's individual and collective nature derives from their human rights. Wettstein (2009, p. 137) argues that human rights "secure the moral minimum necessary for us to live a liveable, dignified life as human beings". Human rights arise from human dignity and all have in common that they are universal, indivisible, interdependent and interrelated;<sup>††</sup> in addition, International Standard ISO 26000 also states that they are inherent and inalienable (International Organization For Standardization, 2010). These rights belong to the individual by their very nature: consequently, every individual is entitled to their enjoyment without discrimination (Ruggie, 2013; McBeth, 2010).

Over the years a broad spectrum of human rights have been developed. These can be classified into three groups: civil and political rights; economic, social and cultural rights; and collective rights. The aim of civil and political rights is to ensure that the individual is able to function in society as a political subject enjoying certain rights and freedoms (Lampe, 2010, p. 491). Economic and social rights enable individuals to enjoy the fruits of their labor, as well as conferring protection in the event of inability to work and/or threats to their social existence (Lampe, 2010, p. 483). Cultural rights aim to ensure individuals' ability to engage in cultural life. By their

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<sup>††</sup> *Vienna Declaration and Programme of Action*, A/CONF.15/23 (1993), § 5, reaffirmed in *Resolution 60/1. 2005 World Summit Outcome*, GA Res A/RES/60/1 (2005), § 13.

very nature, civil and political rights take direct effect; economic, social and cultural rights cannot normally do so, which makes it necessary to adopt further measures for their specification and enforcement. All human rights are equally important: there is no hierarchy of human rights between different groups.

A number of international policy instruments have been adopted in the field of human rights. These range from binding instruments, such as conventions and covenants, to non-binding ones, such as declarations. The most important international legal instruments relating to human rights are the documents accepted by the United Nations, the International Labor Organization and the Council of Europe. The key UN treaties forming the foundation for international human rights are as follows: the *Universal Declaration of Human Rights* 1948 (UDHR),<sup>##</sup> the *International Covenant on Civil and Political Rights* 1966 (ICCPR),<sup>§§</sup> and the *International Covenants on Economic, Social and Cultural Rights* 1966 (ICESCR).<sup>\*\*\*</sup>

#### *Business enterprises and their responsibility to respect human rights*

When operating in the market, business enterprises are bearers of certain rights and (economic) freedoms. The human right to freedom is an expression of human dignity; in the economic context, it is understood as the right to free economic initiative, combined with the rights to equality and free competition.<sup>+++</sup> However, the right to free economic initiative, which enables businesses to achieve their goals, has to be limited in order to ensure that other human rights are also protected, and to create a balance between economic and social goals. In the field of human rights protection, business enterprises have obligations as well as rights.<sup>+++</sup> In the author's view, it is not possible to impose the same obligations on business enterprises as on states; businesses are therefore only required to respect human rights, not also to protect them. The protection and fulfillment of human rights is wholly the responsibility of the state (Čertanec, 2015).

A number of high-profile cases of human rights abuse (Bhopal, Shell, Nike etc.), widely reported in the media, have led to an open dialogue on the obligation to respect human rights. Businesses can have both positive and negative impacts on the implementation and protection of human rights. They can contribute to economic welfare, economic development and employment, and thus also to the enjoyment of some human rights (especially economic ones); but at the same time they can have a negative effect on human rights if they pollute the environment,

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<sup>##</sup> GA Res 217A (III), A/810.

<sup>§§</sup> 999 UNTS 171.

<sup>\*\*\*</sup> 993 UNTS 3.

<sup>+++</sup> More about that see Korže (2013, p. 264).

