



**CATÓLICA
LISBON**
BUSINESS & ECONOMICS

**IS ENGAGING IN
CORPORATE SOCIAL
RESPONSABILITY ENOUGH?
WHAT COULD COMPANIES DO IN ORDER
TO INCREASE THE SHARED VALUE
TRANSMITTED TO STAKEHOLDERS?
THE EDP CASE**

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ABSTRACT

Thesis title: Is engaging in Corporate Social Responsibility enough? What could companies do in order to increase the Shared Value transmitted to its stakeholders?

– EDP Group and EDP Foundation

Author: Luiza Trompowsky Taulois de Azevedo

The main aim of this dissertation paper is to study how can companies create Shared Value (CSV) to a given community, by engaging in Strategic Corporate Social Responsibility (CSR). The problem statement relies on questioning if CSR is the best solution to provide CSV or if there must be something else a company must do, namely, create a special segment in order to address this subject matter. In order to comply with the objective of explaining the problem statement, a study case was built with EDP Group, the leader in the energy sector in Portugal, as well as its Foundation; EDP Foundation, leader in the tertiary sector in the same country. The case study is important to analyze if the companies which address CSR are delivering the shared value desired by society, or if it would be better for them to address CSR by the means of a Foundation, or a different entity, that deals solely with the tertiary sector.

The structure of this dissertation consists in five main chapters: (1) Introduction, referring to aim, scope and methodology that will be used in the dissertation paper; (2) Literature Review, addressing the academic background for CSR, Strategic CSR and CSV; (3) Case Study, presenting EDP Group and EDP Foundation; (4) Teaching Notes, discussing the case study while implementing theory to the given questions, as well as providing the guidance Professors will need to conduct the study case to students; (5) Conclusions, Limitations and Future Research, that mainly discusses the relevance of taking a strategic and shared value approach to CSR.



RESUMO

Título da tese: é suficiente apenas se envolver em Responsabilidade Social Corporativa? O que as empresas poderiam fazer para que aumentassem o valor transmitido para seus stakeholders?

- Grupo EDP e Fundação EDP

Autor: Luiza Trompowsky Taulois de Azevedo

O objetivo principal deste trabalho de dissertação é estudar como as empresas podem criar valor compartilhado (CSV) para uma determinada comunidade, envolvendo-se em Responsabilidade Corporativa Estratégica Social Empresarial (RSE). A declaração do problema depende ao questionar se a RSE é a melhor solução para fornecer CSV ou se deve haver algo mais que uma empresa deva fazer, nomeadamente, criar um segmento especial, a fim de resolver este assunto. Para cumprir com o objetivo de explicar o tema apresentado, um estudo de caso foi construído com o Grupo EDP, líder no sector de energia em Portugal, bem como a sua Fundação, Fundação EDP, líder no sector terciário do mesmo país. No estudo de caso é importante analisar se as empresas que tratam RSE estão entregando o valor compartilhado desejado pela sociedade, ou se seria melhor para eles se conseguissem lidar com RSE por meio de uma fundação, ou uma entidade diferente, que lide apenas com o sector terciário.

A estrutura desta dissertação consiste em cinco capítulos principais: (1) Introdução, referindo-se ao âmbito objectivo e metodologia que será utilizada no trabalho de dissertação; (2) Revisão da Literatura, abordando a formação académica para a RSE, RSE Estratégico e Valor Compartilhado; (3) Estudo de Caso, apresentando o Grupo EDP e Fundação EDP; (4) Notas de Ensino, que discute o estudo de caso, enquanto implementa a teoria às questões apresentadas, bem como os passos necessários que os professores necessitam para poder conduzir o caso aos alunos; (5) Conclusões, Limitações e Pesquisas Futuras, que discutem principalmente a relevância de uma abordagem estratégica e valor compartilhado com a RSE.



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MOTIVATION AND ACKNOWLEDGMENT

The first time I heard about the academic term 'Corporate Social Responsibility' was during a class in the Masters' Program and, there, I wondered the real reason behind why companies would engage in such initiative. Considering my concern and interest on social work, I have always wondered if companies would address CSR because they really cared about the society, or rather, they would do it in order to boost the company's image or, in worse cases, hide taxes and/or other schemes. Questions like those arouse in my head until my curiosity about the topic was enough to research about CSR. During the research, I started to understand that the topic was even more interesting and complex, and, unfortunately, not everyone was aware of the importance that CSR has to companies and to society and yet, many see it as a simple marketing technique.

Therefore, I found the need to show to the unbelievers that CSR was indeed a good action and it was very important to the business world. In order to show them, and even to show myself, I had to make sure that I could find enough academic material in order to undertake this dissertation in the correct manner. Since it is quite a new topic, not much information is provided in a structured and comparable manner, but the need to let companies and society know about the importance that CSR can bring to them and to their own business helped me to continue working on it.

The motivation given by my Professor Susana Frazao Pinheiro, to whom I am deeply thankful for helping me realize the presented thesis although many times being located in remotes areas of Africa and with low means of communication, helped me see that there are great aspects about working in the tertiary sector and motivated me to continue the research. Also, I must deeply thank the special attention and dedication of time as well as the kindness given by Dr. Guilherme Collares Pereira, who showed me deep in his eyes the gratefulness that working in the social sector could bring to a person and for encouraging me to make a change to society in the future with my own hands, if possible.

To my beloved family, which is an example of a greater love and support, my deepest and most sincere thank you for the opportunity of providing me with such great opportunities of studies, and moreover, for the infinite support over moments of stress during the realization of this thesis. Furthermore, to my closest friends, which most of the times could not be physically present to support me and handle my desperate times, but had always the sweetest words of comfort in the hardest moments. Thank you all for the support given, and I hope one day I could reattribute the attention given throughout those months. I wish one day, in the near future, we could all see that our collaboration to society did make a positive change.



LIST OF ACRONYMS

CSR	Corporate Social Responsibility
CSV	Created Shared Value
EDP	Energias de Portugal
EDPF	EDP Foundation
LBG	London Benchmarking Group's Corporate Citizenship
SROI	Social Return On Investment
NEF	New Economic Foundation



INTRODUCTION

The present dissertation was developed in the scope of an Entrepreneurship and Development seminar for the Catolica Lisbon School of Business and Economics. The main aim of this dissertation is to study how Corporate Social Responsibility (CSR), when applied by companies in a strategic manner (Strategic CSR), could result in the creation of shared value (CSV) for the society it is targeting.

For the past couple of years, society has started to give more interest in the topics that concern the social sector, and therefore, demanding companies to act socially. Although society might be more concerned about the tertiary sector, that are still some authors that argue that this is not the correct thing to do. Friedman, for example, argues that corporations are not supposed to take care of social issues but instead; they should only maximize profits in order to serve their shareholders' interests (Friedman, 1970).

On the other hand, authors such as Carroll, suggest that the only way of achieving a long-term relationship with customers is by addressing issues that go beyond the company's main business. Furthermore, in order to address social issues there must be taken into consideration certain aspects of a company's resources and capabilities, so therefore, a strategically approach to the social sector could be introduced. Authors such as Porter and Kramer also defend that if companies choose a unique position – doing things differently from competitors – strategic CSR is engaged and therefore, it moves beyond a good CSR and creates shared value with society (Porter & Kramer, 2006).

In order to better explain this given topic, a more detailed introduction of the topic is presented in the Literature Review - "a descriptive, non-numeric way to collect and interpret information" (White, 2000, p.28). Therefore, a qualitative research was conducted in order to explain the necessary background the reader should have. Throughout the realization of the dissertation and the Literature Review, couple of questions regarding the topic of CSR, Strategic CSR and CSV arouse.

What is the concept of CSR? How can a company integrate CSR into its own strategy? How can a company achieve Creation of Shared Value?

To address these questions as well as the topics given above, the methodology used to better understand and answer these questions was the adoption of a case-study approach. As the focus of this dissertation is to try to understand a contemporary phenomenon, such as CSR, the most appropriate methodology to be used would be the introduction of a real life case study. The case study was realized with the leader in the energy industry in Portugal, EDP, as well as its foundation, EDP Foundation.

It is after the introduction of the Literature Review, that the case study with EDP Group and EDP Foundation will be presented. The case study will include several practices such as documentation, archival records, direct observations and interviews (Yin, 2009). Most of the information presented in this dissertation was acquired through the company's website, as well as its Annual Report of the year of 2011. Moreover, according to Yin, interviews are



considered an essential source of case study evidence because most case studies are about human affairs or behavioral events. (Yin, 2009, p.108). Therefore, an interview was conducted with Dr. Guilherme Collares Pereira, so further information could be provided by the company.

Once the theoretical approach is provided, as well as the presentation of the company, the Teaching Notes will be presenting the answers to the questions provided above. The Teaching Notes are written in a manner that will assist the professor to conduct an in-class discussion of the presented case. Detailed information will be provided, such as the timing, so the discussion can be presented to students.

Finally, after the realization of the Teaching Notes, the dissertation is closed by the introduction of the Conclusions, as well as the suggestions for a Future Research and its Limitations.

Throughout the presentation of the dissertation, the reader can use the help of the examples that will be provided in the appendix, as well as several schemes and graphical representations.



LITERATURE REVIEW

BACKGROUND

We currently live in a world in which generations have been taken by the thought that ‘time is money’ and it is with money that people believe happiness can be bought. This thinking has been going on for years, making people work as much as they could and then spend all their money on things they do not necessarily need, but instead, simply desire to have.

A man has come to know the price of everything and the value of nothing.

1

After the industrial revolution that happened in Europe in the late nineteenth century, human labour was replaced by machineries and production increased drastically in such a short period of time. To some people the industrial revolution can be seen as a negative aspect since it helped in the increasing number of unemployment rate at that time. Although the industrial revolution did take away a high number of manual jobs, it also helped to create better knowledge job positions. The job positions offered incentivised people to go to school and universities, so they could be hired for such key positions. Therefore, industrialization helped in the process of high rates of educated people in different countries. Moreover, industrialization of productions has created synergies all over the world in terms of production, such as economies of scale and scope, helping business to grow much faster in a much shorter period of time.

Many benefits were created from the revolution, but on the other hand, some aspects were still questionable by society. People, with special attention to businessmen, started to think that humans were machines - making them work intensively for long period of hours a day. Since machines needed no time to rest, most of the people in positions in charge believed that employees did not need rest either. Sometimes the hours of working labour for many employees would be done with shifts followed by no breaks, or longer shifts than the usual time. Employees would do mostly everything so they could to earn the minimal amount of money necessary to pay their bills and consequently go back to “the cost of everything, the value of nothing”.

Although this concept might have a connotation of work slavery and resemble a bad image, the industrial revolution still manages to have a positive side to the picture - it created



what the world today knows as Capitalism. Adam Smith in the 18th century proposed that capitalism, by encouraging the pursuit of gain and efficiency, works to create greater wealth than any other economic system, and maximizes liberty by allowing individuals freedom of choice in employment, purchases, and investments, thereby benefiting the common good (Lantos, 2001).

The creation and replacement of machinery, gave place for supply of goods to increase and, according to the law of supply and demand, consequently drop the prices of the products offered- establishing the inverse relationship between price and supply. This sounded like a great trade-off, until people started to realize that the benefits gained sometimes was a one-way-only where big companies could benefit from smaller people as well as less developed countries. According to Altman and Berman “[with industrialization] companies polluted freely, exploited workers, and used natural resources without concern for their sustainability” (Altman & Berman, 2011).

In order to avoid such negative effect and unstable balance in the world, people saw the need to change. Society realized that the big corporations were installing themselves in places where availability of resources was high, as well as its cheap labour, so they could produce more at a cheaper cost, but they have forgotten about the community and its environment that lived there. Society started to give more focus in such matters – the fact that big corporations were extracting all they could from less fortunate places and would give nothing much in return. According to Lantos there was a heightened realization that repressive labour practices could be found at even some of the most admired corporations, unsafe products were being sold, the business system was taking a toll on the natural environment, society was not succeeding in elevating those most economically deprived, bribery was occurring on an international scale, and morality was being compromised in the pursuit of money and power (Lantos, 2001). The issue being alerted by society was that companies were taking advantage from everything they could –people and environment- and not paying attention on the important things, such as the negative outcome that the production was providing. Within time, society started to pressure companies, claiming for positive changes and better assistance to those countries (and even local people) that were being exploited and yet, not receiving much in return. Not only the local people had created concern about the situation they were facing but also governments, activists and the media have become adept at holding companies to account for the social consequences of their activities (Porter & Kramer, 2006).



In the 21st century the public demands that businesses make social issues a part of their strategies, claims Lantos, showing that society is each time more involved in such matters (Lantos, 2001). Companies were, then, put in a very uncomfortable situation and realized changes should be done very fast in order to maintain customers and avoid boycott as well as the auto-destruction of their own image. As a result to the pressure provided by society, and even by the corporations that had a self-conscience by their own, something needed to be done. The actions that should be taken were to be done by the people who created this addiction to consumption, namely the big companies, in order to reverse the situation and care more about the value of people and its surroundings, rather than solely the price of goods. An issue had risen; therefore, a solution should be presented. In this case the partial solution found by companies and corporations to this problem is what we know today as Corporate Social Responsibility (CSR).

CORPORATE SOCIAL RESPONSIBILITY

Although not being considered a recent model in terms of years of study, there is still no complete definition of Corporate Social Responsibility. In the article “A three-dimensional conceptual model of corporate performance”, Carroll mentioned that the first time the era of social responsibility was discussed was from a book written by Howard R. Bowen (Carroll, 1979). Many authors would defend that social responsibility would be the actions and decisions made by businessmen that would go slightly beyond what the business addresses. Eels and Walton, in 1961, argued that when people talk about corporate social responsibilities they are thinking in terms of the problems that arise when corporate enterprises casts its shadow on the social scene, and of the ethical principles that ought to govern the relationships between the corporation and society (Guillen & Melé, 2006). The book’s discussion was followed by many other authors trying to discuss the subject, however, a further approach needed to be done.

The first model explaining corporate social responsibility was first introduced by Carroll in the 1950’s, which states that

Corporate Social Responsibility is the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large and improving welfare of society at large independent of direct gains of the company.



Therefore, it is possible to explain in very trivial words that CSR is the relationship that businesses have with the larger society, taking into account all the variables that it touches with its business. Within the years different authors have tried to explain or, at least, define what in fact Corporate Social Responsibility is, however, in order to try to explain the concept it is necessary to find a counter-question to its explanation.

MILTON FRIEDMAN'S ARGUMENT OF CORPORATE SOCIAL RESPONSIBILITY

The introduction of CSR's theory was due to the question provided by Milton Friedman that looked into the responsibility which companies had regarding social issues. Friedman (1970) believed that "[...] there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." (Karaibrahimoglu, 2010). Friedman believed that there is no other responsibility that should be taken by a company but the return of economical means to its shareholders. In a brief summary made by Lantos's research, he mentions that Friedman's position regarding business's role in society is to maximize shareholder's wealth, obey the law, and be ethical. (Lantos, 2001). The concept of companies to engage in CSR would not be possible to be achieved considering that corporations should act in behalf of shareholders' best interest (especially economical interest), and that social problems was a problem to be addressed by governments and other particular foundations, and not business in general. In his article, Friedman questioned

What does it mean to say that "business" has responsibilities? Only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but "business" as a whole cannot be said to have responsibilities, even in this vague sense. The first step toward clarity in examining the doctrine of the social responsibility of business is to ask precisely what it implies for whom.

