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Francisco David Barrote Pinto da Mota

Foreign Direct Investment Impact on Emerging and Transition Economies: A Sustainability Perspective

Impacto do Investimento Direto Estrangeiro em Economias de Transição: Uma análise de sustentabilidade

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Impacto do Investimento Direto Estrangeiro em Economias Emergentes e de Transição: Uma análise de sustentabilidade

Dissertação apresentada à Universidade de Aveiro para cumprimento dos requisitos necessários à obtenção do grau de Mestre em Finanças, realizada sob a orientação científica da Doutora Paula Cristina da Silva Ferreira Neto Rodrigues, Professora Adjunta do Instituto Superior de Contabilidade e Administração da Universidade de Aveiro

Na vida o que existe senão uma dedicatória? Uma metamorfose de consciência em plano aberto a todos aqueles que amamos. À minha companheira, das des(venturas) e que não foi menos que um porto de abrigo, na deriva da maré, e aos que transcendentalmente continuam a operar uma grande influência na solidariedade da vida. Ao avô e à avó que num bater de asas voaram… Para o entrelaçar dos horizontes.

o júri

presidente	Professor Especialista Amândio Manuel Antunes Professor Adjunto da Universidade de Aveiro
vogais	Professora Doutora Maria Elisabete Duarte Neves Professora Coordenadora do Instituto Superior de Contabilidade e Administração de Coimbra
	Professora Doutora Paula Cristina da Silva Ferreira Neto Rodrigues Professora Adjunta da Universidade de Aveiro

agradecimentos

Este estudo visa estudar o impacto do Investimento Direto Estrangeiro na sustentabilidade ambiental e social das Economias de Transição, oferecendo uma perspetiva comparada em que se avalia o impacto das práticas de sustentabilidade em economias desenvolvidas e economias de transição. Para isso foi efetuado um estudo de caso que analisa as práticas de sustentabilidade do McDonald's em Portugal e na Polónia. Nesse sentido, efetua-se um agradecimento institucional ao McDonald's Portugal na pessoa do Dr. António Aidos, que teve um papel fundamental na fase inicial ao projeto ao me permitir explorar na fase inicial do projeto de forma mais concreta a realidade da empresa em termos das suas políticas de sustentabilidade, da Dr.ª Petra Marques, que permitiu que o presente trabalho pudesse ser desenvolvido da melhor forma à Dr.ª Sílvia Grilo, responsável de sustentabilidade da McDonald's Portugal e à Dr.ª Marta Amaro, responsável de comunicação da McDonald's Portugal pela partilha de conhecimentos e pelos insights que se revelaram essenciais na análise científica às práticas de sustentabilidade que neste trabalho é realizada.

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palavras-chave

Investimento Direto Estrangeiro, Sustentabilidade, Responsabilidade Social e Ambiental, Economias em Transição

resumo

O presente estudo almeja avaliar os impactos do Investimento Direto Estrangeiro nas práticas de sustentabilidade em Economias de Transição, numa perspetiva comparada em que se olha para o Investimento Direto Estrangeiro e a Sustentabilidade, em Portugal e na Polónia. De acordo com Jensen (2001), o investimento deve ser analisado na ótica de criação de valor, não numa perspetiva estrita que inclua a maximização do valor para o acionista, mas sim na criação de valor para todos os agentes económicos cujo bem-estar é direta ou indiretamente impactado pelas atividades da empresa. Nesse sentido, usando uma metodologia qualitativa foi estudado o impacto das políticas de sustentabilidade ambiental e social adotadas pelo McDonald's Polónia e pelo McDonald's Portugal, efetuando-se um estudo de caso em que se pretende avaliar os Impactos do Investimento Direto Estrangeiro na difusão de práticas que promovam a sustentabilidade ambiental e social nesses países. Nesse sentido, concluiu-se que se o Investimento Direto Estrangeiro for inserido no âmbito de uma estratégia global que tenha a sustentabilidade na agenda, então esse investimento promove a difusão das melhores práticas a nível internacional e, dessa forma, efetua-se de acordo com a Agenda 2030 para os Objetivos do Desenvolvimento Sustentável.

keywords

Foreign Direct Investment, Transition Economies, Sustainability, Environmental and Social Responsibility

abstract

The present study aims to underline the impact of Foreign Direct Investment on Sustainability in Transition Economies. Since, as defended by Jensen (2001) the returns of an investment, namely Foreign Direct Investment (FDI), should opt not only to maximize the value of the firm to its shareholders but also to its stakeholders, throughout this article we will encompass an holistic approach, that will analyze the impact of Foreign Direct Investment on the diffusion of best practices internationally. To achieve this, it was developed under the article, a case-study, where under a qualitative methodology it will be studied the specific measures adopted by McDonald's in Portugal and Poland, in terms of environmental and social responsibility and reach a conclusion whether Foreign Direct Investment contributes to the widespread disclosure of best practices regarding environmental and social sustainability. Under this, it is expected that under a globally adopted strategy that includes sustainability, giving flexibility for sustainability policies to be applied locally, that Foreign Direct Investment contributes to enhance environmental and social sustainability, and, therefore promotes the accomplishment of the Sustainable Development Goal Objective's under the 2030 Agenda for Sustainable Development.

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Abbreviations List

ESG - Environmental, Social and Governance

EU - European Union

FDI - Foreign Direct Investment

FPI - Foreign Portfolio Investment

IMF - International Monetary Fund

M&A - Mergers and Acquisitions

MNE’s - Multinational Enterprises

UNCTAD - United Nations Conference on Trade and Development

OLI - Ownership, Location and Internalization Paradigm

SDG - Sustainable Development Goals

Introduction

Foreign Direct Investment has been an important factor in economic growth and human development worldwide (Almfraji & Almsafir, 2014). According to United Nations Conference on Trade and Development (UNCTAD), on the *World Investment Report 2021,* FDI movements have shifted from developed economies to emerging and transition economies, which represent 66% of the total Foreign Direct Investment. The distinctive features of Foreign Direct Investment lie on ownership and control. A direct investor pretends to gain an informational advantage, which is going to generate a higher return on his investment.

Besides this, there has been a growing concern in a fast-moving and dynamic international business environment regarding globalization. The globalization of international markets has brought to debate the subject of social and environment sustainability in the global supply chain and international business relations.

Sustainable business practices in the corporate context are a relevant phenomenon to study with greater detail in emerging and transition economies, where companies adopt aggressive competitive strategies in order to enter the market and gain a competitive edge (Crane & Matten, 2016). For that reason, this study intends to analyse FDI Inflows, in order to establish a relationship between Direct Investment in Emerging and Transition Economies and the sustainability of the companies that are operating on those markets.
As such, the study aims to answer the following research questions:

(i) What is the relationship between sustainable business practices and FDI?
(ii) What is the role of institutional factors on multinational's sustainability practices?
(iii) Are there country level differences, between Poland and Portugal, regarding the accomplishment of Sustainable Development Indicators?

For this article, there were specified general objectives:

(i) Differences in FDI Inflows and Outflows between Emerging and Transition Economies

(ii) Evaluate the attractiveness of Transition and Emerging Economies to capture FDI
(iii) Assess environmental and social sustainability in Emerging and Transition Economies
(iv) Appraise the relationship between sustainability practices and FDI.

To meet these general objectives, it was also drafted specific objectives:

(i) Define the relationship between competitiveness and Environmental, Social and Governance (ESG) practices of multinational companies
(ii) Outline how the institutions (both formal and informal) influence business ethical practices.

It will be used a qualitative methodology based on a comparative case-study approach using data from a McDonald's Corporation, where it will be obtained data related to Environmental, Social and Governance practices in order to assess the sustainability of the multinational's practices in Poland, a Transition Economy, and Portugal, a developed economy.

The study inferred that Foreign Direct Investment Inflows, have an impact on Environmental and Social Sustainability, contributing to the widespread use of best practices regarding environmental and social responsibility, if inserted under a global strategy that encompasses sustainability on its Agenda.

The article is structured as follows: In Section I it will be studied the impact of Foreign Direct Investment on Emerging and Transition Economies (as compared to Developed Economies). In Section II, it will elaborate on the literature regarding sustainability, on both its environmental and social domains. In Section III, we will study Sustainability and Foreign Direct Investment indicators at a country level. In section IV, it will be studied data regarding the Sustainability of McDonald's business practices on Poland and Portugal. On Section V, it will be developed the conclusions, implications, limitations of the study, as well as suggestions for further studies on this topic.

1. Foreign Direct Investment

1.1. Definition and conceptualization of Foreign Direct Investment

Due to the particular nature of Foreign Direct Investment (FDI), Hymer (1960) defined FDI as "(…) a form of capital movements in which the investor controls the foreign enterprise in which the investment is made." (p. 3), that is, in other words, that the key motivator to FDI is the extent to which the operations and profitability of a company is affected by the international capital movements (Hymer, 1960).

Ragazzi (1973) emphasises the component of control as an important part in defining FDI. Accordingly, it defines FDI as "(…) the amount invested by residents of a country in a foreign enterprise over which they have effective control (…) "(Ragazzi, 1973, p.471). As with Hymer (1960), from the contribution of the article, it is implied that the motivator of FDI Investment Flows are the inherent advantages related to ownership and control rather than by the differences in the capital's rate of return.

From this standpoint UNCTAD (2011) underlines the impact of control, effective voice management and the economic interest of companies as the underlying aspects of Foreign Direct Investment. Using this criterion, the International Monetary Fund (IMF) Balance of Payments Manual establishes the Framework for Direct Investment Relationships where it analyses direct investment by establishing a rationale to determine the dynamics of economic interest and control.

Control is the main determinant in defining Foreign Direct Investment , as compared to Foreign Portfolio Investment (FPI) (Moosa, 2002). In the latter case, "Portfolio investment is defined as cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets." (International Monetary Fund, 2009, p.110). Consequently, as opposed to Foreign Direct Investment where there is an affiliate relationship, in which a company in one country invests in a company in another and exercises control through equity and non-equity measures, as stated by UNCTAD (2011), Foreign Portfolio Investment "(…) is distinctive because of the nature of the funds raised, the largely anonymous relationship between the issuers and holders, and the degree of trading liquidity in the instruments." (IMF, 2009, p.110).

And, in fact, the large pool of investors with a relatively low equity interest in a company makes it such that the portfolio investment is not capable of having an effective

voice over management and, thus, it is not able to have a controlling interest in a company. As such, Moosa (2002) specifies that Foreign Portfolio Investment (as opposed to Foreign Direct Investment) has a short-term investment horizon and, consequently, involves a high turnover of securities. In one hand, according to the author, FDI relies on control, which is assured when one has a lasting interest in an enterprise.

However, when analyzing the differences between FDI and Portfolio Investment one must take into consideration the impact of the governance environment.

> "Thus, in direct investment, the investor directly oversees his/her investment; the investor has firsthand information on the operations and does not need to rely on financial reports issued by someone else, such as an accounting firm or a board in which he/she has no control or access. in other words, the direct investor is an "insider" of the firm. thus, in direct investment, the risk of being misinformed or being expropriated by other insiders is substantially reduced (Goldstein and Razin 2006). even in a governance environment that lacks fair and efficient public ordering (e.g., low quality public financial information and weak financial regulation), an investor can still effectively protect his/her investment by taking private actions. Furthermore, if one has a good relationship with the political ruler(s), the protection can be extremely effective and favorable. in contrast, for portfolio investments, such as buying securities (stocks and bonds) in the secondary markets, the investor has no direct control over his/her investment, nor does he/she have firsthand information about the operations. the investor has to rely on publicly available information, such as annual reports or brokerage firms' recommendations, to make investment decisions, thus making the investor an "outsider.". (Wu et al., 2012, pp.3-4) "

The article's implications made it such that on countries where there is not a stable governance environment, portfolio investment would encompass a higher risk since the access to good public information, of the market would be more difficult. On other words,

the informational efficiency of the market would be lower. Under these circumstances, a rational investor would opt to invest directly in an enterprise, with the objective of having a controlling interest since uncertainty and volatility would be higher where economic and political relationships with stakeholders are unstable and constantly changing.

Although Portfolio Investment is seen as a way of investing indirectly in one's company, since the investment in a company's assets is made via the securities (equity or debt instruments) one owns, the difference between direct and indirect investment has grey areas (Wu et al., 2012). In fact, Iversen (1935), one of the first to study Foreign Direct Investment classified Foreign Direct Investment as a form of Foreign Portfolio Investment.

Regarding this, the IMF Balance Fund Manual separates between Immediate Direct Investment and Indirect Direct Investment.

Indirect direct investment relationships arise through the ownership of voting power in one direct investment enterprise that owns voting power in another enterprise or enterprises, that is, an entity is able to exercise indirect control or influence through a chain of direct investment relationships (International Monetary Fund, 2009).

