



Employee rights protection and financial performance



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ABSTRACT

Despite the existence of a substantial body of implementation guidelines and literature on employee rights, many organizations still adopt irresponsible employee practices such as child labor and appalling workplace conditions. The implementation of such irresponsible employee practices in some suppliers has badly affected the business performance and reputation of global giants like Nike, Adidas, and Apple. The study here conceptualizes employee rights protection as a management initiative concerning an organization's efforts in managing employees responsibly. By drawing from the literature on social initiatives and supply chain management, organizations should adopt employee rights protection to improve their corporate reputation and financial performance, and that it is important for buyers to involve suppliers to implement such an initiative in order to improve the financial performance of both parties in the buyer–supplier relationship. Based on data collected from 200 matched pairs of manufacturers and suppliers in the food, pharmaceutical, automotive, and clothing industries of China, all the posited hypotheses of this research receive support. The findings contribute to practice by offering empirical evidence on the strategic importance of employee rights protection and showing the critical role of suppliers in implementing this initiative. This research also provides new research insights that extend the literature on labor rights, business ethics, CSR, and supply chain management.

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1. Introduction

How responsible (or irresponsible) organizations manage their employees is an increasingly important issue for differing organizations. Prominent international institutions such as the United Nations (UN), the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD), and the International Labour Organization (ILO) have issued declarations or guidelines concerning the principles and practices of employee rights (Montgomery & Maggio, 2009). Many NGOs, such as United Students Against Sweatshops (USAS), the Workers' Rights Consortium (WRC), and the Institute for Global Labour and Human Rights, have been dedicating to monitoring and promoting employee rights since the 1990s (Doorey, 2011).

However, many organizations still adopt irresponsible employee practices and some of such practices have led to disastrous outcomes. For instance, because of inhuman employment practices, eighteen employees attempted suicide, resulting in fourteen deaths in a Chinese factory that assembles Apple's iPhones and iPads (Chan & Pun, 2011). An NGO report reveals that the labor conditions in suppliers of Adidas were far from satisfactory with weekly working hours exceeding the

legal limit by 150% on average, employees beaten up by security guards, and deaths caused by heat stroke (China Labor Watch, 2010). The Institute for Global Labour and Human Rights (2007) reports, "Every single labor law in China, along with internationally recognized worker rights standards, are being systematically violated on a daily basis" by a Wal-Mart supplier in China.

This research conceptualizes employee rights protection as a management initiative, which pertains to an organization's efforts to manage employees' interests responsibly. Researchers of business ethics (e.g., Jamali, 2008), human resource management (HRM) (e.g., Greenwood, 2002), and labor law (e.g., Sherrie, 2003) consider employee rights protection as an important initiative for organizations. Based on Freeman's (1984) stakeholder theory, Jones (1995) argues that employee rights protection can reduce an organization's transaction costs through improved employee relationships. More recent studies suggest that responsible employee practices could relate to enhanced corporate reputation, market opportunities, and pricing premiums (Fombrun, Gardberg, & Barnett, 2000; Lii & Lee, 2012). Yet the extant studies on employee rights protection tend to be descriptive and focus on anecdotal cases (Chan & Pun, 2011; Doorey, 2011; Yu, 2008). Thus, this research aims to enrich the literature by quantitatively testing the direct association between employee rights protection and financial performance. In addition, since one widely suggested that outcome of social initiatives is better corporate reputation (e.g., Lii & Lee, 2012), the study also examines whether the adoption of employee rights protection relates to financial performance indirectly through corporate reputation.

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This research also contends that suppliers play a critical role in the effective adoption of employee rights protection. The labor incidents involving Apple, Adidas, and Wal-Mart suggest that suppliers' irresponsible employee practices can severely damage the buying organization's reputation and financial performance. Thus, organizations should pay attention to not only how they adopt employee rights protection, but also how they influence suppliers to implement similar practices. The literature on business ethics suggests that the buying organizations could manage the ethical behavior of the suppliers through different procurement methods (e.g., Ehrgott, Reimann, Kaufmann, & Carter, 2011). The literature on supply chain management indicates that buyers can have a strong influence on suppliers' practices and that the enhanced supplier practices benefit not only suppliers but also buyers (e.g., Krause, Handfield, & Tyler, 2007). Consequently, this study argues that, when a buyer adopts employee rights protection, it tends to influence its supplier to adopt the same initiative. When the supplier adopts employee rights protection, this could benefit not only the supplier itself but also the buyer.