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Therefore, Friedman believed that Corporate Social Responsibility was not possible to be achieved by companies, on the other hand, it was the individuals that work in the particular company that are the ones responsible to help society. The individuals who are to be responsible are businessmen, which means individual proprietors or corporate executives (Friedman, 1970).



FRIEDMAN'S MODEL OF CORPORATE SOCIAL RESPONSIBILITY

In order to better explain his argument, Friedman created a model that was composed of three main points that are explained below.

✈ Only individual have moral responsibilities

Friedman believed that it is not the company as a whole that should engage in CSR, but instead, the individual person that works there [in the company] is the one responsible for its own actions. Following up this logic, it is correct to say that small people can make big changes – because if each employee had the individual conscience that helping society is correct, then no one would harm it in the first place. As a consequence to this action, CSR would not be something a company must do or is obliged to, but rather something that each employee would feel comfortable in doing so.

✈ Managers have one responsibility

Moreover, Friedman understood that the only responsibility that managers have, (note as managers), is to act in the interest of shareholders. Therefore, it is known that the best interest that managers could provide to shareholders would be the financial and economical returns. Investing in CSR would mean that time, effort, and money (specially) would be provided to other activities that would not generate maximization of profits. According to Pinkston and Carroll, the use of resources such as the ones previously mentioned would result in a detriment to the firms since it would increase prices of goods and services while decreasing profitability (Snider, Hill, & Martin, 2003). Thus, Friedman believed that the maximization of profits should be attained by legal means, explaining the fact that not all the financial returns that a company can generate to its shareholders are acceptable.

✈ Social issues should be analysed by the government only

Moreover, Friedman's third argument was that social issues should be matters to be discussed by the government, not corporations. Porter and Kramer also agreed with this point, saying business could not bear with the costs of solving all the problems. Instead, government institutions are better positioned to address them (Porter & Kramer, 2006). Friedman believed that if a company were to address all of society's needs, it would diverge from its main goal and therefore, wrongly contribute to the company's best results.

WHY DO COMPANIES ENGAGE IN CSR?

Friedman's arguments were very important in the creation of CSR because it generated lots of critics from those who believed the contrary. Critics argued that business are not created for the utterly purpose of selling goods and services according to society needs, but



they should have a greater purpose. An example of such greater purpose would be, for example, to serve society for its best while it directs beneficiaries of company's operations. Therefore, the importance of creating CSR started to be questioned; why do companies engage in CSR?

In order to answer such question, the definition of Corporate Social Responsibility should be first well explained and defined; so then the question could be correctly answered.

Corporate Social Responsibility is the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large and improving welfare of society at large independent of direct gains of the company.

4

The definition above given by Kok et al., is one of the possible definitions that could be found regarding CSR. Like previously said, CSR is a quite new field to be studied; therefore several authors have tried to explain it. Most of the authors who have defined it have come into an agreement but never a literal and concrete meaning of what CSR really is. Pinkston and Archie stated that an exact definition of CSR is elusive since beliefs and attitudes regarding the nature of this association fluctuate with the relevant issues of the day (Snider, Hill, & Martin, 2003). Unfortunately, this definition is still not well explained, hence, it is needed a much more complex model to try to understand what is indeed CSR.

CARROLL'S MODEL OF CORPORATE SOCIAL RESPONSIBILITY

Seeing the need to explain further what is CSR, different authors have tried to combine definitions, but no one could literally explain it. It is then, through the studies conducted by Carroll that this topic will be led. In his studies, Carroll developed a hierarchical model in which he identified four components that could be used to better establish the key points that the definition of CSR should touch; economic, legal, ethical and philanthropically.

The picture below illustrative represents the pyramid with the four components of the model.



📌 Economical

The economical component is the base of the pyramid, and it is the first factor that is required (note, not expected) by society from business. That means that any kind of business should bring economic benefits in order to satisfy consumers' requirements. According to Carroll, the economic component is the foremost social responsibility that businesses have in their nature (Carroll, 1979). Before any other responsibility, the main responsibility that business has is to generate profits while producing goods and/or services and, as a consequence, grow with such generated profits.

📌 Legal

Along with economical, the legal component is also required by society. Society entails that the business in function should address, respect, and apply the appropriate set of rules and laws. Carroll explained in his model that society expects business to fulfil its economic mission within the legal requirements' framework. Therefore, it is the business duty to correctly address the law and to play the "the rules of the game" (Snider, Hill, & Martin, 2003).

📌 Ethical

Differently from the economic and legal components, the ethical component is what society expects business to do rather than what it must do. According to Snider et al., the ethical point is the business's responsibility to respect the rights of other people and organizations, and to meet the obligations placed by society, which is ensuring that these rights should be realized by the operating business (Snider, Hill, & Martin, 2003). Thus, businesses are not only expected to comply with the given law, but there are additional behaviours and activities that could be done by business to go a step ahead from what is proposed. Moreover Carroll stated that out of the previous 2 concepts introduced (economical and legal), the ethical component is the most difficult one to be defined and consequently most difficult to deal with (Carroll, 1979). Ethical issues tend to be difficult because of the unclear boundary set by society of what is truly ethical or not – what for many people might be considered unethical, to others it wouldn't – making it a complex definition. Many times, this thin boundary occurs due to the differences in cultures which tend to make people differ in certain arguments on whether a sensitive subject matter is ethical or not.

📌 Philanthropically

Finally, the philanthropically, also known as Discretionary or Volitional Responsibility (Carroll, 1979), is the desirable aspect that society requests from business. It is the hardest one to be defined, harder than the ethical, which leaves the option to each individual to judge and



choose what is to be the correct approach. For that reason, Carroll believes it is better to not call such aspect *responsibilities* because they are at business's discretion, however societal expectations do exist in order for business to comply with the social rules previously mentioned (Carroll, 1979). In the philanthropically part of the pyramid, the actions taken by business has no further intentions but to be done as voluntary work, which is not obliged by society or any type of laws and could not even be considered ethical. The biggest different between philanthropy and ethical behaviours, is that if you do not engage in activities that are considered philanthropic (like the ones mentioned below), a person or business would not be considered unethical.

In this point of the pyramid, very few businesses are placed and it is still a quiet new model trying to be reached by all large corporations. In the philanthropic aspect, companies are supposed to involve in activities that not only relates to society, but it also supports a broader community rather than the local presented.

These roles are purely voluntary, and the decision to assume them is guided only by a business's desire to engage in social roles not mandated, not required by law, and not even generally expected to businesses in an ethical sense.

5

Examples of the philanthropic concept could be houses of rehabilitation for drug addicts, coaching former prisoners in order for them to obtain a job, providing day-care centre for mothers who work, among others.

As we can see from Carroll's model it is possible to have a broader idea of what is CSR, but in detail it still lacks of explanation. According to Carroll these four categories are not mutually exclusive, which means that it is neither cumulative nor additive, and that they do not intend to portray a continuum with economic concerns on one end while having social concerns on the other (Carroll, 1979). The pyramid is necessary for companies to know that the activities being held should be preferably acted in the four steps it offers. The activities should be acting together, or even met in a simultaneous manner, specially having in concern legal and economic factors (Carroll, 1979).

In order to try to clarify even further the idea of what is Corporate Social Responsibility we would need a model that describes the descriptive as well as the normative capabilities of a company.

STAKEHOLDER'S THEORY

For many years, the discussion of whether businesses were responsible merely for the



business's profits maximization (wealth maximization of shareholders); likewise the argument presented by Friedman; or if businesses should engage in CSR; likewise Carroll; occurred by many authors. According to Clark, this debate of shareholder vs. stakeholder has been on going for at least the last nine decades (Clark, 1916). Berle, for example, just like Friedman, believed that corporations exist in order to provide shareholder's wealth maximization, which he called "shareholder primacy" (Berle, 1931). On the other hand, Dodd argued, even before the creation of the stakeholder's theory, that the proper purpose of the corporation also included more secure jobs for employees, better quality products for consumers, and greater contributions to the welfare of the community, which he called the "stakeholder approach" (Dodd, 1932). It was with this argumentation that many authors started to deeply analyse what in fact should be the issues to be addressed by business.

In 1984, Edward Freeman described a model that would help in the better explanation of businesses' duties and responsibilities as well as a better understanding of CSR. By following Carroll's model's logic and Dodd's argument, Freeman brought a theory that would help understand that business's priorities are not only to return to shareholders profits, but in fact, it is the return to its stakeholders and the best outcome that the business could produce. A stakeholder approach emphasizes the importance of investing in the relationships with those who have a stake in the firm (Freeman, *The Stakeholder Approach Revisited*, 2004).

But what is the stakeholder approach and theory, indeed? In his definition of stakeholder, Freeman says that it is any group or individual who can affect or is affected by the achievement of an organization's purpose (Freeman, 1984).

Stakeholder is any group or individual who can affect or is affected by the achievement of an organization's purpose.

6

According to Clarkson, stakeholders have been defined broadly as those persons and groups who contribute to the wealth-creating potential of the firm and are its potential beneficiaries and/or those who voluntarily or involuntarily become exposed to risk from the activities of a firm (Clarkson, 1995). Furthermore, the model presented argued that business did not have as its primary goal to satisfy its shareholders, but in fact, all the individuals that were affected either positively or negatively by the business's outcome. The Stakeholder's Theory says that managers should base their decisions not only bearing in mind the benefits they could bring to its shareholders, but instead, to *everyone* who is affected by such decisions. Thus, by using the term *everyone* it is understood that it means all the stakeholders that a firm



has. Note that in the same term *everyone* it is important to notice that under some interpretations, stakeholders could include the environment and others such as terrorists, blackmailers, and thieves (Jensen, 2001).

Stakeholders include all individuals or groups who can substantially affect, or be affected by, the welfare of the firm—a category that includes not only the financial claimholders, but also employees, customers, communities, and government officials.

7

It is essential to give special attention to the stakeholders because they often gain when the firm does well and suffer economic losses when the firm does poorly (Mahoney, 2012). Therefore, it is highly important for business's to maintain a tight and positive relationship with their stakeholders, in order to create shared value. According to Jensen, stakeholder theory is the main contender to value maximization as the corporate objective (Jensen, 2001).

STRATEGIC CORPORATE SOCIAL RESPONSABILITY

First, in order to explain how companies can create shared value with its stakeholders, it is necessary to explain the process it takes internally in order to do so. In the paper written by Porter and Kramer, the authors defend the idea that in order to create shared value, a company must strategically engage its resources, capabilities and liabilities so they can gain the optimal result. Porter and Kramer believe that the most successful way to obtain a good result in corporate social responsibility is by making the right choices, meaning, correctly choosing which social issues they must focus on (Porter & Kramer, 2006).

Strategy is always about making choices, and success in corporate social responsibility is no different.

8

For most companies, strategy is about choosing a unique position, going beyond best practices. Therefore, in order to differentiate from its competitors, a company must engage in different sets of strategies and do things differently from its competitors in a way that lowers its costs or better serves a particular set of customer needs. Consequently, the same principles of relationship that is applied to its rivals by the company should also be applied to the relationship a company has with its customers as well as the society it serves (Porter & Kramer, 2006).

If companies would see CSR as a strategy matter, rather than an issue they should



address to satisfy society, they would discover that CSR can be much more than a cost, a constraint, or a charitable deed –it can be a source of opportunity, innovation, and competitive advantage (Porter & Kramer, 2006). Therefore CSR, when applied correctly by the company's strategy, can become a source of tremendous social progress. This happens because the business will correctly apply its considerable resources, expertise, and insights to activities that benefit society.

Although suggesting that companies should address CSR as part of their strategies might seem easy for some companies, some others may find it hard to do so since they are not very familiar with the tertiary sector. Therefore, seeing such difficulty that could be faced by companies, Porter and Kramer suggested a framework that consists in three main points which helps companies to prioritize social issues. The framework's points developed by the authors are listed below.

🏠 Generic Social Issues

May be important to society but are neither significantly affected by the company's operations nor influence the company's long-term competitiveness.

🏠 Value Chain Social Impacts

Social issues that are significantly affected by the company's activities in the ordinary course of business.

🏠 Social Dimensions of Competitive Context

Are the factors in the external environment that significantly affect the underlying drivers of competitiveness in the locations where the company operates.

The framework suggests that the social issues affecting a company fall into three categories, which distinguish between the many worthy causes and the narrower set of social issues that are both important and strategic for the business (Porter & Kramer, 2006). The authors argue that although a company would like to address many of the problems that society brings, it is almost impossible to solve them all correctly and therefore they must choose one social issue to address at the time. Therefore, the usage of the framework is highly recommended so the company must keep track of the work being developed and as a result, could obtain the desired shared value – that is a meaningful benefit for society that is also valuable to the business (Porter & Kramer, 2006).

Moreover, in order to create shared value through Strategic CSR, the authors suggest that the issues addressed by the company should be of a subject matter that is closely related to the company, meaning that the issue should intersect with the company's particular



business and areas of expertise. In the article written by Cai, Jo and Pan, is cited that “the social issue that intersects with its core business is presumably a place where corporate shared value can be created” (Porter & Kramer, 2006). Porter and Kramer believe that by engaging in issues that are closely related to a company’s field of expertise, it will be easier for them to achieve shared value. This same argument is also supported by McElhaney, who states, “moral managers may also strategically engage CSR as a business strategy that is integrated with core business objectives and core competencies to enhance firm value as well as social/environmental value” (McElhaney, 2007).

Typically, the more closely tied a social issue is to the company’s business, the greater the opportunity to leverage the firm’s resources and capabilities, and benefit society.

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Since the authors view Strategic CSR as an opportunity rather than a cost, in order to identify such opportunity it is necessary to analyze the impacts that it will have in society. According to Porter and Kramer, a firm should analyze both the impact it has on society through its normal and core business (inside-out linkages) and the external social conditions that may affect the firm (outside-in linkages) (Cai, Jo, & Pan, 2012). Strategically choosing which social issues to address, a firm can manage the consequences that its actions have on society and therefore, achieve shared value.

CONSEQUENCES OF A BAD STRATEGIC CORPORATE SOCIAL RESPONSIBILITY

Strategic CSR also unlocks shared value by investing in social aspects of context that strengthen company competitiveness and creates competitive advantage over other companies which try to engage in CSR, but does not correctly apply it. Hence, it is highly important for a company to correctly engage in Strategic CSR. If a company does not do the proposed strategy, the result of the outcome could lead into a different direction other than the creation of shared value. Porter and Kramer argues that the result is oftentimes a hodgepodge of uncoordinated CSR and philanthropic activities disconnected from the company’s strategy that neither make any meaningful social impact nor strengthen the firm’s long-term competitiveness (Porter & Kramer, 2006). Therefore, the consequence of this fragmentation could result in a remarkable lost opportunity. The essential test that should guide CSR is not whether a cause is worthy but whether it presents an opportunity to create shared value – that is, a meaningful benefit for society that is also valuable to the business.



