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**GOOD PRACTICES IN CORPORATE SOCIAL RESPONSIBILITY: THE
CASE OF EDP**

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ABSTRACT.

In a world each day more aware of the impact that businesses have on society and the environment, stakeholders demand companies to take responsibility for their actions and adopt ethical and sustainable initiatives. Thus, Corporate Social Responsibility (CSR) is becoming a crucial strategy in businesses for effectively addressing and communicating their impacts to all the groups that influence and are influenced by them.

In this context, this study aims to analyse the CSR initiatives and reporting of EDP - Energias de Portugal, S. A., an energy company which is renowned in its sector due to its sustainability.

For that, I will elaborate on the concept of CSR and its evolution from a philanthropic approach to a required model for driving long-term value creation and business accountability. The concept of Environmental, Social and Governance (ESG) criteria will also be explored, as well as various frameworks for sustainability reporting. I will then apply the metrics of the World Economic Forum's report to EDP's environmental, social and governance policies and exhibit the results.

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1. INTRODUCTION.

Given the growing concern of society for sustainability over the past years, the field of Corporate Social Responsibility (CSR) has become a pressing issue in businesses' management. More than ever, companies are expected to go beyond the traditional role of profit generation and create value in different directions: economic, social and environmental. Besides contributing to a prosperous and fair society, organizations should be committed to meeting the social demands and needs of the communities in which they operate. Furthermore, CSR has countless benefits for companies beyond just stakeholder engagement, such as improving their positioning and corporate reputation, increasing employee satisfaction and productivity, helping with risk identification and management, or building trust and positive change.

However, these actions must not only be addressed in an appropriate way, but also communicated and reported to all the groups involved with the company. Stakeholders demand accountability and transparency to businesses and want to obtain trustful and comprehensive information about their behaviour. This includes their financial performance, as well as CSR initiatives. Reporting on sustainability plays a crucial role for businesses nowadays, as it provides quantitative information on their impacts, challenges, goals, progress towards targets, etc.

In this regard, many governmental and non-governmental bodies, such as the UN, the European Commission or the Global Reporting Initiative, have revealed their interest in business sustainability by developing numerous standards, principles and recommendations that dictate voluntary guidelines for the implementation of CSR and its different approaches, such as ESG criteria.

The study is focused on the specific case of EDP, a global energy company and leader in the utility market. EDP was considered for this study due to its excellent results in sustainable development and CSR indexes and ratings, and the solid reputation of its environmental and social policies and initiatives. The key question of the research is if the overall actions and operations of the company are aligned with its CSR strategy and fulfil the standards of a certain ESG criteria framework.

The structure of this study consists of three main chapters. First, a literature review with the theoretical background for Corporate Social Responsibility, ESG criteria and sustainability reporting frameworks. Second, the assessment of EDP through the World Economic Forum's metrics. And lastly, the conclusions and results of the study.

2. THEORETICAL FRAMEWORK.

2.1. DEFINITION AND EVOLUTION OF THE CONCEPT OF CSR.

Corporate Social Responsibility (CSR) is often defined as the strategy or business model in which companies consider the social and environmental impacts of their actions, and they do not focus on just increasing profits, but also on creating value for the entire community and stakeholders. However, the term CSR has been approached in many different ways, and the field has had a significant evolution, including today a wide range of related terminologies, such as corporate citizenship or corporate accountability.

Although CSR has become a trend in recent years, its origin can be traced back to the early 20th century. According to Archie B. Carroll, “references to a concern for social responsibility appeared especially during the 1930s and 1940s” (Carroll, 1999, pg. 268-269). However, literature on the modern concept of CSR started in the 1950s, concretely, with the book “Social Responsibilities of the Businessman” by Howard R. Bowen in 1953. In fact, authors such as A. B. Carroll have referred to him as “the Father of Corporate Social Responsibility” (Carroll, 1999), as he established the basis for the consistent definition of CSR. In his book, Bowen argued that businesspeople have the obligation to operate in the way that is best for society as a whole, according to its values and objectives, beyond just the financial interests of shareholders.

During the 1960s, the concern for social responsibility became notable due to the growing awareness and social movements of the time (Latapí Agudelo et al., 2019), and it was reflected in the new approaches of scholars to CSR. One of the main writers of the decade on the topic was Keith Davis. He introduced business power as a new element in the concept of CSR, by saying that “social responsibilities of businessmen need to be commensurate with their social power” (Davis, 1960, pg. 71). Joseph W. McGuire was another author who studied the relationship between businesses and society. He argued that companies have further obligations than just the economic and legal, such as social welfare, the community, politics, or employees’ satisfaction, and that decisions should be made considering ethics, impacts on society and accountability to all stakeholders (McGuire, 1963).

For Carroll (2015), the 1970s were the era of “managing corporate social responsibility”. The term CSR became widely popular and there were discussions on how to define it in a more analytical way. Companies started to sense the need to respond to the social and legal pressure regarding CSR. It was more of a moral obligation, rather than a corporate obligation. For some authors, such as S. P. Sethi (1975), social responsibility meant that the behaviour of companies should be consistent with social values and norms. However, others asserted that the responsibility of companies towards society is limited to the extent of the direct impacts

of their actions, and that they do not have to address the social issues that go beyond that (Preston and Post, 1975). All the same, probably the most remarkable scholar of the decade was Carroll, who wrote the first unified definition of CSR: “The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (Carroll, 1979, pg. 500). He also created a three-dimensional model in the form of a 3D cube (figure 2.1) that contained what he believed to be the three basic concepts in social responsibility: corporate social responsibility, corporate social responsiveness, and corporate social performance.

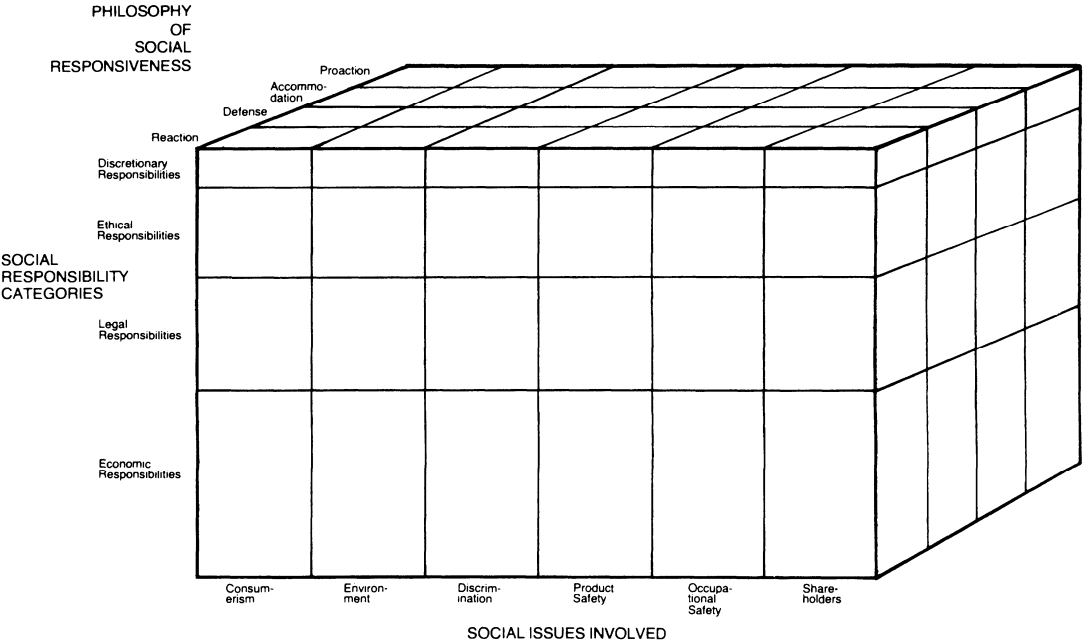


Figure 2.1. Carroll's Corporate Social Performance model. Source: Carroll (1979, pg. 503).