That is, the differences between Direct and Indirect Investment are increasingly blurred since both Portfolio Investment (through the financial markets), and Direct Investment can have Indirect relationships with the entities they are investing in.

According to Goldstein & Razin (2006) the decision between Direct Investment and Portfolio Investment lies on the trade-off between management efficiency and liquidity.

> "(…) describes a key trade-off between management efficiency and liquidity. Both sides of this trade-off are driven by the effect of asymmetric information, which comes with control. When they invest directly, investors get more information about the fundamentals of the investment, and thereby can manage the project more efficiently than their portfolio-investors counterparts. However, this also generates a "lemons" type problem when they try to sell the investment before maturity (Akerlof, 1970). Therefore, this superior information effect reduces the price they can get when they are forced to sell the project prematurely." (pp 272-273)

In one hand, the management efficiency and access to information that portfolio investors do not have make it such that direct investors have an informational advantage in their investment , however, on the other hand, this asymmetric information paradigm creates a situation where investors risk and uncertainty is higher, and therefore if a direct investor wants to sell his position we would need to sell it at a discount (Humanicki et al., 2017). Implicitly from this we have that Foreign Direct Investment choices are favorable when an individual prefers to exercise control and maximize its long-term return, while portfolio investment seeks for risk transferability and liquidity.

As described by Wu et al. (2012) the direct investor could be seen as an "insider" where it has a better access to information as compared to the portfolio Investor which drives his decision-making process by publicly available information that could be consulted in annual reports, and/or national public sources that contain macroeconomic indicators. That is the reason why Goldstein & Razin (2006)explain the trade-off between management efficiency and liquidity. In one hand, as stated by the authors, it creates a situation where direct investment projects have better profitability than portfolio investment projects, as portfolio investors would need to delegate control on managers, and this would lead to agency problems between shareholders and managers.

On the other hand, there are additional costs encompassed by direct investment projects, namely, the ones related with knowledge expertise to be able to manage a project competitively. Besides this, there is a asymmetric information problem as described by Goldstein & Razin (2006). Since direct investors have a better understanding of the fundamentals driving the project's profitability, in a case of a resale before project's maturity (portfolio) investors are willing to pay a lower price than the fair price if the project is evaluated given the present value of its future cash flows, because it may be interpreted as a sign of a negative evolution of a fundamental economic variable which would result in a lower evaluation. In other words, the resale of a project before the end of its maturity is interpreted as a sign of bad information, creating an adverse selection problem, reducing the project's liquidity to direct investors.

Following this, Humanicki et al. (2017) considered that FDI and FPI, in a globalization environment and developed financial markets, are seen as substitutes by investors. Notwithstanding the evidence provided by the article it is also stated that on a economically stable environment Foreign Direct Investment tends to rise as compared to

Foreign Portfolio Investment, even though there has been a consistently and stable rise of Foreign Portfolio Investment relatively to Foreign Direct Investment (Humanicki et al., 2017).

Furthermore, Goldstein & Razin (2006) also argument that the ratio between FPI and FDI is greater in the developed countries than that of developing countries.

After defining the differences between FPI and FDI, the attention will be focused on the different Foreign Direct Investment entry modes. Accordingly, there is a distinction between greenfield investments and mergers and acquisitions.

UNCTAD (2006) refers to greenfield investments as projects that encompass the creation of new production facilities and capabilities and the acquisition and development of intangible assets. Accordingly, the affiliate uses the capital flows, to acquire the production factors to engage in international production, namely, physical capital, human capital, and subsidiary goods.

In contrast, Mergers and Acquisitions (M&A) do not, necessarily, imply an increase in productive capacity. Instead, they "(…) involve the partial or full takeover or the merging of capital, assets and liabilities of existing enterprises in a country by TNC from other countries."(UNCTAD, 2006, p.15).

In fact, while M&A do not increase capital stocks on the host country, they imply an increase in foreign capital in the host country and an increase in international production. However, while there is no change in the productive capacity in the short-term, there may be subsequent alterations in the investment plans of the acquired firm, signifying an expansion or reduction of activities.

To put it in another way, while Greenfield investments are associated with an expansion of the production capacity of an existing MNE firm, M&A are usually associated with the rationalization of resources and a more efficient allocation of the target company assets and capabilities (Harzing, 2002).

One should note, nonetheless that while merging activities imply the creation of a new legal entity, that includes the combined assets (and liabilities) of the group, acquisition activities imply the property transfer from the local company to the foreign company, and, in this context, the former becomes an affiliate of the latter (Harzing, 2002).

Taking this into consideration there are differences, which can explain the different entry modes of Foreign Direct Investment, between M&A activities and Greenfield

Investments. While greenfield investment are usually associated with higher returns than M&A activities, barriers of entry in a foreign market, make it such that, due to asymmetric information and market imperfections, M&A usually involve lower information and acquisition costs than Greenfield Investments (Harzing, 2002).

Besides this, M&A activities provide the MNE easier access to intangible assets since the knowledge transfer processes are facilitated as the company is already established in the market. Furthermore, when the timing of entry is a crucial variable, the company may opt for engaging in M&A activities as the company already has access to the market. Finally, M&A activities allow for risk diversification as the company can have an easier access to a (new) market. The fact that M&A activities allow for lower costs, MNE's can increase their market power by engaging in such activities.

1.2. Determinants of Foreign Direct Investment

To understand the key drivers of Foreign Direct Investment one needs to recognize what motivates international capital movements, that is, what are the underlying factors that explain the capital flows from one country to another. Under the assumption that there are perfect markets, capital transfers are justified by differences in interest rates (Krugman et al., 2017). That is, if a country increases its interest rate, *ceteris paribus,* it will attract foreign investment as the remuneration of capital would increase as compared with the host country. As interest rate movements influence exchange rates since the demand of a certain country's currency will directly depend upon the profitability of the investment made on that nation, consequently, the uncovered interest rate parity infers that foreign investment would depend on two macroeconomic variables: interest rate and exchange rate (Krugman et al., 2017).

Hymer (1960) states that the intrinsic characteristics of FDI made it such that the main driver of FDI is not the evolution of the exchange rate, nor the differences in interest rates, but instead the dimension by which "the international operations of firms and that movements of direct investment are determined by the extent of international operations From this line of reasoning, it occurs that rather than FDI being homogeneous across all industries following the evolution of interest-rate, it can be seen as an industry-oriented process where certain sectors of activity are keener to attract direct investment.

1.2.1. Macroeconomic Theory of Foreign Direct Investment

The Heckscher-Ohlin model establishes a starting point to the determinants of Foreign Direct Investment, the theory of international trade. It states, developing on the theory of comparative advantages, that what justifies international trade movements are the relative costs of production, or, in other words the relative productivity of countries and enterprises, as described in Leamer (1995). Accordingly, countries will specialize in the products that use the abundant factor (which is relatively cheaper) (Leamer, 1995).

However, the comparative advantage theory does not explain Foreign Direct Investment, since any abnormal return resulting from a company's business activity, will be compensated by international capital flows.

Due to this, Vernon (1966), on its Product Life Cycle Theory, affirmed that international trade not only depends on the country's initial endowment of production factors but also, on its capacity to generate new assets, namely intangible assets that encompass organizational and managerial capabilities.

Moreover, technological capabilities, likewise, play a vital role in explaining international trade flows. In this context, the investment in research and development activities, which will generate innovation, presents a significant relationship with unit labor costs. To put it simply, the attractiveness of the capital factor is inversely correlated with labor costs. Therefore, as labor costs increase, the greater the incentive for companies to innovate and to increase the efficiency of their productive structure.

However, one must note that these incentives are not constant throughout time. According to the Product Life Cycle Theory, the investment decision of a multinational enterprise will depend on the stage of the product's development life cycle: Introduction, Maturity and Standardization (Vernon, 1966).

Firstly, on the introduction stage, the product is established and produced in the domestic market, due to high development costs (e.g., communication costs, innovation costs, transportation costs). Since, on the first stage, the innovation phase is crucial in the successful launch of a new product, and due to the inherent nature of those activities, the company faces significant labor costs since innovation undertakings take place in developed countries. The production only suffices to internal consumption.

Secondly, in the maturity phase, the company perfects their production methods, using a learning by doing approach. At this phase, the company tries to reduce its costs by

improving their production methods to reduce the inefficiencies in the production. Given that competition is made by cost, the companies try to delocalize their production to countries where they can obtain the production factors at a lower cost. At this stage, the companies may delocalize their production to developing countries, considering that the complexity of the production is now lower as the product reaches a mature stage. Accordingly, the company may opt to export.

Finally, at the standardization phase, the product is homogeneous, and the competition is made solely by price. The company tries to minimize its production cost, and, therefore, the less qualified stages of the production process are transferred to developing countries. At this stage, the company may pursue Foreign Direct Investment in the view of the fact that the overall cost of production and the transportation cost could be higher than the production cost on the (target) external market.

Compared to the international trade theory, the product life cycle theory establishes that comparative advantages (implicitly, Foreign Direct Investment) are variable throughout time not only depending on the initial endowment of resources but on the capacity of an economy to generate assets that increase efficiency and market competitiveness (Vernon, 1966).

However, Buckley and Casson (1976) argue that differentiated products do not delocalize their production to another country, on a later stage where the product is homogeneous, but that there is a product differentiation so that the product fits the market's needs.

Finally, state that under imperfect markets the companies try to increase their market power, maintaining an oligopolistic structure that tries to take advantage of significant entry market barriers, and, by this way, reducing competition(Vernon, 1966).

1.2.2. Microeconomic Theories of Foreign Direct Investment

Even though, macroeconomic theories of Foreign Direct Investment explain the direction of the inflows and outflows of international capital movements, as it was mentioned the reasons that motivate the multinational enterprise to pursue Foreign Direct Investment in the prosecution of their business activities and, how they can be competitive

in the foreign markets are explained by microeconomic theories of Foreign Direct Investment.

The latter question poses a fundamental issue in the viability of a multinational enterprise since when engaging in business activities abroad, MNE's face a competitive disadvantage as compared to the local companies, due to asymmetric information as well as the differences in business practices, cultural standards, higher transaction costs and market knowledge.

Hymer (1970) aims to decipher how can a multinational enterprise can be competitive, despite the fact that it faces a significant disadvantage when entering in a foreign market. Therefore, the author studied what could explain Foreign Direct Investment inflows and outflows and the capacity of value creation of a multinational enterprise.

From this, it arises the imperfect market paradigm, stating that FDI is explained by market imperfections. If there were perfect markets, there would be no asymmetric information problems and no transaction costs meaning that local companies would have the capability to supply the market in efficient conditions. In this reasoning, it is implied that Multinational Enterprises engage in Foreign Direct Investment activities when MNE´s have comparative advantages that make their products/services a better value proposition to the market. Namely, according to Hymer (1970) a company that pursues Foreign Direct Investment needs to enhance its value creation capability trough a technological, competitive or financial advantage that makes it such that it can engage in positive NPV activities in a foreign market.

Besides this, multinational enterprises can pursue Foreign Direct Investment activities to increase their market power in a foreign market, trough the transfer of resources, technology, and organizational capabilities.

1.2.2.1. Internalization Theory

The main contribute of the internalization theory is to provide answers to how multinational companies can obtain comparative advantages in foreign direct investment, so much that it can avoid and compensate market imperfections and, while explaining what the advantages of FDI are compared to export and licensing.

To this regard, internalization, according to Williamson (1975) a company can increase its competitiveness by opting for horizontal or vertical integration in the market. The vertical or horizontal integration makes it possible to reduce uncertainty, systematic risk, and transaction costs, and, for this reason, following Hymer (1976), under imperfect market conditions direct investment may pose itself as a cost-efficient option in company's internationalization process.

Multinational enterprise face two option in their internationalization process: (i) they create market relationship and business partnerships to export or license their production (ii) they internalize their activities increasing their operating efficiency

Buckley and Casson (1976) argue that under market frictions, uncertainty and transaction costs internalization could be seen as a viable alternative to the market through Foreign Direct Investment. In fact, following Hymer (1976) companies could have comparative advantages in internalizing their activities as explained above.

In fact, internalization allows companies to avoid government restrictions in external markets, i.e restrictions on capital movements, taxation and specific barrier entries.

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1.2.2.2. Transaction Costs Theory

The transaction costs theory develops on the idea that multinational enterprises may recur to Foreign Direct Investment activities in order to reduce transaction costs derived from international transactions. These transaction costs can be derived from asymmetric information and the degree of imperfection in the external market. It shares with the internalization theory, that Foreign Direct Investment aims to reduce transaction costs and increase the overall operating efficiency of the company. Knowing this, the transaction costs theory establishes, as opposed to the internalization theory, those hierarchy relationships between MNE's affiliates help in eliminating transaction costs, and therefore, provide a justification to why companies engage in FDI activities.