CONSEQUENCES OF A GOOD STRATEGIC CORPORATE SOCIAL RESPONSIBILITY

On the other hand, if a company correctly places part of its strategy and dedicates it to CSR, it is mostly certain that the company will make the most significant social impact and reap the greatest business benefits, achieving the results it desires. In this case, the desired result would be the creation of shared value. Strategic CSR occurs, therefore, when a company adds a social dimension to its value proposition, making social impact integral to the overall strategy of the company.

CREATION OF SHARED VALUE

Once a company strategically applies its resources and capabilities in order to obtain the best result possible, it creates shared value.

The concept of shared value can be defined as 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.

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Corporate shared value therefore is not about personal value that an employee could develop within the company, nor about sharing value already created, but creating a new type of value that concern not only economic value for shareholders but also social values for other stakeholders and the broader community. Shared value is about expanding the total pool of economic and social value (Porter & Kramer, Creating Shared Value, 2011). Thus, if a company engages in meaningless CSR or even wrongly applies its strategy in order to do so, society will not recognize any type of value in the work being done, and then social value would not be added. The challenge that companies face while engaging in CSR is to create and add the value needed by society. Therefore, the solution lies in the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges (Porter & Kramer, Creating Shared Value, 2011).



CASE STUDY

EDP GROUP

HISTORY

Energias de Portugal was created in 1976 after the merger of several companies in the energy sector that had been nationalized by the Portuguese government. The merging of the companies was a consequence of the events occurred in the country in the 70's, resulting in the creation what is now known as Energias de Portugal (EDP). EDP was created by the law 502/76, resulting from the merging of 13 out of the 14 companies in the electricity sector existing in that time period, that have been previously nationalized (EDP, 2012). As the name suggests, Energias de Portugal (Energies of Portugal) encompassed the country's electricity sector – namely the modernization of the electrical generation and distribution as well as its extensions throughout the country and its trading – that would be able to deliver all types of energy to Portugal. As a consequence, EDP was responsible for the construction of the energy generator that would deliver energy to all residents in the country, and therefore the creation of the billing system and consequently the prices charged to consumers (EDP, 2012).

Clearly, such responsibilities entitled to the company led EDP to become a monopoly in the energy sector in Portugal and, by the 1980's, EDP had an 'empire' that covered 97% of the Portuguese continental territory. Due to the size that the company was acquiring, the government decided in the early 1990's to change its jurisdiction from a public company to an anonymous society. Finally, after a depth restructuring of the company, the EDP Group was created in 1994. A couple of years after the creation of the group, in 1997, for the first time EDP goes partially private; having 30% of its capital sold to investors. Nowadays, EDP's great success is reflected in the results of its shares.

Today, EDP Group is not only the largest Portuguese industrial group but is also among the major Europeans operators in the energy sector; being one of the largest in the Iberian Peninsula and the third largest producer of wind energy in the world (EDP, 2012)[APPENDIX 1]. Beside the Iberian Peninsula, EDP also participates in important business presented in France, Belgium, Poland, Romania, United States and Brazil – transforming the company into a truly global company.

We are a leading company in the energy sector and we include in our culture values and commitments regarding our customers, society and environment.



GLOBAL COMPANY

A truly global company wouldn't be big and competitive enough if it didn't have the chance to compete with other companies in the same sector and other areas of interest. EDP is, therefore, the leader in its industry and the results it brings to society and its shareholders, being recognized worldwide. EDP is the only Portuguese company that integrated the Dow Jones Sustainability Indexes (World and STOXX), which is one of the world's most demanding ranking, that distinguishes the best performing companies on issues related to transparency, sustainability and excellence in economic management and social environment (EDP, 2012)[APPENDIX 2].

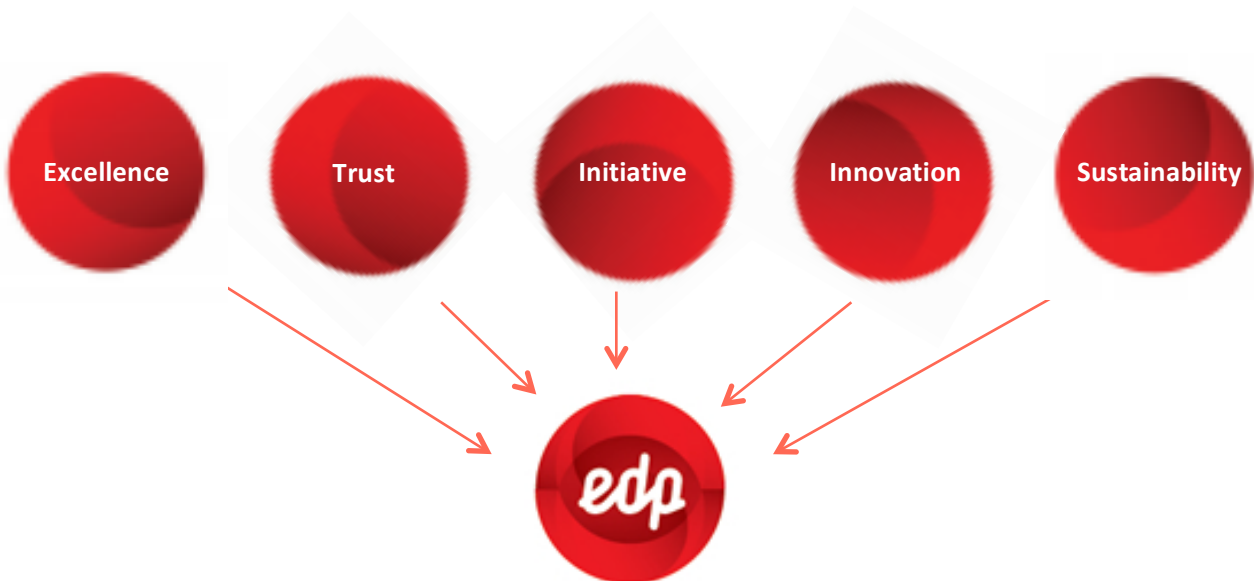
MISSION VISION VALUES COMMITMENTS

EDP is a global energy company, leader in value creation, innovation and sustainability, being the latter focused on the triple bottom line issues in the short, medium and long term.

Our vision to be an integrated energy company, a leader in value creation in the markets where we can make a difference is shared by the universe of EDP employees, spread across different continents and a diversity that enriches us and brings us together in the respect for the different cultures of the markets where we operate.

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In order to make a difference, EDP relies on its five-based-pillar that keeps the company standing still and permits it to spread the value it wants to share with society.



🔥 Excellence: in the way EDP provides services to its customers and stakeholders.



- 🔥 Trust: regarding shareholders, suppliers, customers and others stakeholders.
- 🔥 Initiative: displayed in EDP's people's behaviour and attitudes
- 🔥 Innovation: in order to create value in the different areas in which they operate
- 🔥 Sustainability: with a view to improving the quality of life of present and future generations

(EDP, 2012)

Thus, EDP believes that “We are what we give”, and for that reason they are very concerned in providing the top range of quality of services to its customers, being either in the electricity or social sector (which will be discussed under EDP Foundation). EDP shows particular concern in communicating widely and efficiently across the company what is their vision; mission and values, making sure all employees adopt such objectives as their own so they can be able to be committed in elevating the same standards for which EDP is recognized.

Rather than distribute a manual of principles, what we want to do is to witness and share the construction of a manual of values that are manifested every day at EDP

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By correctly applying its values, EDP is able to create commitments with its customers and people, giving continuity to its sustainability while collecting the results it planted.

COMMITMENT

🔥 Commitment to Customers

EDP is able to understand its stakeholders' needs by trying to put its employees and shareholders in the shoes of stakeholders to clearly understand their needs, and therefore, correctly make decisions. While committing to its customers, EDP listens to the customers and answers to its questions in the most simple and transparent way possible – because they believe that being straight and forward transmits that trust pillar that they look forward to have with costumers. EDP tries its best to try to anticipate customers' needs, so by the moment the customer even thinks about a pledge, the company has already provided the answer.

🔥 Commitment to People:

EDP nurtures the development of merit and skills, and for that reason it is committed to not only the customers it has, but also its stakeholders and employees. While working at EDP Group, it is possible to see that the company tries to combine ethical conduct with professional integrity, making it possible through teamwork and initiative.



EDP commits to its employees by believing that balancing the work life with the personal life is essential to obtain success in and out the company.

Commitment to Sustainability

EDP is highly concerned about the social and environmental responsibilities that its actions might bring. Therefore, it assumes the responsibilities by engaging in sustainable actions such as reduction of specific greenhouse gas emissions that its energy production might deliberate to the air. Moreover, EDP engages in different sources of clean energy in order to avoid pollution and promote energy efficiency.

Commitments to results

EDP fulfils all the commitments it makes to its shareholders. By doing so, they accomplish the excellence in demand of everything they provide. This is led by the capacity that EDP has to anticipate and execute its actions in a fast but precise manner.

In line with the four commitments mentioned above, EDP Group also counts with its Code of Ethics and the 10 Global Compact principles. EDP gives strong emphasis in the recognition of human rights and therefore, seeks to consolidate its practices on the basis of this recognition. EDP strongly believes in the impact that the group (employees and brand) can have to the society, and for that reason it is in constant work in order to provide the best results in terms of social and economic practices to its stakeholders.

In its business relationships and corporate citizenship, EDP therefore respects and demands respect for the principles of non-discrimination on the basis of ancestry, sex, race, language, territory of origin, religion, political or ideological convictions, education, economic situation, social condition or sexual orientation, as well as for the freedom of association and the prohibition of forced and child labor.

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Having a look at the commitments as well as the ethical code that EDP has, it is possible to conclude that the group was not only focusing its main business's values, commitments as well as its goals in the energy sector, but also, it had taken great part of the same to be set into social responsibilities.

By having an important presence in the industry, EDP had realized the dimension of the impact that its commitments and goals would have to society and the environment it was working at. The importance of the acts that the group had to stakeholders was not only recognized by the company, but also, by the society that was directly affected by them. EDP saw that each time more its stakeholders would demand a higher social responsibility from the company, and started to see that there must be something else they could do to cover such



demand. EDP realized that in order to obtain all of its goals and accomplish all the commitments set inside the company as well as to its stakeholders, the group would need to dedicate even more time to social projects than it was already engaging at the moment. Hence, EDP concluded that the simple fact of providing capital to foundations and other institutions would not satisfy the group, employees and shareholders [APPENDIX 2]. Furthermore, the same dissatisfaction would happen from the stakeholders' side, which would result in a failure to fully meet with their requirements that EDP had regarding its values, commitments and goals. Finally, EDP realized that the best way of achieving their social goals would be by putting more effort to the projects being realized, and for that, a new segment within the company would be needed.



EDP Foundation

HISTORY

After realizing that the future of a good corporate social responsibility relied not on the simple fact of distributing part of its capital to charity programs and other institutions, but rather it would be much more efficient to have a special segment aside completely dedicated for such matter. EDP Group discovered that by dedicating much more time and effort to social work and responsibilities it would be possible to achieve its desired goals if a foundation would be created solely for this purpose.

It was by the end of the year of 2004, more precisely on the 13th of December, that the board of directors of EDP Group had gathered together to finally establish what is now known as the “EDP Foundation” (in order to simplify this text, the acronym “EDPF” will be used). Although constituted in December 2004, its activities finally took place formally in May 2005 and whose head office is placed in Lisbon. EDPF is, therefore, a private yet non-profit institution which constitution’s is reinforced by EDP Group’s commitment.

Its constitution reinforced the EDP Group’s commitment to the imperative of good citizenship, concentrating its activity on Sustainable Development and having as a general goal the promotion, development and support of initiatives that are social, cultural, scientific, technological, educational and environmental, as well as those that defend our heritage, with special incidence in the energy sector.

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Because of the heritage acquired from its creator, EDP Group, EDPF is particularly devoted to studying and disseminating, at first, issues that concern the society in terms of energy as well as the environmental issues that this might bring to them. Nonetheless, although having the expertise in the energy industry, EDPF would not only focus on the problems (such as pollution, displacement of families due to new dams, etc.) related to what the named industry could bring to society and the environment. EDPF is also concerned about other aspects that touch a person’s life – such as culture, education and other social initiatives.

EDPF’s general purpose is to develop and support initiatives of a social, cultural, scientific, technological, educational, and environmental and sports nature, as well as to defend the EDP’s heritage

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It is important to highlight that EDPF is concerned about all types of social initiatives which provides them an important comparative advantage with its competitors (other



foundations and organizations). Frequently, social enterprises (Foundations, Institutions and NGOS, among others) tend to focus in one particular business or field, which usually are the type of business they tend to have better knowledge in and therefore create a competitive advantage over it. Hence, it is possible to see the differentiation that EDPF has already in comparison with other institutions, because although they have a comparative advantage in the energy sector, EDPF will also invest in other industries if they believe that the principles of the project undertaken match with the foundation's.

PRINCIPLES AND VALUES

EDPF has as its principles and values to address all types of social initiatives which matches with what they believe to be a real social activity – independent if it will belong to the energy sector, or educational or any other.

According Antonio Almeida, Chairman of the Board of Trustees,

[EDPF's principles are] marked by the concern for sustainable development, support in the social, cultural, scientific, technological, educational, and environmental realms, and the preservation of heritage namely that which is tied to the energy sector

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The quote cited reflects the different areas that EDPF touches in society, providing them the means to establish projects and goals in order to satisfy the society and its critical stakeholders. With the creation of the Foundation, the EDP Group's commitment to solidarity that reflects a concern for emphasizing modernity in Portugal as well as contributing for other important causes in the country could be reinforced.

EDPF has as a mission an inspiring message that desires to make a difference in society, which is reflected in his or her own identity throughout its activities. In order to transmit such message, EDPF has five key strategic values:

Solutions that generate change

EDPF is one of the private institutions that invest the most in the tertiary sector in the Portuguese territory. The fact that its headquarters are located in Portugal, gives them a better opportunity to invest in the country. EDPF is constantly searching for new solutions for social problems that the society faces as well as accepting the challenges provided by the same. Additionally, EDPF works in order to find solutions for the social problems created, and for that reason they need to acquire partnerships or collaborations with other interested parties. Especially after a period of deep crisis like the one Portugal is currently facing, the resources



available in the “social environment” are decreasing. For that reason, the collaboration of other parties helps EDPF to manage the scarcity of resources that is found in the solidarity economy.

A company more Open to Society

EDPF believes that by engaging each and every employee, who works in the foundation, in the participation of the solutions that can be provided to the issues of society, can create a strong relationship between the individual employee and society in which they reside. By opening the company to society expose employees to a much better experience and therefore new solutions will be provided. It is believed that the employees must be in touch with the real problems that the society faces, in order to correctly address the problems presented. Consequently, if a person does not know for a fact what indeed the society needs, the results of the work presented will be poor, or will not match with the optimal results. Therefore, the more exposed an employee is to the real world, the better will be the results that the projects would bring to society. For this reason, EDPF strongly believes that there must be a strong relationship between employees and society. On the other hand, this relationship not only is beneficial for the society, but also for the employees which develop a sense of belongingness to the company’s trust. They will be highly encouraged to engage in new projects, since they are able to see and feel the positive changes that the project brought to the society.

