

Firms' human rights practices: impacts on firms' ESG and financial performance

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Abstract

Purpose – This paper aims to examine the relationship between human rights practices and firm market and financial performance and the moderating role of Environmental, Social and Governance (ESG) practices.

Design/methodology/approach – The authors use ordinary least squares regression as a baseline methodology on US-listed firms from 2002 to 2023 and generalized method of moments estimation to account for endogeneity concerns.

Findings – The results indicate that firms' human rights practices are significantly associated with market performance and return on assets. Additionally, ESG practices significantly moderate the relationship between human rights practices and firm performance. Human rights performance has a greater impact on market performance when moderated by ESG practices.

Research limitations/implications – This study contributes to the academic discourse by exploring the complex relationship between human rights and ESG performance. Identifying human rights practices as a social cost has intrinsic value for firms, driving toward desirable levels of human rights practices within corporate governance systems, consistent with stakeholder and social exchange theories.

Originality/value – This study provides novel insights into the interactive effects of human rights and ESG factors on firms' market and financial performance, offering a deeper understanding of how these elements collectively shape corporate outcomes.

Keywords ESG, Firm performance, Human rights, Sustainable Development Goals

Paper type Research paper



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1. Introduction

In recent years, the intersection of human rights and corporate performance has garnered significant attention from scholars, policymakers and business leaders. Human rights, traditionally the domain of governments and international organizations, are now recognized as a critical concern for the private sector. Companies are increasingly held accountable for their impact on human rights, not only within their operations but also across their supply chains and in the communities where they operate. This shift reflects broader societal expectations and the growing influence of ethical consumerism, socially responsible investment and comprehensive regulatory frameworks (Karp, 2014). In this paper, we examine the impact of human rights practices on firm performance and the moderating role of environmental, social and governance (ESG) performance on the relationship between human rights and firm performance.

This study is conducted in two parts. First, we examine the relationship between human rights practices and firm performance. It is important to understand the concept of human rights and how it impacts firms' financial performance. Human rights are defined as universal moral principles that are inherent to all human beings and are essential for the dignity and well-being of individuals. Firms' responsibilities to respect and protect human rights, as outlined in the UN Guiding Principles on Business and Human Rights (UNGP) (United Nations, 1948) stipulate the expectations from firms on human rights, which makes human rights violations in business operations inexcusable. This includes avoiding infringing on the rights of others and addressing any negative impacts that their operations may have on human rights. Failure to do so can result in reputational damage and legal liabilities for firms (Chambers and Berger-Walliser, 2021).

Consistent with the UNGPs, we regard respect for human rights as a baseline corporate responsibility rather than a discretionary choice. However, there is no global mechanism that enforces or mandates firms to achieve a specific level of human rights performance, resulting in gaps and variation in how firms integrate human rights into their business practices. Accordingly, our analysis examines how firms' human rights performance relates to their financial and market outcomes. This does not imply that human rights practices are justified only when they enhance firm market value or profitability. Respect for human rights can also be a source of competitive advantage for firms. Firms that respect human rights are likely to have better relationships with their stakeholders, such as employees, suppliers and host communities (Ethical Trading Initiative, 2019; United Nations Global Compact, 2016). This can lead to improved performance and reduced risks. In addition, consumers are increasingly demanding that the products and services they purchase are sourced ethically and sustainably, and are willing to pay a premium for such products, which can consequently lead to higher firm performance. However, there is no empirical evidence that supports the claim that upholding human rights improves firms' financial performance.

Some proponents of social contract theory argue that firms exist for the benefit of society and possess moral agency (Denis, 2024; Kaptein, 2025; de Pedro, 2024), which is not formally specified through legal or contractual agreements but ought to be respected (Donaldson, 1982). In contrast, other studies proposed a shareholder-centered view, suggesting that business owners have a primary responsibility to prioritize corporate decisions in the interests of shareholders. Our study adopts the former perspective by examining whether firms' obligations to stakeholders to respect human rights are associated with their performance. We argue that firms engaging in human rights practices are more likely to build positive relationships with broader stakeholder groups, whereas those that neglect such practices may face reputational or market consequences (de Pedro, 2024; Denis, 2024; Kaptein, 2025; Machan, 2009; Schoenmaker and Schramade, 2024). For example,

businesses are required to offer fair wages to employees and ensure consumers' maximum satisfaction by serving safe products. Firms that abide by these social contracts by upholding the human rights of their stakeholders are exposed to opportunities that are likely to translate into higher performance (Kaptein, 2025; Bauman and Skitka, 2012). For example, firms that treat their employees with respect tend to boost employee morale who would be willing to give their best to enhance productivity (Bauman and Skitka, 2012). Also, satisfied consumers may lead to repeat purchases, brand loyalty and an increase in reputation, which can increase revenue and bottom lines (Jones *et al.*, 2018).

Upholding human rights can enhance a company's reputation and brand value, foster customer loyalty and create a competitive advantage (Jones *et al.*, 2018). Ethical business practices can also mitigate risks associated with legal actions, regulatory fines and social unrest. Moreover, companies that prioritize human rights may experience improved employee morale and productivity, as well as greater investor confidence and access to capital from socially responsible investors (Clark *et al.*, 2015). Further, failure to uphold human rights can lead to reputational damage, legal liabilities and loss of social license to operate, which can have severe financial implications (Campbell, 2007). Hence, the relationship between human rights and firm performance is complex and multi-dimensional.

Second, we explore whether firms' ESG performance influences the relationship between human rights practices and firms' performance. Public interest in firms' ESG performance has grown over the years as market participants and other stakeholders perceive that firms with strong ESG practices are likely to be more sustainable and therefore more likely to generate stronger financial returns over the long term (Nag and Bhattacharyya, 2016). As a result, many investors now use ESG performance as a factor when deciding where to invest their capital (Rehman *et al.*, 2020). Further, investing in firms with strong ESG performance is becoming increasingly popular, as many investors believe that it aligns their investments with their values of supporting responsible business practices from the perspective of environmental, social and economic sustainability.