It also adds that the transaction costs theory could explain inflows and outflows of Foreign Direct Investment in contexts where, under asymmetric and imperfect information, limited rationality and opportunistic behavior, multination enterprise can internationalize their production in order to reduce uncertainty by internalizing their activities.

However, according to the company should compare its (internal) organization costs with the transaction costs it would face when entering an external market. One should note that, in this context, the sole existence of transaction costs is not a sufficient condition to justify Foreign Direct Investment. That is, in order to engage in Foreign Direct Investment activities, the multinational enterprise should have a lower organization costs than the organization costs, and, jointly, should be the most efficient way to organize international production.

1.2.3. Eclectic Paradigm of International Production

Dunning (1982) expands on the definition of Hymer (1960), by developing the eclectic theory of international production. According to the theory, there are three factors that explain Foreign Direct Investment. On one hand, the amount of FDI in one's country is explained by the dimension of which its country's enterprises can access assets or rights (intangible assets) in more competitive terms than foreign enterprises (Dunning, 1982). Furthermore, they denote another key aspect in explaining FDI which is the inherent advantages of control (ownership specific advantages) that can be obtained, specifically, by owning a certain right or asset, in favorable conditions. In a broader sense, the level of FDI and the capital stocks can be motivated by the ability of the country's enterprise to possess an asset owned by a foreign enterprise in another country. Once a company has a specific right, the second factor is whether it is better for its activity to use it internally, or to sell it to a foreign company (Dunning, 1982). Finally, Dunning (1982) also emphasises the relative profitability of relocating the production facilities to another country, this will depend not only on the comparison of the production cost in both countries but also on the ability of the company to transfer a part of his production and assets to another country.

Following the micro and macroeconomic determinants of Foreign Direct Investment, Dunning (1980), develops on the eclectic theory of international production, an integrated approach for analyzing FDI, that joints both the enterprise and country

perspective on FDI. Accordingly, it establishes the Ownership, Localization, Internalization (OLI) paradigm that provides answers to how the company can be competitive while investing abroad, where does it invest and why should it opt for Foreign Direct Investment instead of, other ways of international expansion, such as, contractual relationships, licensing, and exports.

In the model, it is firstly stated the importance of location specific advantages in pursuing Foreign Direct Investment. This factors, are common across enterprises and industries, but they are specific to the location one's activity is inserted in, and depend upon the country's endowments and its (relative) comparative advantages (Leamer, 1995). However, Vernon (1966) the initial endowments of productions factors, are not a sufficient condition to explain country's comparative advantages, since, in a dynamic competitive environment, technology capacity and capabilities, an important aspect in the creation of intangible assets, are also an important variable to consider when analyzing country's specialization profile. Besides this, as explained above, the endowments, and vis-à-vis, countries comparative advantages are not constant throughout time, according to the countries initial endowments, but they are variable depending on the product's (production) life cycle Vernon (1966). However, as Dunning (1980) remarks:

> "In classic and neoclassical trade theories, differences in possession of those endowments between countries fully explain the willingness and ability of enterprises to become international; but since all firms, whatever their nationality of ownership, were assumed to have full and free access to them (including technology), there were no advantages to be gained from foreign production." (p.9)

From the article, it is implied that location specific advantages are not sufficient in explaining Foreign Direct Investment movements.

For that reason, Dunning (1980) also compiles ownership specific advantages as an important determinant in the MNE Foreign Direct Investment profile. While location specific endowments, may be defined as comparative advantages that are used for all the firms present in a single country, but they are not transferable to another countries, ownership specific endowments, are not mobile within companies (as with location specific endowments) but they are easily transferrable within countries at lower costs. ´

On Dunning (1980) there is a distinction between three types of ownership specific advantages:

(i) Derived from a legally protected right – The company can internalize or acquire the use of organizational skills that are protected by proprietary rights, and therefore they are for the company's exclusive use (patent, brand names, trademarks). From this, it can be derived a monopoly, or an exclusive right to sell/explore a certain asset.

(ii) Derived from the technical characteristics of enterprises – this are a result of synergies, multinational enterprise size, market power and economies of scale which result in lower costs, and a more efficient cost structure, and increased revenue.

(iii) Derived from diversification and risk management- the presence in the foreign markets, due to the MNE's activity, can result in better currency risk management and hedging practices and a lower operating risk.

Besides this, one must note that, ownership specific advantages have two distinctive features: exclusivity, and transferability between countries (at a minimum cost) (Dunning, 1980).

However, as stated in Dunning (1980) there can be some degree of correlation between ownership specific advantages and location specific endowments:

> "The ability of enterprises ownership endowments is clearly not unrelated to the endowments specific to the countries in which they operate – and particularly their country of origin. Otherwise, there would be no reason why the structure of foreign production of firms of different nationalities should be different." (p.10)

Even though, ownership specific advantages and location specific endowments are relevant factors in explaining Foreign Direct Investment movements, they only account a partial explanation to FDI Movements. In fact, once a company has a comparative advantage it can either externalize their use, via contractual agreements that are going to give origin to trade agreements, or, on the other hand, internalize their use engaging in international production. Therefore, to understand why companies pursue Foreign Direct

Investment activities one should know why companies internalize their advantages, and in what context. (Dunning, 1980)

If markets were perfectly competitive, then MNE's would have no incentive in internalizing their activities, since domestic companies would be able to serve the domestic markets. Accordingly, what explains internalization activities are market imperfections arising from high transaction costs, arising from market inefficiencies, uncertainty, and logistical and operational costs, namely, transportation costs and communication costs. Apart from that, the synergies to be gained from economies of interdependence activities cannot be fully captured.

Note that internalization advantages vary depending on the position that the company assumes on the markets. If the MNE enterprise assumes a long position in the foreign markets, uncertainty over price and quantities plus market risk arising from (un)expected changes in timing and delivery of products made it such that when emerging in an internationalization process, MNE companies have an enhanced incentive to internalize their activities. On the other hand, if the MNE assumes a short position in the market, the price and market mechanism does not allow for price discrimination, which would increase company's market power, instead, asymmetric information and the costs of enforcing property rights made it such that there may be incentive to internalize activities, and engage in foreign production.(Dunning, 1980)

Consequently, on a holistic perspective, the OLI paradigm establishes that Foreign Direct Investment inflows and outflows can be explained in terms of changes in the ownership and internalization advantages of its enterprises, relative to those of other nationalities and/or changes in its location specific endowments relative to those of other countries, as perceived by its own and foreign enterprises.(Dunning, 1982, p.85)

Given this, Dunning (1980) explains Foreign Direct Investment behavior in terms of ownership and localization advantages assuming that:

i) Companies act as profit maximizers

ii) Export and production are substitutes in supplying

From this it assessed two hypotheses regarding FDI of United States firms in seven host countries:

H1: FDI depends on ownership specific advantages and location specific endowments of host countries; H2: FDI depends on the relative attractiveness of location specific endowments of home and host countries. Regarding this, internalization gains make an important part in FDI decision making.

Firstly, Dunning (1980) has established ownership specific determinants: a)Access to productive knowledge; b) Economics of the firm; c) Opportunities for Investment; d) Diversification; e) Market concentration; f) Efficiency; g) Resource Availability; h) Product differentiation; i) Oligopolistic behavior.

Secondly, the article has established Location Specific Determinants: a) Production costs; b) Transfer costs; and c) Political risks.

Accordingly, under H1, it was studied the foreign involvement of US firms in supplying the foreign markets either by exports or international production (dependent variable of the study).

Under H1, the Skilled employment ratio: the ratio of salaried employees to production employees for all firms in the host countries (SER), Relative market size: value of industry sales in the U.S. divided by value of industry sales in the host countries (RMS), Relative export shares of U.S. and ho.st countries: another measure of country performance (RES), The average ratio of net income to sales of all firms in different industries and countries for 1966 and 1970 (AVIS), were considered significative in explaining the international presence of US firms in a foreign market.

On the other hand, under H2, the dependent variable of the study was the ratio between exports and international production. The multiple regression analysis showed that, AVIS and Growth in sales per man of all firms (GRSPM) (in the host country),1966-1970 were considered relevant in explaining the behavior of the exports over international production ratio.

1.2.4. Institutional Determinants of Foreign Direct Investment

According to Leitão (2012), Foreign Direct Investment movements are a function of a combination of factors, namely Gross Domestic product, trade openness, human capital, globalization and urban population. On the other hand, Mottaleb & Kalirajan (2010) studying the determinants of FDI on developing countries (China, India, Nigeria and Sudan) highlight trade openness, associated with economic development, as measured

through consistent and significant growth rates, and a stable micro and microeconomic environment as having a positive impact on FDI movements.

Moreover, it is also factored the impact of market size, labor costs and the quality of the infrastructures as important factors in explaining inflows of direct investment from international investors (Alam & Shah, 2013).

Given this, Čičak & Sorić (2015), studying the interrelationship between GDP and FDI, concluded that GDP is a relevant factor in explaining FDI Inflows in European transition economies. In fact, of the ten countries analysed in the article (Bulgaria, Czech Republic, Estonia, Croatia, Latvia, Lithuania, Hungary, Poland, Romania and Slovenia) economic growth and (positive) GDP variations were reported to have a positive impact on FDI, showing a positive relationship between the two variables. Furthermore, from the evidence shown in the study, following an economic shock, there is a lag effect on FDI. That is, after a positive economic shock, there seems to be a higher percentage increase on FDI on the second and third period, after a timid response in the first period. This suggests an adaptive FDI response to economic stimulus. This is the case for some of the transition economies studied, such as Bulgaria where the FDI growth rate was greater in the second and third quarters after an economic shock than in the first quarter. Kosztowniak (2016) reaches a similar conclusion underlying that GDP had a positive impact on FDI Inflows in Poland.

The importance of financial markets and accounting standards measures are, in fact, as suggested by Humanicki et al. (2017), relevant questions in explaining international investment movements, namely, Foreign Direct Investment. In fact, Nam et al. (2020) state that the impact of financial markets and, namely, venture capital availability, financial markets development and accounting measures plays an important role in explaining FDI Inflow movements. While accounting procedures are more important in explaining FDI Inflows to developing and emerging economies, venture capital availability is especially important in explaining FDI Inflows in developed countries.

Buchanan et al. (2012) adds on the literature of Foreign Direct Investment by expanding the knowledge of the institutional determinants of Foreign Direct Investment, by analyzing the impact of institutional factors on Foreign Direct Investment volatility. It establishes as a starting point, that uncertainty and volatility can affect and be a burden to a country's economic growth as well as Foreign Direct Investment. From this, it studied that

institutional infrastructure has a negative relationship with FDI volatility. Therefore, it establishes that institutional variables are not only important in explaining the levels of FDI in host countries but also, are a significant predictor on the magnitude of its evolution, acting as a mechanism to reduce economic uncertainty in host countries. However, poor institutions act as a significant investment cost, while increasing overall firm risk by increasing uncertainty in international investments (Daude et al., 2007). That is why, institutional reforms are an important factor explaining foreign direct investment and economic growth (Buchanan et al., 2012).

From the model, it was established that Governance, Trade and GDP per capita growth are crucial factors in explaining FDI and FDI volatility.

1.2.5. Institutions and the Eclectic Paradigm of International Production: An Inclusive Approach

It is broadly said in the literature that institutional factors have a significant impact on FDI flows (Buchanan et al., 2012). Furthermore, as previously stated, the eclectic paradigm of international production gives an attempt to establish an integrated approach on the determinants of Foreign Direct Investment. Dunning (1980) established a first approach to the relationship between institutions and locational advantages of domestic and foreign MNE's. Accordingly, it stated that locational advantages "(…) include not only Ricardian type endowments – natural resources, most kinds of labor, proximity to markets, but also the legal and commercial environment in which the endowments are used – market structure, and government legislation and policies." (Dunning, 1980, p.9).

This approach was developed on Dunning & Lundan (2008), through a theoretical framework that tried to expand on the inclusion of institutional factors into the OLI paradigm. Due to the nature of the eclectic paradigm it was not only studied the relationship between institutions and locational advantages, but it was encompassed a perspective that offers an joint analysis between micro and macro factors of analysis, and their inclusion on the paradigm (Dunning & Lundan, 2008b)

Following the work of Dunning (2003), Dunning & Lundan (2008) view the MNE as a coordinated set of activities, that create value to the stakeholders and are determined by the transaction costs, namely the hierarchical costs of productions, the interdependence of business relationships and institutions on a firm and country level.