Prestige and Excellence in Culture

EDPF has as one of its main concerns the preoccupation of promoting culture to the country. They believe that by disseminating culture to people, will prepare them better to respond to challenges that life proposes to society – and those answers will be responded in a more creative, cultured and cosmopolitan structure.

Thus we have made cultural excellence and artistic contemporaneity the trademarks of our institutional identity and affirmation.

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Under this stated identity, EDPF has created two fundamental axes; to reveal emerging talent and establish artists that lack of public recognition. EDPF recognizes the true talent of the artist that has not yet been discovered by society, or because of its marginalization, has no access to correctly show their work. First, in order to fulfil the goals established by such axes, EDPF exposes the new talent found to the society by introducing their work in the Energy Museum or any other appropriate place for such exhibition. This exhibition gives the talented author the possibility to enter a world in which his or her work will be truly recognized. After



the exposure of the new talents and their work, EDPF provides prizes to the artists. This step is a continuation of the previously mentioned step (exposure of new talent), since the Foundation recognizes the talented artists and provides them with rewards. Moreover, not only the reward is given to them but also EDPF provides them partnerships and promotes publications, providing them with a better network and helping those artists to engage in new projects. In the meanwhile the network created helps to promote the artist's image, EDPF also continues doing the same. The special attention provided by the Foundation and all the mentioned steps in which EDPF contributes to the artists, is a reflection of the valuable heritage that the foundation has. Thus, making it highly accountable and often recognized by society.

Science with Energy

The EDP Foundation promotes the scientific culture, protects the historic electric heritage and rises to the energy challenge.

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Due to the heritage provided by its founders, EDP Group, EDPF has by 'nature' the expertise and knowledge in the energy sector. Thus, it is logic to conclude that EDPF is better off in comparison to other institutions in the realization of projects related to the energy field. There were different social projects that the Foundation undertook in order to help society. An example of such project could be given by the Kakuma Project, realized in Kenya with the partnership of others institutions [APPENDIX 3]. Moreover, the clearest and most important example of such strategy to place its resources in projects related to the energy sector is the first project EDPF realized; the Electricity Museum. Before the creation of the Foundation, there was no similar social project taken place in Lisbon, particularly. It was only after the creation of EDPF that it was finally possible to create, inaugurate and give continuity to the project of the Museum of Electricity based in Lisbon. The Electricity Museum was inaugurated in May 2006 for public visits, given the chance for school to bring over 400 children a week to learn about the different areas in which electricity takes place.

The exhibition endeavors to give visitors a clear idea of the way Lisbon's old thermoelectric plant worked, identifying its different components and explaining how it operated.

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The museum, which before its reconstruction used to be a power station, gives the opportunity for visitors to see how was electricity generated and transmitted in the past; how



does it work now in the present and, more amazingly, how it will be provided to consumers in the future. There, visitors have the chance to explore different sources of electricity while having interactive visits along with scientific experimentations.

Without the creation of the Foundation, projects such the Museum and the Kakuma would not be possible to be finalized. The attention, time and effort given to such projects would have been much more limited if the Foundation was never established.

Contemporary and sustainable cities

Due to the work in the tertiary sector, EDPF worries about the standards of living of society and therefore promotes the improvement of the urban spaces. EDPF aims to help society in the different possible ways provided above, as well as improvement of standards of living in the cities. Along with the help of EDP Group facilities' capabilities, the Foundation is able to contribute towards the improvement of cities and consequently, the lives of the people that live there.

Having in consideration these five main values mentioned above, it is possible for us to see and understand what in fact triggers EDPF to help the society. Not only because it acts in the tertiary sector, but also because they truly believe that even the smallest contribution provided by their own employees could make a huge difference to the entire society. Society in which, many times, we do not have access to easily, and therefore is needed the partnership of other institutions.

Just like the EDP Group, EDPF has a global vision with no barriers, leading them to help society by creating partnerships with other parties in different parts of the world. They believe that together with the help of local institutions it would be easier to have access to remote areas and therefore help society such as introducing new means of obtaining energy as well as incentivizing creativity and revealing new talents.

Furthermore, in order to help society and in fact act according to its principles and values, EDP Group has shown that by providing merely capital to other institutions would not help to solve the issue. The creation of the Foundation was needed so the time and effort could be correctly placed and act along with others' help. Having the money is not enough, they must have the correct support it is needed in order to undertake the projects. For this reason is why it is important to have a strong network with other local institutions and specially understand what the correct projects to develop are.

WHICH PROJECTS TO DEVELOP?

As mentioned above, EDPF has strong values and principles. Although there are



countless projects that could fit EDPF standards, there is still some studying to be done before the development of the project. The critical point that the Foundation faces while helping new projects to be developed and undertaken is to recognize what are the projects that really matters to EDPF, or the ones that will in fact provide a positive life changer in the society it is taking place.

In order to evaluate which projects would be developed under the EDPF supervision and sponsorship there must have a detailed study of the intentions of the project, the stakeholders involved and the purpose that the this project has is to indeed help the society.

[...] the Foundation seeks to address the numerous requests it receives from highly visible institutions in the social field, using rigorous assessment criteria, with transparent selection rules and a constant preoccupation to improve.

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The quotation previously mentioned are words provided by Antonio de Almeida, chairman of the board of trustees; with this statement we can clearly see that EDPF has a much defined policy regarding which projects to undertake, making sure to accept the projects that matches with the foundations principles and values and being strict with the refusal of projects that do not match with the same.

In Portugal, EDPF is already one of the private institutions that invest the most in the tertiary sector that highlights the foundation's position as an innovator that completely rejects the traditional approach of charity – giving money with no true feelings behind it. Note, this was the main purpose EDP Group has come to realize that the best way to help society would be through the Foundation.

In fact, EDPF gives privilege to the projects that are sustainable over time and that can break down the barriers of poverty as well as social exclusion encounters, among others. Moreover, such projects are misunderstood with the main purpose of social innovation and are considered by EDPF to have a principle of publicized assistentialism (EDP, 2012). Consequently, EDPF denies projects that have as a main goal to have immediate and temporary results, not taking into consideration the long-term benefits (and even consequences) that a project could bring to society. It is important here to highlight the pre-study done by the Foundation to conclude if in fact, the project will be successful and bring the long-term desired results. EDPF believes that in order to create and disseminate social value, one must not think in the short term it can bring to the company, but in the long-term benefits



that the company will bring to those it surrounds. In order to clarify this point, it is possible to relate to an informal interview that Dr. Guilherme Collares Pereira, Social Innovation Director in EDPF, had in the Electricity Museum. During the interview he mentioned a particular case of an economical help that was asked by one charity organization working in a remote area in Africa that was in need in that particular moment.

“One day, I had received a phone call of a dear friend of mine asking me, as EDPF, for approximately 50 thousand euros cash (let’s just assume this number, in terms of simplicity and confidentiality), so they could buy food to the needed people in a certain location in Africa. After listening to his proposal of what would be done with such quantity of money, do you know what my honest answer to him was? A beautiful ‘No. I’m sorry, EDPF is not interested.’

“Allow me to continue, before there is any kind of misunderstanding about me and/or the Foundation. Note, I had declined the proposal he had offered to EDPF of providing simply [insignificant] money.

On the other hand, I gave him a contra proposal. I have told him I wanted to go to that particular site myself, to see what was the true need that such people had. I was sure that whatever they needed from us was not [insignificant] money to buy food, but there could be something else, something bigger, we could provide to that society in order to help. And so I did, I went to Africa accompanied by a team of engineers and other technicians to study the place they lived and talk to the people that there lived to try to understand a bit better how their lives did happened in such place. Do you know what happened next? We have come to realize that what those people needed from us was not our money, but instead, our attention. We have asked them what they would like the most to have, so we could provide them with the best we could. Surprisingly, the answer of what they wanted indeed was our core business – electricity. Look how important it was for us to go down there! They did need money to buy food, their land could provide them already, instead, they were in lack of basic resources such as electricity! See how my denial turned out to be the best solution?

Couple of months after the phone call, we have not provided the 50 thousand euros that was once asked for us, but instead, we had invested in that given society and the place they lived about 10 times more the price (figurative numbers) by providing them renewable sources of energy. We gave those people light to see at night, power to run fridges and ovens and no longer have to cook with wood and constantly inhale the smoke it would release. The forest that they had nearby had reduced over 100 km, because they used to cut off the trees so they could use the wood to generate their own kind of electricity. We provided them a better quality of life, better standards of living.



Now tell me, was it wrong to refuse them the cash, but instead provide them for a life time source of energy? Not only any kind of energy, but renewable energy, which does not affect the environment or the people surrounding them? Is not this much more pleasurable than simply providing them with insignificant amount of money to buy food, without really asking them what do they need? Ask them what in fact would really help them improve their lives?

This is the true beauty about social enterprises; help the ones in need with what they really need, and not simply given them money without questioning if it is the right thing to do."

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The short story above shows the real purpose that the Foundation has. It is important to notice that the objective of the EDP Foundation is not a simple Ad hoc support or donation of money for certain projects or institutions, but rather a bet on projects that provide a full response to credible and social problems that generate revenue, giving the very sustainability to the institution. Just like Dr. Collares Pereira has mentioned "We do not do charity, we make social investments".

We do not do charity, we make social investments.

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The criterion necessary to overtake the projects, therefore, is to spread shared value to the society to which the project is being implemented. The project mentioned above by Dr. Collares Pereira, Kakuma [APPENDIX 3], is only one of the many projects that were realized by EDPF in 2011. For further projects occurred in the same year, please refer to [APPENDIX 4].

EVALUATION OF PROJECTS

It is possible to see from the story above that the company did in fact transmit shared value to the stakeholders of the given project, but many times, shared value needs to be measured in a metrical manner so people can believe social entrepreneurship does have a stronger value.

As a follow up to the strict revision and study of whether the project is truly beneficial for those who it touches, EDPF applies a model that will evaluate the social impacts that the project will bring. In order to quantify its metrics, EDPF uses the LBG framework - London Benchmarking Group's Corporate Citizenship - allowing a thorough knowledge of the ways of measuring impact and demand metrics similar to those used by the institutions it supports. The model allows a thorough knowledge of the ways of measuring impact and demand metrics



similar to those used by the institutions it supports, thus increasing the professionalism of the sector. Moreover, this model maintains a stringent and transparent criteria in analysing the requests for support, preferring interventions and, whenever possible, investments in social innovation and entrepreneurship projects. Thus, without the transparent criteria, EDPF would not have the credibility that it has with its stakeholders, increasing the professionalism in the tertiary sector.

Widening the patronage programs, with established allotment, regulations and jury, in other words, based on transparency of the entire process, enables an increase in the quality of the projects and greater accountability of the entities that benefit.

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Not only EDPF uses the LBG model in order to maintain transparency but also it counts with the help of external auditing. In the year of 2011 the consultant company KPMG provided the outsourcing examination of the financial statements, to certify the company was acting according to its principles and values. [APPENDIX 5]

The EDP Foundation's priority to measure the social impact of its investments in the community, led to a pilot initiative in partnership with Quotidian. The consulting firm provides both qualitative and quantitative progress of the projects. This evaluation contains a description of the impacts the projects brought to society as well as how do they translate into social return. In order to translate the impact, the methodology used in the audits was the Social Return On Investment by the New Economic Foundation (NEF). This methodology aims to calculate in money the social value that is being generated by the impacts of a particular set of activities, given the current "consumption" of resources. An example of how the impact of a project can be quantified is presented in the [APPENDIX 6]. After the presentation of the evaluation, a series of conclusions and recommendations are shared with the institutions. Thus, it will lead to an improvement of their services, in terms of the quality level of their processes, results and the rationalization of resources.

The EDP Foundation is carrying out this work in an innovative manner, with a transversal team and in close coordination with EDP Production, maximizing initiatives that add value to the regions by creating conditions that enable sustainable development, acting as an agent for cultural and scientific development and leveraging the best relational practices, thereby promoting the recognition of EDP as a leader in the environment, sustainability and the creation of a shared value. The implementation of good practices of involvement with the communities requires the adoption of consultative and participative initiatives that guarantee the best quality of processes and good results among the targeted public.

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BIG QUESTION

In the history of CSR initiatives, unfortunately, cases of companies that engaged in CSR programs in order to improve their image with society can be found. Those companies use their CSR program to mask some of the problems they have previously had with society and that now they are trying to correct. Therefore, it is true to say that some companies engage in CSR due to reputation. Reputation, in this sense, is used by them to justify CSR initiatives on the grounds that they will improve a company's image, strengthen its brand, enliven morale, and even raise the value of its stock. Those questions aroused mainly from a doubting public due to the mentality that in stigmatized industries - such as chemicals, oil and energy –, companies may pursue social responsibility initiatives as a form of insurance in the hope that its reputation for social consciousness will temper public criticism in the event of crisis.

Moreover, as it is known, the world faces today a strong financial crisis and with no exception, so does Portugal. Due to this crisis, many people could argue if the creation of the Foundation was not in fact an advanced strategically move done by the EDP Group foreseeing moments like the ones the country is facing today.

People start to question the purpose of EDP while engaging in CSR initiatives. Is EDP Group really concerned about CSR or was the Foundation a marketing strategy to improve the company's image? Why did EDP Group decide to create the Foundation having in consideration that its CSR program was highly used?



TEACHING NOTES

SUMMARY OF CASE STUDY

EDP Group was one of the leading companies in terms of implementation of CSR programs in Portugal. Not only was EDP one of the leaders in engaging in CSR but it is also the leader in the Portuguese (as well as the Iberian Peninsula's) energy industry. It is important to highlight this fact due to the size of the company not only in terms of market share but also the financial returns it gives to its shareholders.

EDP, consequently, seeing the size and importance the company had acquired within the years, saw the need to invest more in society, which meant invest more in the solutions to the problems it had. One important thing to notice, is that the realization of the responsibility that the company had in terms of CSR arose within the company, and not due to external pressures, making the CSR initiatives more credible than other companies that had invested in CSR due to external pressure or benefits of reputation. The internal realization happened because EDP has a strong commitment with the society and environment embedded with the company's values.

As a matter of fact, EDP never wanted to be seen just like the other companies that view CSR as a way to manage pressure groups and often finds that its approach devolves into a series of short-term defensive reactions – a never-ending public relations palliative with minimal value to society and no strategic benefit for the business - in reality, EDP did want to make a difference in the society it is placed and including even the society it does not have direct relationship with.

At first, the contribution provided by EDP in terms of social responsibility was quite simple. The company had a small sector in the Human Resources department that would take care of the simple and small projects and implementation of CSR. In terms of bigger projects, EDP Group would also provide to charity the financial resources they needed so that the specialized organizations could correctly use the money to put in action the desired project.

Although the act was noble, the implementation of CSR within the company was being successful as well as the charity provided to other institutions, EDP was not content with the outcome it was receiving. They saw that the time being provided to the CSR program was not being enough, and that they were lacking of people that had more specialization in the social field. Also, EDP saw that providing the money to different institutions was not satisfying what



they believed to be right in terms of social responsibilities, they saw that although the money was being well implemented, they did not feel they were creating shared value with the people that deserved it.

As a result of the lack of valuable time being used as an input to the social initiative, EDP was seeing that its CSR program was not being well recognized by its stakeholders since its implementation was not correctly done, which created a discontent from the company's side.