The 1980s were characterized by the creation of new models and frameworks for the evaluation of CSR from an operational perspective (Latapí Agudelo et al., 2019). There was less conceptualization and more research, focusing mainly on CSR measurement, alternative themes, and proving that socially responsible firms were also profitable (Carroll, 1999). One of the most important contributions to CSR was Stakeholder Theory, articulated by R. E. Freeman in 1984.

CSR started acquiring greater relevance from the 90s on. The concept itself did not evolve or change much, but rather its institutionalization increased significantly (Carroll, 1999). Scholars and executives began to accept that companies can obtain better financial results by “being and doing good” (Lee, 2008). Studies have confirmed that there is in fact a positive relationship between CSR and financial performance. In 1996, Burke and Logsdon were presumably the first ones to evaluate the advantages of implementing CSR from a strategic

approach, and they found evidence that linked CSR to a business’s positive financial performance (Latapí Agudelo et al., 2019).

Other key takeaway from the period was Carroll’s CSR pyramid (figure 2.2), composed of four types of responsibilities: economic, legal, ethical and philanthropic. He summarized this view by stating that “the CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen” (Carroll, 1991, pg. 43). However, these responsibilities are not to be fulfilled in that certain order, but rather each is to be fulfilled at all times (Carroll, 1999).

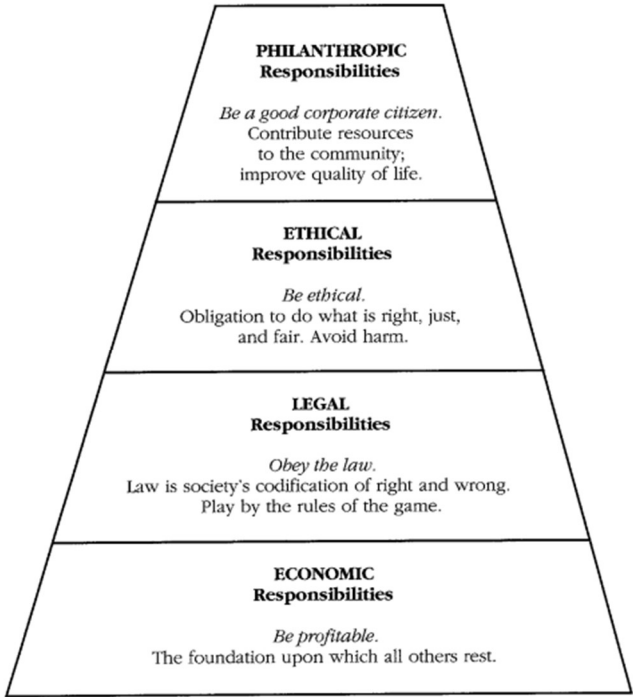


Figure 2.2. The Pyramid of Corporate Social Responsibility. Source: Carroll (1991, pg. 42).

Similarly, A. M. Quazi and D. O’Brien (2000) proposed a two-dimensional model that represents CSR approaches from an organizational perspective (figure 2.3). The dimensions are the span of corporate responsibility and the outcomes of businesses’ social commitments.

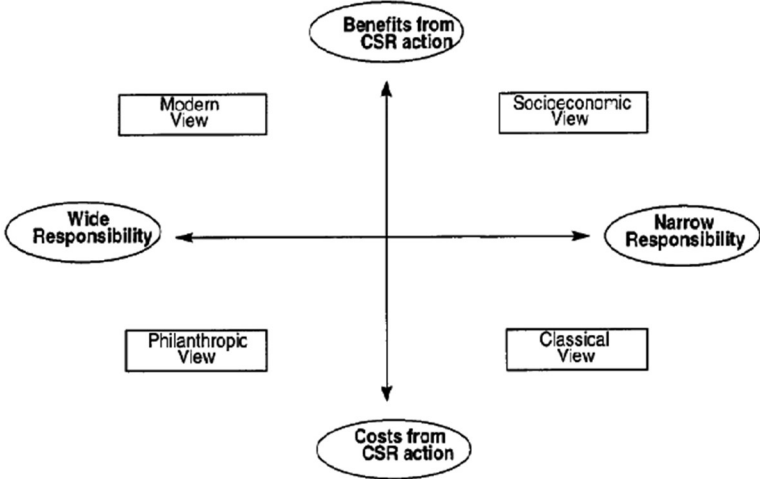


Figure 2.3. The Two-Dimensional Model of CSR. Source: Quazi and O’Brien (2000, pg. 36).

With the arrival of the 2000s, new concepts related to CSR started to emerge. Porter and Kramer introduced the concept of “Creating Shared Value” (CSV) in 2011, Matten and Moon made a distinction between explicit and implicit CSR in 2008, and Scherer and Palazzo addressed the notion of political CSR (pCSR) in 2011.

But, perhaps, the most remarkable concept was “Strategic CSR” or SCSR. According to G. P. Lantos (2001), CSR becomes strategic when it is part of the company’s business plans and is aligned with profit motives. Porter and Kramer (2006) also wrote about SCSR and how companies can achieve a competitive advantage through it, resulting in the creation of shared value for society and the improvement of the firm’s competitiveness.

The period after the year 2000 is considered by author Leila Trapp (2012) as “the third generation of CSR”. She describes it as the outcome of the companies acknowledging and willing to assume their new roles and responsibilities towards society in order to generate shared value.

All of the above CSR definitions and conceptualizations are different and include varying elements and features, but Garriga and Melé (2004) agreed that the majority of current CSR theories focus on four main aspects. These aspects are: producing long-term profits, using business power responsibly, integrating social demands, and making a positive contribution to society by being ethically correct.

Another similar approach was taken by Crane et al. in 2013, who elaborated on the six core characteristics of CSR that definitions tend to cover: (1) voluntary activities, (2) internalizing or managing externalities, (3) multiple stakeholder orientation, (4) alignment of social and economic responsibilities, (5) practices and values, and (6) beyond philanthropy.

An organizational definition that can be considered reasonably complete is that from the European Commission. It has defined CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (EC Green Paper, 2001). This definition was further developed in 2011 when the Commission adopted its renewed CSR strategy. To this day, its website states the following: “CSR is the responsibility of enterprises for their impact on society and, therefore, it should be company led. Companies can become socially responsible by integrating social, environmental, ethical, consumer and human rights concerns into their business strategy and operations, and following the law” (European Commission, 2023).

The United Nations Industrial Development Organization (UNIDO) defines CSR in the exact same way as the European Commission and adds some more features by stating that: “CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives, while at the same time addressing the

expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy” (UNIDO, 2023).

2.2. ESG CRITERIA.

2.2.1. Definition and concept.

As explained above, CSR is a strategy which businesses undertake to be environmentally and socially responsible. Since it is a set of an organization’s internal values and policies, there are several means for assessing CSR in order to make this information available for external users.

One of the most common ways to measure a business’s CSR efforts is through ESG criteria. ESG is the acronym for Environment, Social and Governance, the three dimensions that evaluate a company’s environmental, social and good governance commitments, without ignoring financial aspects.

However, ESG criteria is not the first approach that uses these three factors. In 1987, the Brundtland Report defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (United Nations, 1987, pg. 41), and based it on three main pillars: environmental protection, social equality and economic growth. In addition, John Elkington introduced in 1997 the concept of Triple Bottom Line (TBL), a framework for measuring businesses’ performance and success using three lines: people, planet and profit.

