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Value-enhancing drivers of corporate governance in improving human rights due diligence: Worldwide evidence

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Abstract

The study aims to investigate the role of corporate governance in driving effective human rights due diligence (HRDD) practises. The study tests the impact of corporate governance mechanisms on HRDD on an international sample of 509 listed companies operating in high-risk sectors included in the Corporate Human Rights Benchmark. Our findings show the positive effect of corporate governance on HRDD, suggesting that committed corporate governance, especially sustainability committee and board diversity, improves the effectiveness of HRDD carried out by companies. Our study contributes to the literature by providing insights into enhancement-based drivers of corporate governance, which positively impact HRDD. This research also has practical implications for companies because it can help them enhance their HRDD by establishing a sustainability committee or supporting gender diversity within the board. This research addresses social and policy implications considering the European directive on corporate sustainability due diligence directive (CSDDD), which mandates HRDD for large EU and non-EU companies.

KEYWORDS
corporate governance, corporate sustainability due diligence directive, CSDDD, human rights due diligence

1 | INTRODUCTION

The United Nations defines human rights as 'rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion or any other status'.[1] Human rights include the right to life, and more specific rights necessary to live a respectful and worthy life, such as rights to education, work, health or food (Schrempf-Stirling et al., 2022). Human rights belong to everyone since they are the basis of any individual's freedom, autonomy and dignity (Nussbaum, 2002).

Early in the 21st century, worldwide society was shocked by the growing evidence of corporate human rights misbehaviours and increasing discrimination based on race, gender identity, religion and disabilities (Giuliani et al., 2023). Therefore, efforts to protect humanitarian imperatives, equality and respect for all individuals have been demanded by governments, international organisations, companies and civil society (Welford, 2002). In more detail, companies have progressively gained the ethical imperative to bear certain human rights responsibilities (Cragg, 2012; Wettstein, 2009), which go beyond 'doing no harm' and include the positive duties to protect, respect and realise human rights (Wettstein, 2010). Companies are progressively responding to global sustainability challenges by enhancing collective well-being (Torelli, 2021) and integrating

[1]https://www.un.org/en/global-issues/human-rights#:~:text=Human%20rights%20are%20rights%20inherent,and%20education%2C%20and%20many%20more.

sustainability into their decision-making processes (Fiandrino et al., 2019). When considering human rights issues, companies are expected to align their behaviour to good human rights practises, as articulated in international frameworks such as the UN guiding principles on business and human rights (UNGPs) and the organisation for economic co-operation and development (OECD) Guidelines for Multinational Enterprises. Under the UNGPs, human rights have become inextricably bound up with business by suggesting the implementation of human rights due diligence (HRDD) into companies' business conduct and their accountability practises (Hubers & Thijssens, 2023). HRDD is a process aimed at identifying, preventing, mitigating and accounting for adverse human rights impacts, a core requirement for businesses in fulfilling that responsibility.

In this context, academic scholarship on business and human rights (BHR) has progressively developed (Schrempf-Stirling et al., 2020) in the wake of the UNGPs and the recent regulatory developments endorsing HRDD. Recent studies have investigated the determinants of corporate human rights disclosure (Cahaya & Hervina, 2019; Lopatta et al., 2023), assessed human rights reporting in specific contexts (Cahaya & Hervina, 2019; Hubers & Thijssens, 2023; Tarus et al., 2023), and identified strategies for HRDD reporting (Rogerson et al., 2024). Furthermore, extant research has mainly focused on the effectiveness of HRDD in preventing human rights abuses (Nolan & McCorquodale, 2022), without, however, investigating value-enhancing drivers that improve its effectiveness. Therefore, scant empirical research explores how corporate governance mechanisms or organisational processes can improve companies' HRDD.

In this context, in line with a stakeholder perspective, well-designed corporate governance structures can facilitate a stronger alignment between the interests of managers and those of other stakeholders (Radu & Smaili, 2021) and can enhance companies' efforts to address societal needs and mitigate adverse human rights impacts (Buhmann et al., 2019; Rasche, 2023). Therefore, adopting proper corporate governance mechanisms allows companies to introduce effective tools to promote socially responsible behaviour (Zaman et al., 2022) and, consequently, advocate human rights and responsible behaviours. We argue that corporate governance mechanisms can influence companies' human rights-related practises and facilitate effective HRDD implementation. Therefore, the research aims to fill this knowledge gap by investigating whether corporate governance impacts the potential effectiveness of HRDD.

To achieve this research objective, we build on a sample of 509 listed companies for which necessary data on HRDD is available on the Corporate Human Rights Benchmark (CHRB) of the World Benchmarking Alliance (WBA) database[2], and data on governance was retrieved from Refinitiv Asset4. Our findings show that corporate governance is positively related to companies' HRDD and that the presence of the sustainability committee and board diversity favour higher levels of companies' HRDD.