Therefore, within time and along with its strong commitments with society and the environment, EDP saw the need to practice themselves the initiatives that the institutions to which they were providing financial resources were doing. Thus, instead of merely providing the means that such institutions needed in order to implement a project, EDP believed they were the ones who should be putting into practice the projects. Opting this strategy, of giving a greater input of time and effort into the tertiary sector, EDP Group found itself engaging in a strong CSR program and saw the return that their shared value was being created into society.

Therefore, something needed to be done so they could still achieve the goals and commitments it had set with society. It was then, with the purpose to give a stronger commitment to the tertiary sector and address society's issues with the most efficient time and work possible, that the EDP Foundation was created in 2005. Instead of continuing engaging in CSR solely, EDP Group saw that by placing all the given resources that it had provided before to the CSR programs into a new segment of the company, it could create a much stronger value with society as well as with the company.

The creation of EDPF gave the opportunity for the projects to be realized with much more seriousness and dedication of time. With the creation of the Foundation, a high number of projects could be developed in different areas such as social, cultural, scientific, technological, educational, and environmental and sports nature. Much more time and attention could be given through this projects to different societies all over the world, giving EDP the chance to deliver shared value to all of them.

The creation of the Foundation seemed to only bring positive outcome in terms of social impact into society. But on the other hand, this same positive impact was not well perceived by a group of people that believed that the EDP Group had created EDPF was a matter of marketing strategy in order to benefit the company's image as well as a way to excuse themselves from society in terms of crisis. It is based on these wrong assumptions and different questions aroused by society that this case analysis would be conducted.



CASE TARGET'S

The main targets for the study of this case analysis are Undergraduate, Masters and MBA students attending Ethics or CSR courses as well as the Strategic courses that contain in their syllabus Strategic CSR topics.

LEARNING OBJECTIVES

- 🏠 Firstly, the main goal of the teaching case is to lead the discussion about what is Corporate Social Responsibility, Strategic CSR and Creation of Shared Value
- 🏠 Secondly, understand the reasons why companies should engage in Strategic CSR and the benefits they and society could gain from it.

TIME AND IN-CLASS APPROACH

The suggested time needed in order to discuss this case is around 60 minutes.

Part I – Reading of the case: give the students the chance to individually read the case study.

Time: 5 minutes

Part II - Introduction: the instructor gives the students a brief introduction regarding the case's content. By that, he will be asking the students the main subjects of the case, such as the challenges presented in the case.

Time: 3-5 minutes

Part III - Relating theory to practice: the professor will engage in a discussion in which he will ask theoretical topics and frameworks that could be used to discuss the case.

The theoretical questions and frameworks will be such as identification of the importance of CSR practices as well as its definition.

Time: 5 minutes

Then, the professor will ask if students believed that it is important for companies to incorporate CSR into their strategies, and how can they succeed or fail if so.

Time: 10-15 minutes

Also, if they know examples of companies that had successfully engaged in CSR programs that did not have the need to create a Foundation, following by asking if they knew other companies that had created Foundations and that they believe to be successful and therefore, can transmit shared value.

Time: 5 minutes

Moreover, the professor will ask if the students believed it was a good strategy taken by EDP Group to create EDPF, or if it was better off if the Group had decided to maintain its CSR program within the company, having no need to create a strategic sector to deal with such



issues. Furthermore, if students believe that the shared value created by EDPF would be achieved by EDP Group with CSR initiatives were developed by the Group, and not the Foundation.

Time: 10-15 minutes

Part IV – Free debate and critical reasoning: give the class to freely debate in the remaining time the pro's and con's that companies have while engaging in CSR programs, without seeing the need to create Foundations. During the same discussion, the Professor would request arguments that explain to what extent companies should be responsible in addressing the social issues of their community. This will allow critical thinking of students, which will apply the case's example of creating the Foundation to address such issues or will allow them to agree that the company did not have the need to do so. Finally, the Professor would end the discussion with a brief reflection about the main arguments presented and regarding the questioning of CSR within the company as well as the need of foundations' creation.

Time: 15-20 minutes

TEACHING QUESTIONS AND CASE DISCUSSION

TQ1- WASN'T EDP ENGAGING IN CSR BEFORE THE CREATION OF THE FOUNDATION? IF SO, COULD YOU USE CARROLL'S MODEL TO BETTER EXPLAIN HOW?

CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY

In order to address this question it is essential to first define the CSR concept. The relevance to start the case study by explaining this concept is to make sure that the concept of CSR is well represented in students' minds, as well as anyone who is reading the case study.

Throughout the reading of the literature review in the present thesis it was possible to see that CSR is a quite complex concept. Therefore, as terms of simplicity, the definition used to correctly explain this concept will be based on the definition given by Carroll.

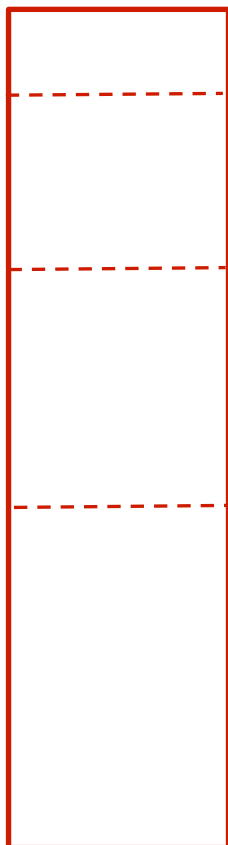
For a definition of social responsibility to fully address the entire range of obligations business has to society, it must embody the economic, legal, ethical and discretionary (philanthropic) categories of business performance. These four basic expectations reflect a view of social responsibility that is related to some of the definitions offered earlier but that categorizes the social responsibilities of businesses in a more exhaustive manner.

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In order to help the students that need visual aids in order to understand certain concepts, the professor could use the graph below. The graph is a simple representation of the



four basic expectations that Carroll has mentioned in his model in the paper written in 1979. While sketching the graph, the professor must be aware of the dimensions of each point, due to its importance to society and the company. The attention is important since the proportions of the weight of each of the expectations are not drawn randomly; in fact, they are drawn according to the same paper from which the definition of Carroll was taken.



Discretionary: these roles are purely voluntary, and the decision to assume them is guided only by a business's desire to engage in social roles not mandated, not required by law, and not even generally expected of businesses in an ethical sense.

Ethical: although the economical and legal categories embody ethical norms, there are additional behaviours and activities that are not necessarily codified into law but nevertheless are expected of business by society.

Legal: society expects business to fulfil its economic mission with the framework of legal requirements.

Economical: before anything else, the business institution is the basic economic unit of our society. As such, it has responsibility to produce goods and services that society wants and to sell them at a profit.

(Carroll, 1979)

Once the theory is well explained and after the reading of the case study, we are able to judge whether EDP Group was in fact engaging in CSR or not.

Firstly, having in consideration the industry in which EDP Group is acting, the energy sector, the company must be aware of the positive and even negative consequences that different sources of energy could bring to the environment. Not only should it be concerned due to the industry that EDP plays its role, but also, because it is the leader company in the energy sector in Portugal as well as the Iberian Peninsula, like mentioned in the case study. Therefore, the industry, and the company, carries heavy responsibilities in terms of CSR, because they need to make sure that the outcome of their actions will not result in damages to its stakeholders (society and environment, as well as shareholders). In case they would not engage in CSR or consider the damages that its business could bring to society, EDP could



suffer great sanctions from society, activists and NGOs, damaging the company's image. Luckily, even before the external pressure could be formed, EDP Group already had in mind the concern of improving the way society could benefit from its business.

Therefore, EDP needed to make sure that its employees, and everyone related to the company, would address CSR seriously. In order to do that EDP Group needed to find a long-term solution, something they knew its employees would engage in every day. Thus, foreseeing the responsibilities that it has with its stakeholders, EDP made sure to have its CSR initiatives highly aligned with its values and commitments. Making sure that its employees would correctly follow them so the company could achieve the best results.

In terms of values, it is possible to see in the case study that EDP has Innovation and Sustainability as one of the strong values that the company desires to achieve. This is a reflection of the concern that EDP has with its stakeholders, and for that reason they have engaged in different ways to achieve renewable sources of energy.

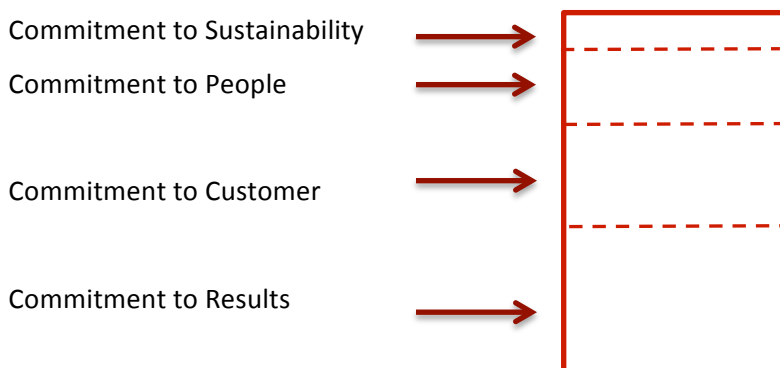
Moreover, EDP Group has signs of CSR initiatives in their commitments. The case study suggests that the commitment that EDP Group has with its customers shows that the way the company has found to deliver them is by putting the employees in the position of the customer. If the employee is aware of the consumer's needs, it will have a better insight and likely to find a better solution to the given problem. Followed by the customers' commitment, EDP Group has the commitment with people, which is a combination of ethical aspects with the personal integrity. Here, EDP shows that it is worried about the way its business is being applied, that it does not hurt anyone's integrity and that its actions are not unethical. Furthermore, EDP has the commitment of sustainability in which it states that EDP Group would engage in different kinds of sustainable actions. These translate into different projects that would help in the development and production of different sources of renewable energy. This would allow decreasing of gases into the atmosphere, diminishing the greenhouse effect. Lastly, but not least, there is the commitment that EDP Group has with the results. In this part, the company commits to its shareholders to engage in the best projects possible that will take seriously the previous three commitments with society and the environment, without forgetting to bring positive economic results to its shareholders.

The summary of the commitments written above are very important to answer the presented question stating whether EDP Group was engaging in CSR initiatives before the creation of the Foundation. By using the commitments above as examples, it is correct to answer that EDP was, in fact, worried about the wellbeing of stakeholders and did seek to



engage in CSR even before the creation of the Foundation.

If we were to place the commitments in the Carroll's model of CSR the correct order would be the following; with the last mentioned commitment, commitment to results, it is correct to say that EDP would be placing itself in the first base of Carroll's pyramid – the economic aspect. Here, the company shows that although it can engage in social initiatives it still has as a main commitment to bring positive economical results to its shareholders. Although the company would be investing in the social sector, by providing money to charity and other foundations as well as the engagement in projects that would develop different sources of clean energy, it is still concerned not to risk the economic stability that it should provide to its shareholders. Following this same logic, it is possible to say that the commitment that EDP Group has with its customers shows that it is placing the company in the second level of the pyramid – legal aspect. This happens because by committing with the customer the company must be aware of all the legal requirements it is needed to correctly do business with the customers. It must be aligned with the law so the company can provide the correct business to its customers. Moreover, the company places its commitment to people in the third base of the pyramid – ethical. It is important to remember that in this point of the pyramid, the actions taken by the company are no longer required by society, but yet, the same expects them. By using the ethical code as well as the personal integrity, the company believes it is contributing to society the best it can in terms of ethical values. Furthermore, in combination with the ethical aspect but tilting more towards the philanthropic aspect of the pyramid, there is the commitment to sustainability. In this commitment, the company engages in projects that will allow the research and development of the new sources of energy that will not damage the environment. The picture below can provide a visual representation of the company's commitments aligned with Carroll's model.



With the representation above, we can see EDP Group's commitments does engage in Carroll's model and therefore, matches the definition of CSR – social responsibility is the



actions and decisions made by businessmen that would go slightly beyond what the business addresses. Although EDP does act in the energy sector, it also does manage to develop and produce different sources of energy, going beyond what is expected by the business and society. Using the examples of the commitments of the company, it is already possible to say that in fact, the company did engage in CSR even before the creation of the Foundation.

TQ2- WOULD IT NOT HAVE BEEN EASIER FOR EDP TO CORRECTLY PLACE ITS STRATEGIES IN ORDER TO ENGAGE IN CSR, INSTEAD OF CREATING THE FOUNDATION?
STRATEGIC CORPORATE SOCIAL RESPONSIBILITY

Just like the procedure done to answer the first question, we must explain what is Strategic CSR and its importance before straight answering the question. In order to explain what Strategic CSR is, firstly, the professor could use the concepts introduced by Porter and Kramer.

For any company, strategy must go beyond best practices. It is about choosing a unique position – doing things differently from competitors in a way that lowers costs or better serves a particular set of customer needs. These principles apply to a company’s relationship to society as readily as to its relationship to its customers and rivals. Strategic CSR moves beyond good corporate citizenship and mitigating harmful value chain impacts to mount a small number of initiatives whose social and business benefits are large and distinctive. Strategic CSR involves both inside-out and outside-in dimensions working in tandem. It is here that the opportunities for shared value truly lie.

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Additionally the professor could say that strategic CSR is related with the simultaneous creation of both economic and social value while enhancing the competitive context. Meaning, that there should be a trade-off or balance between social value and the company’s economic situation.

Many would ask how it would be possible so this balance between the social and economic situation could occur and the answer to it would be: by either restructuring the value chain or using philanthropy strategically could achieve this result. In order to better explain how companies could restructure their value chain the illustration below, provided by Porter and Kramer, will provide some of the aspects where companies could strategically place their actions in order to achieve the desired results.





Therefore, the picture shows us that if a company desires to achieve CSR and CSV, it must strategically change one of the possible points (at least, if not all the points if desired) in its value chain.

Thus, in order to better explain the presented theory we could relate to the case study given. EDP Group needed to strategically change its value chain in order to engage in a positive CSR. Therefore, it needed to change its logistics and redistribute its resources correctly, such as location and employees, so they could

achieve the desired results. The company saw that they would need a much bigger place, with more qualified personnel in order to address the social initiatives they wanted to undertake. It is here, that the Foundation takes place.

EDP Foundation therefore is, in fact, the result of the best outcome of strategies taken by EDP Group in order to address CSR. The definition of Strategic CSR says that it moves beyond good corporate citizenship and mitigating harmful value chain impacts to mount a small number of initiatives whose social and business benefits are large and distinctive while choosing a unique position – doing things differently from competitors in a way that lowers costs or better serves a particular set of customer needs (Lantos, 2001). Therefore, EDP Group had to correctly place its strategies in order to create the Foundation, and as a result, achieve the best CSR results it could obtain.

Based on the interviews and reports from EDP, at first the company believed that the best way to address CSR would be by providing a bigger physical space where specialized people in the tertiary sector could be in charge of which projects should the company undertake in order to address the CSR initiatives. Within time, EDP saw the size and importance that this sector was taking as well as the speed of its growth. EDP understood that instead of having the “CSR team” inside the Group’s activities, it would be better for it to be placed as an independent entity so the dimension of the projects could grow. Thus, this would be giving space to the Foundation to work by its own in the social projects it believed to be appropriate and deliver a much stronger value to its stakeholders. Therefore, EDP Group realized that it would be better if the company would provide an entire new space and a team



that would be focused only in the social sector – and as a result, created EDPF.