ESG performance significantly influences the relationship between human rights practices and firm performance. Strong ESG-rated firms benefit more from positive human rights practices, leading to improved employee morale, productivity and customer satisfaction (Edmans, 2011). Conversely, low ESG-rated firms may see less significant effects from human rights efforts, particularly if they have environmental and governance issues. A balanced ESG approach, integrating improvements across human rights, environmental and governance practices, is essential for maximizing positive impacts on firm performance and mitigating potential drawbacks (Clark *et al.*, 2015). Moreover, strong ESG performance can help firms to effectively absorb initial operational costs associated with implementing human rights practices.

Based on a sample of US publicly listed firms from 2002 to 2024, we find that firms' human rights practices have a positive and significant impact on financial performance, suggesting that capital market participants are more likely to reward firms for engaging in human rights practices rather than penalize them through disinvestment or avoidance. Additionally, ESG performance attenuates the relationship between human rights practices and firm performance. Analysis of the individual dimensions of ESG shows that environmental and governance dimensions impact the relationship between human rights practices and firm performance. Our results are robust to endogeneity concerns.

Our study contributes to the literature in the following ways. First, previous studies (see, for example, Bennouri *et al.*, 2018; Bocquet *et al.*, 2017; Jermias and Gani, 2014; Li *et al.*, 2022; Nelson, 2005) have focused on the impact of firm-level and corporate governance characteristics on firm performance. We provide evidence that firms' human rights practices

are an important determinant of firm performance and that human rights practices have a positive impact on firm performance, particularly when moderated by robust ESG practices. This reinforces the argument that ethical business practices are not just a moral imperative but also a strategic advantage. Consequently, there is a need for enforceable policies to ensure that firms that engage in human rights practices in their business operation are not financially disadvantaged. The absence of enforceable regulation may provide financial incentives for human rights violations. This study, therefore, contributes to the evolving debate on firms' sustainability practices within the framework of sustainable business practice (Edeigba and Arasanmi, 2022; Shahbaz *et al.*, 2020).

The study also suggests that firms with strong ESG practices, particularly in the environmental and governance dimensions, see amplified positive effects on market performance when these practices are coupled with robust human rights practices. This highlights the need for integrated policy approaches that do not treat human rights in isolation but as part of a holistic ESG strategy (de Pedro, 2024). Policymakers could develop frameworks that encourage firms to adopt comprehensive ESG strategies that are inclusive of human rights. This might include tax incentives, subsidies or recognition programs for firms that demonstrate leadership in ESG and human rights practices.

From a policy perspective, the results suggest that regulatory frameworks should incentivize and potentially mandate the integration of human rights practices into corporate strategies. Governments and regulatory bodies could develop guidelines and policies that encourage or require firms to disclose their human rights practices and their impact on firm performance. This could be part of broader ESG disclosure requirements. By doing so, policymakers can ensure that firms are held accountable for their human rights records, thereby fostering a business environment where ethical practices are standard. Such policies would not only enhance transparency but also build trust with stakeholders, including investors, customers and employees, ultimately leading to a more sustainable business model.

The contributions of this study are twofold. First, we isolate human rights performance from the broader ESG framework to examine its association with firm performance using a large sample drawn from a major capital market. Second, we investigate whether overall ESG performance strengthens or conditions the relationship between human rights practices and firm performance, thereby linking normative human rights expectations to firms' capital market and profitability outcomes.

The remainder of the paper proceeds as follows: Section 2 reviews the literature and develops the hypotheses examined in this study, Section 3 discusses the data and methodology, Section 4 reports the empirical results and Section 5 concludes the research.

2. Literature review

2.1 Human rights and firm performance

The integration of human rights into business practices is often framed within the context of corporate social responsibility (CSR). Consequently, prior studies have largely focused on the consequences of CSR on firm performance (Rehman *et al.*, 2020). For instance, Rehman *et al.* (2020) reports a positive impact of CSR on firm performance. More recently, attention has been drawn to ESG, which is perceived to capture human rights issues (Albitar *et al.*, 2020; Chen and Xie, 2022). While these studies provide some empirical evidence on the consequences of CSR and ESG, both CSR and ESG are generic measurements that do not capture the specificity of human rights within the firm. More often than not, these measures treat human rights as government issues. However, in recent times, firms are expected to go beyond mere compliance with legal requirements and proactively address issues such as

labor rights (Matten and Moon, 2020). While the ethical imperative for respecting human rights is clear, the implications for firm performance are complex and multifaceted. Companies face opportunities and challenges in aligning their operations with human rights standards.

Firms can benefit from both internal and external sources in relation to their human rights practices. We use stakeholder theories and social exchange theories to explain how the human rights practices of a firm influence its performance. Stakeholder theory posits that the success of a firm is contingent upon its ability to manage and balance the interests of diverse stakeholders, including employees, customers, suppliers, communities and investors (Clarkson, 1995; Donaldson and Preston 1995; Kaptein, 2025). In this context, the respect and promotion of human rights become crucial as they directly affect the firm's relationships with these stakeholders, ultimately influencing overall firm performance (Donaldson and Preston, 1995; de Pedro, 2024).

As articulated by Freeman (1984), stakeholder theory emphasizes that firms must consider the interests of all stakeholders, not just shareholders, in their decision-making processes. Respecting human rights is integral to fulfilling the expectations and needs of key stakeholders. When companies uphold human rights, they build trust and legitimacy, fostering positive relationships with stakeholders that can lead to improved firm performance (Donaldson and Preston, 1995). Reputation is a critical asset for firms, significantly influenced by how well a company treats its stakeholders, particularly in terms of human rights. Firms perceived as ethical and socially responsible tend to enjoy enhanced reputation and brand loyalty. A study by Pérez (2015) highlights that companies with strong commitments to human rights often see increased customer loyalty and brand equity. This is particularly important in today's market, where consumers are more informed and value-driven, actively seeking to support companies that align with their values (Jones *et al.*, 2018).

By respecting human rights, firms can mitigate various risks, including legal actions, boycotts and damage to their social license to operate. Human rights abuses can lead to significant legal and financial repercussions. For instance, Shadnam and Lawrence (2015) argue that firms involved in human rights violations often face substantial fines, legal fees and damaged reputations. Conversely, proactive human rights policies can serve as a safeguard against such risks, promoting stability and continuity in business operations (Campbell, 2007). The respect for human rights within a company contributes to a positive workplace culture, which is essential for employee morale and productivity. Research by Pfeffer (2018) indicates that companies with strong human rights practices experience lower turnover rates and higher levels of employee engagement. When employees feel respected and valued, they are more likely to be motivated, productive and loyal. This aligns with the findings of Bauman and Skitka (2012), who demonstrated that perceived organizational justice, including respect for human rights, is strongly correlated with employee satisfaction and performance.

