



The role of Impact Accounting in the Child Labour

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Abstract

Child Labour is a devastating problem that is impacting society since ever, with predominancy since the industrial revolution. How can we live in a society where our children have access to good health, safety, and education, while on the other side of the world are kids working to earn their money, sometimes in dangerous jobs and long shifts, instead of being at school?

The main objective of this thesis is to emphasize the importance and urgency to end child labour. The second objective is to study and quantify how can the impact of child labour be accounted for in the financial statements of companies, through the terms of Impact Accounting. Impact Accounting is a financial equivalent model, currently being developed at Harvard Business School. Despite the topic is still under study, according to a set of research, the work developed in this thesis creates a method to reach a value to attribute to this impact.

As there is already a method to quantify the impact of Child Labour, the stakeholders should ensure that multinationals are accountable for those impacts, all over their supply chain, including the ones caused by sub-contracted entities in “third world” countries. Therefore, the ultimate aim of this work is to contribute for solving this issue, by supporting research to push for impact accounting.

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Resumo

O Trabalho Infantil é um problema devastador que assombra o mundo desde sempre, mas principalmente desde a revolução industrial. Como podemos viver numa sociedade onde as nossas crianças têm saúde, bem-estar e educação e no outro lado do mundo existem crianças a trabalhar para ajudar as famílias, muitas vezes em trabalhos perigosos e longos turnos, em vez de estarem na escola?

O objetivo da minha tese começa por dar ênfase à importância e urgência de acabar com o trabalho infantil.

O segundo objetivo é estudar e quantificar como poderíamos contabilizar o impacto do trabalho infantil nos relatórios financeiros das empresas, pelos termos do Impact Accounting, um modelo financeiro equivalente que está a ser desenvolvido pela Harvard Business School. Sendo que o tópico ainda está a ser estudado, recorrendo a um conjunto de pesquisas criei um método para atingir um valor a atribuir a este impacto.

O último objetivo é como podemos solucionar a questão de empresas multinacionais que não assumem a responsabilidade e penalizações relativas ao trabalho infantil, em baixos salários e poucas condições de trabalho, nos países onde têm as suas cadeias de produção.

Título: Qual o papel da contabilização do impacto do Trabalho infantil.

Autor: Bernardo Catarino

Palavras-chave: Negócios Responsáveis, Contabilidade de Impactos, Trabalho Infantil

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The biggest acknowledgement is for my family that supported my journey in every aspect and try to put me in the most comfortable condition to follow my dream of studying management at such a challenging university. Without their support, I would not be able to go through the master's, which gave me the chance to work in the area that I aimed.

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Introduction

For the last few years, we have been more aware of the environmental and social issues. Civil society has been turning to companies to address these issues since many of these companies have more money and power than many countries or governments. Senior executives like Larry Fink, CEO of BlackRock, or Paul Polman, ex-CEO of Unilever, are two of the most well-known characters that have been raising their voices about these issues and incentivizing others to react about them.

The rising of discussions about climate change and societal problems, made people start looking to the businesses from a more sustainable perspective, and also. The society started also pressuring companies and giving them part of the accountability for the current problems. As a response to this trend, companies started to be more careful about sustainability topics and to report more information on their impact in the world. However, until now, this response has been seen as insufficient for many, and that is why Impact Accounting started to be developed.

Impact Accounting is a model that is currently being developed to incorporate the positive and/or negative effects of companies in their financial results. By using this model, investors and consumers could have a more transparent view of the results of the companies, as they would integrate their impact in the world environment and society. At Harvard Business School, a team led by the professor George Serafeim, together with Impact Management Project and Global Steering Group for Impact Investment have been working in the Impact-weighted accounts (IWAs), which aims to reach an accurate and general value for environmental and social problems.

While the project has been able to quantify a lot of these issues, there are topics which are much more difficult to quantify, when compared to others. Since this is such a long road to have all the problems and benefits from companies and industries quantified, this work explores impact accounting starting from one of the most difficult aspects to quantify. Today, we are able to easily recognize some of the environmental and social issues and attribute them a monetary value for the company's results. However, the same does not apply to Human Rights issues, as these issues happen in developing countries where accounting is not a top priority, turning it into an even harder task. In fact, for many of the countries with higher rates of child labour, the topic is not even considered a problem, so society is not even aware of or

worried about the quantification of the negative impact in companies. That is why I decided to focus my attention on the impact of Child Labour because I believe that this is a such sensitive and hidden problem that needs to be cared for with a lot of precaution, as it should be studied until exhaustion.

Literature Review

Responsible Business

Responsible Business is a recent concept and it keeps being innovated. In recent years, it has been explored and studied more ways for CEOs and companies to have responsible businesses. This trend is implementing great changes in companies and people's minds.

Responsible Business can be described as a strategy that has sustainability at the core of the corporate strategy, as we can see in a lot of successful cases (Whelan, T., & Fink, C. (2016). *The Comprehensive Business Case for Sustainability*. Harvard Business Review). As we can identify in the article there are already well-developed tools and processes to help companies to design their sustainable strategy. The ESGs reports are the main tool to present to the outside world what is the work that companies have been doing on their inside. ESG reports are documents where companies present all their metrics according to Environmental, Social and Governance principles.

Despite not being presented in the article, impact accounting is a methodology that can also be used by companies to assess and report their ESG impact. Impact Accounting is an accounting system that aims to integrate the impact of the company in the environment and society, but this subject will be developed in the next topics. The article also mentions other directions that companies can take, such as focusing on the Stakeholder perspective, moving its focus from profit and shareholders to a broader group of stakeholders, including employees, consumers, supply chain, local communities and also shareholders. According to the article, this model has been giving great results, namely an improvement in the productivity levels of the companies and a better stock valuation, when compared with companies not following this approach. The other two directions are Risk Mitigation and Innovations, these can be connected since one helps to solve the other. However, as the article shows, risk mitigation prevents a lot of damage and also brings additional process optimization and, as consequence, better margins for the companies. Innovation is also an important tool for process optimization and a relevant contribution to companies' long-term sustainability. Today, it represents an important motto for every company since in the current market, the ones who do not innovate, usually get backwards for the competition.

Purpose

The purpose is becoming a very important decision for companies since customers and investors are increasingly valuing this aspect. There is a growing number of purpose-driven companies, however, the concept of purpose, as a mainstream, is recent and unexplored.

In 2018, in his annual letter for CEOs, Larry Fink approached the Sense of Purpose, in *Larry Fink, BlackRock, Inc. (2018) "A Sense of Purpose"*, he said, "Without a sense of purpose, no company, either public or private, can achieve its full potential." Without a clear purpose, BlackRock's CEO believes that companies will keep looking for short-term objectives, like annual profits and shareholder distribution, instead of focusing on long-term growth.