[2]Corporate Human Rights Benchmark 2022: Insights Report. Available from https://www.worldbenchmarkingalliance.org/research/2022-corporate-human-rights-benchmark-insights-report/

This study contributes to the literature on BHR implementation by suggesting specific corporate governance mechanisms that execute a high-effective process of HRDD. This research has managerial implications for companies as well. It can support companies in enhancing their HRDD by establishing a sustainability committee or supporting gender diversity within the board because it justifies a better HRDD as necessary to protect human rights and mitigate potential adverse related risks. Ultimately, this research also has policy implications in light of the recent corporate sustainability due diligence directive (CSDDD) adopted by the European Commission on 24 May 2024, which introduces obligations for large companies regarding adverse impacts of their activities on human rights and environmental protection. In this context, our paper can contribute to identifying good corporate governance mechanisms that may drive due diligence practises in line with this new directive.

The remainder of this study proceeds as follows. Section 2 reviews the literature on BHR and corporate governance and develops the hypotheses. Section 3 describes the research method, while Section 4 illustrates the descriptive statistics and presents the results from the regression analysis. Finally, Section 5 discusses contributions and implications for research and practise and concludes with limitations and suggestions for future research avenues.

2 | LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 | BHR scholarship

The BHR literature has progressively developed during the last decades (Schrempf-Stirling et al., 2020; Schrempf-Stirling et al., 2022). Based on a literature review of articles published between 1990 and 2017, Schrempf-Stirling et al. (2020) classified the literature on BHR into three streams: (1) theories and justifications used to argue for or against corporate human rights obligations; (2) BHR implementation considering specific activities undertaken by businesses to their perceived human rights obligations and (3) BHR outcomes addressing the consequences and impacts of corporate human rights engagement activities, including effects on individuals, communities and the company itself (Schrempf-Stirling et al., 2022).

First, academic works addressing the justifications draw on legal and/or ethical arguments to explain whether businesses have human rights responsibilities, and if so, what the nature and content of those responsibilities are. For example, Wettstein (2010) argues that corporations do not only have negative but also positive obligations to protect human rights and that responsibility boundaries between state and firms are shifting (Wettstein, 2012).

Second, studies that focus on the implementation theme examine how to implement human rights policies and processes, focusing on the organisational level (e.g., codes of conduct, due diligence mechanisms and stakeholder management tools) or the macro level (e.g., the role of the UN Global Compact). For instance, McVey et al. (2023) investigate the implementation of the UNGPs into the corporate setting through the concept of 'translation' and reveal that the process of making human rights understandable and manageable can change their form and content, which may act as an obstacle to human rights realisation and corporate accountability for human rights.

Third, and finally, a small group of articles in the BHR scholarship discuss the outcomes of corporate human rights abuses and policies (Maher et al., 2022; Olsen & Bernal-Bermúdez, 2024; Schrempf-Stirling & Wettstein, 2017). Scholars have explored the consequences of human rights abuses and policies on economic and financial performance, corporate behaviour, individual motivation, trust and the effects of corporate human rights management efforts on the number of human rights abuses (Schrempf-Stirling et al., 2020, p. 42). For example, Olsen et al. (2022) focus on the oil and gas industry to find that, while human rights policies alone do not reduce human rights abuses, firms with an effective human rights policy over the long-term reduce severe human rights abuses and firms that combine preparedness (i.e., a firm's capabilities, practises and engagement) with a long-term human rights policy also reduce the likelihood of human rights abuses. Other studies have examined the causes of human rights misbehaviour considering companies' financial performance and institutional conditions as determinants (Giuliani et al., 2021; Giuliani et al., 2023).

Our study aims to contribute to the implementation research theme of BHR scholarship, by broadening our knowledge of the drivers of high-effective HRDD processes.