Ethical business practices, including adherence to human rights, are increasingly important to investors. Socially responsible investment funds and individual investors are more inclined to support companies that demonstrate a commitment to human rights. Eccles *et al.* (2020) found that firms with high ESG ratings, which include human rights metrics, tend to attract more investment and enjoy lower capital costs. This is because such companies are perceived as less risky and more sustainable in the long term (Margolis and Walsh, 2003). Several companies have successfully integrated human rights into their business strategies, resulting in positive outcomes. For example, Microsoft has been recognized for its strong human rights policies, particularly regarding privacy and data protection. This commitment has enhanced its reputation and trust with both customers and

regulators, contributing to its robust market position ([Microsoft, 2023](#)). Similarly, The Body Shop's longstanding commitment to fair trade practices and human rights has strengthened its brand and customer loyalty, illustrating how ethical practices can lead to sustained business success ([Body Shop, 2022](#)).

In addition to the external validation and benefit from human rights practices, firms are likely to enjoy some internal benefits, which can boost performance. This argument is supported by the social exchange theory (SET), which posits that social behavior and relationships are based on the exchange of resources, where individuals aim to maximize benefits and minimize costs. Applying this theory to the workplace suggests that employees' perceptions of fair treatment and support from their employer can lead to reciprocal positive behaviors, ultimately enhancing firm performance. At the core of SET is the principle of reciprocity, where positive actions by one party lead to positive responses from the other. In a business context, when firms uphold human rights and treat employees with respect, employees are likely to reciprocate with loyalty, increased productivity and positive engagement. This reciprocal relationship is underpinned by several key elements of SET, including perceived organizational support (POS), trust and commitment and employee engagement.

Respect for human rights is fundamental to creating a supportive and inclusive work environment. Such environments foster high levels of POS, where employees feel valued and respected. Empirical research underscores this relationship; for example, [Nijhawan et al. \(2022\)](#) found that employees who perceive high organizational support demonstrate higher levels of job performance and organizational citizenship behavior. Similarly, [Rhoades and Eisenberger \(2002\)](#) established that POS is positively related to job satisfaction, commitment and reduced turnover intentions. These findings suggest that firms respecting human rights can expect enhanced employee morale, leading to increased productivity and overall better performance. Furthermore, research by [Rupp et al. \(2013\)](#) indicates that corporate social responsibility, including human rights practices, positively affects employees' identification with their organization, thereby enhancing their overall job performance.

High turnover rates can be detrimental to firms, leading to increased recruitment and training costs and the loss of experienced and skilled employees. By fostering a stable and supportive work environment through the respect of human rights, firms can reduce turnover rates. [Huselid \(1995\)](#) demonstrated that firms with effective human resource practices, including respect for employees' rights, experienced lower turnover rates and higher productivity. [Hom et al. \(2017\)](#) highlighted the substantial financial impact of turnover, underscoring the importance of employee retention strategies. [Mitchell et al. \(2001\)](#) emphasized that job embeddedness, which can be influenced by a company's ethical practices and respect for human rights, plays a crucial role in reducing turnover intentions. Therefore, respecting human rights is not only ethical but also economically advantageous for firms.

Firms known for their commitment to human rights often enjoy a stronger reputation and enhanced attractiveness as employers. A positive reputation for ethical behavior can make a company an employer of choice, attracting better talent. This is supported by [Turban and Greening \(1997\)](#), who found that firms with strong CSR practices, including respect for human rights, are perceived as more attractive employers. [Fombrun and Shanley \(1990\)](#) found that a positive reputation for ethical behavior and CSR activities correlates with better financial performance and investor trust. This suggests that firms upholding human rights can enhance their brand value, customer loyalty and investor confidence. Further, [Jones et al. \(2018\)](#) noted that firms with a strong commitment to human rights and social responsibility are likely to experience less reputational risk, thereby safeguarding their long-term market position.

A workplace that respects human rights fosters an environment of trust and open communication. This environment is conducive to innovation, as employees feel safe to share ideas and collaborate. Research by [Hock-Doepgen et al. \(2024\)](#) showed a positive relationship between perceived organizational support and innovative behavior among employees. [Shore et al. \(2018\)](#) indicated that inclusive practices that respect human rights contribute to better team performance and innovation. Similarly, [Edmondson \(2019\)](#) highlighted that psychological safety, which is bolstered by human rights practices, is crucial for fostering an innovative and collaborative work culture. Thus, respecting human rights not only benefits employee relations but also drives innovation and long-term competitiveness, leading to high firm performance.

While upholding human rights can confer significant benefits to firms, it also presents a set of challenges and potential negative impacts on firm performance. These challenges can arise from increased operational costs, compliance complexities and potential conflicts with short-term financial goals. Moreover, navigating the varying expectations of stakeholders regarding human rights can be daunting for companies, particularly those operating in multiple jurisdictions with different legal and cultural standards.

One primary challenge is the increased operational costs of implementing robust human rights policies. Ensuring compliance with human rights standards often requires substantial investment in monitoring and enforcement mechanisms. This includes costs related to auditing supply chains, training employees and upgrading facilities to meet higher safety and ethical standards. For instance, firms may need to pay higher wages, provide better working conditions or invest in sustainable sourcing practices. These expenditures can be significant, particularly for small and medium-sized enterprises (SMEs), which may have limited resources compared to larger corporations ([Crane et al., 2016](#)).

Complying with human rights standards can lead to increased complexity in business operations. Multinational companies, in particular, face the challenge of adhering to diverse and sometimes conflicting regulations across different countries. For example, labor laws and human rights protections vary widely between developed and developing nations, creating compliance difficulties and legal risks for firms ([Doh and Guay, 2006](#)). Navigating these complexities requires extensive legal and managerial expertise, which can divert resources from core business activities and potentially slow down decision-making processes.