On one hand, from this definition there is an expansion on the classical neoclassical assumption that firms have a single dimension acting as profit maximizers. Instead, firms are encompassed by a set of strategic and short-term objectives that are not exclusively related to profit maximizing activities. The shift on the paradigm of firms (international and non-international firms) is highlighted by Jensen (2001). According to the article, companies that act as profit maximizers may not create value to the (overall) economy. In fact, they could be destroying value, when, the interests of the shareholders differ from the interests of the stakeholders, or the activities that the company engages have negative externalities that are greater than the financial value generated from their economic activities. Instead, the company should opt to maximize their firm value, creating value to the stakeholders (creditors, environment, shareholders, society) so that its activities add value to the society. From this, it would be a reductive perspective to consider that firms act solely as profit maximizers.

On the other hand, it is highlighted in Dunning & Lundan (2008) the role of firm and country specific institutions on the behavior of firms acting in order to meet their business objectives. Otherwise, firms acting in the same market, trough rational and efficient resource allocation criteria would have similar business options and decision-making process. However, the coordination of business activities, depends on the institutional infrastructure, on firm and country level, which differ according to the MNE's specific characteristics and capabilities, since institutions could act as enhancers of company's capabilities.

Therefore, comparing to the OLI paradigm as firstly defined by Dunning (1980) that offers a static perspective on FDI determinants across countries and MNE's, the inclusion of institutional factors on Dunning & Lundan (2008) offers a dynamic model approach where MNE's competitive advantage are analysed in a fast changing and competitive market environment. This explains why companies in their decision-making process, opt for different business ideas pursuing their objectives, since different institutional environment influence company's future decisions and their forecasting.

Consequently, on Dunning & Lundan (2008) frame MNE's decisions in a path dependency process where institutions play a crucial role in the strategy of the foreign enterprise. In this context, while transaction costs explain the internalization patterns, institutional architecture explains what costs are going to be internalized and who is the

company that is going to internalize them. In this view, while in the static model internalization is offered as a binary choice, in the dynamic model "(…) internalization becomes a matter of degree rather than a binary choice (…)" (Dunning & Lundan, 2008, p.575).

One should note, however, that institutions are analysed in Dunning & Lundan (2008) in a holistic view, that includes not only formal institutions but also, informal institutions, which encompass the moral values and ethical conduct, education and social mores, of the firm and the country that the MNE is inserted in.

From this, it was analysed the impact of institutional factors on the three components of the OLI paradigm.

1.2.5.1. Ownership specific advantages and institutions in the OLI paradigm

Firstly, the authors devised ownership specific advantages into ownership specific advantages originated from the assets of the firm (both tangible and intangible assets) and ownership specific advantages originated from the institutional infrastructure of the firm.

On one hand, ownership advantages derived from assets are reflected on the characteristics of the products/services and the business model pursued by the firm, ownership advantages derived from institutions are related to "(…) shifts in values, perceptions and behavioral mores, which may or may not directly relate to the range of products or services offered by the firm." (Dunning & Lundan, 2008, p.581).

However, institutional factors play a crucial role in the exploitation of ownership specific advantages derived from assets, since those advantages depend not only on the tangible assets of the firm, but on the creation of intangible assets. Therefore, the capacity of generating ownership advantages derived from (intangible) assets is dependent on knowledge transfer capabilities, between the transferor and the transferee, which is a function of the motivation of both agents, institutional infrastructure and enforcement mechanisms established in the MNE.

1.2.5.2. Locational advantages and Institutions in the OLI paradigm

On Dunning & Lundan (2008) there was made a statement on the evidence on the impact of national level institutions on economic growth and Foreign Direct Investment.

Accordingly, it was emphasised the importance of human capital on enabling economic growth and better institutions. That is, high levels of human capital promote institutional upgrading and institutional reform, which in turn is going to enable economic growth and Foreign Direct Investment.

Besides this, it was highlighted the role of informal institutions as promotors of Foreign Direct Investment in host countries. Accordingly, social capital, encompassed by the social infrastructure that provides a frame set to solve collective problems, also has a key role in Foreign Direct Investment.

Even though, locational advantages driven from institutions differ from developing and developed countries the countries incentive structure "(…)is likely to seriously impact on the quantity and quality of inbound and for that matter outbound MNE activity(…)"(Dunning & Lundan, 2008, p.586).

1.2.5.3. Internalization factors and Institutions in the OLI paradigm

According to the OLI paradigm MNE's propensity to internalize comes from market imperfections arising from imperfections in foreign markets (Dunning, 1980). However, as it was previously stated, internalization is a matter of degree within the MNE, rather than a matter of choice. In this context, institutional infrastructure is important in determining the organizational structure within the international firm and the relationship between different organizational forms.

In this context, internalization is seen as " (…) the sum total of the make-or-buy decisions made by the firm."(Dunning & Lundan, 2008, p.141).

2. Perspectives on Sustainability

On the previous chapters, it was studied the characteristics of Foreign Direct Investment, and its inflows and outflows, as well as the determinants of MNE's decision making when engaging in international production. On this chapter, it will be developed on the literature regarding the sustainability of the MNE's business decisions.

Brundtland (1987) in the report made by the World Commission on Environment and Development defines sustainable development as development that can cope with

present necessities without compromising society's ability to develop in the future. On one hand, the definition provided is conscient in the sense that it makes as a priority the capacity to meet essential needs, with a crucial role of eradicating poverty, while establishing a frontier limit on development marked by the social, technological and production capacities of the economy.

From the referred definition, it is highlighted the importance of MNE's Environmental, Social and Governance (ESG) activities. Since, as it was previously showed MNE are not entities with the sole purpose of maximizing profits, but, instead, they aim to increase value to its stakeholders. On other words, the firm is seen, not only a way to create value to those that are directly interested in the firm (shareholders) but also the remaining stakeholders. From this perspective ESG should be seen in the overall firm context and business (Huang, 2021). This evidence is consistent with the findings of Jensen (2001) that underlines the role of companies in increasing firm value as a critical variable, instead shareholder value maximization.

Since recent FDI studies on the determinants of Foreign Direct Investment focus on the coordinated set of activities of the MNE, as stated by Dunning & Lundan (2008), therefore it is of crucial importance to analyse ESG factors in FDI Inflows and Outflows.

Therefore, it is of prior importance to analyse both the impact of Sustainability on Foreign Direct Investment, and that of Foreign Direct Investment on Sustainability. Regarding this, Singh & Kapuria (2021) found that sustainability has a positive impact on the quality of FDI Inflows in developing countries. To this regard, the article concluded that control of corruption, political stability and electricity consumption had a positive effect on sustainable FDI, while an increase in CO_2 had a negative impact on sustainable FDI. Moreover, Della Posta et al. (2021) argue that there is a positive relationship between the amount of FDI Inflows in European Union developed countries and the sustainability of the business environment. Overall, these studies give room to the idea that sustainability can both increase the quality and quantity of Foreign Direct Investment Inflows.

From the hereabove, there is the question of how FDI can enhance sustainability in host countries. To analyse this, one would need to look at the Sustainable Development Goals (SDGs) that looks at sustainability in 17 different dimensions (United Nations, 2016):

(i) No poverty – End poverty in all its forms everywhere.

(ii) End hunger, achieve food security and improved nutrition and promote sustainable agriculture

(iii) Ensure healthy lives and promote well-being for all at all ages

(iv) Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

(v) Achieve gender equality and empower all women and girls

(vi) Ensure availability and sustainable management of water and sanitation for all

(vii) Ensure access to affordable, reliable, sustainable and modern energy for all

(viii) Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all~

(ix) Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

(x) Reduce inequality within and among countries

(xi) Make cities and human settlements inclusive, safe, resilient and sustainable

(xii) Ensure sustainable consumption and production patterns

(xiii) Take urgent action to combat climate change and its impacts

(xiv) Conserve and sustainably use the oceans, seas, and marine resources for sustainable development~

(xv) Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

(xvi) Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

(xvii) Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

3. Methodology

"Every research must involve an explicit, disciplined, systematic (planned, ordered, and public) approach to find out most appropriate results." (Mohajan, 2018, p.1)

In this article, it will be used a qualitative methodology, based on a case study approach, where it will be studied the impact of social and environmental variables on the FDI Inflows.

Qualitative research highlights the interpretation of social phenomena as a way of understanding the social domain via the experiences of the individuals. The comprehension of the social reality as defined *per se* in the qualitative methodology makes an emphasis on human behavioral variables, since it encompasses the full spectrum of the social interactions that define the object of the study.

As compared to a quantitative based approach that is more focused on a positivist view of the social reality and, therefore, basis its analysis on a cause effect relationship between the results and the object of study, in a qualitative approach one tries to categorize variables and adopt the perspective of the subject that is being analysed. On the contrary, quantitative methodology focuses on statistical tools and analysis and opts for an "impartial view" of the world where the researcher tries to evaluate information according to the analytical perspective of the phenomenon that is being studied.

For this reason, and knowing that to the sustainability of multinational's business practices, social and environmental responsibility measures and policies, and knowing that to understand the full range of their impact one must adopt a view that focuses on the individual, as opposed to a more deterministic approach, given the intrinsic characteristics of the variables studied, it was opted for the qualitative methodology (namely, a case study) since "It investigates local knowledge and understanding of a given program, people's experiences, meanings and relationships, and social processes and contextual factors that marginalize a group of people." (Mohajan, 2018, p.2).

Case Study is a methodology that has two distinctive features. On one hand, it examines an object of study and a certain phenomenon within its real-life context, and is used when the object of study cannot be separated from the context where it is inserted. On another hand, compared, for example, to a survey, a case study is the analysis of an object of study, studying a single entity or a small group of entities. Therefore, the results of the case study should be analysed using qualitative tools, namely, exploration and visual inspection (Alam & Shah, 2013)

To this extent, the case study can be seen as exploratory research where past research and literature a significant role has in interpreting the results of the events

analysed. In fact according to Yin (1994), case study must rely on multiple sources of evidence so that it can benefit in their analysis from the work that was created beforehand.

This characteristic makes it such that case studies can be generalizable, meaning that its conclusion and theory formulation could be tested and replicated in other case studies (Dul & Hak, 2008).

Given this, Dul & Hak (2008) distinguishes two typologies of case studies:

Single Case Study – the data obtained from a specific entity is enough to meet the research objective; and Comparative case study – it is analysed data from two or more entities, or from two data points for the same entity to achieve the research objective.

Knowing that it is pretended to study the impact of environmental and socially responsible investments in Portugal (developed economy) and Poland (Transition Economy) this work falls into the comparative case study category, since it pretends to establish both the differences and the similarities in the impact of ESG measures in the profitability of Foreign Direct Investment.

Furthermore, according to Stake (1995) depending on the Research Objectives the case studies could be classified into three categories:

(i) Intrinsic: the sole objective of the study is to evaluate the phenomenon in the specific situation of the case study (ii)

(ii) Instrumental: when there is an attempt to obtain a broader and more generalizable comprehension of the phenomenon trough the case study

(iii) Collective: when the inference from the instrumental case study, is applicable to another case studies so that there is a thorough comprehension of the event that is being studied

This case study can be defined as an instrumental case study since it pretends to obtain a broader inference on the impact of responsible investment on Foreign Direct Investment Returns.

For this purpose, it was obtained data from McDonald's Portugal and McDonald's Portugal regarding their social, environmental and governance factors, using McDonald's Portugal "Relatório dos 30 anos", and McDonald's Poland report on the impact of its activity on the Polish economy, in order to establish a analytical and holistic view on McDonald's activity on both Developed and Transition Economies.

Besides this, it was done an interview with McDonald's Portugal to develop on the questions regarding McDonald's Sustainability practices in Portugal and throughout the group as well. Accordingly, in Annex 26, it is specified the detailed interview script that serve as a guideline for the referred meeting.

To achieve this, we will refer, not only, to the common institutionalized business practices of McDonald's but also, the differences and particularities of each country with respect to its social, economic, and environmental specific constraints.

4. Analysis of Results

4.1. Transition and Developed Economy: An Overview

To study the impact of Foreign Direct Investment on Sustainability, it was used a comparative approach that studies the Sustainability practices in both Poland and Portugal. However, the approach that has been developed throughout the thesis is dependent upon the inherent characteristics of the Polish and Portuguese Economy. For this reason, it is necessary to understand the nature of both economies.

To this extent, Round (2009) established that a transition economy is going through significant macroeconomic reforms with the objective of changing the paradigm of the country. Namely, Transition Economies aim to change focus from a state-run economy to a market-led economy (Round, 2009). Taking into consideration the work of the author, former Soviet countries, such as Poland, are in a process of moving towards economic liberalization and free markets, which considers private initiative as a mean to reach welfare, economic and human development.