2.2 | HRDD and corporate governance

The limited literature on HRDD has addressed three main research themes, namely the existing regulatory framework, the effectiveness of HRDD, and the determinants of HRDD. The first group of studies has explored the existing regulatory framework for conducting HRDD (Antonini et al., 2020; Fasterling & Demuijnck, 2013; Fasterling, 2017; Bonnitcha and McCorquodale, 2017). For instance, Fasterling and Demuijnck (2013) discuss the tensions between the idea that respecting human rights is a perfect moral duty for corporations and the HRDD requirements in the UNGPs. The review by O'Brien and Dhanarajan (2016) highlights a plethora of regulatory initiatives and praxis in the areas of HRDD, human rights reporting, and impact assessment of human rights proving relevant implications in influencing new forms of corporate governance. A second research stream examines the current practise of HRDD (McCorquodale et al., 2017) and the effectiveness of HRDD in preventing business activities that have adverse impacts on human rights (Nolan & McCorquodale, 2022). McCorquodale et al. (2017) analyse the practises of companies worldwide in attempting to implement HRDD as envisaged by the UNGPs. Their findings show the difference that dedicated HRDD—in comparison with non-human rights specific processes—can make to identify adverse human rights impacts of the company and those that are part of its business relationships. A third research stream provides insights into the current state and determinants of corporate HRDD disclosure (Cahaya & Hervina, 2019; Lopatta et al., 2023; Islam et al., 2017). The study of Cahaya and Hervina (2019) addresses the disclosure of child labours and forced labours and investigates related firm-level determinants on a sample of Indosian companies. The results of this research show a low level of human rights disclosure and provide evidence on board size as a powerful determinant for higher level of human rights disclosure. Furthermore, by investigating the 500 largest firms in 33 countries and 21 industries, Lopatta et al. (2023) find a low level of corporate human rights disclosure worldwide, suggesting that most large businesses do not consider HRDD as a relevant aspect of their reporting. Hamann et al. (2009) explored the antecedents of HRDD on the top 100 companies listed on the Johannesburg Stock Exchange, finding that a key predictor of HRDD is an explicit leadership commitment, and that important driving roles are also played by government regulations and stock exchange listing rules.

Our paper aims to advance the debate on the antecedents of HRDD and to provide insights about which factors can help companies improve the potential effectiveness of the processes to identify, prevent and mitigate adverse human rights impacts. In this sense, corporate governance mechanisms can improve a firm's HRDD.

Corporate governance is 'a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined' (G20/OECD, 2015, p. 9). The G20/OECD *Principles of Corporate Governance* states that the purpose of corporate governance is to 'help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies' (G20/OECD, 2015, p. 7). Corporate governance addresses 'rights and responsibilities among the parties with a stake in the firm' (Aoki, 2000, p. 11) and delineates 'configurations of organizational processes that affect both financial and non-financial firm-level outcomes' (Zaman et al., 2022, p. 692).

Academic literature has widely studied corporate governance's influence on firms' social performance (Naciti et al., 2021; Zaman et al., 2022). Zaman et al. (2022) show that research conducted at the intersection between corporate governance and sustainability/CSR has progressed in two directions. A strand of research adopts corporate governance as a foundation and driver for the CSR and sustainability performance of companies and explores how different configurations of corporate governance systems, structures and processes contribute to firms' sustainability policies and practises (Endrikat et al., 2021; Jain & Jamali, 2016). Conversely, a second strand of research portrays sustainability as an umbrella term that subsumes responsible governance (Zaman et al., 2022). In this strand of literature, scholars have employed various theoretical lenses, such as agency theory, institutional theory, resource dependence theory and stakeholder theory, to empirically investigate how corporate governance mechanisms at the institutional, firm, group and individual levels impact sustainability outcomes (Jain & Jamali, 2016).

The rise of sustainability challenges has driven a progressive change from a shareholder versus a stakeholder-oriented governance perspective (Rasche, 2023; Van Buren & Schrempf-Stirling, 2023). Therefore, companies have started to improve their corporate governance according to a stakeholder perspective (Salvioni & Gennari, 2019). Hill and Jones (1992) propose stakeholder-agency theory, which addresses managers as 'stakeholder agents' who have a contractual relationship with all the other stakeholders (Hill & Jones, 1992). According to stakeholder-agency theory, CEOs and managers should make strategic decisions and allocate enterprise resources in the best interests of the stakeholders. In this vein, corporate governance represents a system of rules, practises and processes to balance and align stakeholders' interests. Therefore, corporate governance mechanisms can be expected to address sustainability policies and practises by integrating both environmental social, and economic issues and to protect stakeholder interests (Kock et al., 2012). Furthermore, corporate governance mechanisms can better align managers' interests with other stakeholders (Radu & Smaili, 2021). In this line, respect for human rights is a serious issue for both economic and non-economic stakeholders.

Consistent empirical evidence suggests that a real and focused commitment of corporate governance is a key driver of a firm's social performance (Zaman et al., 2022). For instance, focusing on the characteristics of the board of directors, consistent evidence shows that board size, board independence, female board representation and CSR/sustainability committee have a positive and significant influence on CSR (Endrikat et al., 2021).

Based on these arguments and in line with the stakeholder-agency paradigm (Hill & Jones, 1992), we hypothesise and test the following:

> **H1.** Corporate governance commitment is positively related to HRDD effectiveness.

3 | METHODOLOGY

3.1 | Sample

Our research is based on the dataset provided by the CHRB of the WBA. The CHRB provides publicly available benchmarks that rank leading global companies on their human rights performance and aims to identify which companies best address human rights issues. The CHRB provides a comparative snapshot of the largest companies on the planet, looking at the policies, processes and practises they have in place to systematise their human rights approach and how they respond to serious human rights allegations. The CHRB focuses on sectors considered to be high risk for negative human rights impact.