<sup>+++</sup> Similar Muchlinski (2001, pp. 31-2).

violate the rights of employees, reduce social protections, or contribute to uneven economic development, etc. (Van Huijstee et al., 2012, p. 10).<sup>§§§</sup> Businesses have the potential to affect communities and individuals in ways that would constitute a violation of international human rights if committed by states (Nolan and Taylor, 2009, p. 438). The imbalance of power between businesses and the objects of protection often enables business to act negatively with regard to human rights protection, and leads to abuses of the rights of the weakest and most vulnerable (Van Huijstee et al., 2012, p. 10). The impacts of (multinational) businesses on developing and underdeveloped countries are especially clear. These countries take an indulgent approach to regulation in order to attract investment, but do not have the power or means to monitor multinational business operations in their territory (Soh, 2013, p. 23). The goal of economically powerful businesses should be to maximize the good, while simultaneously reducing or even eliminating their negative effects (Weissbrodt, 2005, p. 58). Unfortunately, however, the goal of profit maximization normally prevails, meaning that the negative effects of their activities in host states tend to far outweigh the positive ones.

The corporate responsibility to respect human rights applies to both actions and omissions, meaning that businesses must both implement measures to prevent and mitigate adverse human rights impacts, and refrain from actions that could lead to them. Where human rights abuse cannot be prevented, businesses have a duty to implement measures for remediation. They have a responsibility to respect human rights in all areas of their operations, since human rights protections apply to all potentially affected stakeholders. The main stakeholders of a business are its employees,<sup>\*\*\*\*</sup> but the employees of business partners, members of the local community, etc., must also be protected. Any affected stakeholder can use one of the established grievance mechanisms to invoke an abuse, either judicially or non-judicially.

A number of instruments have been adopted for the protection of human rights in the business context. They are non-legally binding and range from instruments created by international organizations to individual businesses' internal codes of conduct. They are mostly intended for the regulation of CSR, but also include provisions intended for human rights protection (e.g. OECD Guidelines for Multinational Enterprises, ISO 26000). Every attempt to introduce international legal instruments that would impose human rights obligations on businesses (e.g. UN Norms on the Responsibilities of Transnational Corporations and Other Business

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<sup>§§§</sup> Similar Soh (2013); Monshipouri et al. (2003, p. 974); Weissbrodt (2005, p. 58); Ruggie (2013); Kinley and Tadaki (2003-2004, p. 933).

<sup>\*\*\*\*</sup> Business has to respect the right to just and favourable conditions of work, the right to form trade unions, the right to social security etc.

Enterprises with Regard to Human Rights<sup>\*\*\*\*</sup>) has so far failed. The only initiatives that have been adopted are non-binding ones. The most recent of these are the UNGPs, which were adopted in 2011 and which clearly define the steps that states and businesses should take with regard to human rights protection in a business context. They require states to put in place whatever legal foundations may be necessary to protect individuals against human rights abuses by third parties and to ensure they have access to effective remedy if human rights abuse should occur; and require businesses to identify areas of their operations where abuses could occur and to put in place mechanisms both to prevent their occurrence and to stop and remedy any abuses that do occur.

#### **4. The impact of respecting human rights on long-term business stability and competitiveness**

The idea of creating a free market economy was born after the end of the Second World War, and the first steps towards it involved the establishment of a number of international organizations such as the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade (the precursor of the World Trade Organization). The aim of these organizations was to reduce human suffering and create a fairer and more stable world (Rabet, 2009, pp. 464-465). At the same time the UN adopted the UDHR, on which the human rights regime is founded. The UDHR grants to all organs of society inalienable rights that are intended to prevent future conflicts in the world. Both regimes are based on the idea of fairness and stability, but their implementation went in completely different directions (Rabet, 2009). The development of a free market economy led to a race for maximum profit, frequently at the expense of social goals. In order to achieve their aim of maintaining their competitive advantage and attracting foreign direct investment, businesses acquired a cheap labor force and left stakeholders' rights unprotected (Rabet, 2009, p. 466). Human rights were pushed into the background, or often even misused in the pursuit of economic goals. Human rights advocates were frequently silenced, and human rights abuses spread all over the world. In their desire to increase profit, many businesses failed to respect internationally recognized human rights, even though others have shown that high standards of business behavior can accelerate their growth (OECD, 2011, p. 14). The situation became intolerable, leading to the development of new concepts such as sustainable development, corporate social responsibility, etc. The main goal of any business is still to create added value, but these days the focus is on doing so in a way that takes account of wider social interests as well as the business's own (Bertoncelj et al., 2011, p. 41). Businesses now need to be socially responsible as well as profitable. It has become apparent that the

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<sup>\*\*\*\*</sup> E/CN.4/Sub.2/2003/12/Rev.2, 26 August 2003.

advancement of mankind advocated by international organizations cannot be achieved solely through free trade and economic growth: human rights must also be taken into account.