On the other hand, using MSCI Market Classification Framework, according to MSCI, (2022) there are three criteria that determine the level of progress of an economy.

i) Economic Development (Sustainability of Economic Development)

ii) Size and Liquidity (Company size, measured by market capitalization, Security Size, measured by floating market cap and Security Liquidity)

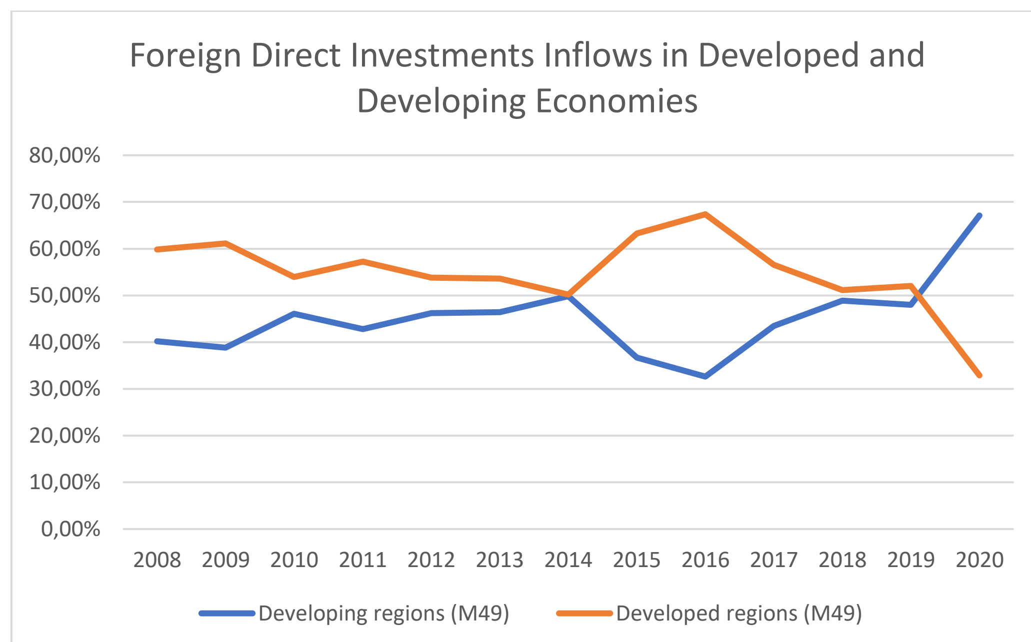
iii) Market Accessibility (openness to foreign ownership, ease of capital inflows and outflows, efficiency of operational framework, availability of investment instrument and stability of the institutional framework)

Using this criteria and Round (2009) approach Poland is considered a Transition Economy for the objectives of the study while Portugal is considered a Developed Economy.

4.2. Recent Trends on Foreign Direct Investment

Foreign Direct Investment worldwide has increased 64% to 1,58 trillion USD in 2021 as compared to 2021 (UNCTAD, 2022). This is a result of significantly increasing cross-border mergers and acquisition activities and international project finance investments due to a lower cost of capital and high liquidity investments (UNCTAD, 2022).

However, investment climate has changed significantly due to the war in Ukraine which will increase systemic risk, volatility and uncertainty regarding FDI. For that reason, according to *World Investment Report 2022*, the FDI is expected to present a downward trend or, in the best scenario a stabilization.



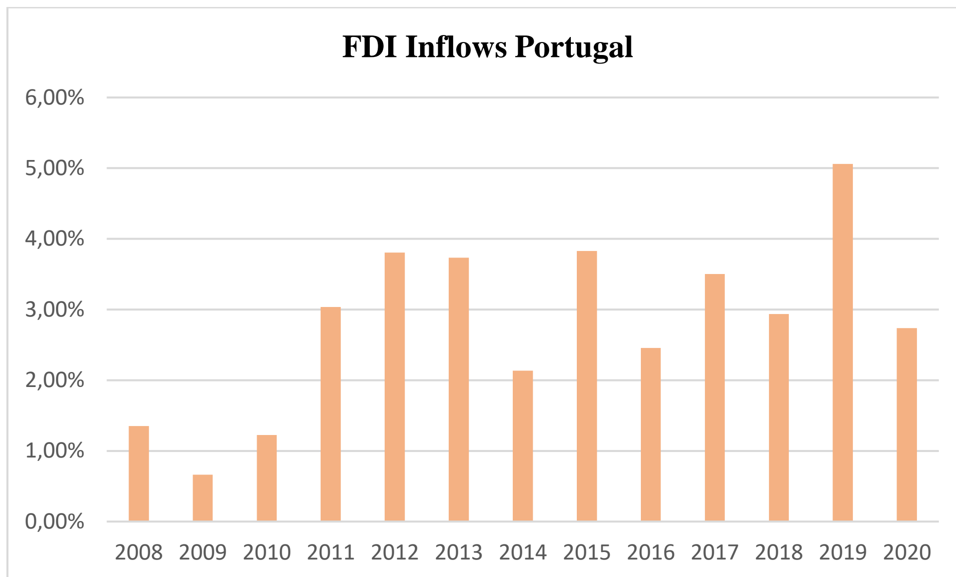
Graph 1: Foreign Direct Investment Inflows in Developed and Developing Economies (% of the Total World); Own Elaboration based on data of UNCTADstat (2022)

From the analysis of graph one, there has been a shift in Foreign Direct Investment Inflows from Developed Economies, which accounted for more than two thirds of FDI in 2016, to Developing Economies that attracted almost 70% of the total FDI Inflows in 2020.

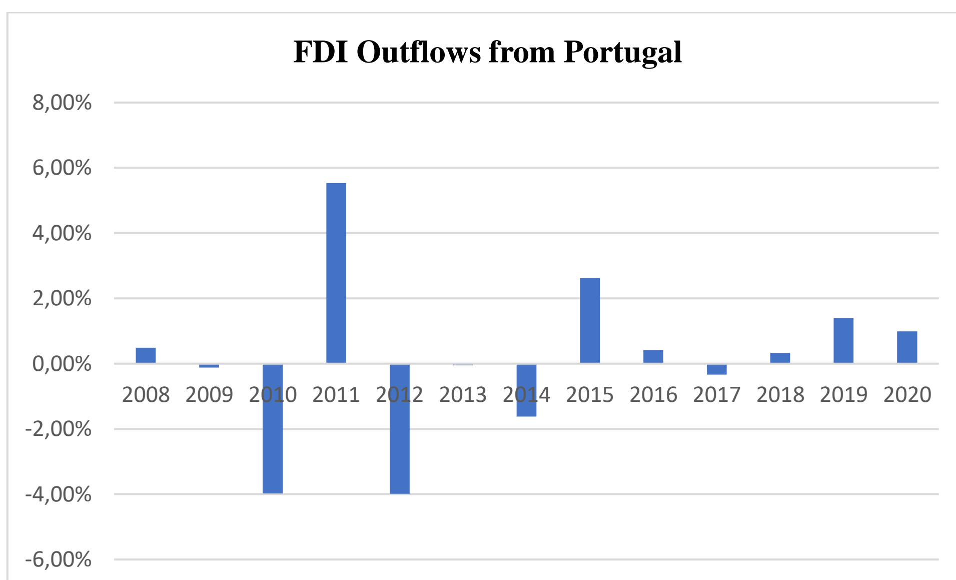
While this shift, created an opportunity for economic development and economic convergence worldwide as financial funds are more resources are allocated to economies that are less developed, in order to establish a link between the recent increase in Foreign Direct Investment and the recent shift towards Foreign Direct Investment in Developing Economies, in the modes of entry in Foreign Markets.

In this context it is important to note, as it was referred previously, that greenfield investments are related to an increase in economic development, economic growth and welfare knowing that they usually involve the creation of new technological, organizational and physical assets as well as the acquisition of new capabilities that converge in the exploitation of competitive advantage and their internalization in MNE's activity (Moosa, 2002).

On the other hand, cross-border M&A, involve the transfer of assets from a company to another that operates outside of a domestic market. From the nature of those activities, they do not imply an increase in investment, as on a first moment, cross-border M&A are exclusively related with the transfer of property of a company's assets. In fact, M&A activities may prejudice economic development, especially when they are of hostile nature, and do not have a long-lasting economic interest in creating value to the acquiree company's stakeholders. In fact, they may be related with the idea of rationalizing resources, which may lead the acquirer to sell acquiree's assets and reduce its activity and market presence.



Graph 2: FDI Inflows from Portugal from 2008 to 2020; Own elaboration based on data of UNCTADstat (2022)



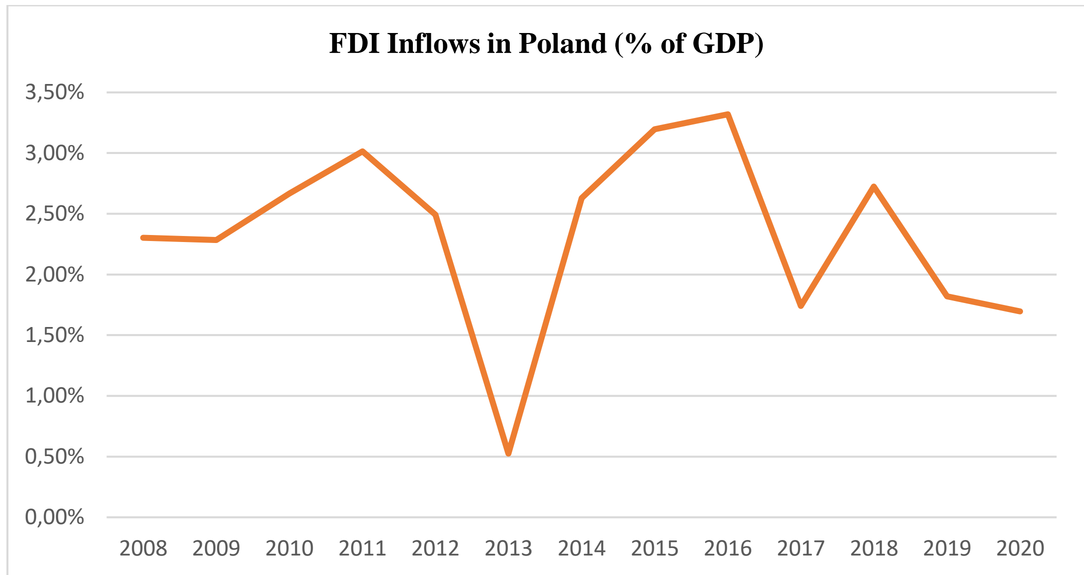
Graph 3: FDI Outflows from Portugal between 2008 and 2020; Own Elaboration based on data of UNCTADstat (2022)

Looking at the FDI Inflows, and despite several oscillations the dimension of those movements almost tripled from just above 1% in 2008 to almost 3% in 2020. This is related to the upward trend in FDI Inflows from 2008 to 2013 which increased FDI Inflows to almost 4% of Portugal's GDP (as it is demonstrated on Annex 2), even though in 2009 there was a significant descent due to the Financial Crisis in International Capital Markets. Despite several oscillations, between 2013 and 2017 FDI Inflows maintained above the 3% GDP level. In 2019, there was a significant increase in the investment of MNE in Portugal

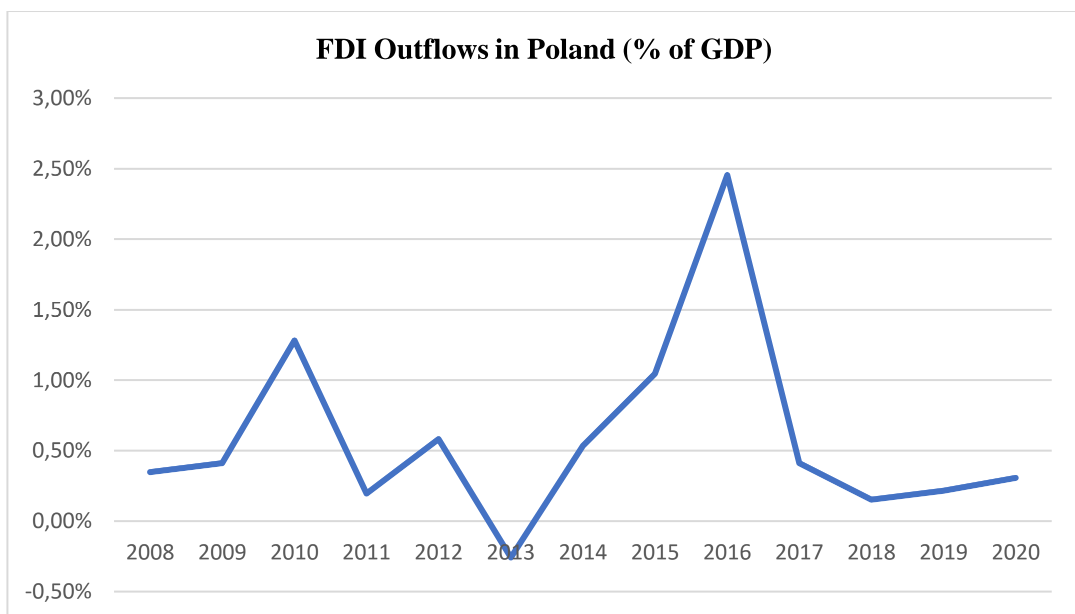
as FDI Inflows reached 5% GDP. However, in 2020, in response to the pandemic crisis there was a significant downward movement in FDI from 5% to 3%GDP. However, according to Nicola (2021), the actual macroeconomic context offers an opportunity to engage in international production, through the acquisition of significant organizational and technological capabilities related to digitalization activities.