On the subject of ESG criteria, their main objective is to provide a quantitative framework for the self-evaluation of companies’ impacts, since CSR typically offers qualitative descriptions of goals and performances. The three metrics allow companies to facilitate information about environmental, social and governance matters in a more direct and tangible way, thus enabling managers to make more accurate decisions inside the company, as well as external stakeholders, such as investors and consumers, to be aware of the company’s CSR efforts.

The elements within ESG criteria are the following¹:

Environmental criteria. They are all the business activities that have a positive impact on the environment, not only the ones to counter the business’s negative effects, but also all proactive actions. Through taking measures in the supply chain, the product delivery system

¹ Retrieved from: Deloitte (2021, <https://www2.deloitte.com/es/es/blog/sostenibilidad-deloitte/2021/que-son-criterios-esg-para-que-sirven.html>), Forética (2022, <https://foretica.org/foretica-presenta-las-tendencias-y-claves-esg-que-marcaran-la-agenda-de-sostenibilidad-en-2022/>).

or the product itself, a company can reduce its carbon emissions, waste generation and pollution, and also protect biodiversity and nature.

Social criteria. They include all positive actions related to good working conditions, respect for Human Rights and the relationship with the whole community. Newest trends in this matter are diversity and inclusion within the company, caring about employees' mental health, or reducing the inequality gap.

Governance criteria. They refer to the internal management of the company, its culture, corporate quality, integrity and transparency. Especially relevant are plans against unethical practices, solid internal policies, fair and equitable treatment of all stakeholders, or the voluntary adoption of sustainability measures by the board of directors.

2.2.2. ESG frameworks.

ESG criteria were first mentioned in the 2006 Principles for Responsible Investment (PRI) initiative launched by UNEP Finance Initiative and the UN Global Compact. In the report, ESG criteria were required to be incorporated in the financial evaluations of companies, with the aim of encouraging and further developing sustainable investments.

Since then, the use of ESG criteria by major institutions has not ceased to increase, becoming a mainstream trend. Therefore, many different frameworks for addressing ESG have emerged.

Among the most used frameworks is the one from the Global Reporting Initiative (GRI). The GRI was founded in 1997 with the aim of providing a common guideline for businesses to report their impacts, thus solving the lack of standardization. It started to integrate ESG issues in 2009, and its standards are currently used by more than 10,000 organizations all over the world.

Another renowned organization in this matter is the Sustainability Accounting Standards Board (SASB). This framework is composed of sustainability and financial standards, which allow for the comparison of companies' performance on the most financially relevant social and environmental issues. Its distinctiveness is that the standards are set specifically for each industry, covering up to 77 different sets.

Finally, the Big Four accounting companies (Deloitte, PwC, KPMG, and Ernst & Young), in collaboration with the World Economic Forum's International Business Council (WEF IBC), released in 2020 a new set of 55 ESG-related standards in a report called "*Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*"². At the World Economic Forum Annual Meeting 2020 in Davos, 120 of the

² Retrieved from: World Economic Forum (2020, <https://www.weforum.org/stakeholdercapitalism>).

largest companies in the world decided to elaborate a set of common metrics and disclosures for sustainable value creation. Hence, the “Measuring Stakeholder Capitalism” report was published in September of 2020, after a six-month consultation process with more than 200 companies, investors and other interested parties.

This set of universal and material metrics was developed with the purpose of bringing greater alignment and consistency to the reporting of ESG performance and contributions to the SDGs. They seek to improve transparency, comparability and assurance among organizations, investors and all stakeholders, and they are based on existing standards and indicators from renowned sources, such as GRI, SASB, ISO (International Organization for Standardization), or WDI (World Development Indicators of the World Bank).

The metrics are focused on four key pillars, in accordance with the three ESG dimensions and the United Nations’ 17 Sustainable Development Goals (SDGs):



Figure 2.4. Definitions for the four pillars of the Stakeholder Capitalism Metrics. Source: World Economic Forum (2020, pg. 12).

Moreover, the metrics are further divided into core or expanded:

21 Core metrics. These are especially important metrics and disclosures, mainly quantitative, for which many firms already report information, so it can be obtained easily. They mostly focus on activities that take place within an organization.

34 Expanded metrics. They are less established and more concrete and represent a wider scope or impact of sustainable value creation.

3. THE CASE OF EDP.

EDP – Energias de Portugal, S.A. is one of the main energy groups in Europe and the biggest one in Portugal. It has global presence in 29 markets and employs more than 13,000 people in the countries where it develops its activity, which consists of producing, distributing and commercializing energy.

EDP was founded in 1976, under the name “Electricidade de Portugal”, as the public company responsible of the production and distribution of electricity to the whole country’s territory. It made a considerable contribution to the evolution of the electricity industry in Portugal during the last decades of the 20th century, thanks to the total electrification of the territory, the improvement of the quality of the quality of the services provided, and the unification of prices. The company’s privatization process started in the late 1990s and took several years until it concluded in February 2013³.

EDP is currently an industry leader in innovation and sustainability, and fully committed to the energy transition. In 2022 it was recognized as the world’s most sustainable integrated electric utility by the Dow Jones Sustainability World Index, and it has an ESG score of 90 out of 100 in the S&P Global Corporate Sustainability Assessment, where the electric utilities industry mean is 31⁴.



Figure 3.1. EDP’s performance against the best score achieved within the industry and the mean industry score.

Source: S&P Global.

³ Retrieved from: EDP Group (2019, <https://www.edp.com/en/edp-stories/a-history-two-centuries-portugal-lights-first-lamp>).

⁴ Retrieved from: S&P Global (2022, <https://www.spglobal.com/esg/scores/results?cid=4098512>).

Another renowned ESG Rating is the MSCI All Country World Index, where EDP has obtained the highest possible score (AAA) for the last five years, hence being among the 13% leader in the utilities industry⁵.

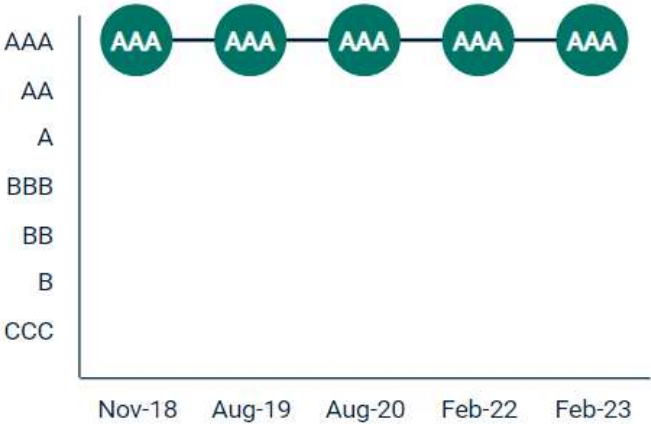


Figure 3.2. EDP’s MSCI ESG Rating history data over the last 5 years. Source: MSCI.

Hereafter, I will apply to EDP the 21 core metrics and the most relevant expanded metrics of the World Economic Forum’s “Measuring Stakeholder Capitalism” Report, in order to assess the company’s CSR strategy and alignment with ESG criteria.

3.1. PRINCIPLES OF GOVERNANCE PILLAR AT EDP.

Good governance is essential to ensure that companies act responsibly not only towards their own interests, but also towards the interests of all their stakeholders. It contributes to the alignment of financial and social performance, and builds accountability and legitimacy. This pillar consists of five themes: governing purpose, quality of governing body, stakeholder engagement, ethical behaviour, and risk and opportunity oversight.

3.1.1. Governing purpose.

This theme analyses the establishment of a positive and clear purpose and how it guides the organization’s strategy.