The academic literature identifies many types of socially responsible actions that have an impact on business effectiveness and efficiency. These include relations with employees, customers, competitors and the local community; environmental responsibility; responsibility to the state, etc. (Bertoncelj et al., 2011, p. 118). Sadly, human rights are not mentioned explicitly. All the same, human rights lurk in many kinds of socially responsible actions, most obviously in good employee relations, which cover numerous human rights, e.g. non-discrimination, fair wages, safe and healthy working conditions, etc. Bertoncelj et al. (2011, pp. 18-9) argue that the market economy can only be considered to be free if the basic conditions necessary for the freedom of goods, services and work are in place, if the capital market is developed, the legal order and the right to property are upheld, and human rights are protected. The author agrees with Bertoncelj that human rights protection is extremely important for a free market economy. Businesses must ensure respect for human rights, both for their own benefit and for the benefit of society as a whole.

#### *The impact of respecting human rights on long-term business stability*

Bertoncelj et al. (2011, p. 19) argue that long-term business operations require a balance between taking risks and exploiting opportunities, since pursuing short-term goals alone is counterproductive. Emeseh and Songi (2014, p. 141) view the stakeholder approach to management as essential if businesses are to survive and operate freely. For McCorquodale (2009, p. 396), legal regulation and respect for human rights are essential for long-term business stability and effectiveness. Korže (2006, p. 52) states that social welfare and social development are in an optimal state when human rights and economic rights converge and are in balance. In theory, businesses that respect human rights should be stable in the long term, and those that do not should be doomed to failure.

As early as 1789, the preamble of the French Declaration of the Rights of Man and of the Citizen stated that “the ignorance, neglect, or contempt of the rights of man are the sole cause of public calamities and of the corruption of governments”. Businesses benefit from a social and international order in which human rights are respected (International Organization For Standardization, 2010). Stephens (2002, p. 48) rejects the view that violations of human rights are an “unavoidable price of economic development”: he is convinced that international and national legal systems have all the tools necessary to regulate businesses and prevent and penalize human rights violations. Robinson (1998) argues that “business needs human rights

and human rights need business". Muchlinski (2001, p. 38)<sup>\*\*\*\*</sup> shares this view and argues that businesses cannot operate well in a business environment where human rights are not respected. Monshipouri et al. (2003, pp. 970-1) state that the only way to develop a sustainable global economy is to incorporate human rights into business practices, because business interests are not necessarily in conflict with human rights. Panda (2013, p. 428)<sup>§§§§</sup> is convinced that human rights protection and the rule of law can no longer be treated as marginal topics: businesses need to accept and pay heed to both, not just because this is the ethical thing to do, but because doing so is also good for business. Campbell (2006, p. 266) argues that businesses will not respect human rights simply because ethics are good for business, but because they fear the pressure of moral disapproval from stakeholders and the negative business consequences of unmotivated employees. Muchlinski (2001, p. 38)<sup>\*\*\*\*\*</sup> takes the view that businesses that do not respect human rights will be put under the microscope and their corporate reputations will suffer.

The author argues that businesses perform far better in an environment in which human rights are protected than in one where massive abuses of human rights can occur. As Porter and Kramer (2006, p. 83) assert, businesses and society are interdependent, therefore business decisions and social policies should be beneficial to both. They argue that the long-term prosperity of both is to suffer if one tries to benefit at the expense of the other, and that successful businesses need a healthy society and a healthy society needs successful businesses (Porter and Kramer, 2006, p. 83). The author takes the view that this goal can only be achieved when human rights are incorporated into business practices. Porter and Kramer (2006) argue that the rights to education, health and equal opportunities are essential for a productive labor force. They believe that safe products and working conditions not only attract customers, but also reduce costs resulting from industrial accidents (Porter and Kramer, 2006). They stress that the effective use of natural resources facilitates increased business productivity, while stable government, the rule of law and the right to private property are crucial for business effectiveness and innovation (Porter and Kramer, 2006).