In the article *George, G., Haas, M. R., McGahan, A. M., Schillebeeckx, S. J. D., & Tracey, P. (2021). Purpose in the For-Profit Firm: A Review and Framework for Management Research*, the purpose intention can be divided into goal-based and duty-based purpose. The goal-based intends to reach the objective, the purpose is created to achieve the goals of the firm.

Companies restructure their mission statement, vision, strategic intent, values, service, and stewardship to meet the newly established purpose. According to the same article, the duty-based purpose happens when the companies really incorporate the purpose in the company ethics and moral positions, when the company goal changes to a specific target like "make the world greener". This means that the base of the company changes, shifting the vision, the social service, and the stewardship, putting their purpose at the centre of their actions.

According to *George, G., Haas, M. R., McGahan, A. M., Schillebeeckx, S. J. D., & Tracey, P. (2021)*, the process of implementing the Purpose in the organization is divided into several steps, like framing, mission statement, formalizing, embedding, structuring, governance, realizing, value creation and multiple stakeholder impact, which is the main objective of purpose-driven companies.

The purpose is a broad representation of the objectives of the firms and when it represents a positive and meaningful message or a change for all its stakeholders, like customers, employees, and investors, it becomes great leverage for companies in every aspect.

The purpose is something that varies according to the leaders' objectives like it states Porter, Michael E., and Mark R. Kramer. "Creating Shared Value." *Harvard Business Review* in the sentence: "policies and operating practices that enhance the competitiveness of a company

while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress”.

Stakeholder Theory

In 2019, in Business Roundtable, 181 CEOs released a “Statement of Corporate Purpose” (<https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>). In this statement, they were committing to become more aware of the overall stakeholders, instead of targeting annual profit for shareholder distribution and commit to start looking to the overall picture, namely employees, suppliers, and local communities.

This perspective was reached out, since with the changes over time we are seeing that companies can be even more productive and profitable with the whole engine working, by engaging with everyone that is involved in the business. The increase in this awareness has been pushing companies to be more careful about everyone around them. In line with this, companies are running surveys to clients and suppliers looking to assess their performance. On the other hand, companies are fighting to be ranked as the best place to work, by providing different characteristics and freedoms to the employees and engaging more and more with the local communities, supporting community projects, and presenting the company to its neighbours.

As Archie B. Carroll explains in the article “Carroll’s pyramid of CSR: taking another look”, the pyramid is a sustainable stakeholder framework. This framework highlights the need for the companies to rank their responsibilities from the basis to the top, ranked by Economic, Legal, Ethical and Philanthropic responsibilities. According to the pyramid, companies prioritize their responsibilities, pursuing their own needs.

We can see the change in how the companies are starting to present themselves, even in the fossil fuel industry. We have the example of Galp, which recently presented a new purpose that aligns with all its stakeholders, where the main message is “let’s regenerate the future together”, further divided into 3 main areas “Reshape the portfolio”, “Refresh relations” and

“Reenergise our people”. This is one material example of the change of corporate objective to involve everyone in the businesses.

The 10 United Nations Guiding Principles

United Nations, or specifically United Nations Global Compact, has created a set of guiding principles to provide the most possible organized way information to companies and CEOs. Through these principles, United Nations aim to support business awareness and actions toward sustainability, by using more sustainable strategies aligned with the main principles. As we can see in their communication channels (<https://www.unglobalcompact.org>), where we can access the most recent projects that they have been involved in, but also their mission and their mottos.

The 10 United Nations Guiding Principles are a set of directions that companies should follow to create their strategy respecting Human Rights, Labour, Environment and Anti-Corruption.

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Principle 4: the elimination of all forms of forced and compulsory labour.

Principle 5: the effective abolition of child labour.

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges.

Principle 8: undertake initiatives to promote greater environmental responsibility.

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Sustainable Development Goals (SDGs)

The United Nations has also developed a set of SDGs, which means Sustainable Development Goals, a list of objectives that the United Nations aims to achieve, that we can find in (<https://www.un.org/sustainabledevelopment/>)

The projects under development, as well as, the Guiding Principles defined aim to support the achievement of these 17 goals, which are seen as fundamental for environmental and social, equality and prosperity.

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Water
8. Decent Work and Economic Growth
9. Industry, Innovation, and Infrastructure
10. Reduced Inequalities
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land

16. Peace, Justice, and Strong Institutions

17. Partnership for the goals

Nowadays, most corporate sustainability reports are driven by these 17 goals. According to their activities and capabilities, companies usually select three to four goals, that are directly related to their businesses, to address in the report.

This is a better way to specifically address the most material sustainability-linked topics of the companies. Since it is important to focus in the SDGs that they are able to directly influence and have a real contribution to them. Instead of defining a broader target of Sustainable Development Goals, losing focus and reducing its effective contributions to pursuing the goals. In fact, a company focus on all the SDGs but is incapable to address these goals (e.g., due to the lack of resources) can be seen as greenwashing, which is worse than doing nothing most of the time.

Child Labour

Child Labour is a problem that jeopardizes millions of kids, from a long time ago and it is one of the issues that the United Nations have been trying to solve. According to Rena, R. (2009). *The Child Labour in Developing Countries: A Challenge to Millennium Development Goals*, child labour is a risk for the healthy development of children.

According to the cited article, child labour is not bad only for children but for the countries' economies also. If families could support their children in school for a few more years, instead of taking them due to the need to ensure the household income, they could have a much better life and increase the future household income for the next generations.

Unfortunately, according to the ("Global Estimates of Child Labour", 2017) prepared by the International Labour Organization (ILO) in 2017 were 152 million kids in the situation of child labour, and of those 73 million were in a situation of hazardous work.

OF THE 152 MILLION CHILDREN IN CHILD LABOUR

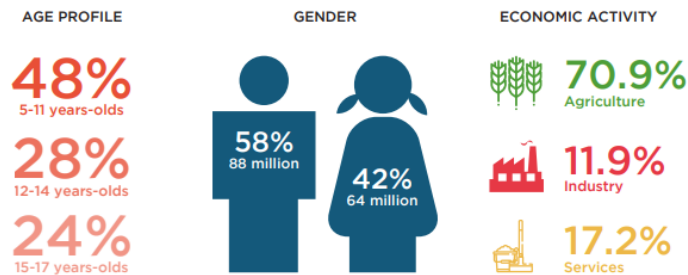


Image from the Global Estimates of Child Labour – International Labour Office

In the paper, *The Child Labour in Developing Countries: A Challenge to Millennium Development Goals* it is presented the poverty trap theory, however, it is not further developed.