In order to explain this strategy, it is possible to use the help of the table above. EDP believed that the best way to allocate its resources was not by providing a bigger location for CSR matters to be discussed, because they saw that although a physical space could be provided they would still lack something else; specialized people in the tertiary sector. Therefore, distribution of the work being provided in the social sector would be much greater, with a much better and appropriate focus than it would have been if still place under EDP Group’s hierarchy. This point represents the location strategy as well as the logistics in terms of positioning and distribution of employees in the correct sector. Continuing with this same strategy, in terms of procurement, EDP Group realized that by having a better space, they could now afford having more people that would address the projects in the correct manner. Likewise the employment productivity would only increase, since the people that were responsible for the realization of the projects were people that had expertise in the area, and no longer employees that before had to address CSR as another task in their daily routine.

Therefore, the strategy that EDP Group took in order to correctly address the CSR initiatives was by providing independency to the Foundation to deal with the social area the way they believed to be correct the most and therefore, achieve the shared value desired by all the CSR initiatives.

CREATION OF SHARED VALUE

We were able to see that if correctly placing its resources and capabilities, a firm engages in strategic CSR and therefore, transmits the social value it desires to the society. To some people the concept of shared value might not yet be clear. It is possible to be confused with “recognition” that society has with the projects, instead of the real meaning of shared value. As a matter of clarification and understanding, the professor could use the illustration bellow that describes the differences between CSR and CSV according to Porter and Kramer.

CSR

- Value: doing good
- Citizenship, philanthropy, sustainability
- Discretionary or in response to external pressure
- Separate from profit maximization
- Agenda is determined by external reporting and personal preferences
- Impact limited by corporate footprint and CSR budget

CSV

- Value: economic and societal benefits relative to cost
- Joint company and community value creation
- Integral to competing
- Integral to profit maximization
- Agenda is company specific and internally generated
- Realigns the entire company’s budget



CSV, therefore, goes beyond the traditional CSR since it address issues beyond mitigating harm and complying with law and the ethical standards. CSV is profit driven and it strives to address social issues while producing higher economic benefits to the company, rather than costs. It is also a realization that all stakeholders can benefit from adequate CSR initiatives, and that value can be created for companies, communities and societies.

It is important to notice that CSV is a result of strategic CSR, and could not be achieved without it. Hence, it is very important for a company to well strategize its resources, so they can create shared value. Moreover, CSV requires the existence of tailored metrics for social impact. In opposite terms, the CSR spectrum includes costly practices, as pure philanthropy with no strategic focus, which may be difficult to sustain in the long run.

TQ3- DO YOU THINK THAT EDP GROUP WOULD HAVE ACHIEVED THE SAME CSV IF THE FOUNDATION WAS NOT CREATED?

Since the creation of the Foundation, EDP could engage in a greater number of projects in the social sector, consequently creating shared value to a greater number of stakeholders. Like previously said, EDP Foundation could now use a much qualified amount of time to deal with the tertiary sector as well as using human resources that had a better knowledge in the social field. This creates an advantage, because now EDPF can opt for having different projects at the same time, knowing that it has a well-structured team and available resources to undertake the important projects. Perhaps, if the Foundation were not created, the number of projects would have definitely been lower than 35, which was the least number of projects that EDPF had in the year of 2011, only in the Innovation section. Consequently, with the lower number of projects addressed, the quality of shared value transmitted to stakeholders would have also been lower. According to the Annual Report of 2011, EDPF touched the life of 1 million 900 thousand citizens with their over 35 projects realized in that year.

The EDP Foundation presented its activity to society in general through an institutional spot to run on television and in cinemas. This campaign's objective is to report a year of the Foundation's activity via the most important indicator: the number of people who benefitted from our existence this year.

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Considering that we must in fact, try to measure or relate what kind of shared value, in terms of qualitative characteristics, did the Foundation acquire that the Group was not



possible to do it, we could use the help of the table above. By using the table above, we can see that if EDP Group had simply engaged in CSR the value they would have obtained from society would have simply been “doing good” (using the same terminology as provided). On the other hand, EDP Foundation bases its decisions on the importance it pays the results generated by its activity. The beneficiaries of patronage are also involved in the obligation to establish goals, quantify results and optimize their programs.

An example we can use is the Kakuma project mentioned in the interview Dr. Collares Pereira provided us. If EDP Group were to overtake the project of Kakuma, by engaging in CSR, it would have provided the amount of money that was asked for in the beginning. On the other hand, foreseeing that the money would not create benefits to the society in the long-term, EDPF overtook the project in a different perspective and ended up realizing one of the company’s biggest projects, with over 77 thousand people taking advantage of it for years. Hence, the value transmitted through EDPF had economic and societal benefits in relation to its costs, which on the other hand, if embraced by EDP Group, would have been a value of “doing good”.

Another example of the value that was transmitted to the stakeholders could be in the realization of several projects under the Dam’s Program. The projects realized by EDPF embraced 21 municipalities in the regions of Baixo Sabor, Foz-Tua, Fridão, Alvito, Picote and Bemposta, and gave a better life to the communities that lived in the area. Before the creation of the Foundation, EDP Group could not afford the time to undertake the projects that would study carefully the area in terms of social aspects, such as the collection and analysis of socio-economic factors, psycho-social studies and a direct contact with the local key players, collecting and identifying the communities’ anxieties, expectations and fears. The project developed with the Dam’s program shows the special attention that EDPF had with the stakeholders that lived in those villages. By using the table above, EDPF could create shared value by joining the company and community, resulting in a unique value creation. EDP Group knew that the Foundation would deliver a much intense value to its stakeholders, and for this reason, asked them for help.²⁹

Building dams is a challenge and opportunity for development for the regions where the projects are situated. Aware of the impacts that a project of this dimension exerts on the regions, EDP understands that it must be a partner in qualifying the respective communities, namely through the EDP Foundation’s axes of activity.

The Dam’s Project’s team was constituted in 2008 and it was responsible for the



development, implementation and coordination/articulation of multidisciplinary projects to involve the communities in the areas impacted by the new dams. In order to pursue those goals, we conducted meetings, gatherings and other events, renewed projects-programs focusing on innovation and social inclusion, entrepreneurship and self-employment, teaching, supporting and promoting culture, and formalized new challenges in territorial development and the qualification of local productive structures (EDP, 2012).

As a conclusion, we could say that EDPF was able to address a much higher number of stakeholders, than EDP Group could have done if engaging only CSR. Meaning, that the value that EDPF could transmit to its stakeholders is in much higher than EDP Group could have achieved in maintaining CSR initiatives, since they could achieve a higher number of stakeholders. Also, with the more qualified people in the tertiary sector, EDPF could engage in the correct projects that would deliver the most value to the stakeholders that are in touch with the project. Although the proportion of the projects developed by EDPF are higher than the ones undertaken by EDP Group, it is very hard to tell precisely how much more value creation could be achieved. It is known that more stakeholders were addressed, but the intensity of shared value is a delicate subject and could only be measured if EDP Group would have given continuity to a broader CSR initiative.

TQ3.1- WHAT KIND OF SHARED VALUE DO YOU THINK IT WAS ACQUIRED WITH THE FOUNDATION THAT WAS NOT POSSIBLE TO BE ACQUIRED WITH EDP GROUP?

This question gives a complementary answer to the answer provided above. With the better time and effort that the Foundation could provide to its stakeholders, it was easier to focus the correct type of value each project desired to transmit. EDPF was able to develop more and different projects, in different areas, therefore providing different types of shared value to its customers. As previously said, EDPF was able to engage in at least 35 different projects during the year of 2011, which can be seen along with their brief description in the [APPENDIX 4].

As an example of the shared value that EDPF was able to transmit we can use the interview done with Dr. Collares Pereira in the study case. In the interview, he related a story that happened with a project in a particular location in Africa. Using the help of the Annual Report, we are able to identify the name of the project he mentions in the interview, Kakuma, which was developed in Kenya [APPENDIX 3]. During the narration of the story, he mentioned that EDPF did not provide money to buy food to the local community like it was asked by a partner in the tertiary sector; instead, they decided to go to the location and see by themselves what in fact the community desired. The result of the project was the development



and placement of a new source of renewable energy that could provide, to the 77 thousand people that lived in that community, electricity day and night. It is also important to remember that the kind of energy provided was a clean energy, meaning that it would not damage the environment.

In this way, it would be correct to say that the example given above correctly matches with the definition of CSV given by Porter and Kramer which states that the concept of shared value can be defined as policies - such as not providing money to buy food and making sure that although this action is not taken, they must still deliver the best outcome to the society - and operating practices that enhance the competitiveness of a company – using the same example, by developing new sources of renewable energy - while simultaneously advancing the economic and social conditions in the communities in which it operates – providing the local community sources of energy so they could have electricity 24 hours of their days.

The example provided is only one example of the shared value that was created by EDPF. For further examples, students could refer to the [APPENDIX 4] where they have several other examples of projects that EDPF overtook in the year of 2011. The important point to be taken into consideration while choosing one example is to correctly state how does it match with the definition of CSV given by Porter and Kramer.

TQ4- CAN CSV BE MEASURED IN ECONOMICAL RETURNS? IF SO, GIVE AN EXAMPLE OF A PROJECT REALIZED BY EDPF.

Unfortunately, CSR and CSV require different sources of measurement and still, they are quite hard to be measured. Although being hard to be measured, EDPF still considered that CSV measurements one of their priorities. In the case study we are able to see that in order to quantify its metrics, EDPF uses the LBG framework - London Benchmarking Group's Corporate Citizenship –, which allows a thorough knowledge of the ways of measuring impact and demands metrics similar to those used by the institutions it supports.

Moreover, in order to show to their stakeholders that the projects they were overtaking did in fact bring positive results to society, EDPF also created a partnership with Quotidian, and together they use a method that could translate in numerical terms the benefits that the project brought to society. The methodology used, called SROI (Social Return on Investment) aims to calculate in money the social value that is being generated by the impacts of a particular set of activities, given the current “consumption” of resources. In order to obtain the results, the company must do first a profound process of identifying the scope of the projects and their stakeholders, mapping out inputs and outputs, defining and valuing the outcomes and weighing the impacts. For that reason, they must correctly identify which ones



are the primary as well as the secondary stakeholders that are involved with the project.

As we can see from the study case [APPENDIX 6], together Quotidian and EDPF could calculate the SROI of three different projects; Learning to be By Doing, Mobility & Health and CSS – Arlampar. The results obtained were 1.22€ for the first project, meaning that for every 1€ invested in the project, there was a 1.22€ return to the society in a period of 5 years. Consequently, there was a SROI of 2.47€ and 3.96€ for the other respectively projects. After the realization of the SROI and its evaluation, a series of conclusions and recommendations can result. These results are shared with the different institutions, such as EDPF and its partners, as well as with their respectively shareholders. It is with the results obtained that the Foundation will judge which ones are the areas of improvement of their services, in terms of the quality level of their processes, results and the rationalization of resources – engaging once again in Strategic CSR.



CONCLUSION

Despite the different definitions provided by the different authors, it is possible to have a wider and better idea of what is Corporate Social Responsibility. In summary, we could say that companies created CSR as a response to the external pressure that society was providing them in order for them to work in the social sector. With the external pressure created, companies realized that there must be a way they could use their resources in order to benefit society outside the main business. Therefore, Corporate Social Responsibility is the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large and improving welfare of society at large independent of direct gains of the company (Kok et al., 2001, p. 288).

But in order to address CSR correctly, firms needed to be aware of the company's first priority – to bring economical returns to its shareholders- otherwise, addressing its resources to benefit society could lead to a damage in the company's structure and business. It is with this thought in mind that Porter and Kramer saw the opportunity that could be created if companies would address CSR strategically. Porter and Kramer believe that the most successful way to obtain a good result in corporate social responsibility is by making the right choices, meaning, correctly choosing which social issues they must focus on (Porter & Kramer, 2006). As a result of a good implementation of Strategic CSR, companies engage is the creation of shared value - 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 (Porter & Kramer, Creating Shared Value, 2011).

In the presented thesis, the case study of the leader of the Portuguese energy industry was introduced, EDP Group. EDP is a very well known company and respected in Portugal due to its services provided, but also, for engaging in strong CSR. EDP was always very concerned with the social sector, because they knew that in the business they acted, they had its positive and negative outcomes due to the use of energy. Not only due to that, but also because of the dimension of the company in the country they knew they could create a strong impact in the society.

In order to address CSR correctly, EDP Group saw the need to implement its standards of social value within the company's values and commitments. By addressing them inside the company, they believed they would create an environment with employees that will be



concerned about the tertiary sector and not only the profits could the company obtain. Therefore, EDP believed that tightly introducing the social values to its employees they would grow up in a more humanistic environment, giving special attention to society in general. Although contradicting the beliefs of Friedman; companies should not address social problems, but instead, they should maximize shareholders' profits; EDP still engaged as much as they could in the social sector.

Unfortunately, although trying for so many years to engage in different projects to help society, most of the work done in the tertiary sector would be through partnerships and donations to institutions. With time, the company was gaining more power and dimension, and society started to realize something more should be done to the social sector than what EDP Group was providing to them.

It was after the combination of the internal realization with the initial external pressure provided by society, that EDP Group decided to create a special organization that would deal directly with the tertiary sector – EDP Foundation. In the end of the year of 2004, EDP Foundation was created with the objective to work solely in the tertiary sector. The Foundation would have more time and specialized people to work in the social projects, knowing with much more precision what were the true needs that society had and in what ways the Foundation could match the needs. With the Foundation in charge of the social sector, they could engage in higher number of projects and indeed deliver some kind of social value to the society, instead of just providing the economical means an institution would need to address them.

Although the creation of the Foundation was for better purposes, many critics questioned what were indeed the true reasons behind the strategy taken by EDP Group in order to create the Foundation. After the analysis of the case study, questions such like the provided one were raised and analysed. We are possible to see that the creation of the Foundation was a strategy taken by EDP in order to correctly address CSR. The Group realized that the time and effort being provided to the social sector was not enough, and therefore, they were unsatisfied with the results obtained. By using Porter and Kramer's definition of Strategic CSR we are able to judge that the creation of the Foundation was a combination of the Group's best responses in order to address social issues. EDP Group strategically placed their resources and capabilities regarding the social sector in the Foundation. They believed that by creating a special segment for the tertiary sector, society's problems would be addressed more correctly while the Group could also focus more on its shareholders. The



mentioned created a win-win situation, where both economic and social activities would perfectly match.

Therefore, by providing more time to society, EDPF could correctly study what were indeed the true necessities they had, and therefore, manage to provide the best response and project. This created a much stronger value than the Group could have achieved. Since the Foundation had more time as well as an expert team, they could better understand the needs and therefore, undertake the projects. The mentioned point is one of the questions also analysed in this dissertation. We are possible to highlight the greatest differences between CSR and CSV, and during the analysis of the case study with theory, we were able to see how much more shared value did EDPF provide to society in comparison to the CSR done by EDP Group.