The CHRB methodology is composed of five themes, each containing a series of indicators focusing on different aspects of how a business seeks to respect human rights across its own operations and supply chain:

1. Theme A focuses on a company's human rights-related policy commitments and how they are governed. It includes two related sub-themes: 'Policy commitments' (A.1) and 'Board level accountability' (A.2);
2. Theme B assesses the extent of systems and processes established to implement the company's policy commitments in practise. It includes two related sub-themes 'Embedding respect for human rights in company culture and management systems' (B.1) and 'Human rights due diligence' (B.2);
3. Theme C focuses on the extent to which a company provides remedies in addressing actual adverse impacts on human rights;
4. Theme D addresses specific practises to prevent human rights impact in each sector;
5. Theme E focuses on responses to serious allegations of negative impacts a company may be alleged or reported to be responsible for by an external source.

Each theme is broken down into multiple indicators. For each indicator, the company may score zero, one or two points as well as also 0.5 and 1.5 for certain multi-criteria indicators. All the indicators are grounded in the UNGPs and other international human rights standards, with additional sector-specific requirements applied to some indicators. For our study, we focus on the score within Theme B.2 'Human rights due diligence', as a proxy for the potential effectiveness of HRDD.

For assessments, CHRB uses publicly available information from corporate websites, corporate financial and non-financial reports (e.g., annual reports and sustainability reports), and other public documents and statements, such as codes of conduct, policies, values, guidelines and FAQs. Our sample includes all the companies assessed in the CHRB in the year 2018, 2019, 2020 and 2022 (data for the year 2021 are not available):

1. The 2018 CHRB assesses 101 global companies in agricultural products, apparel and extractives industries;
2. The 2019 CHRB assesses 200 global companies in agricultural products, apparel extractives and ICT manufacturing industries;
3. The 2020 CHRB assesses 230 global companies in products, apparel, extractives, ICT manufacturing and automotive manufacturing industries;
4. The 2022 CHRB assesses 127 companies in food and agricultural products, ICT and automotive manufacturing industries.

Based on the availability of the companies' scores, our initial sample includes 622 firm-level observations in the years 2018, 2019, 2020 and 2022.

3.2 | Empirical model and variables definition

To test our hypothesis, we estimate the following ordinary least square (OLS) regression model:

TABLE 1 Descriptive statistics.

Variables	N	Mean	Standard deviation	Minimum	Maximum
HRDD	509	0.225	0.281	0.000	1.000
MANAGEMENT_SCORE	509	68.020	25.274	0.430	99.980
SUSTAINABILITY_COMMITTEE	509	0.910	0.287	0.000	1.000
BOARD_DIVERSITY	509	25.799	13.815	0.000	66.670
BOARD_SIZE	509	11.273	2.558	4.000	22.000
BOARD_INDEPENDENCE	509	66.520	23.339	0.000	100.000
ROE	509	0.156	0.516	−8.387	3.883
ROA	509	0.076	0.070	−0.176	0.340
DEBT_EQUITY	509	0.732	7.675	−1.466	172.618
ASSETS	509	23.803	1.509	14.407	26.692
MARKET_CAP	509	23.985	1.433	14.463	28.568

$$\mathrm{HRDD_i} = \alpha + \beta_1\,\mathrm{MANAGEMENT\_SCORE_i} + \beta_2\gamma_i + \varepsilon_i, \qquad (1)$$

where ε_i is the error term and represents the residual or that portion of the endogenous variable that is not explained by the exogenous regressors. Our dependent variable is the potential effectiveness of *HRDD*, as proxied by the CHRB's score for the measurement theme B.2 'Human rights due diligence'. This score is composed of five indicators, which are aligned to the HRDD steps in the UNGPs: (i) *Identifying*: Processes and triggers for identifying human rights risks and impacts; (ii) *Assessing*: Assessment of risks and impacts identified (salient risks and key industry risks); (iii) *Integrating and Acting*: Integrating assessment findings internally and taking appropriate actions; (iv) *Tracking*: Monitoring and evaluating the effectiveness of actions to respond to human rights risks and impacts; (v) *Communicating*: Accounting for how human rights impacts are addressed.

Our main explanatory variable is the commitment of corporate governance (*MANAGEMENT_SCORE*) as proxied by the management score provided by Refinitiv ranging from 0 to 100, which measures 'a company's commitment and effectiveness towards following best practise corporate governance principles'[3].

Control variables are denoted by γ_i. Specifically, control is a vector of firm-specific control variables that we obtained from Refinitiv. We included size (measured by the logarithm of total assets) (*ASSETS*), market capitalization (*MARKET_CAP*), leverage (*DEBT_EQUITY*) and profitability, measured by the return on assets (*ROA*), that is, the ratio between net profit over total assets, and the return on equity (*ROE*), that is, the ratio between net profit over total equity.