Setting purpose.

It is a core metric within the Governing purpose theme, and it addresses the priorities of the firm regarding economic, environmental and social issues, and the creation of value for all stakeholders. In the case of EDP, they have a clear and defined purpose to become leaders in the energy transition, which drives their strategy and is in line with their values and commitments to innovation and sustainability. This purpose is stated in several key phrases or

⁵ Retrieved from: MSCI (2023, <https://www.msci.com/our-solutions/esg-investing/esg-ratings-climate-search-tool/issuer/edp-energias-de-portugal-sa/IID000000002148930>).

mottos: “We Choose Earth”, “Changing Tomorrow Now” or “Leading the energy transition to create superior value”.

Purpose-led management.

This is an expanded metric about how the company integrates its purpose in its strategies and policies. EDP’s vision to lead the energy transition and create superior value clearly guides their strategic management, which is based on three key pillars: accelerated and sustainable growth, future-proof organization, and ESG excellence and attractive returns. They are positioned as a low-risk, cross-diversified and resilient company within the energy industry, which allows them to accelerate sustainable growth while maintaining a solid capital structure.

3.1.2. Quality of governing body.

This theme analyses whether the governing body is aligned to long-term value creation in terms of structure and functions.

Governance body composition.

It is a core metric on the competencies, capabilities and characteristics of the governing body and its board members. EDP has a dualist governance model, which is formed by the General Meeting, the Executive Board of Directors, the General and Supervisory Board, and the Statutory Auditor. The following chart represents EDP’s governance structure:

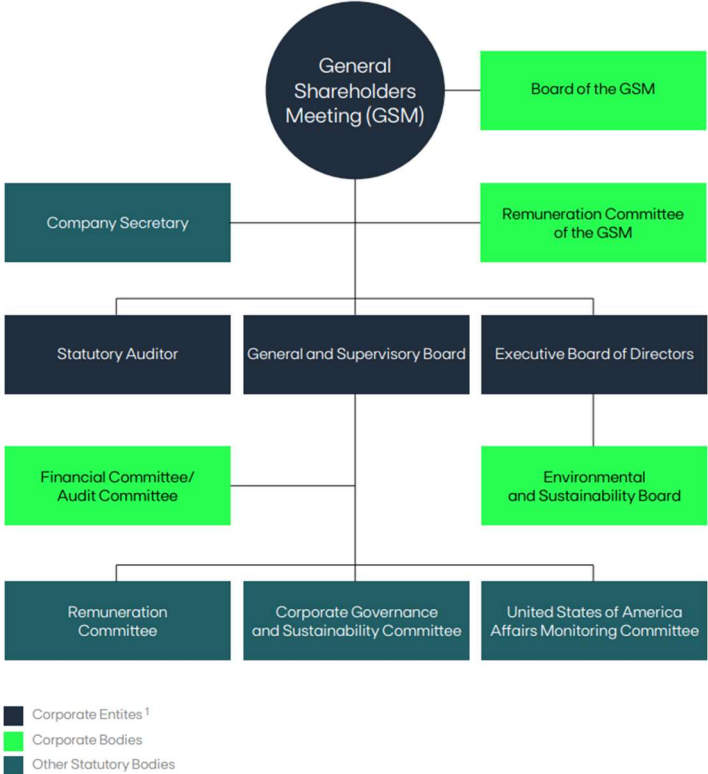


Figure 3.3. EDP’s organization chart. Source: EDP Integrated Annual Report 2022 (pg. 19).

The General and Supervisory Board is responsible for advising, monitoring and supervising the management activities, while the Executive Board of Directors manage the company's activities and represent EDP. This division of powers and competences allows for an effective management and a constant supervision, which maximizes trust, transparency and optimization.

Regarding the Board of Directors, it consists of five members, of which three are men and two are women. Thus, it is gender-balanced, yet there is no representation of different races or ethnicities, nor inclusion of traditionally “under-represented social groups”. Each board member has a specific position within the company and is specialized in a certain area, such as strategy development, client solutions, energy management or networks.

Progress against strategic milestones.

It is an expanded metric about the economic, social and environmental milestones to be achieved in the following years, and the ones achieved the previous years. EDP has defined a set of objectives and strategic goals for the period 2021-2025, divided in their three strategic axes: accelerated and sustainable growth, future-proof organization, and attractive returns and ESG excellence. For example, their target is to have 1.2 billion euros of net profit in 2025, against the 0.9 billion euros that they had in 2022. Another goal for 2025 is to reach 85% of renewables generation, whereas they had 74% in 2022.

Remuneration.

This expanded metric covers the remuneration policies for the highest governance body and senior executives in order to reinforce long-term value creation. EDP’s remuneration norms and regulations are set by the Remuneration Committee, which has appointed a remuneration policy for the Executive Board of Directors (EBD) based on a fixed and a variable remuneration. The fixed base remuneration is independent of the board’s performance and must be in line with the base remuneration of those companies comparable to EDP in terms of sector, size, market, location, etc. In 2021, the annual base remuneration of the CEO was set at 800,000 €, and that of the other members of the EBD was set at 560,000 €. The variable remuneration comprises an annual and a multi-annual component, and acts as a reward and incentive for the good performance of the board regarding the achievement of short and long-term objectives. It is set at a maximum of 80% of the base remuneration.

3.1.3. Stakeholder engagement.

This theme analyses how the company tries to understand its stakeholders’ key concerns and how they impact them.

Material issues impacting stakeholders.

This core metric addresses the relationship between the company and its stakeholders. EDP mentions “establishing long-lasting and trustful relations with main stakeholders” as one of their strategic priorities. They have created the “EDP Group stakeholder engagement policy”, which consists of four stages: understand, communicate, trust and collaborate. Moreover, they have conducted a materiality analysis that identifies the main issues that affect the different stakeholder groups, and they have summarized them in the following matrix:



Figure 3.4. EDP's materiality matrix. Source: Materiality Process of the EDP Group 2020 (pg. 6).

3.1.4. Ethical behaviour.

This theme analyses if the company is conducted ethically, in accordance with the Law and the expected corporate behaviour.

Anti-corruption.

This core metric includes anti-corruption policies, procedures and initiatives, and incidents of corruption within the past years. Regarding this disclosure, EDP has implemented an Integrity Compliance Programme, which is in line with the requirements of Standard ISO 37001 on Anti-corruption Management Systems. This policy applies to the entire EDP Group and their service providers, and it establishes guidelines for the zero tolerance for corruption or bribery practices.

EDP provides several channels for making complaints, in the context of their compliance policy. In 2021, there were globally 12 incidents related to corruption and bribery, and there were 20 new registered cases in 2022, of which two were found justified and caused EDP to develop disciplinary and awareness-raising actions. Regarding money laundering and financing of terrorism, there was one reporting in 2021 and none in 2022.

Protected ethics advice and reporting mechanisms.

This core metric aims to describe a company's internal and external mechanisms for preventing and reporting unethical or unlawful behaviours. Since 2005, EDP has a Code of Ethics that establishes the ethical principles and commitments for the group, and the Ethics Office started designing and implementing ethics programs in 2019. Firstly, EDP develops a lot of activities to increase awareness of the importance of ethics, such as conducting and disseminating ethics surveys, or holding training sessions mainly for managers. During 2022, the total number of hours of ethics training in EDP group was 5,714.

Regarding the existence of channels for handling complaints and grievances, EDP facilitates conventional means, as well as alternative solutions to those provided by law, such as the Customer Ombudsman, the Ethics Ombudsman and the Complaints Portal. They also created in 2022 a new channel for reporting complaints, called the "EDP Speak up channel".