There is often a tension between the long-term benefits of upholding human rights and the short-term financial performance pressures faced by firms. While investors sometimes seek sustainable and long-term returns on their investments, managers often prioritize immediate financial outcomes to achieve incentives associated with management performance. This misalignment between investors' and managers' time horizons may conflict with the longer-term investments required to maintain high human rights standards. Performance pressures on managers can lead to resistance from management and boards of directors when allocating funds for human rights initiatives, potentially resulting in a lack of sustained commitment to these principles ([Porter and Kramer, 2011](#)).

Empirical evidence also highlights instances where human rights practices have led to negative repercussions for firms. For example, the imposition of strict labor standards in supply chains can sometimes lead to unintended consequences, such as job losses in regions where alternative employment opportunities are scarce. [Locke et al. \(2009\)](#) documented how the enforcement of stringent labor standards by multinational corporations led to factory closures in developing countries, adversely affecting local economies and worker livelihoods. Such outcomes can generate negative publicity and harm the firm's reputation, paradoxically undermining the intended benefits of upholding human rights.

Further, legitimacy theory indicates that firms align some of their decisions with perceived social norms and expectations, including human rights (Mahoney *et al.*, 2013; Reynolds and Yuthas, 2008). This means that firms could respond to their stakeholders' expectations not only through substantive changes in their decisions but also through symbolic legitimacy strategies such as selective disclosure and rhetorical framing (Cho *et al.*, 2012; Mahoney *et al.*, 2013; Reynolds and Yuthas, 2008; de Pedro, 2024). Nonetheless, our study does not assume that most firms' responses to human rights practices result from substantive changes in disclosure strategies; rather, we rely on standardized human rights performance scores whose measures are determined and assessed externally, although we recognize that these may coexist with firms' attitudes toward legitimacy.

Another potential negative impact is the backlash from stakeholders who may perceive human rights initiatives as insincere or merely symbolic. If stakeholders believe that a company's human rights efforts are primarily driven by public relations motives rather than genuine ethical commitments, it can damage trust and credibility. This skepticism can be particularly pronounced if a firm is found to be engaging in "greenwashing" or "bluewashing" practices, where companies exaggerate their environmental or human rights achievements (Pope and Wæraas, 2016). While upholding human rights can enhance firm performance through improved reputation, employee morale and investor confidence, it also presents substantial challenges and potential negative impacts. Hence, we provide our hypothesis as follows:

H1. Firms' human rights practice is associated with firm performance.

2.2 Moderation role of ESG performance

As a moderator, ESG performance influences the strength and direction of the relationship between human rights practices and firm performance. This means that the impact of human rights initiatives on firm performance can vary depending on the level of a firm's overall ESG performance. Firms with strong ESG performance might experience a more pronounced positive impact from their human rights practices. For instance, in companies with high ESG ratings, additional human rights initiatives can lead to significant gains in employee morale, productivity and customer satisfaction. These firms are likely already perceived as ethical and responsible, so further improvements in human rights can amplify these positive perceptions and performance outcomes. Research by Edmans (2011) supports this by showing that firms with high employee satisfaction (a key component of the social aspect of ESG) tend to outperform their peers in terms of stock returns.

Conversely, for firms with low ESG performance, the impact of human rights practices on firm performance might be less significant or even negligible. If a company has poor environmental practices or governance issues, improvements in human rights alone might not be sufficient to overcome negative perceptions and performance challenges. In such cases, stakeholders might view human rights efforts as insufficient or insincere, limiting the potential positive impact on firm performance. This highlights the importance of a balanced and integrated approach to ESG, where improvements in human rights are complemented by advancements in environmental and governance practices (Clark, Feiner, and Viehs, 2015).

Furthermore, ESG performance can buffer against potential negative impacts of human rights initiatives. For example, while the adoption of human rights practices might initially increase operational costs, firms with high ESG performance might better absorb these costs due to their efficient operations and strong stakeholder relationships. These firms might also be more adept at leveraging their human rights initiatives to gain competitive advantages,

such as attracting top talent or securing favorable financing terms, thus moderating any adverse financial impacts (Henisz *et al.*, 2014):

- H2.* Firms' ESG performance moderates the relationship between human rights practices and firm performance.

3. Data and methodology

Our study focuses on U.S. publicly listed firms to ensure data consistency within a single ESG regulatory jurisdiction and to capture the broad representation of the world's major capital markets. Furthermore, the USA maintains one of the world's most comprehensive ESG disclosure systems, with consistent data available since 2002, when many firms had already begun reporting ESG information ahead of other capital markets.

We collected cross-sectional data on ESG and other control variables from Refinitiv DataStream, focusing on the US equity market. Our initial sample comprised 5,266 firm-year observations from 1,307 firms spanning the period from 2002 to 2024. After excluding firms with missing or duplicate values for human rights and some control variables (ESG audit, ESG strategy and ESG team), the sample was reduced to 543 firms, resulting in 1,187 firm-year observations. The exclusion of firms with missing data for human rights indicates that these firms were not scored for each of the ESG dimensions. Firms without ESG data are also those without human-rights data. These firms were excluded because the absence of verified ESG and human-rights scores indicates insufficient disclosure in Refinitiv's database. Including such firms would prevent consistent comparison across observations. For firms with duplicate data, only one valid observation was retained in each case.

The dependent variables for our hypotheses (*H1* and *H2*) are Tobin's Q (TOBINQ) and return on assets (FF_ROA), while the moderating variable is ESG performance (ESG_PERF). ESG performance is further disaggregated into the dimensions of Environmental Performance (ESG_ENVP), Social Performance (ESG_SOCP) and Governance Performance (ESG_GOVP). The ESG dimensions represent the weighted average scores of the underlying indicators, such as carbon emissions, employee or board diversity, community involvement and board structure. Firms are rated on a standardized scale from 0 to 100, relative to other firms in the same fiscal year. This means a firm may score as low as 0 (very poor) or as high as 100 (exceptional), depending on the extent and quality of its verifiable ESG disclosures.

Given the discussion in Shahbaz *et al.* (2020) and Denis (2024), which noted that while overall ESG performance does not necessarily increase firm financial performance, certain components of ESG do influence financial outcomes, we hypothesize that firms' human rights practices have significant financial implications. To investigate this, we examine how variations in firms' human rights performance impact their financial performance. Consistent with prior studies (e.g., Christensen *et al.*, 2022; Karoui and Nguyen, 2022; Nadeem *et al.*, 2020; Shahbaz *et al.*, 2020), we include a comprehensive set of control variables.