In the book, Banerjee, A., & Duflo, E. (2012). *Poor economics*, this theory is developed and gets proved that poverty traps are a real scenario. According to the book, families, where children are subjected to child labour, tend to be trapped in poverty, since they miss school and cannot get better jobs. This poverty trap happens because families have the need to increase the household's income in the immediate moment and prioritize that because they are afraid that bad crops break the family household.

In the mentioned book, Banerjee also outlines that the lack of financial knowledge, to organize their household budgets, due to the lack of education leads families to accumulate huge amounts of debts, that they can't pay in the future. For example, in India families get into high debt to pay for weddings and funerals, putting high mortgages in the family's household expenses. Leaving families with no other solutions despite putting as many people as they can working on their crops or working for others.

Impact Accounting

Impact Accounting is an expression that derivatives from the Impact-Weighted Accounts (<https://www.hbs.edu/impact-weighted-accounts/Pages/default.aspx>), which is a project that has been developed by Harvard Business School, led by professor George Serafeim. This project aims to account for the positive and negative impact of the economic activities of

companies, like the environmental, social or product impact. The objective is to create a set of rules for Financial Statements for companies to incorporate these impacts since they consider that managers don't give the importance needed to these issues.

Harvard Business School believes that without clear metrics on the impacts that companies have on the environment and society, companies will continue to ignore these impacts in their pursuit of profits. To give importance to these impacts we need to monetize them and include them in the financial statements of companies, this implicates the creation of relatively new financial statements rules, where these are included. It is clear the challenge of attributing a monetary value to every impact is a long and complex task since it needs to be done with some assumptions, that may not be consensual.

According to Serafeim, G., Zochowski, T., & Downing, J. (2019). *The Missing Piece for an Impact Economy*, the importance of the Impact-Weighted accounts represents the opportunity to change the way how we measure the impact of companies. This opportunity is based on four main elements, the opportunity to bring the impact of the ESG metrics to the investment markets, which will provide more informed decisions to the shareholders. Since Serafeim believes that in the future only sustainable companies with high sustainability standards will prosper.

This represents an opportunity to give more tools to managers to make better-informed decisions since, with better information on the real impact, managers can adjust their strategies and have better performance. This can strengthen the incentives, with the existence of a real and more transparent notion of the impacts, companies will attract more investors, government, and consumers' attention to their practices, which can be reflected in more capital investment, tax advantages due to good practices and better sales performance. The last is monetizing the impact, this project will provide us with the inclusion of these impacts in monetary terms, which will gain new and bigger relevance in the statements.

As described before the impact of Carbon emissions has been studied for a long time due to climate change that is becoming a key topic in the world. Under the impact accounting umbrella one of the topics that are hard to reach is how to account for the impact of companies since some of them are multinationals that buy their parts from smaller manufacturers, just put them together and sell them. These processes that I described almost only consider the impact of the dislocation of the components to the factory, the energy used and the dislocation of the final product to the store.

In the Ratnatunga, Janek T. D., and Kashi R. Balachandran. "Carbon Business Accounting: The Impact Of Global Warming On The Cost And Management Accounting Profession". *Journal Of Accounting, Auditing & Finance*, it is mentioned how should be considered the impact of carbon emissions, from the beginning to the end, from the extraction to the consumption. The impact of these emissions should be measured by-product, since using this strategy we can easily allocate the damage to a certain amount of product. It is also very important to account for the impact from the beginning, the extraction of raw material, during the process the transportation, the energy used in all these stages, until the distribution to the stores and emissions related to the store's maintenance.

The previous article also mentions another very important perspective that can only be applied to the environmental side of impact accounting, which is the possibility of the trade of carbon credits or bonds. Where a company or a country, can trade these bonds if they have fewer carbon emissions than they are allowed. They can sell those and the countries with more carbon emissions than allowed can buy them, these means that the countries that guarantee the commitment are rewarded.

Impact of Human Rights

As Chapman, Cooper and Miller (2009) said that "Accounting is too important to be studied only by accountants!" and a bigger accounting knowledge is very important in the world, it would help to understand the importance of the accountability of these impacts.

The UN is working on Guiding Principles for the accountability of the impact of Human Rights and in the past few years with the investment of funds and human resources by companies and governmental organizations have been increasing and is expected to continue to increase, according to Ken McPhail and John Ferguson (2016), "The Past, the Present and the Future of Accounting". According to the study from the previous article, only half of 117 companies had developed indicators and tracked the human rights standards inside the company and only 22% had felt that there was a human rights remediation when those were discovered.

The human rights violation is a problem that occurs everywhere in the world. We are used to looking only for underdeveloped countries, where we have news of different types of Human

rights violations, like child labour, exploitation, low working conditions and even slavery still exists. According to the Global Slavery Index in 2016, there were around 40.3 million slaves in the world, but there are problems everywhere.

In the year 2021, were detected thousands of immigrants, some of them illegal. They were working in the greenhouses, for wild berries crops, at Alentejo, in Portugal, people that worked for many hours, receiving less than the minimum wage. This represents a huge case of exploitation, taking advantage of people that were needed.

Gender inequality is another right that is violated everywhere in the world. According to UNICEF, worldwide 1 in 4 women between the age of 15 and 19 years old don't go to school or work, while this ratio for men between 15 to 19 years old is 1 to 10.

At the same time, there are cases of child labour in India, where kids need to work to keep the family household income stable for the sake of a problem, or disease or to help to feed the younger members of the family.

The Human Rights are a very sensitive issue, that is very hard to qualify and quantify. But it is urgent and important on it as the previous article mentioned, that needs to be worked on as soon as possible.

Research Questions and Hypotheses

Research Questions

The research question “How to account for the impact of Child Labour” is already being studied in a global context since the Impact-Weighted Accounts are being developed. However, since this represents a very long and hard study, there are being developed answers for the environmental impacts, like the CO2 emissions or land deterioration, and social impacts mainly from employees, like the wage quality, the health of employees and the gender equality. But the area of human rights is still more unexplored, specifically the child labour since those are very sensitive topics.

That is why my main research question is:

How can companies account for the impact of Child Labour?

This is a topic quite unexplored, despite that, I believe that IWA project has already a prevision to release some information, but don't have anything published yet. There are a few research questions that I want to see answered in order to get the final result to my main question. But all of them are related to the importance and urgency of quantifying the impact of Child Labour, in the same perspective as Impact Accounting. So initially, the study is more qualitative, then is a request for approval to the method that is used by Impact accounting, explained previously and then is the real quantitative part of the accounting.