3.1.5. Risk and opportunity oversight.

This theme analyses how effectively governance supervises risk management and identification of opportunities.

Integrating risk and opportunity into business process.

This core metric focuses on the measures and responses of the company regarding its specific material risks and opportunities. EDP follows a risk governance model that consists of three lines of defence: business, which is responsible for the risk; risk, which supports the analysis and monitoring of risk; and audit, which is an independent supervision. There is a Risk Corporate Global Unit, and many local risk units and committees, in order to identify and manage the key risks to which it is exposed. In EDP's Integrated Annual Report, there is a thorough explanation of each risk, its recent and expected in the short-term evolution, and the mitigation actions taken by the company. They are structured around four main topics: strategic & ESG, business, financial, and operational.

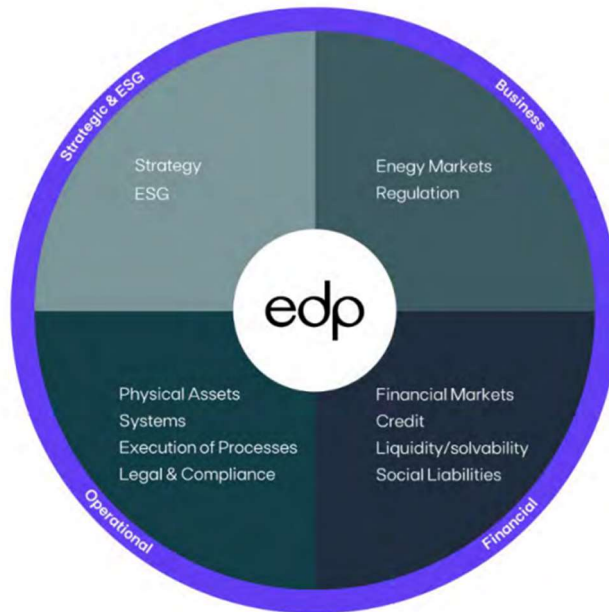


Figure 3.5. Taxonomy of risks of the EDP group. Source: EDP Integrated Annual Report 2022 (pg. 431).

3.2. PLANET PILLAR AT EDP.

Companies impact the environment in many ways through their operations and supply chains, and this can imply societal harm and the creation of business risks due to the stakeholders' response. But companies also depend on the natural environment to ensure business continuity. Thus, it is crucial to consider companies' environmental impacts and long-term value creation along the full value chain of their products and services. This pillar consists of seven environmental themes: climate change, nature loss, freshwater availability, air pollution, water pollution, solid waste, and resource availability.

3.2.1. Climate change.

This theme addresses the threat to human civilization that climate change represents if companies fail to mitigate it.

Greenhouse gas (GHG) emissions.

This core metric must include the tonnes of carbon dioxide equivalent for all relevant greenhouse gases emissions. EDP reports its GHG emissions in accordance with the GHG Protocol Corporate Accounting and Reporting Standard, which divides emissions in three scopes:

- Scope 1 includes emissions from thermoelectric power plants, vehicles, natural gas consumption, and fugitive emissions. In 2022, they added up to 9.4 MtCO₂e, 4% less than in 2021.
- Scope 2 includes emissions from electricity consumption in power plants and buildings,

and losses in transport and distribution networks. In 2022, they added up to 0.47 MtCO₂e, 41% less than in 2021.

- Scope 3 includes all remaining indirect emissions, mainly from purchased goods and services, energy-related activities, and sale of gas. In 2022, they added up to 9.3 MtCO₂e, 10% less than in 2021.

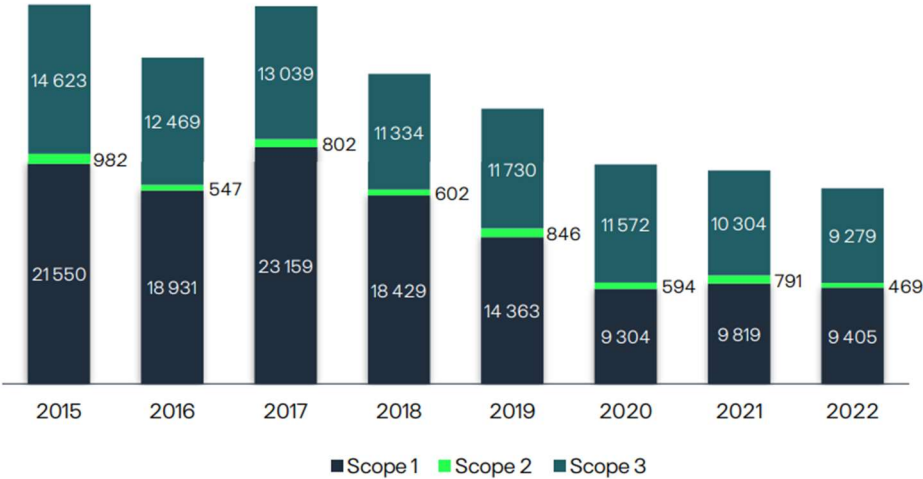


Figure 3.6. Evolution of EDP's scope 1, 2 and 3 emissions (in ktCO₂e) over the last 8 years. Source: EDP Integrated Annual Report 2022 (pg. 146).

TCFD implementation.

This core metric aims to check if the company is implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). According to EDP's Integrated Annual Report, the company publicly discloses information following the reporting recommendations of the TCFD. They have elaborated a table comparing TCFD alignment with the US Securities and Exchange Commission (SEC) disclosures regarding governance, strategy, risk management, and climate-related metrics and targets.

Paris-aligned GHG emissions targets.

This expanded metric assesses if the company's GHG emission targets are aligned with the goals of the Paris Agreement. EDP is committed to combating climate change through its Climate Action approach. Their environmental positioning and strategy is in line with the goals of the Paris Agreement, such as being Net Zero by 2050, which EDP expects to achieve by 2040. Their ambition is to be coal free by 2025 and have 100% renewable energy generation by 2030.

3.2.2. Nature loss.

This theme addresses the destruction of biodiversity and nature, which implies great losses for human beings and substantial material risks for businesses’ standards and well-being.

Land use and ecological sensitivity.

This core metric means to report if the assets owned, leased or administered are located in or near protected or high biodiversity areas. EDP is strongly committed to biodiversity, with goals such as not building new production facilities in areas included in the UNESCO World Heritage List, or having 100% of their facilities (located in or near areas of conservation interest) with Biodiversity Action Plans by 2025. In EDP’s Biodiversity Report, the company has elaborated several graphics and tables showing how many kilometres of their distribution and transmission grid are located in classified areas.

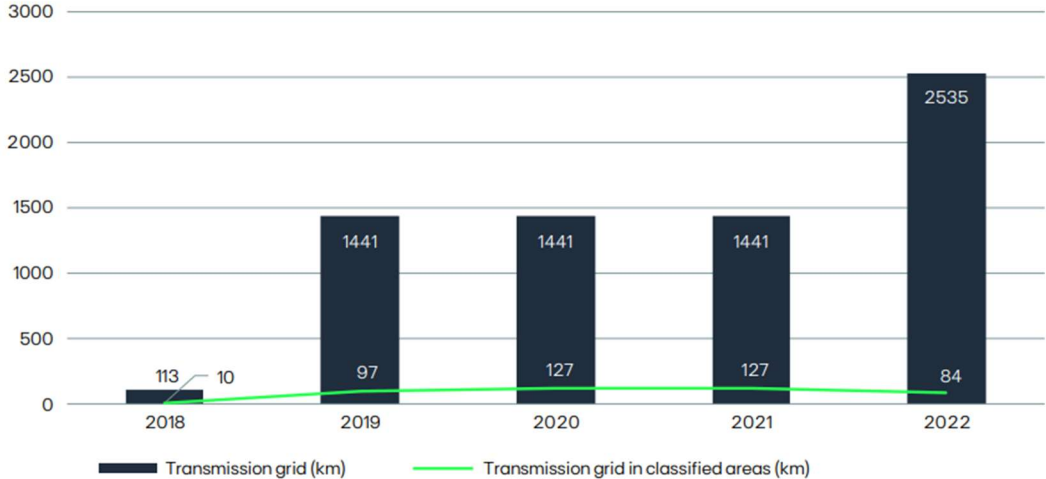


Figure 3.7. EDP’s transmission grid over the last 5 years. Source: EDP Biodiversity Report 2020-2022 (pg. 9).