Besides this, Dunning et al. (2008) argues that the expansion and liberalization of the European Market is an important factor in explaining the evolution of foreign investment as it creates an incentive for companies to create and internalize ownership specific advantages.

Finally, it was also looked at the dimension of FDI Inflows taking into consideration the investment of Portuguese companies abroad. Regarding this, it is shown on the graph the impact of the 2008 Financial Crisis on FDI Outflows. In fact, in 2010 and 2012 the disinvestment of Portuguese companies abroad was higher than the investment that was made on foreign countries. This is related to a climate of significant uncertainty, and volatility which reduced the present value of future cash-flows and therefore reduce the attractiveness of Foreign Direct Investment Outflows from the Portuguese companies' perspective. While FDI Outflows recovered, they are still not significative when compared to FDI Inflows.



Graph 4: Foreign Direct Investment Inflows in Poland from 2008 to 2020 (% of GDP) ; Source : Own Elaboration based on data of UNCTADstat (2022)



Graph 5: Foreign Direct Investment Outflows in Poland from 2008 to 2020 (% of GDP); Source: Own Elaboration based on data of UNCTADstat (2022)

Respecting Poland's attractiveness, a host destination of Foreign Direct Investment, it was analysed the FDI Inflows to Poland, from 2008 to 2020, and the FDI Outflows from Poland in the same period. The latter, offers a perspective on the magnitude of FDI Inflows to Poland, offering a compared perspective that utilizes both the inflows and outflows of Foreign Direct Investment, while providing a perspective on how FDI Inflows can create opportunities for Polish Companies to expand their production, as well as their

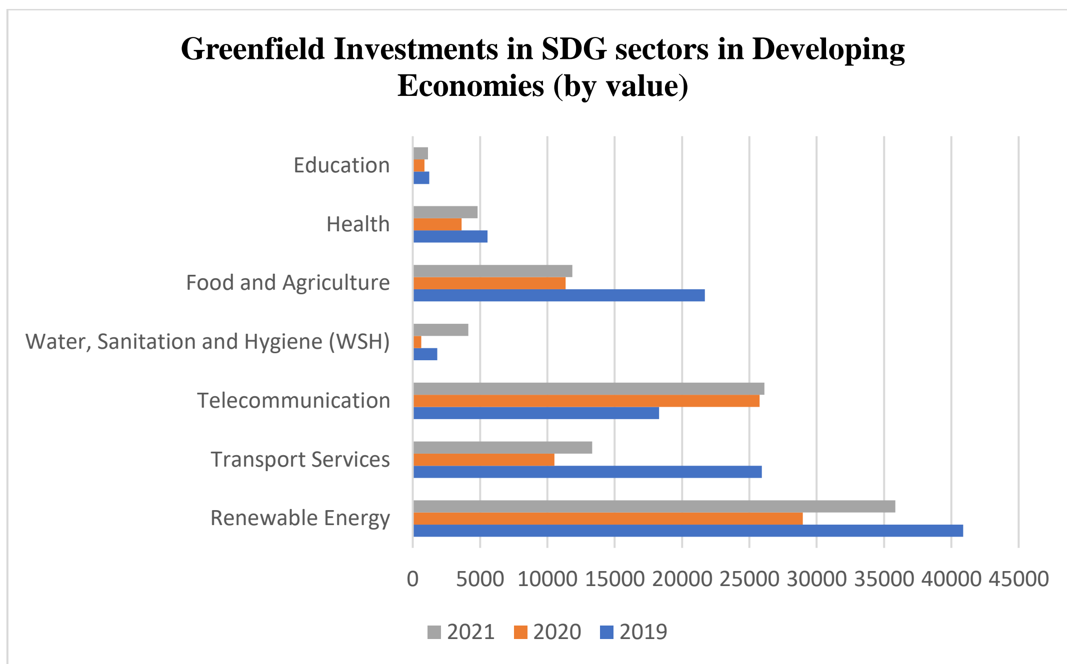
technological frontier, and internationalize their production, because of the acquisition of competitive advantages generated trough (positive) spillover effects.

To this respect FDI Inflows, have suffered severed oscillations from 2008 to 2020 reaching their maximum at around 3,5% of Poland's GDP in 2016. However, the impact of FDI Inflows should not be dissociated with the international economic dynamics that affected capital and financial markets. This is clearly seen in the decrease of FDI Inflows from 2010 to 2013, where there was higher volatility and significant uncertainty levels in the market. Nonetheless, looking at the overall evolution of FDI Inflows its levels did not change significantly in 2020, comparing to 2008, pre-financial crisis levels.

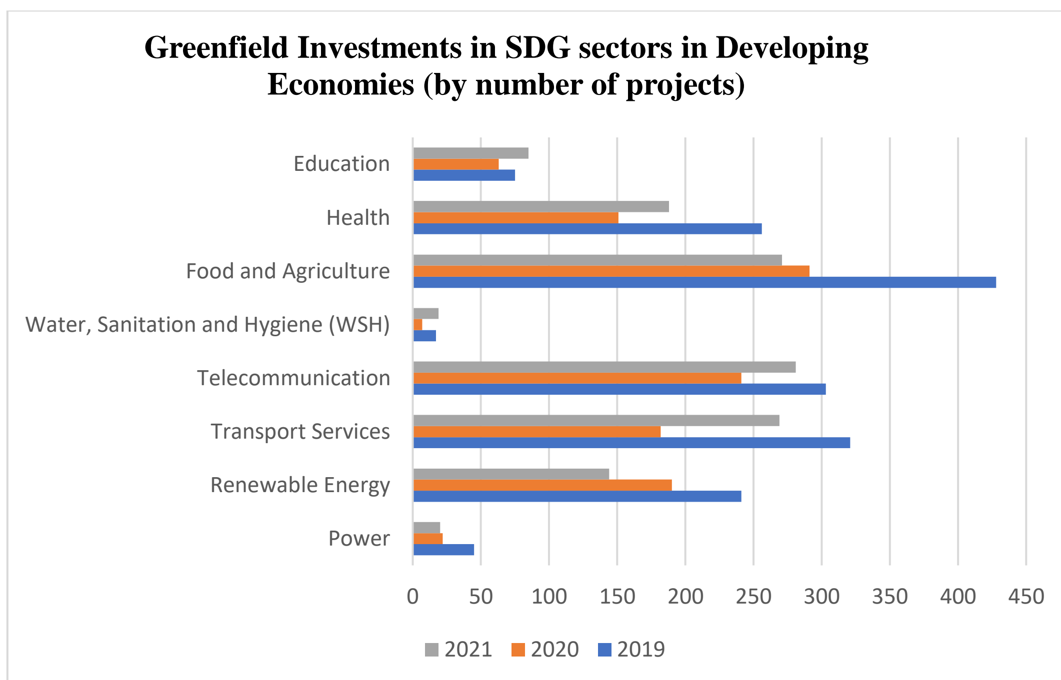
As with FDI Outflows a similar conclusion is reached. While FDI Outflows reached its maximum at 2,50% of Poland's GDP in 2016, which indicates a greater degree of market openness as both Inflows and Outflows of Foreign Direct Investment reached greater proportions, when looking at 2020 FDI Outflows levels, it can be stated that they have not significantly change when compared to 2008.

4.3. Greenfield Investments and Sustainable Development Goals in Developing Economies

As Developing Economies need to fill a development and welfare gap, the *World Investment Report 2022,* relates *greenfield* investments with the contribution of those investment to the accomplishment of Sustainable Development Goals. To study that it was developed on an indicator that analyses *greenfield* investments in development economies aggregated by sector.



Graph 6: Greenfield Investments in SDG sectors in Developing Economies (by value); Own elaboration based on data of UNCTAD (2021, p.14)



Graph 7: Greenfield Investments in SDG sectors in Developing Economies (by number of projects); Own Elaboration based on data of UNCTAD (2021, p.14)

These two graphics offers an integrated perspective on the value of *greenfield investments,* the number of projects and the magnitude of each project. Looking at the

overall evolution of the value of *greenfield investment*, excluding the telecommunications sector, the value of greenfield investments showed a significant decrease from 2019 to 2020 because of the covid-19 pandemic. On the other hand, even though 2021 presented a recover in the value of greenfield investments, almost none of the sector, apart from water, sanitation and hygiene (WSH) recovered to pre-2019 levels.

The question that arises is whether this evolution is a result of a lower amount of *greenfield* investments projects, as compared to 2019, or, if, on the other hand, this decrease in the value of greenfield investment projects is accompanied by a smaller number of greenfield investments.

Looking at the evolution of the number of projects in sectors that contribute to SDG in developing economies that besides education and WSH the number of projects related to SDG has not yet recovered from pre-pandemic levels. However, in the Renewable Energy sector the value per project increased, meaning that even though there were fewer renewable energy projects in 2021, as compared to 2019, the dimension and magnitude of those projects was greater than it was in 2019 (as it is detailed on Annexes 6 and 7).

Furthermore, Foods and Agriculture sector also showed a slight increase in the value per project meaning that there is a path to recovery and sustainability in the agricultural sector as the investment in sustainable and environmentally friendly agricultural has showed positive signs of increasing in 2021.

4.4. Sustainability

On this part, it will be analysed the sustainability in Developed and Transition Economies. The sustainability, in the view of this work encompasses a holistic view, that looks at both environmental and social sustainability. On this view, Crane & Matten (2016), underline that there needs to be a major paradigm change in the terms of goals and objectives of companies and business alike to assert the introduction of the concept of sustainability. The concept of sustainability encompasses not only the economic aspect of sustainability related to generating consistent and well-established economic growth to society but includes environmental and social responsibilities as key aspects in determining sustainability policies. That is, it concluded that business is concerned not only in increasing their economic value but also their environmental and social value.

On this perspective, considering the development made by the United Nations in the development of the sustainable development goals, on this section it will be addressed how are the actual sustainability practices contributing to the accomplishment of the sustainable development goals.

Firstly, those objectives will be grouped into the two main categories of environmental and social sustainability respectively according to the sustainable development goals that those objectives are contributing.

On this perspective, in order to be able to analyse the results, it will be studied sustainability in European Union countries, which is going to be used as a reference for these indicators, and it will be also done a comparative perspective between a developed economy (Portugal) and a transition economy (Poland), using data obtained from (Eurostat, 2022) on the metrics of the Sustainable Development Goals, which is also available in EU (2022).

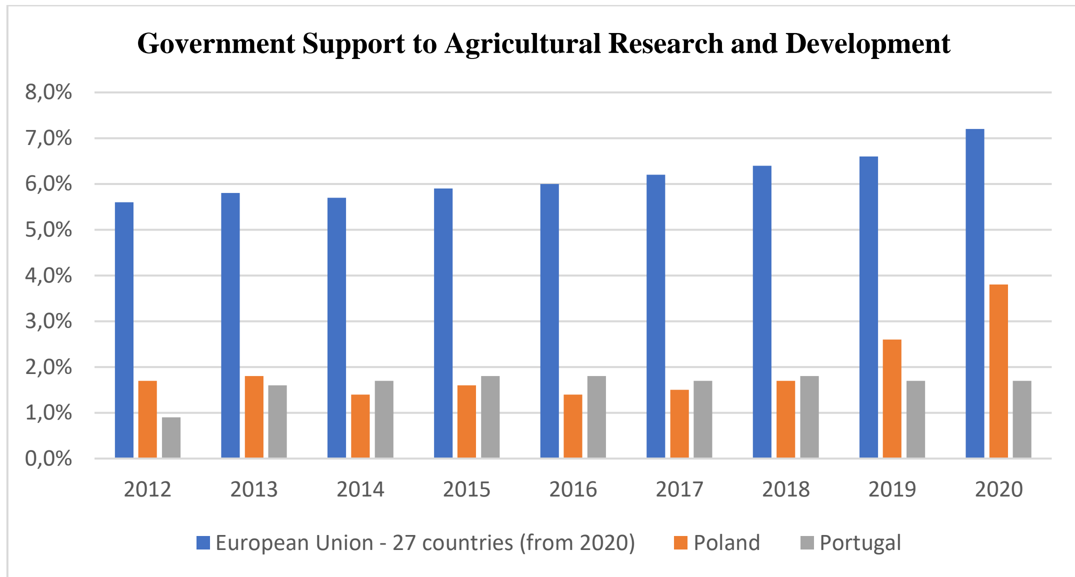
4.4.1. Environmental Sustainability

According to Crane and Matten (2016), environmental sustainability refers to the "(…)effective management of physical resources so that they are conserved for the future." (p.34).