- 1 - How important is it to account for Child Labour (for consumers)?
- 2 - How can companies reflect the impact of Child Labour?
- 3 - How can we account for Child Labour?
- 4 - How can multinationals guarantee that the sub-contractors follow their rules? And that their reports are real?

Hypotheses

The first question wants to evaluate the importance and urgency of accounting for the impact of Child Labour, there are of course two options if it is important so we can continue with the study.

H1 - If the respondents consider that it is not important to study the topic the process is finished and we don't need to account for it, I should drop the study and move to another topic or change the scope.

H2 – If the results said that it is an important issue to account for, we need to follow through with the next questions, looking for a result.

The second question requests an opinion about how to quantify the impact of child labour if it should be by an equivalent method, like ESG standards, or through impacting the financial statements, like the impact accounting method, or even another different way.

H3 – If the respondents answer that it should be calculated as an ESG metric, and not impact companies' financials or in other different ways. The study should not continue, or it would need to be done with a change of the initial scope.

H4 – If the respondents consider that it should be calculated by attributing a monetary value to the impact that would impact the financial statements, the study should continue in order to achieve results.

The third group of questions to answer it is if we can account in figures, using the responses from people and the method that I choose. If the value that we get is considered a good response to the research question or not.

H5 – In the third group of questions, we can consider it robust or not. However, the accounting of the impact is the main objective of the study, which means that there are no hypotheses to end the study at this stage.

The last question is how to fight against the multinationals escaping from the impact of the sub-contracted companies. I am giving for the possibility to order the ones that the respondents consider more interesting and analyse the responses. This question is not dependent on the previous one and it does have any other dependent on her, so:

H6 – The final question, which is more related to how we can make the multinationals stop running from the impact of the sub-contracted companies, that produce those products in developing countries, where child labour is detected, there is no further hypothesis to consider, despite the ordination of the respondents' choices.

Data and Methodology

Research Design

The main purpose of this thesis is to get how companies can account for the impact of child labour and to achieve an answer I had to consider why I should achieve this value. So, I assume that it is important to have a range of responses to a few questions that I have for managers or accountants or people in the area that may implement these accounts in their statements today or in the future and to consumers in general.

The method that I have used was to do an online questionnaire and combine that with the research that I have done and the factors that should consider. The questionnaire was developed and shared with the Qualtrics tool, with a Portuguese and an English version.

The objective of this questionnaire was to get 200 sample answers at least, to have a robust number of answers and compare with other studies already made to present a final outcome.

Questionary

The questionnaire had the primary objective to collect the opinion of people about this issue, to get a primary example. It was developed in Qualtrics, which provides some extra tools that facilitate the questions construction and the logic order for the inquired people when it is asked to attribute values to the different factors or order by preferences.

The questionnaire was shared via link using mainly social media, for example, via LinkedIn, WhatsApp and other social media, to reach as many people as possible, to get as many answers as possible. The respondents covered in these social media and some from direct contacts are in the accounting and management area which is great for the type of respondents procured.

Methodology

My objective was to analyse the importance of the accountability of child labour. Which is a simple way to introduce the topic and emphasize its importance.

The methodology selected was to do qualitative research firstly, analysing how important and urgent is the study of impact accounting. Using a 0 to 10 (0 not important and 10 very important) valuation the objective is to get a degree of importance of the topic. Then the approval of the method that I pretended to use, was a confirmation of the study idea.

Then according to 5 factors:

- Education Deprivation
- Future contribution to Society
- Health and Well-being
- Risk of Death (dangerous work)
- Loss of leisure time

The objective was to get for each factor a percentage of importance for respondents totalizing 100% and a monetary value to attribute, for example as a fine, for each factor. The multiplication of the percentage and the monetary value of each factor, summing the 5 factors would give the total fine to apply in the companies for each case of child labour detected or with high probability.

1. *percentage of importance* × *monetary value(fine)* = *Value per factor*
2. *Value per factor 1* + ... + ... + ... + *Value per factor 5* = *Value of the impact*

The formulas above represent firstly the combination of the percentage attributed with the monetary value, which gives us the value per factor. Then the second represents the sum of the values per factor for each of the 5 factors giving us the value of the impact.

Analysis of Results

Sample Size

The number of results to the questionnaire was lower than expected since the initial expectation was to collect 200 answers. The answers level was achieved but from those around 200, only

125 were completed. This can be considered normal and easy to explain since the questionnaire had a level of difficulty higher than the majority of the questionnaires. The topic is more sensitive than usual in the questionnaires and the questions made required some mental exercise for the respondents, which explains the dropout rate.

The short number of answers and the level of difficulty of the questionnaire can be seen as good or bad. The low number of answers means that I don't get as many opinions as I wanted. But it can also mean that the ones that answered did it consciously and concentrated, so they would not get it until the end. However, it does not clear the fact that it is a small sample representative.

The network where it was distributed is a positive aspect. Since the network where the questionnaire was distributed is mainly from the accounting and management area or similar areas. The LinkedIn connections and other contacts were very turned to those areas, due to my academic background in Accounting and Administration. There is expected that more than half of the sample study or work in a management area or similar areas.

Biographic data

According to our sample biographic data, we can assume that the bigger share of answers came from the people with ages between 18 and 34 years old, which are the managers for the future generation. The other half of the answers are from the population is from people between 35 and 65 years old, which can contribute to more mature opinions. The sample also tells us that 2/3 (two-thirds) of the answers are from females and 1/3 (one-third) from males, which can corroborate that women are more interested in social issues. The age and gender of the respondents do not present any major concern, even though would be better to have a 50/50 male and female answering the questionnaire.