Although providing better responses to the problems that society faced and creating better shared value, this does not mean that EDP Group failed while addressing its CSR. In fact, the creation of the Foundation is one of the biggest examples that the work provided by EDP Group in the social sector was very successful. Not only is the Foundation a great example of positive results in CSR, but also the high performance position on the Dow Jones Sustainability Index, European and worldwide. EDP appears as one of the most sustainable electrical companies, with a mean evaluation of 61 points in the year of 2012, achieving its highest score ever, with 87 points, the same score attained by the electric sector leader and the utilities' sector leader (EDP)[APPENDIX 2]. The Dow Jones Sustainability Index shows us that the company could indeed create shared value to society and also represents that this value can be quantified. We are also possible to see with the given examples, how can the Foundation calculate in numerical factors what is the value they produce to society, and therefore, achieve the position in the Down Jones Sustainability Index.

As a conclusion, we could see with the presented dissertation that the creation of the Foundation was not due marketing strategies or a way to cover its size in the market, but in fact, it was a strategy adopted by EDP Group to better address CSR and deliver the most desired shared value to society. EDP Group showed it is possible for a leader in the energy sector to also become a leader in the tertiary sector – providing the best solutions to society and therefore, creating the shared value they have been searching for.



LIMITATION

Before writing the thesis, I had already confronted some difficulties on the way. Firstly, finding the topic was a challenge already, due to the different topics that I wanted to cover in the thesis. Along with the different topics, there were different companies that I could possibly work on. Several companies acting in the Social Entrepreneurship industry had caught my attention, so I had to finally decide the best company to work with, and luckily, I have found EDPF.

Once the choice of the company was done as well the decisions of the topics that would be addressed, the research had to be carried out on each topic. It was in this point, where the limitations started to arouse. Like previously mentioned in the Literature Review, the subject Corporate Social Responsibility is a fairly recent one in terms of academic studies and one that is evolving, and therefore, its definitions are not precise. Consequently, the research done, reading and studying of the material to be found was much harder since authors had different points of views and definitions to what indeed is CSR. As a result of the different arguments presented by the authors of the real explanation of CSR, the research and reading of the material gathered was very extensive and many times would run away from its main topic. Therefore, I found the need to narrow down to the specific points of which I have included in the presented thesis.

Unlike the research conducted for the Literature Review, the research material for the case study was easier to be found since Dr. Collares Pereira was kind to provide me all the information needed to study the Foundation.

Once the case study was finalized, as well as the theory in the Literature Review, there are limitations to the teaching notes. Namely due to the limited information available to conduct a more in-depth analysis, and also concerning the theoretical framework of the EDP Foundation in the various streams that currently exist. It was quite hard to correctly identify and apply the theory to the case, because EDP Foundation integrates social entrepreneurship and corporate social responsibility all together. Indeed, strictly speaking, the EDP Foundation does not just sponsor the projects, does strategic philanthropy or it is simply a social entrepreneurship. The EDP Foundation does, in fact, all of the mentioned often in an integrated manner and on the same projects, sharing knowledge, promoting synergies and building the foundations of sustainability in and out Portugal. The Foundation acts in different areas, not specifically in their area of expertise – energy – which could be challenging while



applying what most authors claimed; that Foundations work in areas of their expertise. Due to the size of the Foundation and the areas in which it plays a role, correctly stating the Teaching Notes was a part of the thesis that required special attention, in order to point correctly the material to be covered.

Lastly, but in terms of personal achievement could be pointed as a very important factor in the limitations, was the time provided to complete the thesis. Although the time provided is quite enough for a master student to realize his or her thesis and deliver it on time, in my particular case this did not occur. I faced some time management problems while elaborating my work since during the realization of the thesis I was still undertaking some courses in University in parallel. Thus, the studies for the classes took more of my time, which could have been a distinct time to be used for the thesis.



FUTURE RESEARCH

Given that the concept of CSR and CSV are fairly recent topics, it is important to understand and show the impacts that the well implementation of both could bring to companies and society. For that reason, I suggest that a more in depth study is conducted to different organizations in order to show them how important it is to engage in strategic CSR. Not only this study will be of great value to the companies, but also to society, which will understand better the importance that business could bring to them in the social area. Moreover with a more detailed research it will be important to understand what impacts companies' initiatives will have to its stakeholders, and how they are benefiting from this.

Another possible line for future studies and research would be to compare the performances of the different companies in the Sustainability Indexes, such as the FTSE4Good and DJSI. This comparison could be either done amongst different companies that work in the social sector, as well as the company's own economic performance.

Moreover, students should not hesitate to try to study the relationship between the EDP Group's financial resources to EDP Foundation's. For the skeptical students who are still not convinced that companies do seek a greater benefit to society rather than economic advantages, I suggest them to study the relationship between both companies' financial results.



FOOTNOTES

¹ (Wilde)

² (Snider, Hill, & Martin, 2003)

³ (Friedman, 1970)

⁴ (Kok et al., 2001, p. 288)

⁵ (Carroll, 1979)

⁶ (Freeman, Strategic Management: A Stakeholder Approach, 1984)

⁷ (Jensen, 2001)

⁸ (Porter & Kramer, 2006)

⁹ (Porter & Kramer, 2006)

¹⁰ (Porter & Kramer, Creating Shared Value, 2011)

¹¹ (EDP, 2012)

¹² (EDP, 2012)

¹³ (EDP, 2012)

¹⁴ (EDP, 2012)

¹⁵ (EDP, 2012)

¹⁶ (EDP, 2012)

¹⁷ (EDP, 2012)

¹⁸ (EDP, 2012)

¹⁹ (EDP, 2012)

²⁰ (EDP, 2012)

²¹ (EDP, 2012)

²² (Collares Pereira, 2012)

²³ (Collares Pereira, 2012)

²⁴ (EDP, 2012)

²⁵ (EDP, 2012)

²⁶ (Carroll, 1979)

²⁷ (Porter & Kramer, 2006)

²⁸ (EDP, 2012)

²⁹ (EDP, 2012)



APPENDIX

1.EDP GROUP FINANCIAL REPPORTS

SUMMARY OF KEY METRICS

Financial Indicators

EUR thousands

EDP Group

	2011	2010	2009	2008
Turnover	15,120,851	14,170,742	12,198,183	13,894,063
Gross operating profit	3,755,588	3,612,810	3,362,948	3,154,936
Operating profit	2,267,390	2,062,509	1,969,567	1,929,994
Net profit*	1,124,663	1,078,925	1,023,845	1,091,529
Operating Cash-flow	2,946,805	1,842,144	3,921,669	1,744,507
Operating investment	2,160,624	2,667,341	3,234,740	3,618,187
Financial Investment/(Divestiture)	104,721	184,265	-132,549	-1,362,987
Net assets	41,280,577	40,488,853	40,261,557	35,744,969
Equity**	8,109,534	7,854,558	7,291,151	6,366,820
Net debt***	16,948,236	16,246,836	14,006,568	13,889,511
Net debt/Gross operating profit (x)	4.5	4.5	4.2	4.4
Financial liabilities/Equity	232%	228%	223%	231%
Earnings per share (EUR)	0.31	0.30	0.28	0.30
Dividend Yield	7.1%	6.8%	5.0%	5.2%
Market capitalisation	8,742,782	9,108,435	11,364,519	9,854,369

Electricity Generation - Iberia (excluding EDP Renováveis)

	2011	2010	2009	2008
Turnover	4,798,766	4,131,681	3,708,759	4,095,750
Gross operating profit	1,187,272	1,235,098	1,374,936	1,172,169
Operating profit	747,749	785,170	908,560	738,921
Net profit*	432,195	460,353	636,639	523,465
Operating investment	513,295	556,033	879,579	685,688

Electricity Distribution - Iberia

	2011	2010	2009	2008
Turnover	5,209,325	5,282,933	4,987,805	6,213,227
Gross operating profit	832,233	697,758	694,041	769,809
Operating profit	558,479	415,516	391,292	496,768
Net profit*	327,979	309,132	272,166	304,116
Operating investment	332,917	279,300	280,645	283,893

Electricity Supply - Iberia

	2011	2010	2009	2008
Turnover	2,921,184	2,775,362	1,784,816	1,129,950
Gross operating profit	-13,985	58,180	31,590	33,855
Operating profit	-30,603	13,060	8,726	26,414
Net profit*	-36,719	3,315	909	3,728
Operating investment	8,372	6,055	8,148	6,246

EDP Renováveis

	2011	2010	2009	2008
Turnover	991,752	845,056	648,242	532,429
Gross operating profit	800,738	712,749	542,549	437,877
Operating profit	347,497	289,907	230,785	231,615
Net profit*	88,604	80,203	114,349	104,364
Operating investment	828,665	1,231,711	1,690,384	2,090,862

Gas - Iberia

	2011	2010	2009	2008
Turnover	2,165,773	1,686,786	1,189,024	1,442,422
Gross operating profit	311,028	272,959	217,518	208,518
Operating profit	254,435	163,236	171,021	165,462
Net profit*	150,241	100,216	121,625	127,979
Operating investment	79,012	92,218	79,536	78,804

EDP Brasil

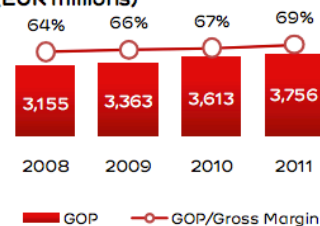
	2011	2010	2009	2008
Turnover	2,312,945	2,147,630	1,680,006	1,844,908
Gross operating profit	681,739	674,000	550,221	562,277
Operating profit	521,513	505,116	419,233	379,558
Net profit*	225,798	246,933	240,786	149,684
Operating investment	341,203	427,336	258,512	428,926

* Net Profit attributable to EDP Equity holders ** Does not include Non Controlling Interests

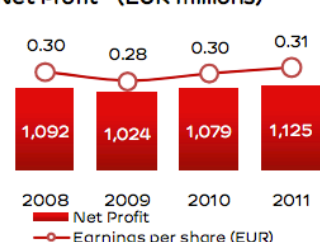
*** Includes Financial Debt, Cash and equivalents, short-term assets at fair value and fair value and net investment hedges

Note: the figures before 2011 are not restated according to changes in accounting policy (2n)

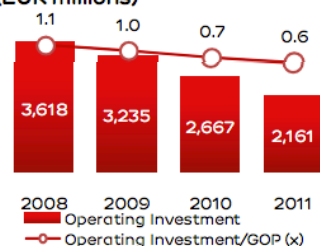
Gross Operating Profit (EUR millions)



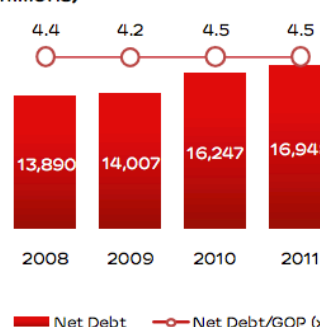
Net Profit* (EUR millions)



Operating Investment (EUR millions)



Net Debt*** (EUR millions)

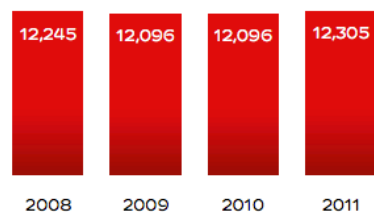


Operating Highlights

2011 2010 2009 2008

Number of employees*

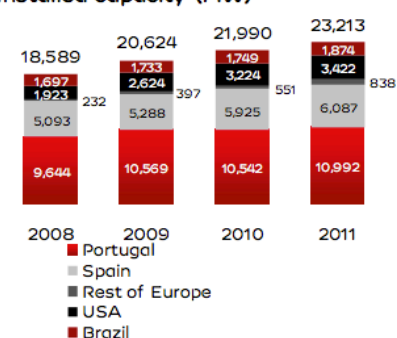
Number of Employees*	2011	2010	2009	2008
Electricity business (ex-Brazil)	9,149	9,164	9,202	9,481
Electricity generation (ex-EDP Renováveis)	2,109	2,172	2,210	2,339
EDP Renováveis	805	833	721	627
Electricity distribution	3,992	4,056	4,163	4,378
Electricity supply	367	254	195	167
Other	1,876	1,849	1,913	1,970
Gas business	537	519	537	422
Electricity business in Brazil	2,619	2,413	2,357	2,342
Generation	367	262	260	231
Distribution	2,091	2,040	2,014	2,033
Supply	23	23	17	14
Other	138	88	66	64



Electricity Generation - Iberia (excluding EDP Renováveis)

Installed Capacity (MW)	2011	2010	2009	2008
Portugal	10,380	9,943	9,974	9,091
Spain	3,886	3,875	3,427	3,401
Net electricity generation (GWh)	33,721	37,951	36,978	35,627
Portugal	22,974	26,093	24,736	22,511
Spain	10,747	11,858	12,242	13,117

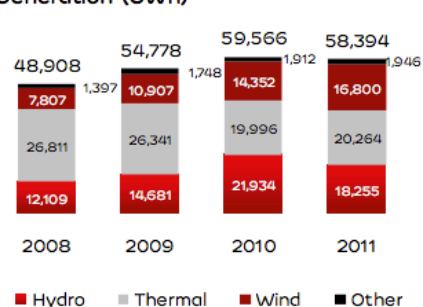
Installed capacity (MW)



Electricity Generation - EDP Renováveis

Installed Capacity (MW)	2011	2010	2009	2008
Portugal	613	599	595	553
Spain	2,201	2,050	1,861	1,692
Rest of Europe	838	551	397	232
USA	3,422	3,224	2,624	1,923
Brazil	84	14	14	0
Net electricity generation (GWh)	16,800	14,352	10,907	7,807
Portugal	1,391	1,472	1,275	1,028
Spain	4,584	4,355	3,275	2,634
Rest of Europe	1,326	805	426	238
USA	9,330	7,689	5,905	3,907
Brazil	170	31	26	0

Net Generation (GWh)



Electricity Distribution - Iberia

Distribution outlets	2011	2010	2009	2008
Portugal	6,137,676	6,149,046	6,119,805	6,088,179
Spain	656,119	651,001	644,524	628,341
Electricity sales (GWh)	56,025	57,146	55,277	56,147
Portugal	46,508	47,836	46,146	46,468
Spain	9,517	9,310	9,131	9,679

Electricity Supply - Iberia**

Number of costumers	2011	2010	2009	2008
Portugal	6,053,509	6,105,291	6,102,495	6,087,578
Spain	1,015,543	1,010,005	953,030	666,573
Electricity sales (GWh)	55,072	60,816	62,522	65,983
Portugal	33,710	39,375	43,154	46,236
Spain	21,362	21,441	19,367	19,747

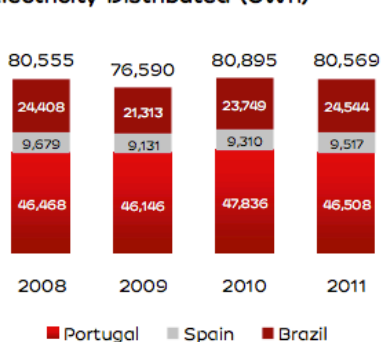
Gas business

Gas Distribution - Portugal	2011	2010	2009	2008
Distribution outlets	270,866	245,347	221,388	200,988
Gas sales (GWh)	7,138	6,843	6,133	5,952
Gas Supply - Portugal	200,988	200,988	200,988	200,988
Number of costumers	271,576	245,335	221,356	200,988
Gas sales (GWh)	8,191	8,925	3,315	2,693
Gas Distribution - Spain	690,032	690,032	690,032	690,032
Distribution outlets	993,851	983,873	963,837	690,032
Gas sales (GWh)	48,447	45,644	18,968	20,688
Gas Supply - Spain	628,294	628,294	628,294	628,294
Number of costumers	787,860	823,792	833,450	628,294
Gas sales (GWh)	28,259	29,809	21,261	24,750