Specifically, the objectives of this research are to examine 1) whether a buyer's adoption of employee rights protection relates to its financial performance directly and indirectly through its corporate reputation, 2) whether a buyer's adoption of employee rights protection relates to the adoption of this initiative in its supplier, and 3) whether the supplier's adoption of employee rights protection relates to its own financial performance and the buyer's financial performance via the buyer's corporate reputation and the supplier's financial performance (see Fig. 1). By using a dataset comprising 200 paired buyer–supplier relationships in the food, pharmaceutical, automotive, and clothing industries of China, this study tests the conceptual model depicted in Fig. 1. The project enriches the relevant literature and offers managerial guidelines to practitioners by giving empirical evidence for the strategic importance of employee rights protection and the critical role of suppliers in implementing this initiative.

2. Literature review

2.1. Conceptual background

In this research employee rights protection refers to a management initiative that pertains to an organization's efforts to manage employees' interests responsibly. Its major activities include safeguarding the legitimate rights of employees, implementing procedures to ensure employees' health and safety, providing employees with salaries that properly and fairly reward them for their work, and treating employees fairly and respectfully, regardless of their gender or ethnic background (Lindgreen & Swaen, 2010; Rettab, Brik, & Mellahi, 2009). The relevant implementation guidelines of this management initiative are ubiquitous for interested organizations. For instance, the ILO Declaration on

Fundamental Principles and Rights at Work provides guidelines on fundamental employee rights and the adoption principles. In some developing countries such as China, the government has recently made specific laws detailing organizations' obligations towards labor rights (Lan & Pickles, 2011). Some regional professional institutes, such as the Responsible Supply Chain Association, also issue relevant guidelines to the companies concerned (Responsible Supply Chain Association, 2012).

Some researchers of law (e.g., Sherrie, 2003) and industrial relations (e.g., Kryvoi, 2007) have employed a macro-perspective to examine the employee rights protection of different countries. In regard to the studies investigating the adoption of responsible employee practices in organizations, the review of Collins (2000) of relevant research in the business ethics literature suggests that responsible employee practices are one of the major topics in that discipline. While studies focusing on the performance impact of employee rights protection are scant in the literature, some researchers explored the relationships between corporate social responsibility (CSR), business ethics, and the related financial performance outcomes (Carroll & Shabana, 2010; Margolis, Elfenbein, & Walsh, 2007; Orlitzky, 2008; van Beurden & Gossling, 2008; Wood, 2010). Their results in general suggest that the adoption of social initiatives (e.g., different practices of CSR) leads to superior financial performance. Thus, further studies should focus on examining individual social initiatives' performance impact or adoption guidelines (Godfrey & Hatch, 2007).

The adoption of responsible employee practices may result in better employee relations (Jones, 1995), which in turn can gain enhanced public image, improved relations with government regulatory authorities and civil society groups, better ability to develop social capital in a local community, etc. (BSR, 2003; ILO, 2007). Responsible employee practices could also strengthen an organization's opportunities to access capital, particularly from socially responsible investors (Kiernan, 2005). Nonetheless, there are few studies investigating the association between employee rights protection and organizational financial performance in the literature. Furthermore, although social initiatives tend to enhance corporate reputation (Lii & Lee, 2012), Brammer and Pavelin (2006) observe that the impact of responsible employee practices on corporate reputation is uncertain and situational. Consequently, empirical research exploring the associations between employee rights protection, corporate reputation, and financial performance can offer new insights to the literature.

According to the literature on supply chain management, the performance of buyers and suppliers is closely interdependent (Shin, Collier, & Wilson, 2000). Many recent labor incidents also reveal that the sweatshop issues of many Asian suppliers have badly affected the reputation of global buyers, such as Nike, Adidas, Reebok, and Gucci (Yu, 2008). Similarly, strikes caused by demand for higher wages in Nanhai Honda caused shutdowns of four Honda assembly plants in China, incurring

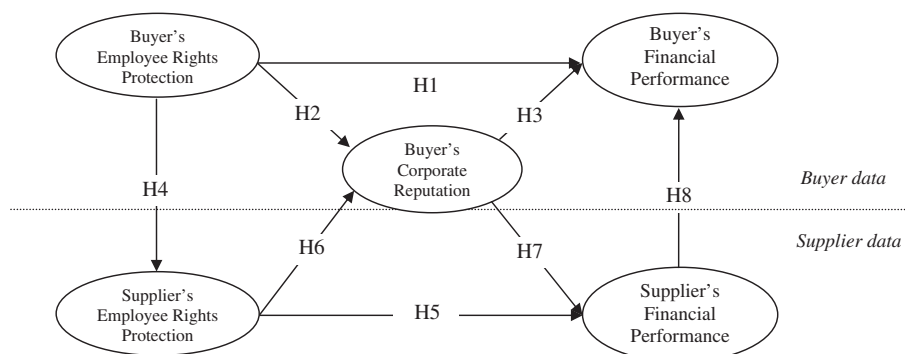


Fig. 1. The conceptual model.

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