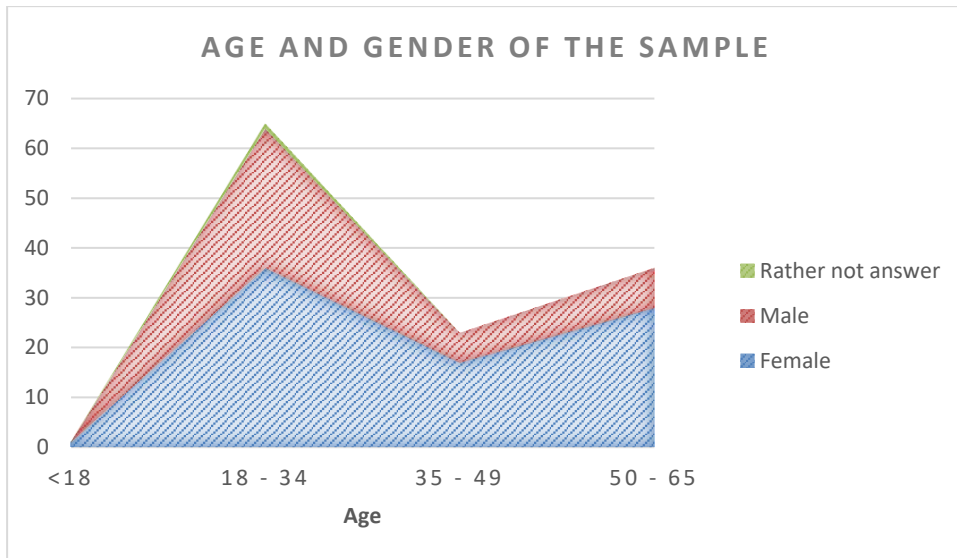


Figure 1- Age and gender of the sample

Regarding the education level and background, the results show us that 2/3 of the respondents have higher education degrees or still are studying it (bachelor's, master's or post-graduation). Also, more than half of this sample works in the management area or a related one. This shows us that a big part of the respondents is conscient of their responses.

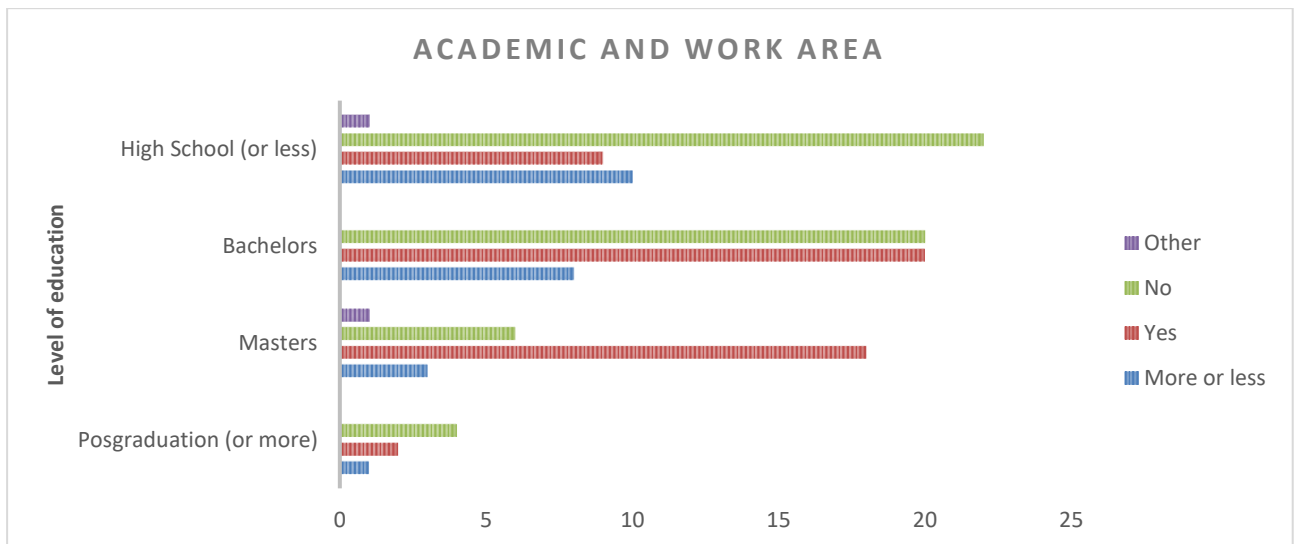


Figure 2-Academic and Work areas

In the residence of the respondents that are not much distribution. Since around 89% of the answers were from people living in Portugal and the other 11% from foreign countries. This

doesn't mean exactly that 89% of the respondents are Portuguese, some of them can be international students.

	Respondents	Percentage
Foreign countries	14	11,20%
Other	10	8,00%
Germany	2	1,60%
Spain	2	1,60%
Portugal	111	88,80%
Total	125	100,00%

Table 1- Residence of the respondents

The importance of the calculation of the impact of Child Labour

Then the survey started analysing the importance of the calculation of the impact of child labour. Starting by seeing people's opinion about the importance of it and the urgency of this study.

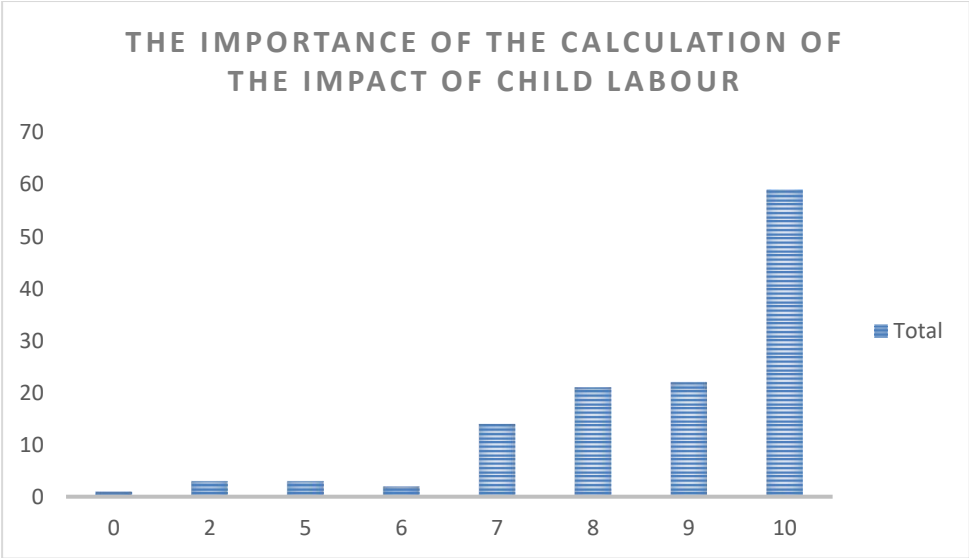


Figure 3- The importance of the calculation of the impact of child labour

As expected, the majority of the sample considered that the impact of child labour is a study with a lot of importance, with values of 7 or higher, from 0 to 10. Almost half of the sample

answered 10, considering it as very important. This means that people have cared and that the study should proceed.

Then the question was also in a 0 to 10 scale, what is the urgency of this study.