For additional analyses, the following variables are collected: the presence of a sustainability committee (*SUSTAINABILITY_COMMITTEE*), which is equal to 1 if the sustainability committee is present, 0 otherwise, the level of diversity of the board (*BOARD_DIVERSITY*), which is the percentage of female board members, the size of the board (*BOARD_SIZE*), which is the total number of board members, and finally, the rate of independent members of the board (*BOARD_INDEPENDENCE*).

All variables were retrieved by Refinitiv for the years 2018, 2019, 2020 and 2022, respectively. Country and year controls are also included, while robust standard errors are clustered by country to take into account the potential correlations between firms located in the same geographical area. After collecting corporate governance and financial data from Refinitiv, we removed 113 observations included in the CHRB datasets due to missing data. Thus, our final sample consists of 509 firm-level observations.

4 | FINDINGS

4.1 | Descriptive statistics and correlation matrix

Descriptive statistics (Table 1) provide initial insights into the commitment of the corporate governance and HRDD mechanisms in our sample.

They show that the mean value of the effectiveness of *HRDD* is rather low, ranking in the first quartile. This suggests that the largest companies worldwide, operating in industries with high levels of risk of negative human rights impacts, have only poorly engaged with the UNGPs' HRDD steps. This finding is in line with Lopatta et al. (2023), who found a lack of attention to HRDD disclosure in a global sample of companies. A second indication comes from the mean value of our main independent variable (*MANAGEMENT_SCORE*) which stands at 68 out of 100. General good governance practises and strategies are therefore more widespread in companies when considering all issues of corporate management and not only human rights issues. Furthermore, the wide range of management score suggests significant variability in corporate governance practises among the companies in the sample. Thus, within the good governance practises implemented by companies in this sample, those specifically related to HRDD have a marginal weight, perhaps also due to difficulties in implementing UNGPs within corporate organisations and related managerial processes (McVey et al., 2023). Ninety-one percentages of the observations have a sustainability committee, an important governance body that monitors, manages, evaluates and supervises all aspects of sustainability and corporate responsibility (Li et al., 2022; Orazalin, 2020). It therefore has well-defined tasks and should be the predefined actor

[3]Refinitiv Methodology available here: https://www.lseg.com/content/dam/marketing/en_us/documents/methodology/refinitiv-esg-scores-methodology.pdf

TABLE 2 Pairwise correlations.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) HRDD	1.000											
(2) MANAGEMENT_SCORE	0.254*	1.000										
(4) SUSTAINABILITY_COMMITTEE	0.208*	0.288*	0.483*	1.000								
(5) BOARD_DIVERSITY	0.330*	0.163*	0.177*	0.239*	1.000							
(6) BOARD_SIZE	0.145*	−0.116*	0.193*	0.170*	0.126*	1.000						
(7) BOARD_INDEPENDENCE	0.217*	0.210*	0.156*	0.202*	0.442*	−0.103*	1.000					
(8) ROE	0.083*	0.022	0.028	0.109*	0.113*	0.016	0.102*	1.000				
(9) ROA	0.052	0.033	−0.018	0.003	0.042	−0.053	0.133*	0.391*	1.000			
(10) DEBT_EQUITY	−0.031	−0.026	0.021	−0.135*	−0.085*	−0.037	−0.053	−0.738*	−0.090*	1.000		
(11) ASSETS	−0.058	−0.041	−0.050	−0.052	−0.043	−0.072	−0.068	−0.082*	−0.245*	0.057	1.000	
(12) MARKET_CAP	−0.013	−0.046	−0.042	−0.060	−0.028	−0.063	−0.009	0.066	0.172*	0.006	0.812*	1.000

*p < 0.1; **p < 0.05; ***p < 0.01.

TABLE 3 Human rights due diligence and corporate governance practises.

	HRDD b/p
MANAGEMENT_SCORE	0.003***
	(0.000)
ROE	0.076*
	(0.062)
ROA	−0.204
	(0.490)
DEBT_EQUITY	0.003
	(0.248)
ASSETS	−0.030
	(0.150)
MARKET_CAP	0.020
	(0.360)
Constant	0.266
	(0.340)
N	509
R^2	0.148
R^2 Adj.	0.069
F	1.875
Country control	Yes
Year control	Yes

*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$.

to also deal with the issue of respect for human rights inside and outside the company. Extensive literature (e.g., Biswas et al., 2018; Burke et al., 2019; Valle et al., 2019) has revealed that a sustainability committee has the potential to improve corporate social and environmental performance, due to its expertise and knowledge of specific issues and its diversity.