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<sup>\*\*\*\*</sup> Similar Monshipouri et al. (2003, p. 981); Steinhardt (2005, pp. 213-4).

<sup>§§§§</sup> For Stephens (2002, p. 63) respect for human rights has a positive impact on business performance only if the society is democratic and there is free movement of information.

<sup>\*\*\*\*\*</sup> However, respect for human rights does not have the same impact in all businesses.

As respect for human rights is an element of corporate social responsibility (CSR),<sup>\*\*\*\*</sup> the benefits of respecting human rights are similar to those of socially responsible behavior. By behaving socially responsible businesses secure the long-term commitment of employees, consumers and citizens, and this forms the basis for sustainable business models and contributes to the creation of an environment in which businesses can innovate and grow (European Commission, 2011, p. 3). Incorporating human rights into business practices confers many benefits: it helps protect and improve corporate reputation, creates a social license to operate, strengthens employee motivation and relations with stakeholders, and improves recruitment and staff retention, etc. (Frankental and House, 2000, p. 25).<sup>\*\*\*\*</sup> Socially responsible behavior also brings the benefits of a more successful society, a healthier environment and sustainable development (Jernej Letnar Čerňič, 2009, pp. 9, 10). Emeseh and Songi (2014, p. 141) argue that stakeholder activities such as hostile campaigns by environmental and human rights groups, consumer boycotts and disruption of operations by local communities have a negative impact on the productivity and profitability of the businesses concerned.

States, too, have come to realize that a society in which human rights are respected is more stable and provides a better environment for business. Respect for human rights in society increases economic growth through increased consumption, since when basic human rights are satisfied new needs are created, and this brings benefits to both businesses and society as a whole (Porter and Kramer, p. 83). The Danish and Dutch governments are therefore convinced that there is a link between economic growth and socially responsible behavior (The Danish Government, 2014, p. 7). The Italian government believes that respecting human rights can increase business profit (Italian Government, 2013, p. 76). The UK government takes the view that respect for human rights brings benefits to both businesses and society because it contributes to sustainable market development and facilitates long-term growth (HM Government, 2013).

#### *The impact of respect for human rights on business competitiveness*

Waddock and Graves (1997, p. 314) argue that including human rights in corporate social performance does not create a competitive disadvantage and may in fact confer an advantage. Businesses are becoming increasingly aware that there are

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<sup>\*\*\*\*</sup> Respecting human rights of affected stakeholders is a minimum social responsibility of a business while CSR goes further and demands proactive company involvement in their environment. See more in Čertanec (2019).

<sup>\*\*\*\*</sup> Similar Weissbrodt (2005, pp. 71-72).

financial as well as ethical reasons for respecting human rights. These financial reasons include (HM Government, 2013, p. 6):

- Protecting and strengthening their corporate image;
- Maintaining and increasing their customer base, as customers favor businesses with higher ethical standards;
- The ability to attract and retain quality employees, leading to lower staff turnover, higher productivity and improved employee motivation;
- Reduced risk of disruption to business operations through conflicts either within the business (e.g. strikes or other labor disputes) or with the local community or other parties (“social license to operate”);
- Reduced risk of legal disputes caused by human rights violations, and therefore also lower legal costs;
- The ability to attract socially aware investors;
- The ability to attract business partners who are themselves careful to avoid the risk of human rights violations.

Respecting human rights can also help avoid negative publicity that can result in a reduced share price and loss of revenue (as in the case of Nike and its sweatshop in Vietnam, for instance). Porter and Kramer (2006, p. 82) believe that the costs to a business of later being judged to have violated its social obligations far outweigh the initial costs of honoring them. Telesetsky (2015, p. 1023) stresses that, in terms of public opinion, it is far worse to be held actively liable for a human rights violation than to be simply negligent.