There are two hypotheses examined in this study, operationalized through equations (1) to (4). The first set of equations (equations (1) and (2) tests the direct relationship between human-rights performance and firms' market and financial performance (*H1*). The second set of equations (equations (3) and (4) extends the analysis by examining whether overall ESG performance moderates this relationship, thereby accounting for any dependence of human rights performance on firms' overall ESG performance.

Equations (1) and (2) are estimated to test *H1* and measure firm performance in relation to firms' human rights practices:

$$\begin{aligned}
 TOBINQ = & \beta_0 + \beta_1 H_RIGHTP + \beta_2 ESG_PERF + \beta_3 S_Growth + \beta_4 F_LVERAG + \beta_5 SIZE \\
 & + \beta_6 B_SIZ + \beta_7 (B_AGE) + \beta_8 (B_ESG_AUDIT) + \beta_9 (B_MGMT_PERF) \\
 & + \beta_{10} (B_ESG_STRAT) + \beta_{11} (B_ESG_TEAM) + Industry\ FE + Year\ FE + \varepsilon
 \end{aligned}
 \tag{1}$$

$$\begin{aligned}
 FF_ROA = & \beta_0 + \beta_1 H_RIGHTP + \beta_2 ESG_PERF + \beta_3 S_Growth + \beta_4 F_LVERAG + \beta_5 SIZE \\
 & + \beta_6 B_SIZ + \beta_7 (B_AGE) + \beta_8 (B_ESG_AUDIT) + \beta_9 (B_MGMT_PERF) \\
 & + \beta_{10} (B_ESG_STRAT) + \beta_{11} (B_ESG_TEAM) + Industry\ FE + Year\ FE + \varepsilon
 \end{aligned}
 \tag{2}$$

We further examine the moderating effects of ESG performance. In this test, we categorize the human rights score as low or high human rights performance. We create a dummy variable that takes the value of 1 if the human rights score is at or above the sample mean for that fiscal year (high human rights performance), and 0 if the human rights score is below the sample mean (low human rights performance) in that fiscal year. This classification controls year-to-year differences in a firm's reporting intensity.

Rather than assuming *a priori* that ESG performance moderates the relationship between human-rights performance and firm performance, we empirically test this effect as stated in *H2*. We then interact the human-rights score with the ESG performance score as shown below:

$$\begin{aligned}
 TOBINQ = & \beta_0 + \beta_1 (H_RIGHTP) + \beta_2 ESG_PERF + \beta_3 (ESG_PERF * H_RIGHTP) \\
 & + \beta_4 (S_Growth) + \beta_5 (F_LVERAG) + \beta_6 (SIZE) + \beta_7 (B_SIZ) + \beta_8 (B_AGE) \\
 & + \beta_9 (B_ESG_AUDIT) + \beta_{10} (B_MGMT_PERF) + \beta_{11} (B_ESG_STRAT) \\
 & + \beta_{12} (B_AGEESG_TEAM) + Industry\ FE + Year\ FE + \varepsilon
 \end{aligned}
 \tag{3}$$

$$\begin{aligned}
 FF_ROA = & \beta_0 + \beta_1 (H_RIGHTP) + \beta_2 ESG_PERF + \beta_3 (ESG_PERF * H_RIGHTP) \\
 & + \beta_4 (S_Growth) + \beta_5 (F_LVERAG) + \beta_6 (SIZE) + \beta_7 (B_SIZ) + \beta_8 (B_AGE) \\
 & + \beta_9 (B_ESG_AUDIT) + \beta_{10} (B_MGMT_PERF) + \beta_{11} (B_ESG_STRAT) \\
 & + \beta_{12} (B_AGEESG_TEAM) + Industry\ FE + Year\ FE + \varepsilon
 \end{aligned}
 \tag{4}$$

Our variable of interest is the interaction term, *ESG_PERF*H_RIGHTP*. The variables included in the regression models are described in the [Appendix](#).

Given that human rights performance is a subcomponent of the social dimension of ESG, we anticipate a high degree of correlation between these variables, which may result in multicollinearity in our regression models. To address this concern, we adopt a residualization approach. Specifically, we regress the human rights score on the social ESG performance score and use the resulting residuals as the independent measure of human rights performance in our empirical analysis. This residual captures the variation in human

rights performance that is orthogonal to the broader social dimension of ESG, thereby isolating its unique contribution to firm financial performance.

This method effectively mitigates multicollinearity by ensuring that the new regressor (the residualized human rights score) is uncorrelated with the social ESG score, in line with standard econometric practices for handling overlapping predictors (García *et al.*, 2020; Wurm and Fiscaro, 2014). The approach is grounded in the Frisch–Waugh–Lovell theorem, which supports the use of residualized variables to estimate the unique partial effect of an explanatory variable in the presence of collinearity (York, 2012). Moreover, similar techniques have been used in accounting and ESG-related studies, such as Naughton *et al.* (2019), who construct residual CSR measures to isolate abnormal firm performance in CSR activities, and Luo and Bhattacharya (2009), who use residualized CSR to disentangle strategic effects from endogeneity. Consistent with these precedents, our use of residuals enables more stable coefficient estimates and clearer interpretation of the role of human rights performance, independent of the broader ESG context. Given the robustness of our results, we are confident that any interdependence between human rights and the social dimension of ESG has been effectively addressed.