Correlation analyses (Table 2) show that the *MANAGEMENT_SCORE* and the *SUSTAINABILITY_COMMITTEE* positively correlate with the dependent variable *HRDD*. Furthermore, other indicators that could affect the commitment to corporate governance, such as BOARD_DIVERSITY, BOARD_SIZE and BOARD_INDEPENDENCE, are positively correlated with HRDD potential effectiveness (Endrikat et al., 2021; Zaman et al., 2022).

Findings from the correlation analysis provide initial support for our research hypothesis, suggesting that the commitment of corporate governance, among the social performance it impacts (see Naciti et al., 2021; Zaman et al., 2022), can also improve the effectiveness of HRDD.

4.2 | Regression results

Table 3 presents the results of estimating Equation (1), which tests H1. The coefficient on *MANAGEMENT_SCORE* is positive and significant ($p < 0.01$).

This suggests that, as predicted by H1, the commitment of a firm's corporate governance is positively related to the potential effectiveness of its HRDD processes. Then, good governance practises can drive companies to implement adequate processes to identify, prevent and minimise negative human rights impacts from business activities.

Although relevant, this result appears to be too general, as good corporate governance can be determined by several mechanisms, such as the presence of a sustainability committee that guides attention and strategies towards social issues such as HRDD (Li et al., 2022; Orazalin, 2020); particular corporate governance configurations that predispose more to interest in human rights-related goals (Endrikat et al., 2021; Jain & Jamali, 2016); leadership commitment that spurs the entire management to also take on HRDD-related corporate responsibilities (Hamann et al., 2009).

4.3 | Additional analyses

To delve deeper into the results obtained and better explain the relationship between the commitment of corporate governance and the potential effectiveness of HRDD, we have conducted three additional analyses.

First, we separately examine the impacts that specific characteristics of the board of directors have on the effectiveness of HRDD. We built on those factors that the literature has consistently identified as the most important corporate governance mechanisms driving corporate social performances (Endrikat et al., 2021): sustainability committee, board diversity, board size and board independence.

Specifically, we run the following regressions:

$$\mathrm{HRDD_i} = \alpha + \beta_1\,\mathrm{SUSTAINABILITY\_COMMITEE_i} + \beta_2\gamma_i + \varepsilon_i, \tag{2}$$

$$\mathrm{HRDD_i} = \alpha + \beta_1\,\mathrm{BOARD\_DIVERSITY_i} + \beta_2\gamma_i + \varepsilon_{i,} \tag{3}$$

$$\mathrm{HRDD_i} = \alpha + \beta_1\,\mathrm{BOARD\_SIZE_i} + \beta_2\gamma_i + \varepsilon_i, \tag{4}$$

$$\mathrm{HRDD_i} = \alpha + \beta_1\,\mathrm{BOARD\_INDEPENDENCE_i} + \beta_2\gamma_i + \varepsilon_i, \tag{5}$$

$$\begin{aligned}\mathrm{HRDD_i} = {} & \alpha + \beta_1\,\mathrm{SUSTAINABILITY\_COMMITEE_i} \\ & + \beta_2\,\mathrm{BOARD\_DIVERSITY} + \beta_3\,\mathrm{BOARD\_SIZE} \\ & + \beta_4\,\mathrm{BOARD\_INDEPENDENCE_i} + \beta_5\gamma_i + \varepsilon_i,\end{aligned} \tag{6}$$

The results (Table 4) show that when these variables are analysed individually (columns 1–4), each of them has a significant and positive relationship with the effectiveness of HRDD. However, when they are included in the same model (column 5), only the presence of a sustainability committee and the degree of diversity in the board have a significant and positive impact on HRDD practises, while the board size shows a mild significance and the presence of independent members on the board is not significant.

TABLE 4 Human rights due diligence and specific corporate governance aspects.

	(1) HRDD	(2) HRDD	(3) HRDD	(4) HRDD	(5) HRDD
	b/p	b/p	b/p	b/p	b/p
SUSTAINABILITY_COMMITTEE	0.203***				0.115***
	(0.000)				(0.008)
BOARD_DIVERSITY		0.007***			0.005***
		(0.000)			(0.000)
BOARD_SIZE			0.017***		0.012*
			(0.001)		(0.011)
BOARD_INDEPENDENCE				0.002***	0.001
				(0.000)	(0.147)
ROE	0.068*	0.050	0.070*	0.063	0.049
	(0.096)	(0.205)	(0.091)	(0.123)	(0.214)
ROA	−0.105	−0.118	−0.049	−0.187	−0.088
	(0.724)	(0.682)	(0.872)	(0.533)	(0.757)
DEBT_EQUITY	0.003	0.002	0.003	0.002	0.003
	(0.186)	(0.318)	(0.297)	(0.350)	(0.213)
ASSETS	−0.026	−0.026	−0.023	−0.024	−0.022
	(0.217)	(0.198)	(0.287)	(0.257)	(0.266)
MARKET_CAP	0.014	0.013	0.011	0.011	0.013
	(0.514)	(0.549)	(0.634)	(0.637)	(0.551)
Constant	0.316	0.394	0.304	0.392	0.052
	(0.263)	(0.143)	(0.294)	(0.163)	(0.852)
N	509	509	509	509	509
R^2	0.126	0.187	0.108	0.122	0.217
R^2 Adj.	0.045	0.111	0.026	0.041	0.139
F	1.558	2.480	1.310	1.506	2.788
Country control	Yes	Yes	Yes	Yes	Yes
Year control	Yes	Yes	Yes	Yes	Yes