Businesses that fail to appreciate the importance of respecting human rights try to avoid the short-term costs of doing so, not realizing that this leads to human rights abuses which causes far greater costs in the long term.<sup>§§§§§</sup> Such conduct is harmful both to potential stakeholders and the business itself. Ruggie (2013, p. 139) calls this a “lose-lose situation”.

For businesses to be competitive, they require a strategic approach to CSR (European Commission, 2011, p. 3). The same applies to human rights. Porter and Kramer (2006, p. 82) stress that businesses should operate in ways that enable them to protect their long-term economic success by avoiding short-term behaviors that are socially harmful. From a business perspective, carrying out human rights due diligence should bring benefits in terms of the management of risk (e.g. to

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<sup>§§§§§</sup> Similar for CSR Porter and Kramer (2006, p. 82).

production or reputation; or of legal and/or financial threats) and reduced conflict-related costs (e.g. delays to projects, difficulty in obtaining permits, costs of temporary or permanent suspension of operations, conflicts with the labor force, higher insurance premiums, costs of financing and project insurance, loss of reputation and possible project cancellation costs) (Van Huijstee et al., 2012, p. 57). At the same time it should improve access to capital, relations with customers, human resource management and the ability to innovate (European Commission, 2011, p. 3), and contribute to the sustainable development of the business (Van Huijstee et al., 2012, p. 57). Bertonecelj et al. (2011, p. 142) argue that human rights abuses can result in the loss of creativity, stability and motivation. When businesses incorporate long-term social goals such as respect for human rights into their business strategies, they are able to gain competitive advantage<sup>\*\*\*\*\*</sup> in the long term<sup>+++++</sup> and improve their position in the market relative to their competitors (Letnar Černič, 2011, pp. 55, 67).<sup>+++++</sup> Vilanova et al. (2009, p. 57) argue that when CSR (including respect for human rights) is embedded in business processes it leads to innovative practices and improved competitiveness. Likewise Gugler and Shi (2009, p. 5) argue that the restructuring, innovation and technological upgrading resulting from socially responsible behavior ultimately result in enhanced productivity and efficiency, which compensate for the initial costs. Quairel-Lanoizelee (2016, p. 144) additionally emphasizes that CSR (and therefore also respect for human rights) can only create a competitive advantage if customers value the labels and certifications relating to socially responsible behavior. For Quairel-Lanoizelee (2016, p. 147) the solution lies in the establishment of a market for virtue – a market where customers are prepared to pay higher prices for socially responsible products. The term “responsible competitiveness” is often used in this context. For Buhmann (2011, p. 153) CSR is one of the ways in which to achieve responsible competitiveness – i.e. competitiveness while respecting human rights.

At the same time there are others who argue that respect for human rights reduces business competitiveness. Their main claim, repeated over and over again in both theory and practice, is that respecting human rights increases operating costs. Higher operating costs typically mean higher prices relative to the competition and consequently make the business less able to compete. The resulting uncompetitive

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<sup>\*\*\*\*\*</sup> For more on competitive advantage factors see Čater (2007).

<sup>+++++</sup> Deva (2003) criticizes the assumption that respect for human rights confers competitive advantage, on the basis that it allows businesses to abuse human rights. The author shares this view but believes that, unfortunately, human rights abuses are simply a reality today. However, if minimum starting standards are implemented, then only businesses with higher human rights standards gain competitive advantage.