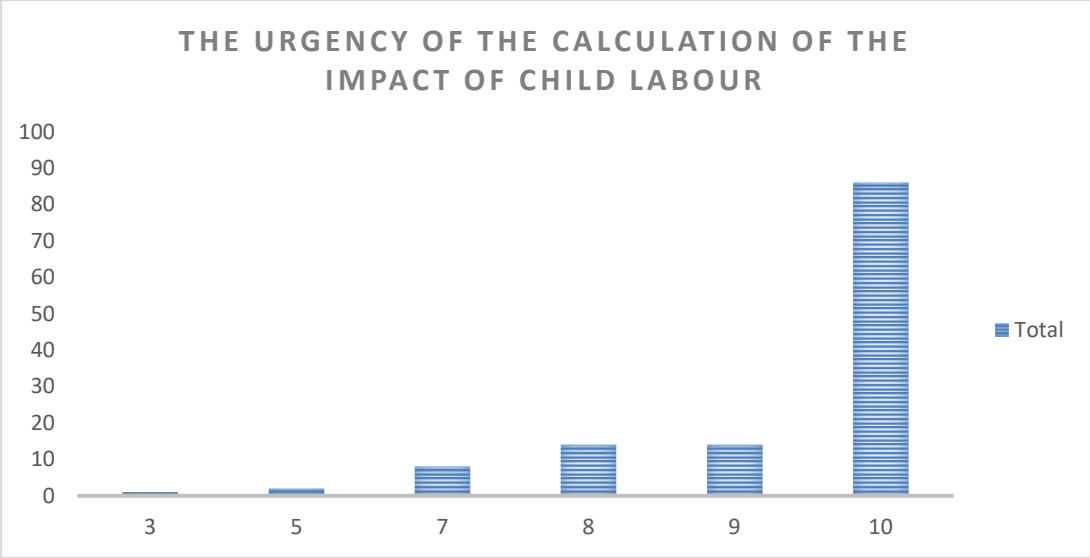


Figure 4- The urgency of the calculation of the impact of child labour

The results related to the urgency for the development of a method to calculate the impact of child labour showed an even stronger consistency, compared to the importance. Since 2/3 of the respondents believe that it is very urgent to study this issue.

This means that we should move through Hypothesis 2 and proceed with the study of the topic. Since Hypothesis 1, was the dropout one, in case of no importance. The result of the first question point to the evaluation of the importance of accounting for the impact of Child Labour. In the last 2 questions, the respondents present very strong results, which means that the analysis of the survey results should continue for the next questions ahead.

How do you consider that child labour should be accounted?

After the initial questions evaluate the importance and urgency of the topic. The survey aims to understand the respondent’s opinions about how child labour should be accounted for. There were presented two main options and a third “other” that could include a suggestion for a method. The first one was to integrate the impacts accounted for in the financial statements of the companies like impact accounting does. Impact Accounting as was explained previous has the objective to develop a financial framework that includes the social and environmental

impacts. The second option is to not integrate and the creation of an equivalent model. Like the ESG metrics using a set of indicators to evaluate the impacts of companies, without any monetary value related. There was also the possibility to answer others and to make their own suggestions.

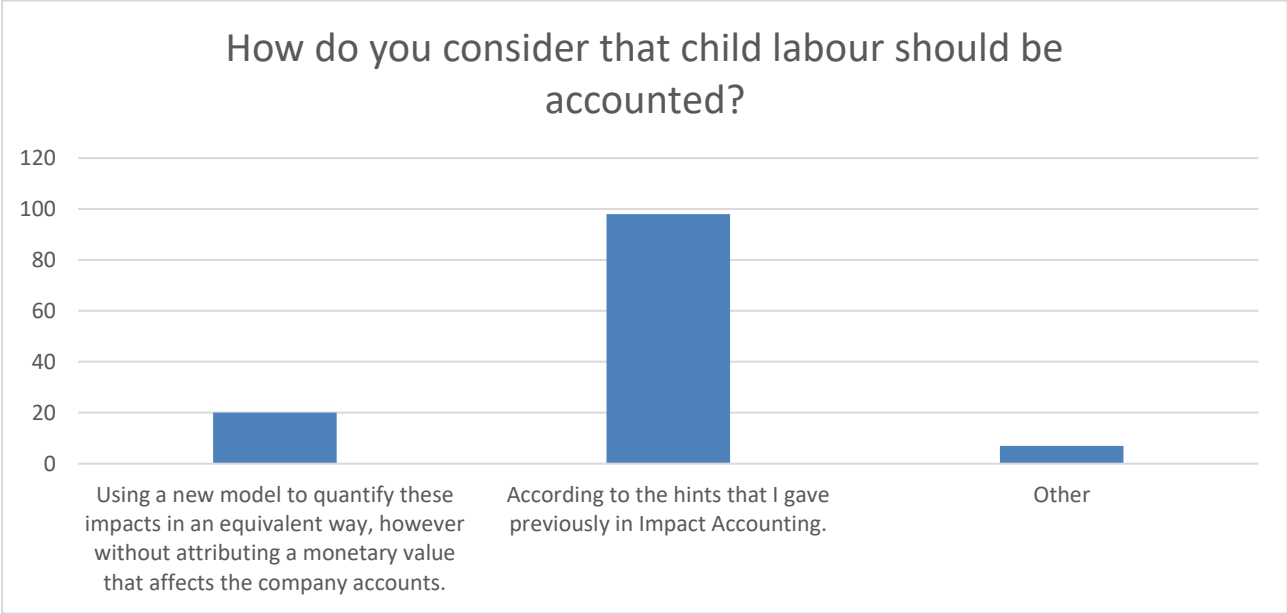


Figure 5- How do you consider that child labour should be accounted?

The majority of the respondents consider that the impact of child labour should be accounted for by the terms of impact accounting, attributing a monetary value to this impact. Since with a model like this, the companies and all the stakeholders would feel the impact in terms of the financial statements. As well as attribute more relevance to the metrics evaluated. There is a smaller number of respondents that believe that it should be used as a model equivalent without attributing a monetary value to the impact, but as said before this would be only considering the indicators and not attributing real damage to the company's value.

This means that the study continues through Hypothesis 4 since the respondents believe that it should be considered a model where these problems affect the financial statements of companies. According to the results, hypothesis 3 does not have much acceptance, the respondents don't believe that a report analysing the sustainability indicators is enough for companies. Meaning that the study should continue to the next hypothesis.

How to account in figures the impact of child labour

Arriving at this question there is no other hypothesis, the objective of the study was this one. If the result is pleasant or not it does not really matter since the final objective was to get to a number, to attribute to the issue.