On this perspective environmental sustainability is concerned with a rational use of environmental resources so that their availability will not be affected in the medium and long-term and the welfare of younger generations is ensured (Crane & Matten, 2016).

The authors considered several problems that are relevant when analyzing the concept of environmental sustainability:

(i) Impact of industrialization on Biodiversity
(ii) Use of non-renewable resources
(iii) Production of damaging environmental pollutants on the primary, secondary and tertiary sectors



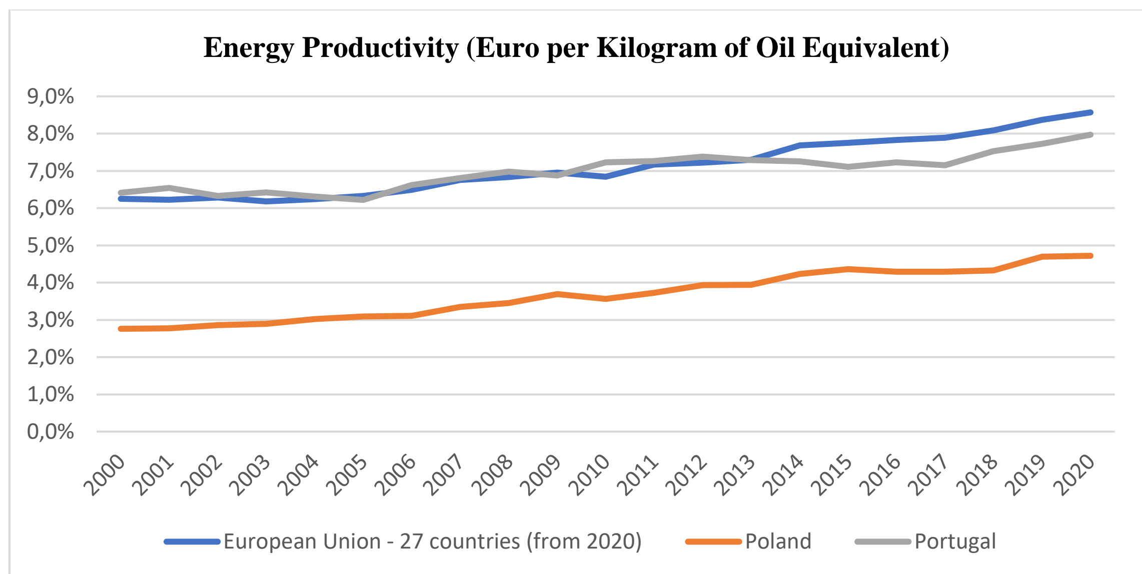
Graph 8: Government Support to Agricultural R&D Source: Own Elaboration based on data obtained by EU (2022)

When we talk about environmental sustainability, it is of remarkable importance to state the influence of agricultural practices on enhancing sustainability trough better consolidated practices. To evaluate this, on a first moment it is studied the Government Support to agricultural research and development, which contributes to SDG 2 (Zero Hunger). This indicator gives a measure the focus of governmental institutions on increasing production efficiency in agriculture, which will increase value to the overall economy and improve social and environmental welfare. On the other hand, research and development in agriculture practices is related to reducing waste, a more efficient use of hydric resources and a lower environmental impact of the agricultural activity EU (2022). On graph eight, this is evaluated looking at the government agricultural Research and Development (R&D) in Euros per inhabitant in European Union (27 countries), Poland and Portugal. In this context, it is demonstrated on Annex 8 that both Portugal and Poland are still very distant to the European Union. While the average of government agricultural R&D in the European Union increased consistently until reaching around seven euros per habitant, in Poland this value is only four euros per inhabitant, and in Portugal is even lower, just below 2 euros.

However, when comparing the two countries we should note two clear differences. On one hand, Poland has been consistently increasing its government R&D expenditure on agriculture, with a substantial increase in 2019 and 2020, Portuguese government

agricultural R&D, has been stable between 2013 and 2020 and around two euros. From this, it should be concluded that Poland has been making a greater effort in increasing agricultural productivity and sustainability in their food systems while maintaining significant innovation systems from private companies that aim to invest in the primary sector.

Besides looking at agricultural expenditure and agricultural productivity and efficiency, one must look at energy productivity and the sources of energy used in Poland and Portugal. To achieve this, it will be first studied the energy productivity evolution on Poland, Portugal and the European Union, and, afterwards, it will be analysed the sources of energy in both countries.



Graph 9: Energy productivity in European Union, Poland, Portugal (Euro per Kilogram of Oil Equivalent); Source: Own elaboration based on data obtained by EU (2022)

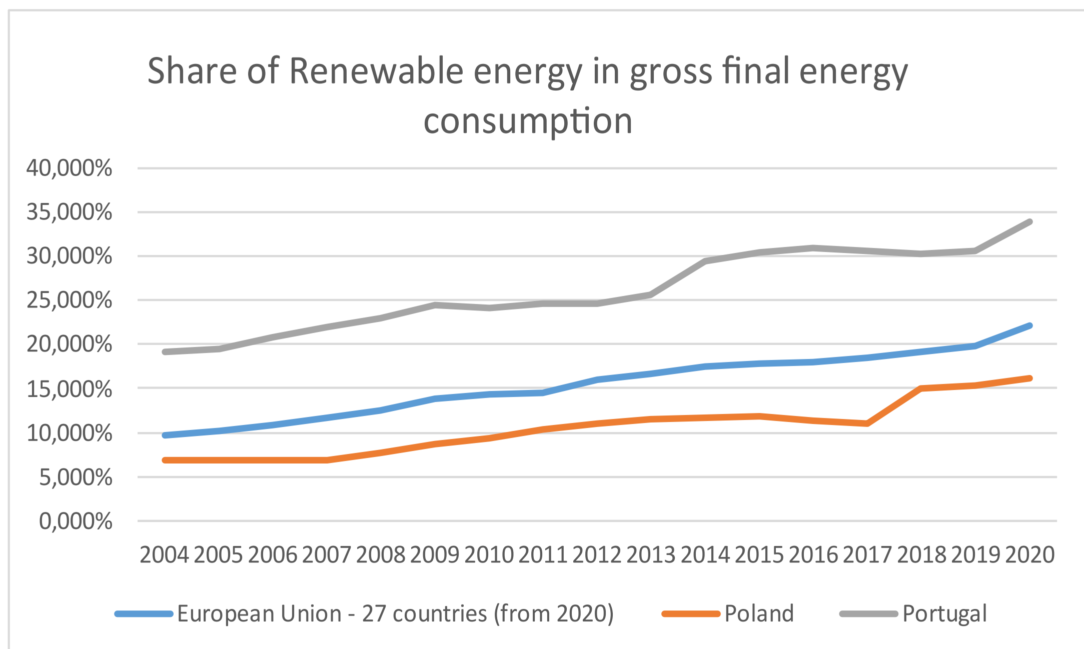
This indicator gives the efficiency on the energy usage by measuring the economic output, using Purchasing Power Standard (PPS) per unit of gross available energy. The efficiency in the energy usage, as measured in graph two, allows on one hand to study whether energy has been used to create value to the economy, and, consequently, if the country uses its energy in a sustainable way, and, on the other hand, to see whether there is inefficient energy allocation. This promotes to the accomplishment of SDG 7 (Affordable and Clean Energy).

Accordingly, we see that on both Portugal and Poland there has been consistent improvements on energy productivity meaning that overall energy efficiency is increasing,

creating more value to the society while reducing environmental damage from the production of such energy. Conversely, this implies that there is less energy spent per economic unit of output produced in 2020 than in 2000, in both Poland, Portugal and European Union.

However, while Portugal is close to the European Union in terms of energy productivity throughout the sample period, reaching eight euros per unit of oil equivalent in 2020, Poland is still a long way to go to reach European Union levels with just around four euros per unit of oil equivalent of economic output.

While this is an important indicator to study the impact of energy on environmental sustainability, one must not only look at whether energy has been used efficiently, but also if energy sources come from sustainable and reliable energy sources. For that reason, on graph three it is presented the share of renewable energy on gross final energy consumption, which comprises final energy consumption plus grid losses and self-consumption of power plants.



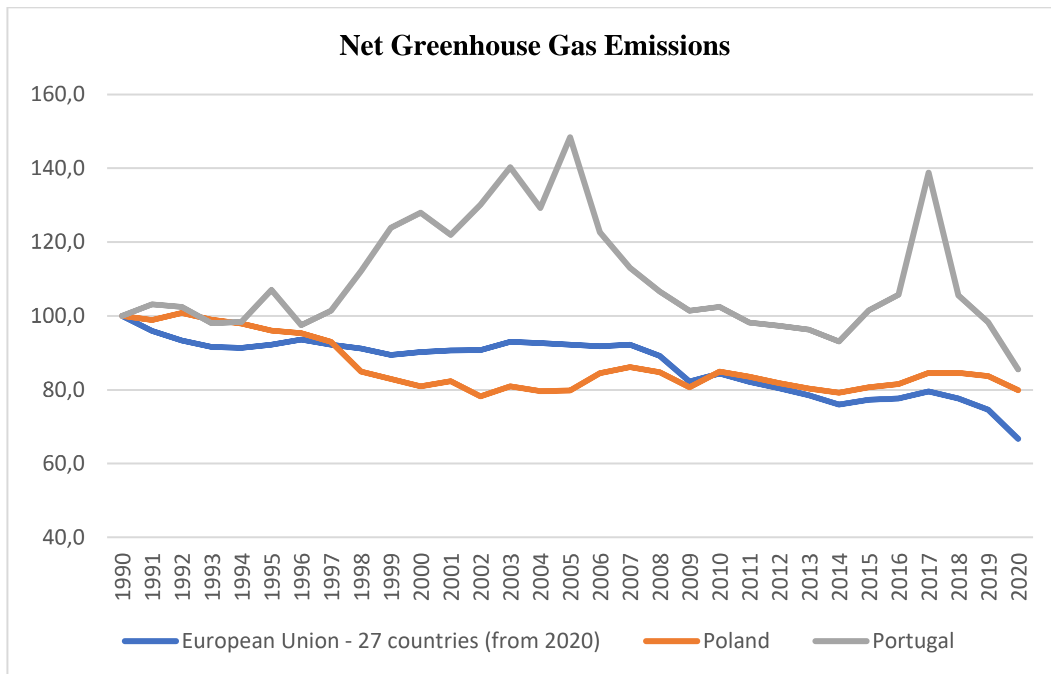
Graph 10: Share of Renewable Energy in gross final energy consumption in European Union, Poland and Portugal; Source: Own Elaboration based on data obtained by EU (2022)

In this context, Portugal has managed to increase its share of renewable energy in gross final consumption, from around 20% in 2004 to just below 35% in 2020, which represents a path towards sustainability, green energy and lower energy dependency on non-clean sources of energy and energy imports.

This contributes to attain SDG 7, that aims to universalize the use of energy , while increasing energy efficiency and the sustainability of energy production and usage (United Nations, 2016). Note that this value is almost double the share of renewable energy of the overall European Union Countries in 2020 and triple the amount of the share of renewable energy of Poland, which, in 2020, despite significant increases since 2017, situates around 10%.

Note that, according to the Paris agreement, countries must reach net zero greenhouse gas emissions by 2050, and to achieve that the share of renewable energy must be consistently increasing in the medium or long-term, especially when we look at Poland which relies heavily on non-clean sources of energy.

In conclusion, Portugal presents, on one hand, a better energy efficiency while being able to achieve it using cleaner sources of energy, and, for that reason, despite the positive evolutions of Poland on this chapter, there is still a long way to go when it comes to increase environmental and social welfare to future generations, in the medium and long-term horizons.



Graph 11: Net Greenhouse Gas Emissions (INDEX 1990=100); Source: Own Elaboration Based on data obtained by EU (2022)

On the other hand, while efficient use of energy sustainability, is an important variable in environmental sustainability, it is important to look on how that indicator reflects on greenhouse gas emissions, which have a negative effect on environment but also on social welfare, since air quality also reflects on health and respiratory issues. Because of this, it was studied the net greenhouse gas emission for the European Union, Poland and Portugal from 1990 to 2020.