<sup>++++</sup> Similar Porter and Kramer (2006, p. 82) for CSR.

position results in lower profit. Neoclassical economists believe that socially responsible behavior, including respect for human rights, reduces profits and shareholder value, since the costs of respecting human rights outweigh the economic benefits (Waddock and Graves, 1997). Waddock (2008), using the example of Walmart, shows that some businesses build an entire successful business model on their lack of social responsibility. Another argument for reduced competitiveness is the problem of *free riders*. Muchlinski (2001, pp. 35-6) argues that more socially responsible businesses that allocate their time and resources to human rights protection is at a competitive disadvantage compared with businesses that do not, and that this is to result in a loss of business opportunities in states with a low level of respect for human rights. Rabet (2009, p. 473) believes that relying on businesses to respect and promote human rights in developing countries is problematic because the main goal of any business is to maximize profit for its shareholders, and respecting human rights greatly impedes or even prevents this. Paine (2000, p. 324) views any positive correlation between respecting human rights and resulting reputational and marketing benefits as “shaky at best”.

No studies have been conducted on the relationship between respect for human rights and financial performance, but there have been numerous studies on the relationship between CSR and financial performance, though their findings are unclear (Chand and Fraser: 2006). Waddock and Graves (1997, p. 305) argue that the association between CSR and financial performance can be negative, neutral or positive. If businesses that operate in a socially responsible way are put at a competitive disadvantage because their costs outweigh the benefits, the association is negative (Waddock and Graves, 1997, p. 305). If it is not possible to establish any kind of relationship between social responsibility and financial performance, perhaps because there are too many variables, then the association is neutral (Waddock and Graves, 1997, p. 305). The association is positive when the benefits of socially responsible behavior outweigh its costs; in this latter case, socially irresponsible business practices would result in a competitive disadvantage (Waddock and Graves, 1997, p. 306). The results of the studies on the relationship between CSR and financial performance mostly indicate a positive association (Porter & Kramer, 2006; Waddock and Graves, 1997; Juholin, 2004; Van Beurden and Gössling, 2008), though some also indicate a neutral (McWilliams and Siegel, 2007), positive-negative (Hillman and Keim, 2001) and negative association (Makni et al., 2009, p. 409). Makni et al.'s (2009, p. 409) study into the relationship between corporate social performance and financial performance demonstrated that, in the short term, socially responsible businesses experience lower profits and reduced

shareholder value compared with those that do not operate in a socially responsible way. Nevertheless, Juholin (2004) defends the position that embracing respect for human rights contributes to not only long-term profits but also short-term.

### **5. The connection between corporate respect for human rights and long-term business stability in the Republic of Slovenia (empirical study)**

The author carried out an empirical study to analyze the connection between corporate respect for human rights and the profitability and long-term stability of businesses. The aim of the study was to prove that respect for human rights has a positive effect on business profitability and long-term stability. The study reviewed businesses in the Republic of Slovenia, irrespective of size, sector, ownership or operational context. The sample consisted of large, medium-sized, small and micro enterprises and was limited to members of the Chamber of Commerce and Industry of Slovenia who were willing to participate in a survey.<sup>§§§§§§</sup> All the responding enterprises had been trading for between 3 and 145 years, with the median being 32.5 years. It is therefore possible to conclude that they were long-term stable businesses. 76.66% of them reported a net profit for 2013, 11.67% a net loss, and 11.67% neither. The majority of respondents were therefore both successful and profitable.

The results of the survey showed a surprisingly high awareness of corporate obligations regarding human rights. More than half of the enterprises surveyed were aware of their ability to abuse human rights through their activities. Almost all were also aware that they had a responsibility to respect both civil and political, and economic, social and cultural rights. Most respondents recognized that respecting human rights had a positive effect on their operations - 62% believed this positive effect was significant, 20% that it was small. Only 2% of respondents thought the effect was negative, and 4% that it had no effect at all. When asked in what ways this effect made itself felt, respondents reported all the factors identified in the theoretical studies. The most common effects were improved employee satisfaction; greater staff enthusiasm, loyalty and motivation; lower staff turnover; a good atmosphere; a positive working environment; improved reputation; and new business opportunities resulting in increased productivity and, consequently, long-term business success. Two respondents acknowledged the positive effects, but also mentioned the negative effect of higher costs on short-term finances. It was also

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<sup>§§§§§§</sup> The survey was conducted between 19 November 2014 and 19 February 2015. The survey questionnaire consisted of 44 questions, divided into 5 sets, and was formed on the basis of the author's theoretical findings. It was published on the internet using an online survey tool. 57 respondents partially filled in the survey and 46 completed it. See more in Čertanec (2015).

clear from the answers that respondents recognized the connection between respect for human rights and business productivity.