In order to account for the impact of child labour, the first question asked is related to the attribution of importance to 5 factors, attributing a percentage to each one to complete 100%. The 5 factors are the ones analysed before; they are:

- Education Deprivation
- Loss of leisure time
- Risk of Death (dangerous work)
- Health and Well-being
- Future contribution to Society

Education Deprivation	Loss of leisure time	Risk of Death (dangerous works)	Health and Well-being	Future contribution to society	Total
35,54%	11,80%	20,06%	23,66%	8,94%	100,00%

Table 2- Percentage of importance of the 5 factors

The objective of this question was, as explained, how the respondents classify the importance of these problems in terms of Child Labour. These 5 factors have a negative impact on children and society, so using these answers we can assume which are the most relevant for people. The percentages of each factor constitute an average of the responses collected.

According to the responses, the most important factor is the Education Deprivation, which is one of the main concerns and it represents a poverty trap as “*Poor economics*” by *Banerjee and Duflo* explains. After the Education Deprivation, the factors that the respondents consider more important are the Health and Well-being and the Risk of death, in dangerous jobs, which is a normal answer due to Maslow's Hierarchy of Needs, since those are human being nature the ones that are on the top of our priorities. To finish, the factors considered less important are the loss of leisure time and the future contribution to society, which again are the ones respecting the Maslow Hierarchy of Needs. The Education Deprivation is the only of the five factors that are not aligned with the Maslow Hierarchy of Needs, this probably is related to

the fact that the respondents of the questionnaire are from developed countries and are considering first that kids need to be in school because the other basic needs are normally fulfilled in their environments. Something that does not happens in developing countries where child labour is more common.

Then the respondents attributed a financial value to the five factors prior identified. From 1 to 100 thousand euros (to avoid outliers), for how much they would fine a company in a highly suspect or proven case of child labour.

Education Deprivation	Loss of leisure time	Risk of Death (dangerous works)	Health and Well-being	Future contribution to society	Total
48,02 €	24,80 €	44,00 €	38,37 €	20,76 €	175,95 €

*in thousand Euros

Table 3- Monetary value for the 5 factors

The monetary values presented for each factor constitute an average of the responses. Once again like the values attributed in the previous question, the factor considered more important is the Education deprivation, however very close are the Risk of Death and the Health and Well-being. This means that in the attribution of a monetary value people were less constrained by their own environment (of a developed country). Attributing more importance to the health and death issues compared to the previous percentage exercise. The two factors with the lower monetary values attributed were the loss of leisure and the future contribution to society also following the same rationale as the percentage exercise.

The sum of average values attributed by the respondents is around 176 thousand Euros, however, this is not the result to attribute to the impact of child labour, according to the method chosen.

Because then the objective was to combine the average percentage attributed with the monetary value attributed to each factor. Multiplying the percentage and the value for each factor and then summing the 5 factors in order to get the final result.

Education Deprivation	Loss of leisure time	Risk of Death (dangerous works)	Health and Well-being	Future contribution to society	Total
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35,54%	11,80%	20,06%	23,66%	8,94%	100,00%
48,02 €	24,80 €	44,00 €	38,37 €	20,76 €	175,95 €
17,07 €	2,93 €	8,82 €	9,08 €	1,86 €	39,75 €

*in thousand Euros

Table 4- Final calculation of the impact of Child Labour

The results from the table above represent the final takeaway of the value to attribute in the financial statements of companies in case of child labour cases or high probability. The combination of the mean percentage of importance that people attribute to each factor combined with the mean value attributed to each factor constitutes the final value.

The final result was 39.750,00€, which is the value that should be applied for each case or high probability case of child labour identified. The 39.750€ of negative impact should be considered a low number from the perspective that the bigger and more international the company is, the probability increases of detecting cases of child labour in their supply chain and at the same time increases the value of the company and their balance sheet. This means that the negative impact created by the 39.750€, that these companies would have on their balance sheet is not going to be very harmful to them.

How can multinationals guarantee that the sub-contractors follow their rules? And that their reports are real?

The objective of this final question was for the respondents to ordinate which actions would have more influence in the companies reporting of the child labour issues.

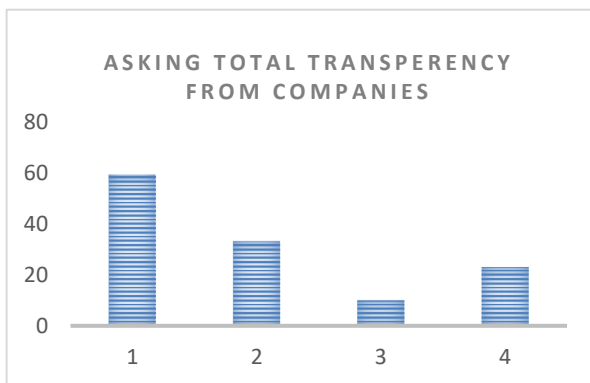


Figure 7- Asking total transparency from companies

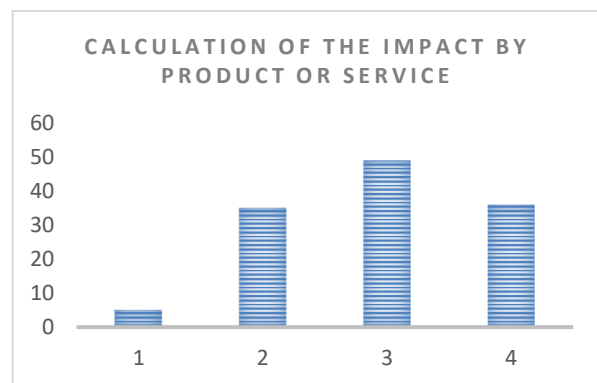


Figure 6- Calculation of the impact by product or service



Figure 9- Use part of the reports for their subcontracted companies

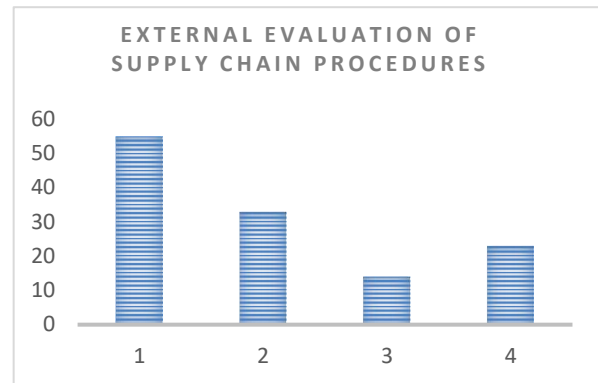


Figure 8- External evaluation of the supply chain procedures

According to the activities identified to increase the accountability of companies for their subcontracted companies. The one considered more important for respondents is the request for transparency from companies and their supply chains. However, very close in terms of answers is the external evaluation of the supply chain procedures, the external visibility/transparency would be important for the respondents. The calculation of impact by product or service and the use of part of the annual reports to report about the subcontracted companies did not get as much importance according to the results.