*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$.

These results suggest that, at a theoretical level, all these corporate governance mechanisms have the potential to affect the effectiveness of HRDD; however, if these characteristics are analysed as a whole (Column 5 of Table 4) to get closer to a less theoretical and more realistic view, the key role of diversity in the board and the presence of a sustainability committee emerges. Regarding the sustainability committee, our findings consolidate existing evidence proving that it can positively impact environmental and social performance (Biswas et al., 2018; Li et al., 2022; Orazalin, 2020). What we can add, however, is how the sustainability committee ties in a virtuous circle with the diversity of the board of directors. The aspect of board diversity has been extensively analysed (see for example Beji et al., 2021; Harjoto et al., 2015; Rao & Tilt, 2016) but not linked with HRD practises. The results obtained allow us to extend the impacts described and analysed in the literature on social and environmental performance due to increased board diversity also to impacts on the potential effectiveness of HRDD practises, this effect is particularly associated with the presence of a CSR/sustainability committee, adding a significant piece to what Burke et al. (2019) have described. Specifically, it aligns with their findings on how the heterogeneity of the sustainability committees influences corporate sustainability performance. Our analysis underscores that this virtuous heterogeneity is not solely ensured by the committee's focus on specific stakeholder groups, as noted by Burke et al. (2019), but it stems also from the diversity among its members.

The second additional analysis (Table 5) considers the level of human rights respect at the national level. This analysis investigates whether the extent to which human rights are respected in the nation where companies are headquartered moderates the positive relationship between the commitment of corporate governance and the potential effectiveness of HRDD practises.

To do so, we retrieved a robust and reliable indicator of human rights respect at the national level for all countries represented in our sample. We downloaded the human rights indexes based on the expert assessments and index by the Varieties of Democracy (V-Dem), with major processing by Our World in Data (V-Dem, 2023). This index captures the extent to which people are free from government torture, political killings and forced labour; they have property rights; and enjoy the freedoms of movement, religion, expression and association. The variable ranges from 0 to 1 (most rights).

Then, we introduced in the main model the interaction term between the management score and the country's human rights index. More specifically, we test the following equation:

$$\begin{aligned}\mathrm{HRDD_i} = \alpha + \beta_1\,&\mathrm{MANAGEMENT\_SCORE_i}\\ &+\beta_2\,\mathrm{MANAGEMENT\_SCORE_i\#COUNTRY\_HUMAN\_RIGHTS_i}\\ &+\beta_3\,\mathrm{COUNTRY\_HUMAN\_RIGHTS_i} + \beta_2\gamma_i + \varepsilon_i.\end{aligned} \tag{7}$$

TABLE 5 Human rights country index as moderator.

	(1) HRDD b/p
MANAGEMENT_SCORE	0.005***
	(0.008)
MANAGEMENT_SCORE# COUNTRY_HUMAN_RIGHTS	−0.002
	(0.247)
ROE	0.075*
	(0.063)
ROA	−0.193
	(0.512)
DEBT_EQUITY	0.003
	(0.253)
ASSETS	−0.030
	(0.152)
MARKET_CAP	0.020
	(0.368)
Constant	1.561
	(0.430)
N	509
R^2	0.150
R^2 Adj.	0.070
F	1.864
Country control	Yes
Year control	Yes

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

Table 5 shows that the coefficient of the interaction term (*MANAGEMENT_SCORE$_i$# COUNTRY_HUMAN_RIGHTS$_i$*) is not significant, suggesting that the degree of human rights respect in the country where firms are headquartered does not influence the relationship between corporate governance and the effectiveness of HRDD.

Subsequently, as a third additional analysis, we investigate how the effectiveness of HRDD varies across the five most representative industries where the sampled companies operate. Using the Global Industry Classification Standard (GICS) they are: consumer discretionary, consumer staples, energy, materials, and information technology. This analysis was conducted because the industry typically plays a crucial role in determining CSR and sustainability practises (Searcy, 2012).