It was evident from the answers that the majority of respondents (76%) believed they sufficiently respected human rights in their operations. When asked what form this took, respondents mostly listed actions required by legislation, plus voluntary efforts to improve workers' job satisfaction. This showed that respect for human rights is not systematically regulated, but that businesses do respect at least some human rights. The sample was mostly composed of businesses that are long-term stable and profitable; the author therefore concluded that respecting human rights contributes to long-term stability and profitability. One positive sign is that the majority of respondents (83%) did not see respect for human rights as an obstacle to achieving their business goals, and did think it benefited their businesses in the long term (83%). These long-term benefits took the form of improved employee satisfaction, leading to greater commitment, confidence and motivation, and consequently higher productivity, stability and success for the business. Some respondents also emphasized that respect for human rights was necessary for goodwill and corporate reputation. The benefits of respecting human rights were also reflected in business longevity and continual profit growth. A significant majority of respondents acknowledged the connection between corporate respect for human rights and the long-term stable functioning of their enterprises, with 84% seeing respect for human rights as a necessity for their enterprises' long-term operations, and only 10% doubting it.

## **6. Discussion**

Businesses have a responsibility to respect human rights, but they often deliberately neglect it. For most businesses, the ethics of human rights are not sufficient motivation. The increased profit and competitiveness that come from respecting them, however, definitely are. From the literature overview it is evident that there is a connection between respect for human rights and long-term business stability. Respect for human rights undoubtedly confers economic and social benefits on businesses, which in turn contribute to their long-term stability. The economic and social benefits of respect for human rights also promote the national economy. The state establishes protections for human rights, thereby creating the basis for respect for human rights in businesses, and this in turn promotes their long-term stability. As human rights protection and long-term business efficiency and stability converge globally, a balance is achieved between economic and social goals, and this is to help eliminate a number of the tensions evident today.

The essence of these findings is that long-term stability requires there to be a balance between businesses' economic and social goals, because a business's

financial results are dependent on other values too. In the long term, liberalism or neoliberalism mean business suicide. Only businesses that respect human rights can be successful in the long term. Businesses that only focus on short-term profit and neglect their human rights obligations endanger their own long-term effectiveness and stability. By respecting human rights, businesses secure the long-term commitment of employees, consumers and citizens, and this forms the basis for sustainable business models and contributes to the creation of an environment in which businesses can innovate and grow.

Long-term stability is strongly associated with competitiveness. No business can remain in business in the long term if it is not competitive, since its competitors push it out. It was long assumed that respecting human rights reduces competitiveness, but in the last decade this view has started to shift. More and more theorists now argue that respecting human rights increases business competitiveness and therefore confers competitive advantage. Neither view can be proven unambiguously, since the reality depends on a variety of factors, the most important being whether we are looking at the short or the long term.

The literature overview indicates that in the short term, respect for human rights<sup>\*\*\*\*\*</sup> results in higher operating costs which reduce the profitability and therefore competitiveness of the businesses. On the other hand the literature overview has shown that respecting human rights does increase business competitiveness in the long term. The costs of doing so are higher at first, but in the long term these reduce, because failing to respect human rights results in higher conflict costs. Respecting human rights brings many benefits. Any short-term reduction in profits that may be caused can result in increased profitability in the longer term, since respecting human rights can guarantee higher purchasing power in the future, improved infrastructure, and better educated and happier employees, and all this has an impact on business success in the long run.