The evaluation of the impact of multinationals in the countries where they have operations for their supply chain is something that has been tackled for a long time due to the difficulty of the task. The article from Kenneth M. Amaeshi, Onyeka K. Osuji, Paul Nnodim, (2008) “Corporate Social Responsibility in Supply Chains of Global Brands: A Boundaryless Responsibility? Clarifications, Exceptions and Implications” seems to speak about a topic that still in discussion. As these sentences say: “There seems to be a widespread agreement on some form of corporate responsibility for social issues. Nevertheless, the critical question is how to define or limit the scope of such responsibility within the context of the operations of MNCs.”. This means that the main question is when the Multinationals can be responsible for the operations of subcontractors thousands of miles away, and the focus of my research question is how they can be more accountable for those operations.

Summary of results

The greatness of the study was to get the biggest number possible of opinions about the topic, so I cannot be completely satisfied with the final number of responses. However, there are positive notes like that a big part of the respondents is related to the Accounting and Management area. This means that despite small the sample of the study it is expected that many of them had already contact with the topic of the study.

The main goal was to achieve a number that we could attribute to companies that could be reflected a negative impact on their financials. However, the results achieved do not present robustness enough and only can be used as an example of a method to be used. The global objective was to explore people's awareness and at the same time materialise the problem by providing some examples of a value to attribute. This means that only half of the target was achieved since it is very important to take advantage of every opportunity to talk about the child labour issue because makes people more subject and closer to the topic. The increase in awareness is something that I was not quantifying but for sure had good results, due to the number of feedbacks that I had, showing interest in the topic. In the past few years, the world population have been other problems like pandemics and financial crises, which leaves the kids that are in these situations even more exposed to the problem.

The final value that the study concludes that should be applied to companies where child labour was detected or that is a high probability of existence is 39.750€. However, we can consider this value from a different method, for example, apply this value for each case detected. If there are detected 3 cases of suppliers that have a high probability of Child Labour, the value is multiplied by 3. But using this method the impact on big multinationals would not be very relevant:

$$39.750\text{€} \times 3 = 119.250\text{€}$$

However, there are other methods that we can use to achieve value to apply to companies. For example, we can calculate the impact according to the revenues of companies. Apply the 39.750€ for each million of revenues. For example, a company with 50 million in revenues would have an impact of:

$$39.750\text{€} \times 50 = 1.987.500\text{€}$$

Using this second method the value to apply to companies is more relevant in the accounts, as well as is related to the company size and activity.

The respondents of the surveys believe that multinationals can account better for the impact of their subcontracted companies and their supply chains if there is more transparency from companies and their supply chains. As well as since the full transparency it is something very hard to prove they propose the external evaluation of the supply chain procedures as expected other very important measures. The factor of transparency is present in both options, however, the first is for free will and choice and the second one is forced since it is using external evaluation, being the one that is more feasible of producing good results.

Future Research

The results of the research were good and aligned with the expectations in terms of qualitative analysis. The responses are aligned with the mentality needed to solve this huge problem, the theoretical part and willingness to change are great and good principles.

However, the quantitative part of the study was not much aligned with the results that could come out from a study like this. The impact of Child labour in the terms of Impact Accounting is an unexplored topic by George Serafeim, at Harvard Business School. This means that at the beginning of my study there were no main sources of information on Impact accounting, as well as I had no information about how to impact child labour. The work that I have been developing in this document comes from a blank page and the combination of other studies and reports. Like the choice of factors to attribute and the method used to quantify was the developed by me merging these different sources of information about responsible business, impact accounting and others.

Since the quantitative results of the study were not aligned with the ones expected, the objective of this study should be a starting point for future ones. The next person who investigates the topic does not start with a blank page and learns from the errors already committed in this one. For example, the use of public opinion is an aspect to consider since we are talking about such a sensitive topic is a question that should have much more discussion and have people much more concerned in thinking about the topic and the answers. Should I consult public opinion? Should I consult a selected group of people? Or should I consult a set of investigators on similar topics? These type of errors are the ones that are normal and sometimes need to happen to get the right perspective on the problem.

My future considerations for future studies are to get used to a group of specialists instead of public opinion. My initial considerations were that I would use public opinion with the premise of having a bigger number of responses, which is why I have chosen that method. After I would consider going through a set of researchers to complement with information in each field. However, this represents a completely different set of connections, that a team of researchers working on this topic could get easier.

Therefore, there are a few topics that I think need to be considered in future research which is why I am proposing them as a new or continuation of the study, to reflect on points like:

- Analysis of the 5 factors considered (add, remove or change).
- Evaluate if the method of combining a percentual value to the monetary value to attribute to each factor is the best one.
- Connect with researchers in various fields to collect more feasible results in terms of percentages and values for each factor.
- If it is more important to have the last research question asking for how multinationals can guarantee transparency in their supply chains or if it should be closer to the topic presented in the article showed, how liable should be multinationals to the supply chain operations.

Conclusion

The study developed for this thesis was very fruitful, due to the wide range of topics that I have read about. Some of the readings were fundamental for the choice and development of the topic, others not much. But in every reading, I was learning something and comparing the discoveries from those articles to the ones that I was looking for in my study, always looking to keep improving the final research.

The overall process of the thesis development was not amazing. The topic is truly interesting and unexplored, but that constitutes a huge problem for me in terms of the lack of that information and the difficulty to get access to relevant information. The main factors that motivated me throughout all the process were the interest that the topic created in me and in the others with who I discussed it, the urgency in solving the child labour problem and increasing the awareness of people about it.

The results of the study should be divided into 2 parts:

- The qualitative part where it is evaluated the importance and urgency of people about the topic and the methods to use.

In this part, the results were according to the expected and people are aware that this is a huge problem in the 21st century, that should be solved. The respondents of the surveys showed urgency and concern about the issue. Believing that should be taken measures to fight this issue, that is why I had the second part:

- The quantitative part was the value and percentage to apply in each factor, to combine them in order to get a final result.

In this part, the results are not as much robust as pretended, due to the lack of answers. The respondents were not chosen according to their specific needs, so I believe that the answers do have not that much value. However, the majority of the respondents' study or work in the Accounting and Management areas.

To conclude, the main objective of the study was achieved. Since it was to evaluate the urgency and importance of this study and at the same time the attribution of a value to impact the companies when detecting this problem.

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