However, there is no information reported about the number and area of sites owned, leased or managed in or adjacent to protected areas and/or key biodiversity areas, which is the base of this specific disclosure.

3.2.3. Freshwater availability.

This theme addresses the dependence on and access to freshwater for the company’s operations and infrastructure.

Water consumption and withdrawal in water-stressed areas.

It is a core metric on the amount of water withdrawn and consumed by the company, especially in those regions with high baseline water stress. EDP seeks a sustainable and efficient management and use of water in their processes, and aims to reduce their water

consumption by 78% by 2025. The following graphs show the company’s water consumption and withdrawal in 2022:

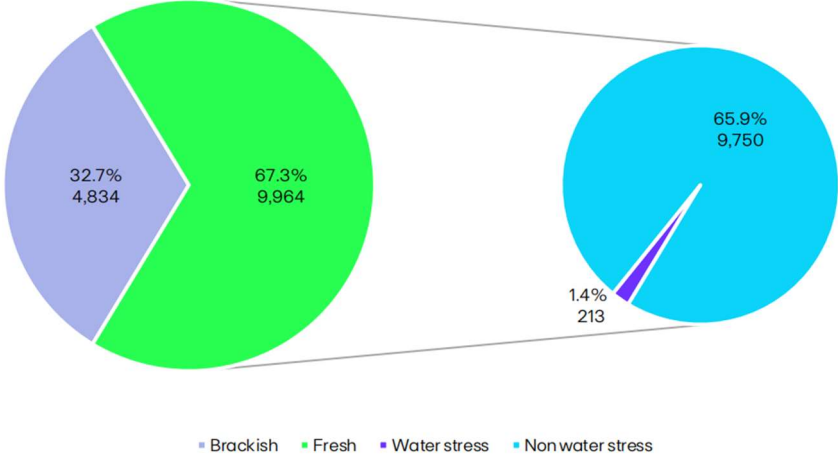


Figure 3.8. EDP’s water consumption in % and thousand m³. Source: EDP Integrated Annual Report 2022 (pg. 144).

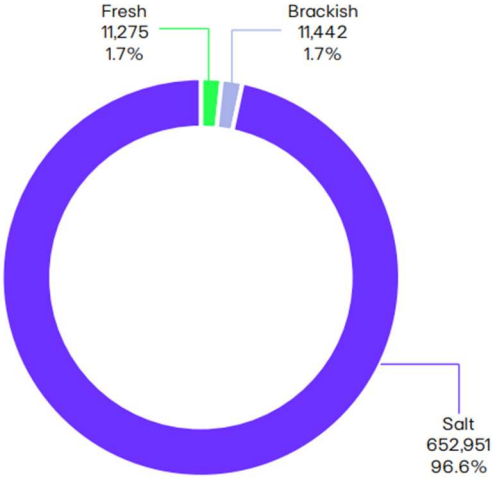


Figure 3.9. EDP’s water withdrawal in % and thousand m³. Source: EDP Integrated Annual Report 2022 (pg. 144).

3.2.4. Air pollution.

This theme addresses localized air pollution, including fine particulate matter and oxides of sulphur and nitrogen.

Air pollution.

It is an expanded metric for significant air pollution, other than greenhouse gases. EDP reports data on the total emissions of nitrogen oxides (NOx), sulphur dioxides (SO2) and particulate matters. The total NOx emissions in 2022 amounted to 4.8 kilotons, SO2 emissions were 2.3 kilotons, and particulate matter emissions added up to 0.2 kilotons. All of them were significantly reduced in comparison with the previous year’s emissions.

3.2.5. Solid waste.

This theme addresses the impacts related to waste disposal and management.

Single-use plastics.

This is an expanded metric for companies to report their consumption of single-use plastics and their applications. According to the Integrated Annual Report, EDP has eliminated 100% of single-use plastics in 2022, which was one of its goals for that year, and it meant a 50% reduction from 2021.

3.3. PEOPLE PILLAR AT EDP.

People are essential for every organization, as they represent the employees, customers, suppliers, distributors, investors, and all types of stakeholders. The skills, knowledge and well-being of a company's workers affects directly its financial and non-financial value, its performance and its competitive advantage. The value of people consists of human capital (individual knowledge, skills, competencies and attributes) and social capital (networks, shared norms, values and understanding). This pillar consists of three themes: dignity and equality, health and well-being, and skills for the future.

3.3.1. Dignity and equality.

This theme covers companies providing diversity and equal opportunities for all employees in recruitment, selection, training and promotion, regardless of their gender, race, age, ethnicity, sexual orientation, etc.

Diversity and inclusion.

This core metric is represented by the percentage of employees per gender, per age, per ethnicity and other diversity indicators. EDP had a percentage of female employees of 27.5% in 2022, which represents an increase of 0.5% from 2021, and the percentage of female employees in management position in 2022 was 28.4%. However, their goal of reaching 30% of female workers in 2022 was not accomplished, so they have extended it to 2025.

Regarding age group, 18% of EDP workers are below 30 years old, 60% are between 30 and 50, and 22% are above 50. Also, EDP has a percentage of 1.45% of employees with special needs.

There is no reported information on the number or percentage of employees by race, ethnicity or religion. The only data in this regard is that EDP has 46 nationalities among its workforce.

Pay equality.

This core metric includes the ratio of the basic remuneration for each employee category, which should be equal within same jobs and irrespective of colour, gender, religion, etc. EDP reports the salary ratio female/male by professional category, including technicians, specialists, supervisors and senior management, and by country or region, including Portugal, Spain, South America, North America, Rest of Europe and APAC. Most of the ratios are below 1, which means that men have higher salaries than women. This only does not happen with technicians in Portugal (ratio of 1.29), and senior management in Portugal (ratio of 1), in South America (ratio of 1.32), in North America (ratio of 1.18) and in APAC (ratio of 1.05).

Wage level.

It is another core metric within the theme dignity and equality that deals with the ratio of standard entry level wage compared to local minimum wage. In 2022, the ratios EDP minimum wage to the national minimum wage were the following: 1.47 in Portugal, 1.55 in Spain, 1.49 in South America, 1.39 in North America, 1.37 in the rest of Europe, and 1.01 in APAC. Therefore, all of them are higher than the national minimum wage.

Risk for incidents of child, forced or compulsory labour.

This core metric explains the operations and suppliers that have significant risk for incidents of child and forced or compulsory labour. EDP has a strong human rights policy that follows the International Labour Organization (ILO) conventions, which ensures the effective abolition of child labour and the elimination of forced labour. Nevertheless, the company faces the risk of failure to respect fundamental labour rights relating to indirect suppliers and manufacturers of electrical technologies.

Pay gap.