4. Empirical results

4.1 Descriptive statistics

Table 1 presents the descriptive statistics for the variables used in our regression model. The average return on assets (ROA) is 0.050, and the average Tobin's Q (TOBINQ) is 1.590. The mean human rights score stands at 62.577, with a range from a minimum of 2.270 to a maximum of 99.310. The overall average ESG performance is 60.98, although the average performance for each individual ESG component exceeds the composite ESG score. The mean score for ESG audit is 0.527. Board size averages at 11 directors, aligning with findings by Nadeem (2022) and Shahbaz *et al.* (2020). Management performance averages 65.33, indicating a high level of management effectiveness and efficiency. The firm's ESG strategy performance shows a mean score of 77.386, while the average performance for ESG teams is

Table 1. Descriptive statistics

Variable	Obs.	Mean	SD	Min.	Max.	p25	p50	p75
TOBINQ	1,187	1.590	1.325	0.040	23.460	0.900	1.240	1.880
FF_ROA	1,187	0.050	0.091	−1.480	0.580	0.020	0.050	0.090
H_RIGHTP	1,187	62.577	26.527	2.270	99.310	44.770	66.130	86.840
ESG_AUDIT	1,187	0.527	0.500	0.000	1.000	0.000	1.000	1.000
MGMT_PERF	1,187	65.330	25.287	0.160	99.950	47.110	70.000	86.760
ESG_STRAT	1,187	77.386	17.393	3.920	99.800	69.410	84.090	90.610
ESG_TEAM	1,187	0.886	0.318	0.000	1.000	1.000	1.000	1.000
S_Growth	1,187	1.000	2.398	−10.310	20.780	0.080	0.370	1.060
F_LVERAG	1,187	0.305	0.164	0.000	0.890	0.190	0.300	0.400
F_SIZ	1,187	7.262	0.646	5.390	9.010	6.850	7.250	7.690
B_SIZ	1,187	11.147	2.390	1.000	18.000	10.000	11.000	13.000
B_AGE	1,187	5.333	4.823	0.000	19.000	1.000	4.000	9.000
ESG_PERF	1,187	60.980	14.243	24.250	91.910	49.840	62.240	71.890
ESG_ENVP	1,187	65.818	17.953	5.020	97.130	53.610	68.520	80.340
ESG_GOV	1,187	66.157	18.824	11.240	99.460	52.830	69.360	81.390
ESG_SOCP	1,187	71.511	14.728	18.590	97.530	61.730	73.620	82.400

Source(s): Authors' own work

0.886, suggesting that a significant number of firms have personnel or teams dedicated to enhancing ESG performance. Regarding other control variables, the average leverage is 0.305, firm size averages at 7.262 and the average firm age is 5 years. These statistics provide a comprehensive overview of the data set and form the basis for our regression analysis.

4.2 Correlation coefficients

Table 2 presents the correlation coefficients between the variables. The human rights performance (H_RIGHTP) shows a significant relationship with ESG and its related pillars at $p < 0.001$. Notably, H_RIGHTP is highly correlated with social performance (ESG_SOCP) with a correlation coefficient of $r = 0.668$ ($p < 0.001$), compared to its correlations with environmental performance (ESG_ENVP) at $r = 0.271$ ($p < 0.001$) and governance performance (ESG_GOVP) at $r = 0.0860$ ($p < 0.001$). H_RIGHTP also has significant correlations with other variables such as ESG audit (ESG_AUDIT) and board size (B_SIZ). The correlations involving financial performance variables show mixed results. For instance, financial return on assets (FF_ROA) is significantly correlated with ESG_SOCP and ESG_ENVP, but not with the overall ESG score or ESG_GOVP. Furthermore, the overall ESG score and Tobin's Q (TOBINQ) are positively correlated and significant at $p < 0.001$, as is the relationship between TOBINQ and ESG_SOCP. However, there are no significant correlations between TOBINQ and ESG_ENVP or between TOBINQ and ESG_GOVP.

4.3 Regression results

The empirical analysis, based on equations (1) and (2) as stated in the methodology, reveals the impact of firms' human rights practices on Tobin's Q (TOBINQ) and financial return on assets (FF_ROA). Table 3 indicates that human rights practices are positively associated with both TOBINQ and FF_ROA. In column 1, the coefficient for the impact of human rights on TOBINQ is 0.213, which is both positive and significant at $p < 0.05$. In column 2, the association between human rights practices and FF_ROA is also positive and significant, with a coefficient of 0.316 at $p < 0.001$.

The study further examines the moderating effects of ESG performance on the relationship between human rights practices and firm performance. Columns 3 and 4 demonstrate that the impact of human rights on market performance increases significantly when ESG performance is considered. Specifically, the coefficient for the impact of human rights on market performance increases from 0.213–0.719 ($p < 0.01$) when the human rights score is included within the ESG framework. These findings underscore a significant positive association between firms' human rights practices and their performance. This aligns with theoretical expectations that respecting and promoting human rights within a firm is crucial for building trust and legitimacy with stakeholders, ultimately leading to enhanced firm performance, as supported by Pérez (2015) and Jones *et al.* (2018). Moreover, ethical business practices, including adherence to human rights, attract socially responsible investment funds and investors, thereby enhancing firm reputation and reducing perceived risk (Eccles *et al.*, 2020).

Overall, the results highlight the importance of integrating human rights into business practices to improve firm performance. Furthermore, the findings emphasize the moderating role of ESG performance, indicating that robust ESG practices amplify the positive impact of human rights practices on market performance. Firms excelling in their ESG ratings experience a greater positive effect on their performance when they also engage in strong human rights practices.

Table 2. Correlation matrix

Variables	tobinq	ff_roa	esg_perf	esg_envp	esg_govp	esg_socp	esg_audit	b_siz	h_rightp	mgmt_perf	esg_strat	esg_team	f_lverag	f_siz	b_age	s_growth
TOBINQ	1.000															
FF_ROA	0.317***	1.000														
ESG_PERF	0.064**	0.035	1.000													
ESG_ENVP	0.018	0.060**	0.417***	1.000												
ESG_GOVp	-0.048	-0.012	0.392***	0.144***	1.000											
ESG_SOCp	0.091***	0.085***	0.421***	0.493***	0.161***	1.000										
ESG_AUDIT	0.064**	0.029	0.051	0.283***	0.098***	0.166***	1.000									
B_SIZ	-0.058	0.099***	0.045	0.214***	0.038	0.235***	0.179***	1.000								
H_RIGHTP	0.324***	0.107**	0.292***	0.271***	0.086***	0.668***	0.147***	0.138***	1.000							
MGMT_PERF	-0.044	-0.002	0.379***	0.104***	0.952***	0.088***	0.024	0.019	0.045	1.000						
ESG_STRAT	-0.044	0.003	0.186***	0.314***	0.215***	0.363***	0.480***	0.171***	0.247***	0.071**	1.000					
ESG_TEAM	-0.036	-0.028	0.124***	0.207***	0.110***	0.184***	0.181***	0.060**	0.131***	0.035	0.368***	1.000				
F_LVERAG	0.011	-0.138	0.029	0.057***	-0.027	-0.020	0.079***	-0.001	0.043	-0.017	0.090***	-0.018	1.000			
F_SIZ	-0.163	-0.001	-0.112	0.318***	0.096***	0.291***	0.307***	0.446***	0.060**	0.020	0.236***	0.119***	-0.020	1.000		
B_AGE	-0.063	0.183***	-0.156	-0.055	-0.037	0.013	-0.240	0.187***	-0.124	-0.012	-0.129	-0.155	-0.185	0.115***	1.000	
S_Growth	0.042	0.320***	-0.199	0.132***	0.068**	0.149***	0.180***	0.223***	0.060**	0.028	0.117***	0.022	-0.158	0.474***	0.182***	1.000