Electricity business in Brazil

Installed Capacity (MW)	2011	2010	2009	2008
Electricity sales (GWh)	24,408	23,749	21,313	24,408
Generation	7,873	7,263	6,893	5,473
Distribution	24,544	23,749	21,313	24,408
Supply	9,895	8,263	8,715	7,282
Number of costumers	2,831,651	2,740,431	2,667,731	2,582,636

Electricity Distributed (GWh)



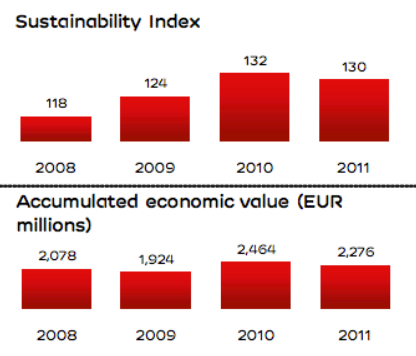
* Includes Corporate Bodies

**includes last resort supply



2.EDP GROUP SUSTAINABILITY INDEX

Economic Indicators	2011	2010	2009	2008
Sustainability Index ⁽¹⁾	130	132	124	118
Economic Indicators				
Direct economic value generated (EUR thousands)	16.394.395	15.396.666	13.544.202	15.825.252
Economic Value Distributed (EUR thousands)	14.117.905	12.932.655	11.621.298	13.747.101
Supplier costs	901.048	862.256	768.202	735.768
Personnel costs	634.900	728.770	698.389	734.874
Allocation to Foundations	16.020	14.254	14.459	12.282
Returned to community	187.484	186.303	531.037	195.563
Dividends	616.581	561.819	507.153	454.937
Accumulated Economic value (EUR thousands)	2.276.491	2.464.011	1.922.904	2.078.152
Spending on R&D (EUR thousands)	65.485	36.527	31.035	23.690
Fines and Penalties (EUR thousands)	97	4.367	1.165	408
Support from public authorities (EUR thousands) ⁽²⁾	1.024	1.265	156	653
Billing of energy services (EUR thousands) (mil €)	19.967	22.515	12.386	12.658



(1) The algorithm of economic dimension has been reviewed impacting the serie.
The slight decrease observed in 2011 compared to 2010 was due to the performance of the severity index (social dimension) and environmental performance resulting from a year with low hydroelectric producibility index <
(2) The results for the 2007-2010 refers to Portugal.

Note: the figures before 2011 are not restated according to changes in accounting policy 2a).

3.KAKUMA PROJECT

2.3.2 International expansion

The social impact of the project we developed in Kakuma, Kenya, taking energy solutions to a refugee camp that provides shelter to 77 thousand people, pushed us to go further in this philanthropic experience of taking sustainable energy to citizens who are at the bottom of the social pyramid. In 2011, the EDP Foundation sponsored the extension of the project Luz Bin, in Guinea Bissau, developed by the non-governmental organisation for development TESE. And we began to participate in the construction of a solar village that will grow 70 km from Luanda, in Angola. A memorandum of agreement was also signed, establishing the principles of collaboration with the Funae Energy Fund, a Mozambican public institution whose mission is to promote access to energy in Mozambique in a sustainable and rational manner.

This global dimension, that brings together a corporate group with more than 12 thousand employees, also came to life, for example, through the EDP Foundation's cultural activity. The Electricity Museum hosted exhibitions such as the World Press Photo 2011, Overlappings and Snøhetta – Architecture, Landscape, Interiors, the protagonists of international tours.

3.5.2.2 Partnership with the UNHCR

€6 429 Kakuma, Kenya Refugee Camp

Under the auspices of the pilot project developed by EDP and the United Nations High Commission for Refugees (UNHCR), with the aim of breaking the cycle of poverty and promoting sustainable development through solar power in the refugee camp, the EDP Foundation travelled to Kakuma once again in order to reinforce the training of our Local Technical Partner, contributing towards its qualification and autonomy.

This training was essentially practical and was integrated into the technical maintenance and assistance plan, in this sense, having carried out some correctional maintenance efforts to improve the energy performance of some solar systems.

Aside from these technical activities, meetings were conducted with the various Local Partners and Stakeholders, in order to verify the status of the numerous projects and the way in which the refugees have been using the diverse solutions that were implemented.



4. PROJECTS DEVELOPED IN 2011.

3.1.4.2 Operation Red Nose

€100 000 Red Nose
Association to Support Children

Since 2006, the EDP Foundation has supported, as a "Partner for Life", the program for intervention in paediatric wards in Portuguese hospitals, through visits from professional clowns with specialised training in hospital environments, who work in close collaboration with the healthcare professionals, giving performances adapted to each child and each situation.

In 2011, the project reached approximately 43 156 hospitalised children in a total of 722 visits in 12 hospitals: Greater Lisbon Area (Instituto Português de Oncologia, Hospital Santa Maria, Hospital S. Francisco Xavier, Hospital Dona Estefânia, Hospital Garcia da Orta, Hospital de Cascais, Hospital Amadora Sintra, Centro de Medicina de Reabilitação de Alcoitão); Coimbra (Hospital Pediátrico); Porto (Instituto Português de Oncologia, Hospital S. João); Braga (Hospital de Braga).

The visits were carried out by pairs of clown doctors in visits divided among the hospitals mentioned. The children's ages are between 0 and 16 years. Indirectly, the work developed impacts approximately 122 108 relatives, healthcare professionals and hospital staff. 7 workshops were conducted involving 240 healthcare professionals.

The Dr. Clowns' headquarters have been located at the EDP Foundation since March 2009. These offices are provided free of charge by the EDP Foundation (estimated value of 14 thousand euros per year).

3.1.3.1.7 If You Don't Skip School

Benfica Foundation National protocol (see 3.1.3.2)

An innovative national project that develops forms of collaboration with disadvantaged communities, allowing the mobilisation and involvement of children and teens through sports (soccer, indoor soccer, track and volleyball), learning (maths, Portuguese and IT) and healthcare.

In 2011, aside from the São Brás-Amadora municipality, the project was also successfully implemented in the Paranhos-Porto municipality. In both territories, the total number of direct beneficiaries was 205 children, 100 in the São Brás municipality and 105 in Paranhos.

3.1.3.1.8 Dentists for Good

Turma do Bem National protocol (see 3.1.4.1)

Involves the volunteer work of dentists who guarantee free dental treatment to children and teens from underprivileged environments. The treatment is carried out in the volunteer dentist's practice and has curative, preventive and educational objectives. In 2011, under the HIS' scope, the project involved 90 direct beneficiaries - 37 in the Paranhos municipality in Porto, and 53 in the S. Brás municipality, Amadora. The EDP Foundation's support began in 2009, and was integrated into the HIS in 2010 and 2011.

3.1.3.5 Social Entrepreneurship Project "The Marias"

€23 125 Pressley Ridge

The 'Marias' project is a social business model of self-reliance that aims for employability on a large scale. The idea emerged in the Alto da Cova da Moura district under the Critical Neighbourhoods Initiative (from April to November 2010).

'The Marias' is an innovative project that aims to pave the way to self-reliance for active adult women from underprivileged districts, allowing them to recover their professional and personal life project interrupted by a difficult economic and social context.

With vast experience in domestic service and proven quality and trustworthiness, the 'Marias' are pioneers in an initiative that guarantees to secure its financial sustainability and is committed to developing a social business with a future.

This innovative partnership aims to provide comprehensive support to some local needs identified by experts in social entrepreneurship, namely insufficiencies in the domestic service sector.

The EDP Foundation took on the role of Exclusive Patron of this project, guaranteeing to cover management expenses for 2 years, until the revenue generated by the project pays those expenses. The official launch of the 'Marias' project took place at the Electricity Museum on November 22. The project already includes a pool of 17 'Marias', 12 of which are already employed.

3.1.3.1.1 Roldana

€45 000 Pressley Ridge

The project consists in qualifying groups of mothers and consequently creating a social support network which enables the beneficiaries' needs to be addressed, fostering their autonomy as well as family and community cohesion.

In 2011, the project included in both territories 56 mothers and families, through three groups of mothers and wrap around family accompaniment. In the São Brás municipality, the project involved two groups and included 50 mothers and families. In the Paranhos municipality, a group of 6 mothers was put together.

3.1.3.1.2 Inclusion through sports

€25 000 Nuno Delgado Judo School

Targets primary school students who, through the practice of judo and civic training activities, will acquire healthy eating habits and create a positive school and community environment. In 2011 the project supported 284 children and teens, 183 from the Paranhos-Porto municipality and 101 from the São Brás-Amadora municipality.



3.1.3.1.3 Faz-te Forward

€18 000 TESE

This project aims to identify, develop and foster talent among teens from underprivileged contexts, in fields as varied as science, the arts and leadership, among others, so that they may contribute to the development of their communities. It uses tools such as coaching and mentoring to develop and qualify the youths. In 2011, the project left HIS and was widened to the Greater Lisbon Area – where it embraced 30 teens with talent.

3.1.3.1.4 Transformers

€16 000 Juvenile Transformers Association

A volunteering project that mobilises mentors in sports, the arts and other fields to organise activities that inspire teens in schools, hospitals and shelters, so that they find a way to express themselves and have a positive intervention in the community. The project was launched in 2011 and involved approximately 22 students and mentors in the São Brás municipality in Amadora. In 2012 the project will be implemented in the Paranhos municipality.

3.1.3.1.5 Learning to endeavour

€15 000 Learning to Endeavour Association/
Junior Achievement Portugal

An educational program whose aim is to qualify children and teens in Entrepreneurship. Within the school environment (primary, secondary and high school) and through volunteers from corporations, they develop financial management tools and learn corporate logic. In 2011 the project involved approximately 1 250 direct beneficiaries: 447 from the São Brás-Amadora municipality and 803 from the Paranhos-Porto municipality. The EDP Foundation's financial support is justified in order to meet the payments involved in managing and operating the program.

3.1.3.1.6 Self-financed Communities

€15 000 Association of Self-financed Communities

Training and monitoring groups of people who create and manage a common fund, through which social allowances are provided for the basic needs of the group members. The qualification of these groups aims to bring about their autonomy.

In 2011, two SFC's were created in the São Brás – Amadora municipality, involving a total of 15 people. In the Paranhos municipality, the project is in the launching phase.

3.1.3 Fighting Social Exclusion

€594 680

3.1.3.1 Social Innovation Hub

€91 000 IES – Institute
for Social Entrepreneurship

Aiming to optimise the social impact projects that several organisations have developed within a specific geographic area (underprivileged communities), the EDP Foundation launched an innovative initiative it calls the Social Innovation Hub (HIS).

The HIS is an innovative concept that intends to combine several social projects financed by the EDP Foundation, so that they may intervene in underprivileged communities in an articulated manner. The aim is to create resilient communities, listening to and involving all of the “interested parties” in the area, so that they may collaborate in building their own future.

Two territories of intervention were selected: Paranhos (Porto) and S. Brás – Amadora (Lisbon), and a partnership was established with IES – Institute for Social Entrepreneurship, to manage and monitor impacts.

In the year 2011, the project strengthened the vision's operation through partner meetings and broader partnerships involving municipal councils, local institutions and the communities themselves. The communication and collaboration between the projects produced positive results, thereby reinforcing the projects' capacity and impact in the chosen territories.

2011 was the first year to assess the HIS, with pretty promising results in terms of number of direct beneficiaries – approximately 7 000 in both regions. To note: greater ties to the community; optimisation of projects in terms of evaluating and measuring impacts; quality of the collaborations and synergies – sharing methodologies and developing joint activities.

Feedback from the institutions has also been very positive, confirming the effectiveness of the applied model and methodologies.



5.CERTIFICATION OF ACCOUNTS BY KPMG



CERTIFICATION OF ACCOUNTS

Introduction

- 1 We examined the EDP Foundation's financial statements, which include the Balance sheet at 31 December 2011 (which displays a total of 28.743.027 euros and a total equity of 22.974.472 euros, including an asset variation of 228.187 euros). The Asset variation statement, the Statement of changes in equity and the Cash flow statement for the period ending on that date, and the corresponding appendix.

Responsibilities

- 2 The Executive Board of Directors is responsible for preparing the financial statements that present fairly the Foundation's financial position, the result of its operations, the changes in equity and the cash flows, as well as the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system.
- 3 Our responsibility is to express a professional and independent opinion, based on our audit of those financial statements.

Scope

- 4 We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ('Ordem dos Revisores Oficiais de Contas'), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Accordingly our audit included:
 - Verification, on a test basis, of the information underlying the figures and its disclosures contained in the financial statements, and an assessment of the estimates made, based on the judgements and criteria defined by the Executive Board of Directors, used in the preparation of the financial statements;
 - Evaluation of the appropriateness of the accounting policies used and their disclosure, taking into account the applicable circumstances;
 - Assessment of the applicability of the going concern principle; and
 - Assessment of the overall adequacy of the consolidated financial statements' presentation.
- 5 Our audit also included the verification that the consolidated financial information included in the Executive Board of Directors' report is consistent with the financial statements.
- 6 We believe that our audit provides a reasonable basis for our opinion.

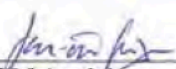
Opinion

- 7 In our opinion, the referred consolidated financial statements present fairly, in all material respects, the consolidated financial position of the EDP Foundation, as at 31 December 2011, the asset variation in that period, the changes in equity and the cash flows for the period then ended, in compliance with the accounting principles generally accepted in Portugal.

Report on other legal requirements

- 8 It is our opinion that the consolidated financial information included in the Executive Board of Directors' report is consistent with the consolidated financial statements for the year.

Lisbon, 6 March 2012



KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
represented by
Jean-éric Gaign (ROCr.º 1013)



6.SROI QUANTIFICATION

3.4.5.3 Evaluating the SROI of social investments

€23 985 Quotidian

The EDP Foundation's priority to measure the social impact of its investments in the community, led to a pilot initiative in partnership with Quotidian, using the SROI (Social Return on Investment) methodology to analyse 3 winning projects from previous editions of the EDP Solidarity in Dams. This methodology aims to calculate in money the social value that is being generated by the impacts of a particular set of activities, given the current "consumption" of resources. Thus, after a profound process of identifying the scope of the projects and their stakeholders, mapping out inputs and outputs, defining and valuing the outcomes and weighing the impacts, the following SROI values were calculated: "Learning to be By Doing" by the Miranda APPCDM = 1.22€ (for every 1.00€ invested, the return is 1.22€ for society, in 5 years); "Mobility & Health" by the Cerejais Parish & Social Centre = 2.47€ and "CSS – Arlampar" by the Ecogerminar Association = 3.69€. A series of conclusions and recommendations resulted from the evaluation, which were shared with the institutions and will lead to an improvement of their services, in terms of the quality level of their processes, results and the rationalisation of resources.



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