Indeed, Table 6 indicates that the average level of the effectiveness of HRDD practises varies significantly across the five industries. Specifically, in the consumer discretionary sector, the level of HRDD practises implementation is significantly higher (0.28 compared to 0.20 in the rest of the sample), representing the sector with the highest overall mean value. In contrast, in the energy sector, the level of implementation is significantly lower (0.16 compared to 0.23 in the rest of the sample), making it the sector with the lowest overall mean value in the sample, confirming how the energy industry represents a sector heavily under the scrutiny of institutions and academics, in particular about practises linked to respect for human rights (Lindsay et al., 2013; Olsen et al., 2022; Valor, 2012).

These additional results provide noteworthy insights into the decisive role of the industry, suggesting that this is a key aspect that cannot be overlooked in the analysis of HRDD determinants.

4.4 | Robustness test

To further validate the results obtained in our main analysis, we conducted the same OLS test as used in Table 3, using a different variable to measure our dependent variable (i.e., the potential effectiveness of HRDD). For this purpose, we used the 'Human Rights Score' provided by Refinitiv, which 'measures a company's effectiveness in terms of respecting fundamental human rights conventions.' (Refinitiv, 2022).

Table 7 shows that the coefficient for the *MANAGEMENT_SCORE* is positive and significant ($p < 0.01$) suggesting that our results

TABLE 6 Human rights due diligence in the most representative industries.

	Human rights due diligence			
Industry	Industry mean	Rest of sample mean	Difference	*T*-test
CONSUMER_DISCRETIONARY	0.28020	0.20662	0.07358	−1.675**
CONSUMER_STAPLES	0.23205	0.22097	0.01107	−0.398
ENERGY	0.16352	0.23869	−0.07517	2.3862**
MATERIALS	0.19983	0.22689	−0.02705	0.6565
INFORMATION_TECHNOLOGY	0.22168	0.22455	−0.00286	0.0826

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

TABLE 7 Robustness test.

	(1) Human rights score b/p
MANAGEMENT_SCORE	0.309***
	(0.000)
ROE	10.502***
	(0.005)
ROA	−39.849
	(0.146)
DEBT_EQUITY	0.151
	(0.518)
ASSETS	−2.158
	(0.265)
MARKET_CAP	1.617
	(0.428)
Constant	53.808*
	(0.038)
N	509
R^2	0.176
R^2 Adj.	0.099
F	2.295
Country control	Yes
Year control	Yes

*$p < 0.1$; **$p < 0.05$; ***$p < 0.01$.

(i.e., the positive relationship between corporate governance and HRDD) remain valid also using a dependent variable.

Finally, we conducted diagnostic tests to assess multicollinearity and endogeneity in the regression models, ensuring the robustness and validity of the estimated coefficients.

5 | DISCUSSION AND CONCLUSIONS

This study investigates the impact of corporate governance on the potential effectiveness of companies' HRDD. Based a stakeholder-oriented governance perspective, this research posits that corporate governance functions as an internal value-enhancing driver that can drive companies to implement good HRDD. According to prior research, specific characteristics of the board of directors, like board size, are more likely to facilitate sustainable initiatives and disclosure (Cahaya & Hervina, 2019; Tarus et al., 2023).

The results of this study confirm that corporate governance plays an important role in addressing HRDD, showing that corporate governance is positively associated with the effectiveness of HRDD. The analysis further shows that sustainability committee and board diversity improve the effectiveness of HRDD carried out by companies. This means that appointing a sustainability committee and having a female representation within the board reflects the effectiveness of HRDD. Conversely, empirical results do not offer significant evidence of the moderating effect of the country's human rights index on the relationship between the commitment to corporate governance and the effectiveness of HRDD practises.

This research has timely contributions to research and practise. Our study contributes to the BHR scholarship that examines how to implement human rights policies and processes (Schrempf-Stirling et al., 2020). In particular, we add to the debate on the determinants of HRDD (Hamann et al., 2009; Lopatta et al., 2023), by documenting that the effectiveness of this process is positively affected by the real commitment of corporate governance mechanisms. Furthermore, our insights may be of interest to the companies under the scope of the upcoming EU CSDD, by shedding light on the factors that contribute to strengthening the effectiveness of the HRDD process.

This research is not without limitations. First, we measured the effectiveness of HRDD using the performance score provided by the CHRB, so that using a different proxy may yield different results. Second, the CHRB dataset was not available for the year 2021 and some data in the period under investigation were missing.

To advance the debate on the implementation of HRDD, future research could investigate alternative determinants. For instance, future work may examine the role of national culture and other institutional factors as drivers to achieve a high-effective HRDD process. Another promising avenue for future research is related to the consequences of HRDD. For instance, there is a need to understand whether companies that implement a good HRDD process benefit from better financial performance, as well as the extent to which they can prevent or mitigating adverse impacts on human rights.

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