Note(s): *, ** and ***, indicate statistical significance at the 10, 5 and 1% levels, respectively
Source(s): Authors' own work

Table 3. Regression results: human rights association with firms performance

Variables	(1) TOBINQ	(2) FF_ROA	(3) TOBINQ	(4) FF_ROA
H_RIGHTP	0.213** (0.077)	0.316*** (0.017)	0.385* (0.107)	0.659*** (0.123)
ESG_PERF	0.313*** (0.114)	0.193* (0.059)	0.175** (0.074)	0.315*** (0.137)
ESG_PERF *H_RIGHTP			0.719*** (0.023)	0.052*** (0.008)
S_Growth	0.035*** (0.011)	0.017*** (0.005)	0.036*** (-0.011)	0.017*** (0.005)
F_LIVERAG	0.289(0.027)	-0.177** (-0.074)	0.286(0.031)	-0.175** (-0.074)
F_SIZ	-0.650*** (-0.303)	-0.031(-0.036)	-0.655** (0.304)	-0.028(-0.037)
B_SIZ	0.003(-0.012)	-0.003** (-0.002)	0.003(0.012)	-0.016* (-0.006)
B_AGE	-0.163** (-0.074)	-0.015(0.010)	-0.165*** (0.074)	-0.014(-0.010)
ESG_AUDIT	0.191* (0.085)	0.004(0.007)	0.190* (0.065)	0.015(0.001)
MGMT_PERF	0.203*** (-0.077)	-0.008(-0.001)	0.298*** (-0.077)	0.045** (-0.035)
ESG_STRAT	-0.117* (-0.061)	-0.052*** (-0.015)	-0.116* (-0.061)	-0.052*** (-0.015)
ESG_TEAM	-0.661*** (-0.021)	-0.026* (-0.011)	-0.659*** (-0.123)	-0.026(-0.007)
Constant	6.314*** (1.261)	-2.360(-0.252)	-4.361*** (-2.015)	1.335*** (0.262)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
N	1,187	1,187	1,187	1,187
Adj. R ²	0.761	0.730	0.681	0.703

Note(s): This table presents the estimations of the impact of human rights on firms' performance based on robust standard error clustered by firm. Robust standard errors are in parentheses. *, ** and *** indicate statistical significance at the 10, 5 and 1% levels, respectively

Source(s): Authors' own work

4.4 Additional analysis

The significant effect of the human rights score (H_RIGHTP) on both $TOBINQ$ and FF_ROA in Table 3 columns 3 and 4 is consistent with the coefficients on H_RIGHTP in columns 1 and 2. However, the moderation effects of the three dimensions of ESG—environmental (ESG_ENV), social (ESG_SOC) and governance (ESG_GOV)—on the association between human rights and firms' performance exhibit distinct impacts. Table 4 presents the findings from the analysis of each ESG dimension's moderation on human rights.

In the Environmental performance (ESG_ENV) dimension, columns 1 and 2 reveal a significant positive effect on both $TOBINQ$ ($0.229, p \leq 0.05$) and FF_ROA ($0.152, p \leq 0.05$). This suggests that robust environmental practices are valued by the market and contribute to profitability. Furthermore, the environmental-human rights interaction term ($ESG_ENV * H_RIGHTP$) significantly enhances both $TOBINQ$ ($0.415, p \leq 0.001$) and FF_ROA ($0.025, p \leq 0.05$), indicating that the environmental dimension of ESG amplifies the positive impact of human rights on firms' market value.

The Social (ESG_SOC) dimension of ESG, shown in columns 3 and 4, also exhibits a positive impact on both Tobin's Q ($0.116, p \leq 0.1$) and FF_ROA ($0.252, p \leq 0.001$). This indicates that social initiatives are appreciated by investors and boost firms' performance. The social-human rights interaction term ($ESG_SOC * H_RIGHTP$) in columns 3 and 4 demonstrates a significant improvement in firms' $TOBINQ$ ($0.607, p \leq 0.1$), although it is not significant for FF_ROA .

The interaction variable combining human rights and the social dimension of ESG is not significantly associated with ROA . This indicates that, although firms' human rights practices may enhance their market value, these effects do not translate into accounting profitability. The insignificant association between firms' profitability and the interaction of the social dimension of ESG and human rights may be attributed to competing cost pressures associated with socially responsible practices (Denis, 2024; de Pedro, 2024). As Denis (2024) notes, while employees and other stakeholders may demand socially responsible sourcing or improved labor practices, and customers may even be willing to pay a premium for such commitments, the additional costs related to higher wages, ethical sourcing or hiring practices that do not necessarily enhance productivity can offset these benefits, ultimately constraining firms' financial performance. The positive response in market value likely reflects investors' perceptions and confidence in the firm's commitment to social responsibility, rather than actual improvements in the profitability of its operations, products or services.

The Governance dimension of ESG (ESG_GOV) in columns 5 and 6 is positively associated with both $TOBINQ$ and FF_ROA , given its significant positive coefficients of 0.100 and 0.152, respectively. The governance-human rights interaction variable ($ESG_GOV * H_RIGHTP$) in columns 5 and 6 also has a significant positive effect on both $TOBINQ$ and FF_ROA , suggesting that strong performance in corporate governance, combined with better human rights practices, enhances firms' performance.

Overall, these results highlight that each dimension of ESG plays a unique role in moderating the relationship between human rights practices and firm performance. Robust environmental, social and governance practices not only contribute directly to firm performance but also amplify the positive effects of human rights initiatives on market valuation and profitability.