This expanded metric is an indicator for organizational structural inequality, by reporting on the mean pay gap of salary of employees based on gender, and the ratio of the compensation for the organization's highest-paid individual to the median compensation for all employees (excluding the highest-paid individual). In 2022, the annual average base salary of EDP's male workers was 3,631 €, while that of female workers was 3,825 €, thus composing a female/male pay ratio of 1.05.

The ratio of the annual total compensation for EDP's highest-paid individual to the average annual total compensation for all employees (excluding the highest-paid individual) was 12.99 in 2022.

Discrimination and harassment incidents and the total amount of monetary losses.

It is an expanded metric on the number of discrimination and harassment incidents, their status and the measures taken, and the amount of monetary losses coming from legal proceedings associated with law violations and employment discrimination. EDP has no reported information on the number of discrimination incidents in 2022, but they state that there were no cases in 2021. Last year, there were a total of 42 harassment claims before the Ethics Commission. There is no reported information on the total amount of monetary losses incurred as a result of legal proceedings due to law violations and discrimination.

3.3.2. Health and well-being.

This theme covers the actions and initiatives that companies take to ensure the health, safety, and mental, social and physical well-being of all their employees. Organizations with high health, safety and labour rights standards are more prone to higher productivity and efficiency levels.

Health and safety.

It is a core metric about the number of work-related injuries and the healthcare services provided by the company to its employees. In 2022, there were 133 work-related accidents of EDP employees and service providers, and there were 5 fatalities at work of contractors and none of EDP employees. The following graph shows the main causes of work accidents during 2022:

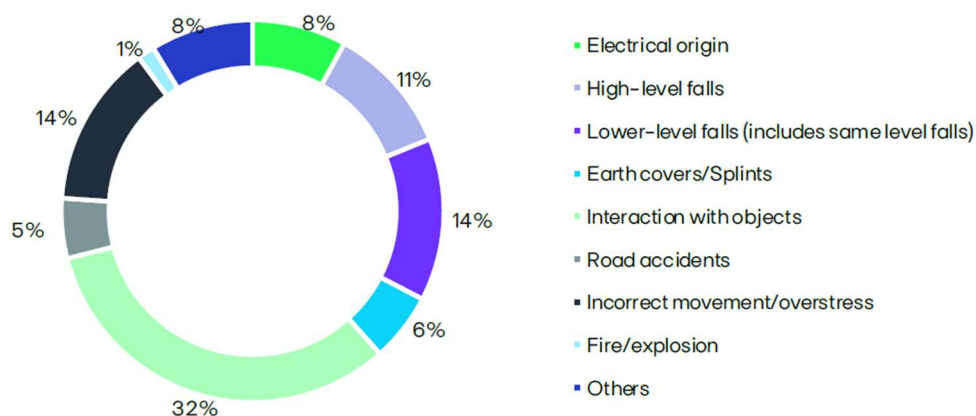


Figure 3.10. EDP's typology of accidents at work. Source: EDP Integrated Annual Report 2022 (pg. 125).

EDP has a Health and Safety at Work Policy based on five dimensions – physical, emotional, social, professional and financial – to ensure continuous improvement and a safe, healthy working environment. In line with this policy, EDP has implemented a programme for the internal and external inspection and audit of their facilities, and carried out 349,741 hours of health and safety training for EDP workers and external service providers.

Employee well-being.

This expanded metric includes the number of fatalities and injuries as a result of work-related ill-health, and the absentee rate. In 2022, there were two work-related ill health records from EDP employees, and no related fatalities. Regarding the absenteeism rate, it was 3% in 2022.

3.3.3. Skills for the future.

This theme covers the investment in training, educating and reskilling the workforce that companies must undertake to innovate and create jobs and prosperity.

Training provided.

This core metric includes the number of hours of training per employee, by gender and professional category, and the expenditure on training and development per full time employee. In 2022, 100% of EDP employees had training, with a total amount of 309,936 hours, which makes an average of 23.46 hours of training per employee. Of the total amount of training hours, 66.6% was mandatory training and the remaining 33.4% was non-mandatory. Regarding gender, male employees received 78% of the training hours, and female employees received 22%. With respect to professional category, EDP provided an average of training hours of 24.27 to technicians, 18.23 to specialists, 35.18 to supervisors and 60.67 to senior managers. Last year, EDP made an average direct investment on training of 287€ per employee.

Monetized impacts of training - Increased earning capacity as a result of training intervention.

This expanded metric represents the increased revenue due to the effectiveness of the training provided to employees. EDP uses an HR ratio called HC ROI (Human Capital Return on Investment), which shows the financial value added by the employees as a result of the money spent on them. In 2022, EDP's HC ROI was 6.51€.

3.4. PROSPERITY PILLAR AT EDP.

Prosperity is associated with ending poverty and inequality through economic growth, business innovation and transformation, and shared value creation. Economic and social prosperity impact and are impacted by businesses' performance, competitive advantage, risks and relationships with stakeholders. This pillar consists of three themes: employment and wealth generation, innovation of better products and services, and community and social vitality.

3.4.1. Employment and wealth generation.

This theme deals with how companies can and should contribute to improving living standards and creating wealth through job creation, employee retention and investments in society.

Absolute number and rate of employment.

It is a core metric about the number of new employee hires by gender, age and other indicators, and the rate of employee turnover, as a measurement for the number of employees that leave the company within a period of time.

EDP reported that in 2022 the number of new entries was 2,064, of which 1,216 were men, 642 were women, and 206 were not declared. In terms of age, 854 new entries were people below 30 years old, 1,069 were people between 30 and 50 years old, and 141 were people above 50 years old. The majority of new entries belonged to the professional category of specialists, and the region with more new entries was South America, followed by Portugal. There were 18 new entries of employees with special needs, and 809 vacancies were filled by internal candidates.

EDP's employee turnover rate in 2022 was 12%, and the voluntary employee turnover rate was 5.69%, which is the rate of employees leaving the company due to their own decision rather than the employer's.

Economic contribution.

This core metric includes the direct economic value generated and distributed by the company, and also the amount of financial assistance received from the government. In 2022, EDP's Economic Value Generated was of 22,661 million euros, and its Economic Value Distributed was of 20,375 million euros. This indicates the wealth that EDP has created for their stakeholders, including employees, suppliers, shareholders, the financial sector, the community, the state and others.

Concerning financial assistance from the government, EDP reported that they received 58.39 million euros as support from public authorities in 2022.

Financial investment contribution.

This core metric describes the company's strategy for investment and for returns of capital to shareholders, based on the total capital expenditures (Capex) and the dividend payments. EDP's total Capex in 2022 was 4,558 million euros, which indicates the amount of funds used by the company to maintain, improve or acquire fixed and physical assets. More than 90% of EDP's investments last year was expansion investment, mostly allocated to electricity

networks and new renewables capacity, especially wind, solar and green hydrogen. The rest was dedicated to maintenance Capex, which added up to 656 million euros.

As for the strategy of returns of capital to shareholders, EDP paid an amount of dividends of 753.48 million euros in 2021, corresponding to a dividend of 0.19 per share. That year, the total shareholder return was 0.5%, which was 42.7% less than in 2020.

3.4.2. Innovation of better products and services.

This theme deals with the use of innovation by companies to create improved products and services that meet customers' changing needs, but also solutions to new challenges and issues. Innovation is a driver of growth, competitive advantage, brand reputation enhancement and operational efficiency.

Total R&D expenses.

It is a core metric on the total expenses related to research and development, which is a basic indicator of a company's innovation efforts. EDP's total R&D expenditure in 2022 was 186 million euros. Innovation is crucial in the company's decarbonisation strategy, as they need to adapt existing technologies and develop new ones in order to achieve carbon neutrality. Moreover, EDP has a research and development centre, called EDP NEW, dedicated to the implementation of innovative projects among different areas of the energy sector.