Studies on the relationship between CSR and financial performance imply that socially responsible behavior contributes to economic effectiveness. Since respect for human rights is an element of CSR, we can conclude from these studies that it can contribute to economic effectiveness and hence lead to greater competitiveness. To substantiate this position the author carried out an empirical study that clearly indicates that respect for human rights has an impact on business stability and competitiveness. This study demonstrated that the profitable and long-term stable business enterprises which formed the majority of the sample are aware of the advantages of respecting human rights. They believe that respect for human rights is crucial for their long-term stability and profitability. From their answers it

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<sup>\*\*\*\*\*</sup> Rabet (2009, p. 469) demonstrates this using the example of the right to fair remuneration.

can be concluded that they respect at least some human rights in their operations. It is therefore possible to conclude that there is a positive correlation between respect for human rights and long-term stability and profitability. Active respect for human rights has a positive effect on business profitability and long-term stability. Unfortunately, the sample was too small for the data to be statistically significant, and it cannot therefore be used to statistically confirm this hypothesis.

Nonetheless, it is important to emphasize that the purpose of respecting human rights is not to create benefits for businesses, but to protect individuals. Wettstein (2009, p. 136) argues that it is dangerous to justify ethical behavior on the basis that such behavior is economically advantageous, because then the only normative justification for responsible behavior is the fact that it pays off. Cragg (2012, p. 10) believes that “enlightened self-interest is not capable of sustaining the human rights agenda against competing business imperatives”. Deva (2003) shares the view that the importance of respect for human rights goes beyond its economic benefits and that businesses should respect human rights as part of their social license to operate. Avery et al. (2006, p. 77) state that it would be hard to argue that the rights to life, health or non-discrimination, for example, only need to be respected if they pay off. They argue that business enterprises should respect human rights at all times, not just when it suits them to do so (Avery et al., 2006, p. 77). They are convinced that today's mistrust in the business world arises from the public perception that businesses prioritize profit over internationally recognized principles and standards (Avery et al., 2006, p. 77). In their view, the only way to restore this trust is to put those internationally recognized principles and standards at the very top of the business agenda (Avery et al., 2006, p. 77). Improving competitiveness while also maintaining high human rights standards is therefore not just a desirable national goal, but absolutely essential in order to achieve prosperity at the national level.<sup>+++++</sup>

## 7. Conclusions

As Porter and Kramer (2006, p. 92) correctly state, businesses “are not responsible for all the world’s problems, nor do they have resources to solve them all”. Nonetheless, they do have certain responsibilities to society, as their social role is growing. Part of their social responsibility is also to respect human rights. In the business world this is an extremely sensitive topic. Business enterprises are required to respect human rights, but they are often unwilling to do so, seeing it as a wholly unnecessary burden. They often perceive only the immediate cost of respecting

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<sup>+++++</sup> Likewise Jaklič (2005) for higher wages.

human rights, and not its further positive implications for long-term stability and profitability. It would be easier to achieve greater business respect for human rights if more businesses were aware of the economic benefits it can bring.

Many theorists (McCorquodale, Stephens, Muchlinski, Waddock and Graves, Korže) believe that corporate respect for human rights has a positive impact on competitiveness and long-term stability. They argue that such respect protects and enhances corporate reputation, confers a social license to operate, and improves employee motivation and relations with stakeholders, etc. This results in improved productivity and profitability. This hypothesis has not been statistically confirmed by empirical studies, but there have been studies that have shown a positive association between corporate social responsibility and financial performance. The inclusion of respect for human rights in business strategies can be a source of competitive advantage. The adoption of the UNGPs stressing that all businesses must abide by human rights was an important step in the right direction. It is only by incorporating respect for human rights into business strategies that it is possible to achieve its benefits. It cannot be treated as an isolated add-on to business operations. A trading scheme with economic incentives for human rights respect following the example of emissions trading scheme would be helpful to increase corporate respect for human rights and increase business competitiveness.

The literature overview and conducted study did not give a definitive answer to the question of the impact of respect for human rights on competitiveness and long-term stability. Nevertheless, even if respecting human rights does not have a positive impact on competitiveness and long-term stability, businesses should still do it. The economic gains resulting from doing so are an added benefit, not the primary objective. Businesses need to be aware that they have this responsibility. Respect for human rights is in the best interests of society as a whole. It is only when a society respects the rights of its human inhabitants that it is possible for it to flourish and progress.

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