4.5 Endogeneity test

Table 5 presents the results of the Generalized Method of Moments (GMM) estimation to account for endogeneity concerns. Lagged values of the dependent variables, $TOBINQ$ and FF_ROA , are used as instruments. In a dynamic panel model, the past values of the

Table 4. Additional tests: ESG dimensions moderation of human rights and firm performance

Variables	Environmental		Social		Governance	
	(1) TOBINQ	(2) FF_ROA	(3) TOBINQ	(4) FF_ROA	(5) TOBINQ	(6) FF_ROA
H_RIGHTP	0.607***	-0.137	0.561***	-0.119	0.561***	-0.119
ESG_ENV	0.229***	-0.092				
ESG_SOC		0.152***	0.116*	-0.061		
ESG_GOV						
ESG_ENV*H_RIGHTP	0.415***	-0.141			0.100**	-0.009
ESG_SOC*H_RIGHTP			0.607***	-0.137		
ESG_GOV*H_RIGHTP						
Controls	Yes	Yes	Yes	Yes	0.400***	0.025**
Constant	Yes	Yes	Yes	Yes	-0.135	-0.009
Year	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes
N	1,187	1,187	1,187	1,187	1,187	1,187
Adj. R ²	0.639	0.550	0.714	0.682	0.735	0.662

Note(s): This table report the results for each ESG dimension: Environmental, Social and Governance. Robust standard errors are in parentheses. *, ** and ***, indicate statistical significance at the 10, 5 and 1% levels, respectively

Source(s): Authors' own work

Table 5. Endogeneity test

Variables	(1) TOBINQ	(2) FF_ROA	(3) TOBINQ	(4) FF_ROA
H_RIGHTP	0.408*** (0.221)	0.340* (0.170)	0.762** (0.251)	0.732*** (0.044)
ESG_PERF	0.281** (0.104)	0.129* (0.041)	0.238** (0.099)	0.183*** (0.085)
ESG_PERF*H_RIGHTP			0.302*** (0.153)	0.374*** (0.160)
Controls	Yes	Yes	Yes	Yes
Constant	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
N	1,187	1,187	1,187	1,187
Adj. R ²	0.640	0.590	0.750	0.680

Note(s): Standard errors are in parentheses. WC-Robust. *, ** and ***, indicate statistical significance at the 10, 5 and 1% levels, respectively

Source(s): Authors' own work

dependent variable are assumed to be uncorrelated with the current error term but correlated with the current value of the dependent variable, ensuring the validity of the GMM estimators (Arellano and Bover, 1995).

In columns 1 and 2, H_RIGHTP maintains a significant positive effect on TOBINQ and FF_ROA, reinforcing our earlier findings. The results are robust, with column 1 showing a coefficient of 0.408 ($p \leq 0.001$) for TOBINQ and column 2 showing a coefficient of 0.340 ($p \leq 0.1$) for FF_ROA. Columns 3 and 4 further support this consistency, indicating coefficients of 0.762 ($p \leq 0.05$) for TOBINQ and 0.732 ($p \leq 0.001$) for FF_ROA, respectively. This underscores the importance of human rights practices in enhancing both market valuation and profitability. The coefficient on the interaction term, ESG_PERF*H_RIGHTP, is significant in both columns 3 and 4 for TOBINQ and FF_ROA, respectively, aligning with our main regression results. This demonstrates that ESG performance enhances the positive impact of human rights practices on firm performance.

Our endogeneity tests indicate no evidence suggesting that the earlier results are affected by endogeneity or other statistical inconsistencies. The findings related to human rights practices, ESG performance and the interaction effects of ESG and human rights remain robust and consistent. This highlights the reliability of our analysis and the critical role of integrating human rights practices within corporate strategies to boost firm performance.

5. Conclusion

This study examines the association between firms' human rights practices and firm performance, with a focus on the moderating role of ESG performance. The findings indicate a significant positive relationship between human rights practices and firm performance. This underscores the need for firms to integrate human rights practices within a broader ESG framework. Such an integrated approach not only enhances firm performance but also mitigates the potential negative impacts associated with the initial costs of implementing human rights practices. The synergy between human rights initiatives and ESG dimensions (environmental and governance) further amplifies this positive effect, leading to improved firm performance.

While the study provides valuable insights into the positive association between human rights practices and firm performance, several limitations warrant consideration for future research. The reliance on publicly available data for human rights practices and ESG

performance may introduce reporting biases, as firms with better practices are more likely to disclose their efforts, while those with poorer records may underreport or obfuscate their activities. Future research could use more granular and verified data sources, such as third-party audits and certifications, to mitigate the impact of reporting bias and provide a more accurate assessment of firms' human rights practices. Additionally, the observational nature of the study precludes the establishment of causal relationships. While robust econometric modeling suggests associations, it cannot definitively establish causality. Future research could use experimental or quasi-experimental designs to better identify causal links between human rights practices and firm performance, thereby providing a more comprehensive understanding of these dynamics.

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Data availability

The data that support the findings of this study are available from the Refinitiv Eikon database.

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Appendix

Table A1. Variables description and measurement

Variables	Definition	Measure
<i>Dependent variables</i>		
TOBINQ	Tobin Q	Market value of the firm divided by the total value of the firm's assets
FF_ROA	Return on assets	Net income/average total assets
<i>Independent variables</i>		
H_RIGHTP	Human right score	Weighted average of firms scores, normalized at percentage
ESG_PERF	ESG score	This is a measure of firms weighted average score across Three pillars of ESG (Environmental, Social and Governance), normalized at percentages from 0 to 100
<i>Controls</i>		
S_Growth	Sales growth	Relative scaling of firms' level sales
F_LVERAG	Leverage ratio	Total debt to total assets
SIZE	Firm size	Natural log of total assets
AGE	Firm age	Firm age is calculated from the date of listing. This is converted into a dummy variable which takes the value of 1 for firms above the mean firm age and 0 otherwise
B_SIZ	Board size	Number of people on firms' board
ESG_AUDIT	ESG audit	Dummy variable for firms with ESG audit and those that have none
MGMT_PERF	Management performance	Weighted average of management performance, normalized at percentage
ESG_STRAT	ESG performance	Weighted average of ESG strategy score, normalized at percentage
ESG_TEAM	ESG team	Dummy variable for firms with ESG team and those that have none
Industry FE		Industry fixed effect
Year FE		Year fixed effect

Source(s): Authors' own work

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