3.4.3. Community and social vitality.

This theme deals with companies' contributions to the communities where they operate, directly through investment and indirectly through taxes. These contributions can lead to the creation of long-term value and a healthy and prosperous society.

Total tax paid, Additional tax remitted & Total tax paid by country for significant locations.

These core metric and two expanded metrics together include the total global tax paid by the company, which provides information about its contribution to governmental revenues. In 2022, EDP's total tax paid to public institutions amounted to almost 3 billion euros, of which 891 million euros were taxes and contributions paid by EDP and 2.1 billion euros were contributions to the State on behalf of other taxpayers. The main types of contribution are corporate income taxes, social security contributions, specific taxes from the energy sector, and property taxes. The country where EDP bears the highest level of taxation is Portugal, which accounts for 39% of total taxes paid by the company. The following chart shows the distribution of the tax borne by EDP in 2022:

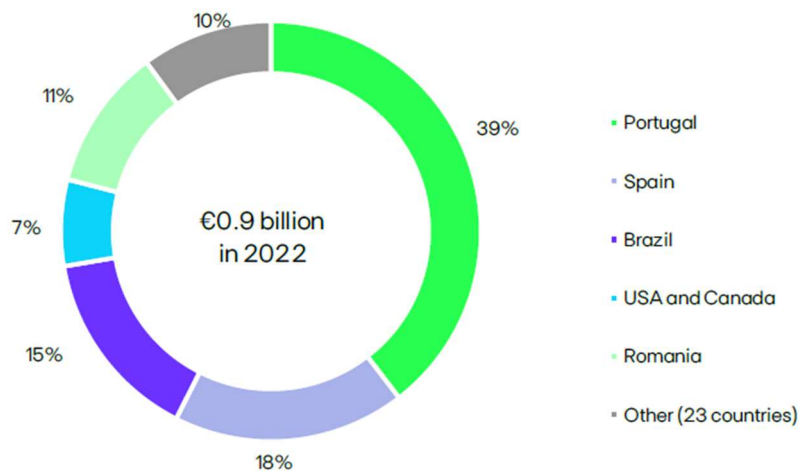


Figure 3.11. Taxes borne (paid) by the EDP Group, by geographical area. Source: EDP Integrated Annual Report 2022 (pg. 545).

Total social investment.

This expanded metric sums up all the company's resources and investments in social activities. EDP's Social Investment Policy is divided in five pillars: energy, planet, culture, skills and community. The energy company's total social investment in 2022 amounted to 31.6 million euros, of which 24% were fair energy transition projects (includes the pillars energy and planet), 42% were cultural projects, and 34% were other projects (includes the pillars skills and community). Furthermore, EDP created the brand Y.E.S. – You Empower Society last year, aimed at communicating the various social investment projects developed by the company in the countries where it operates. EDP reports that its voluntary investment in the community supports the projects of 634 entities and benefits directly 3.2 million people.

3.5. LIMITATIONS.

Although all of the 21 core metrics have been analysed, only 13 out of the 34 expanded disclosures could be reviewed, due to lack of reported information on certain topics by EDP. The remaining 21 expanded metrics mostly address very specific and concrete data, which cannot be found in EDP's annual reports, website or any source of public information. Moreover, companies are not required to report on sustainability, so it is understandable that some information is not presented on a voluntary basis.

The unanalysed expanded metrics are the following:

Principles of governance disclosures: Alignment of strategy and policies to lobbying; Monetary losses from unethical behaviour; and Economic, environmental and social topics in capital allocation framework.

Planet disclosures: Impact of GHG emissions; Land use and ecological sensitivity; Impact of land use and conversion; Impact of freshwater consumption and withdrawal; Impact of air pollution; Nutrients; Impact of water pollution; Impact of solid waste disposal; and Resource circularity.

People disclosures: Freedom of association and collective bargaining at risk; Human rights review, grievance impact and modern slavery; Living wage; Monetized impacts of work-related incidents on organization; and Number of unfilled skilled positions.

Prosperity disclosures: Infrastructure investments and services supported; Significant indirect economic impacts; Social value generated; and Vitality index.

4. CONCLUSIONS.

The main aim of the study was to analyse EDP’s performance in the different ESG dimensions, through the comparison of the company’s reported information with the disclosures of the World Economic Forum’s “Measuring Stakeholder Capitalism” Report. This was the chosen framework for the assessment due to the simplicity and briefness of the disclosures, which summarized the standards of the major reporting models in a more visual, quantitative and effective way.

The following table illustrates the four dimensions and the main actions of EDP in each one:

PILLAR	THEME	METRIC
Principles of governance	Governing purpose	<i>Setting purpose:</i> become leaders in the energy transition.
	Quality of governing body	<i>Progress against strategic milestones:</i> 74% renewables generation in 2022 against 85% target in 2025.
	Stakeholder engagement	<i>Material issues impacting stakeholders:</i> EDP Group stakeholder engagement policy, 4 stages: understand, communicate, trust, collaborate.
	Ethical behaviour	<i>Anti-corruption:</i> 20 corruption registered cases in 2022. <i>Protected ethics advice and reporting mechanisms:</i> 5,714 hours of ethics training in 2022.
Planet	Climate change	<i>GHG emissions:</i> emissions in 2022 were the lowest for the past 8 years. <i>Paris-aligned GHG emissions targets:</i> coal free by 2025, 100% renewable energy generation by 2030, net zero by 2040.
	Freshwater availability	<i>Water consumption and withdrawal in water-stressed areas:</i> reduce water consumption by 78% by 2025.

	Solid waste	<i>Single-use plastics</i> : elimination of 100% of single-use plastics in 2022.
People	Dignity and equality	<i>Diversity and inclusion</i> : 27.5% of female employees and 1.45% of employees with special needs in 2022. <i>Wage level</i> : EDP minimum wage is higher than the national minimum wage in all the countries where it operates.
	Health and well-being	<i>Health and safety</i> : 133 work-related accidents and 5 fatalities at work in 2022, 349,741 hours of health and safety training.
	Skills for the future	<i>Training provided</i> : average of 23.46 hours of training per employee, investment of training of 287€ per employee.
Prosperity	Employment and wealth generation	<i>Absolute number and rate of employment</i> : 2,064 new entries and employee turnover rate of 12% in 2022. <i>Economic contribution</i> : EVG of 22,661 million euros and EVD of 20,375 million euros in 2022.
	Innovation of better products and services	<i>Total R&D expenses</i> : expenditure of 186 million euros in 2022.
	Community and social vitality	<i>Total social investment</i> : 31.6 million euros in 2022, creation of the brand Y.E.S. - You Empower Society.

The abovementioned disclosures show that EDP's policies are objectively in line with the main requirements and establishments of the Stakeholder Capitalism Metrics, proving an appropriate and sometimes excellent performance in CSR-related topics, especially in the governance and prosperity pillars. This is particularly remarkable because it demonstrates that EDP does not just focus on the environmental impacts which would be common for an energy company, but rather integrates all dimensions in their CSR policies.

Furthermore, the extent of the CSR strategies and the significant number of initiatives undertaken by EDP highlights the fact that the company does not use CSR as a marketing tool or a way to improve brand image and reputation, but as a resource for its long-term development and value creation. In the case of the energy sector, this is of great importance, as energy companies typically have a negative impact on the environment and on communities, but are also able to contribute significantly to economic and social development. Therefore, CSR practices and sustainability reporting are considerably developed and integrated among the energy industry.

For a complete and comprehensive study, other companies in the energy sector would also have to be taken into account, making a comparison of their performances instead of only analysing the results of EDP.

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