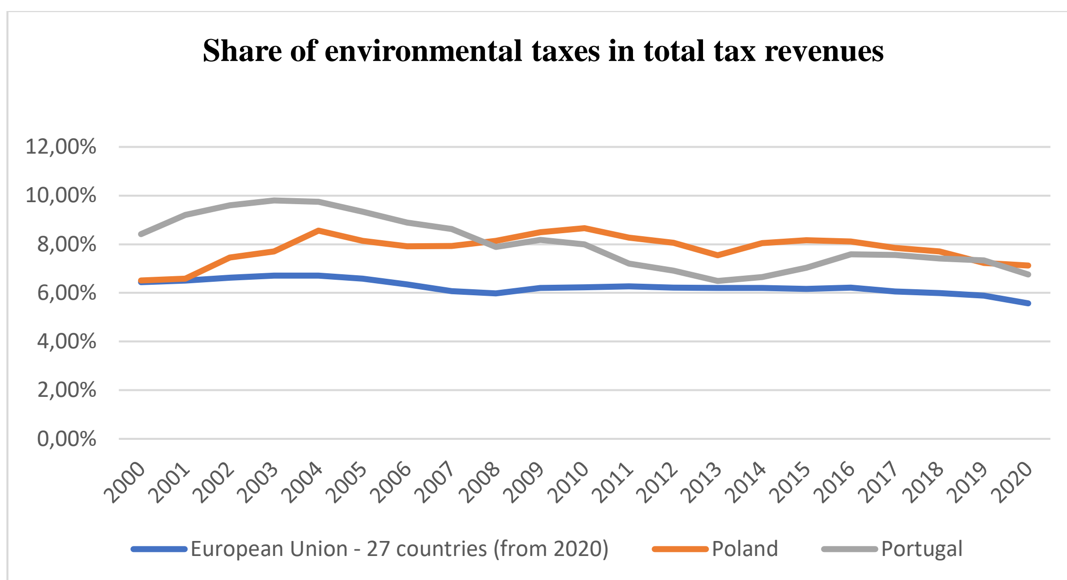
There has been in a 40% in net greenhouse gas emissions from 1990 to 2020, which is demonstrated on Annex 11, in the European Union, representing the commitment of the European Union countries that signed the Paris agreement, and the enforcement of the SDG's, namely SDG 13, that analyses countries commitment in fighting against climate change.

In this context Poland managed to reduce its net greenhouse gas emissions by 20%, which is a significant step towards climate change and sustainability, even though far below European Union's average reduction in net greenhouse gas emissions.

On the other hand, Portugal has had several oscillations in net greenhouse gas emissions in this period. From 1990 to 2005, and apposite to the European Union's tendency, Portugal increased its net greenhouse gas emissions by 40%. From 2005 to 2014,

it managed to recover and bring net greenhouse gas emissions back to 1990 levels. From 2014 to 2018, net greenhouse gas emissions bounced back to 2014 to 2006 levels.

From 2018 to 2020, net greenhouse gas emissions decreased from 140% to 80% of 1990, which represents the tendency of European Countries of making policies that aim to respect the environment and fight climate change, following the guidelines of 2030 Agenda for Sustainable Development.



Graph 12: Share of Environmental Tax Revenues in Total Tax Revenues in European Union, Poland and Portugal; Source: Own Elaboration based on data obtained by EU (2022)

The effort of countries in fighting combat change can be measured by the extent in which they combat negative externalities arising from companies, public and private enterprises activity, to the environment. The governments may induce environmental taxes so that they initiate activities that aim to mitigate the impact of such activities in the environment. Environmental taxes aim to redistribute wealth to environmentally friendly activities, and, therefore, the governments have significant impact in enforcing society's effort in increasing welfare and quality of life, which is enforced by Sustainable Development Goals 17 (Partnership for Goals). Environmental taxes revenues may come from four different types of taxes: energy taxes, transport taxes, pollution and resource taxes (EU , 2022).

In this context, the European Union reduced the share of environmental taxes by around 0,5% from 2001 to 2020, which may be a result of two distinct factors that may act together, and independently in defining European environmental tax policy:

(i) Negative externalities resulting in significant environmental damage have reduced, therefore leading to a moderate reduction in the share of environmental taxes in total tax revenues

(ii) Countries evaluated that a relative increase in environmental taxes would lead to lower attractiveness levels of Investment (both Domestic and Foreign), and therefore, they would reduce the share of environmental taxes to not prejudice economic growth and medium and long-term country's income levels, even if net greenhouse gas emissions increased

While in (i) the reduction in environmental taxes may imply a step forward towards reaching environmental sustainability, since the environmental damage from the country's economic and social activities is lower, in (ii) Foreign and Domestic Investment may lead to value destruction activities to the stakeholders (even though, those activities would generate positive shareholder value), associated with aggressive market entry strategies that do not include sustainability analysis

Using the data from Graph 4, it can be concluded that while in Poland and the European Union the reduction in the share of environmental taxes is associated with lower net greenhouse gas emissions, which could represent a commitment of society in reducing the impact of its activity to the environment, the Portuguese case is significantly different. Even though the share of environmental taxes is higher than European Union average, Portuguese case of policies regarding environmental taxes fit on (ii), namely in the period between 2000 and 2007. While net greenhouse gas emissions were increasing, implying a lower air quality, and, consequently, an (expected) increased environmental taxes, Portugal has reduced its share of environmental taxes in total tax revenues from 10% to around 8%. Due to the stagnation of the Portuguese economy, the Portuguese Government tried to increase Domestic Investment, but also to attract Foreign Direct Investment, regardless of the sustainability of those investments, or, on other words, the impact of those investments in Portuguese society and its stakeholders. In response of 2008 crisis Portugal changed its policies, which started to behave more like case (i). While net greenhouse gas emissions reduced from 2008 to 2014, Portugal adjusted its share of environmental tax to reflect a lower impact of negative externalities on the environment. From 2014 to 2018, the increase in net greenhouse gas emissions made the share of environmental taxes to increase from

6% to 8%, before stabilizing around that level from 2018 and 2020, where greenhouse gas emissions faced a severe reduction.

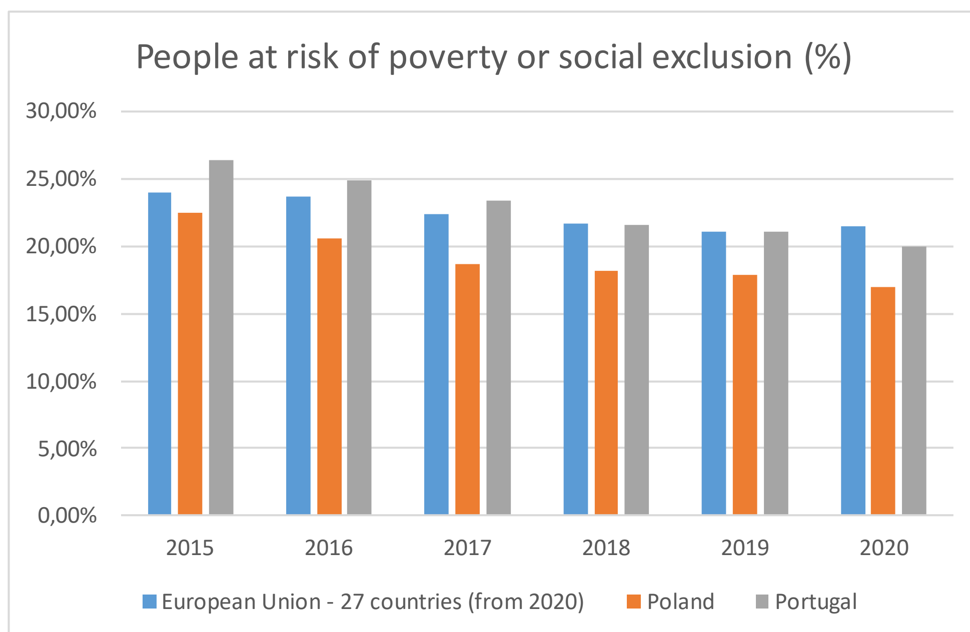
4.4.2. Social Sustainability

To evaluate social sustainability, it will be analysed several indicators using Sustainable Development Goals approach:

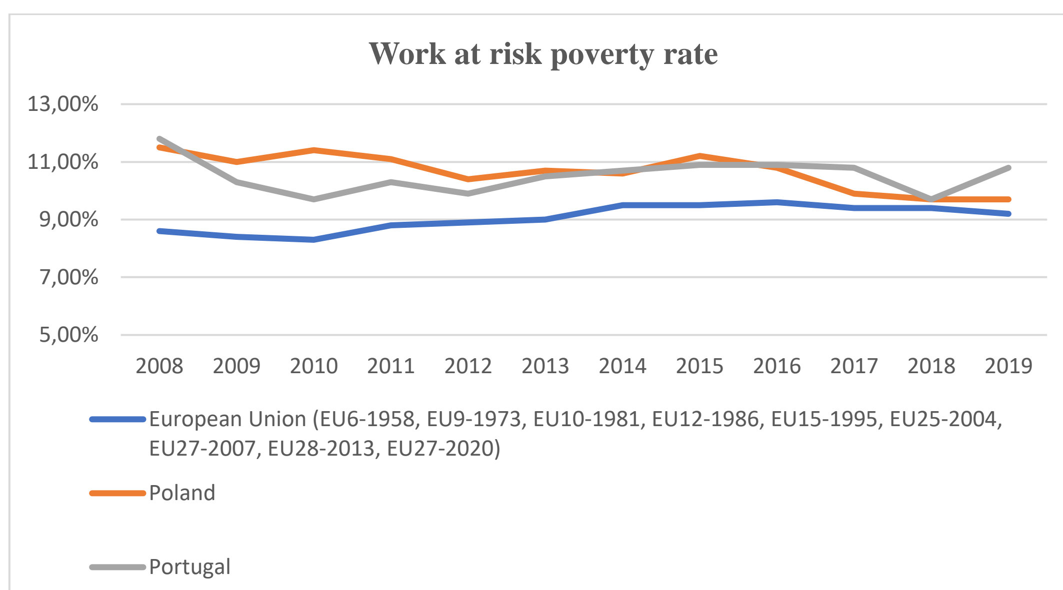
(i) Poverty and social exclusion
(ii) Income and Social Inequalities
(iii) Work at risk Poverty
(iv) Independence of the Justice System
(v) Corruption

To evaluate a) poverty and social exclusion, it was delineated an indicator by Eurostat that comprises people that are exposed to, at least, one of these risk factors:

(i) Risk of poverty after social transfers(ii)
(ii) People severally material deprived(iii)
(iii) People Living in households with extremely low work intensity



Graph 13: People at risk of poverty and social exclusion; Own Elaboration based on data obtained by EU (2022)



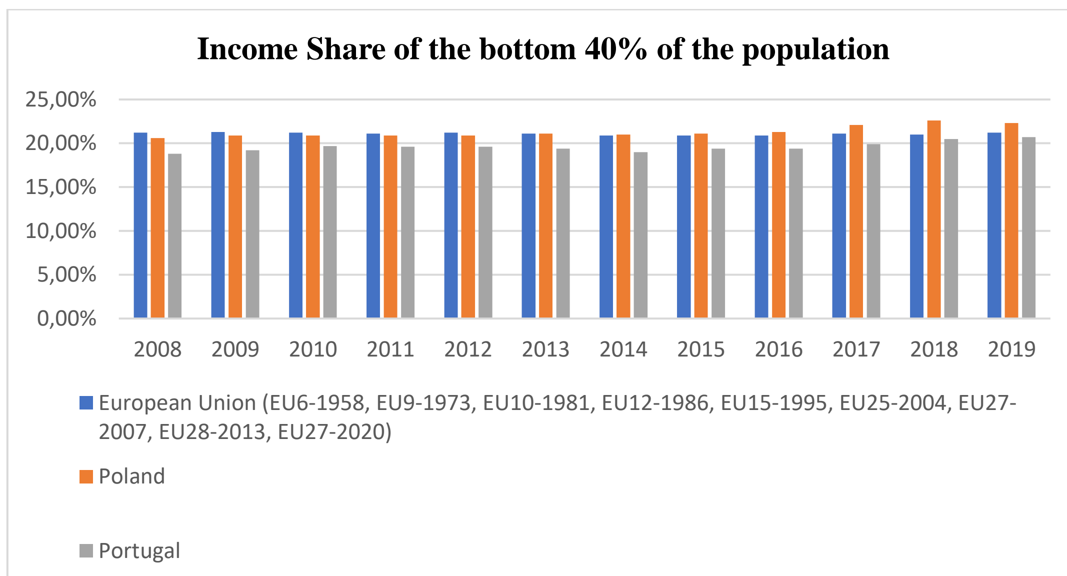
Graph 14: Work at risk poverty rate (% of population); Own Elaboration based on data obtained by EU (2022)

Graph 13 shows that there are still around 20% of people in the European Union that are socially, economically and materially excluded which represents a significant challenge regarding social sustainability, as SDG 1 aims for the reduction of poverty to almost null levels, that must be attained. Even though Poland, is considered a recent member of the European Union, since it has joined only in 2004, according to Annex 13, it managed to consistently reduce the risk of poverty and social exclusion to levels below 20% in 2020.

To this respect, even though Portugal, is bellow European average, there are still 20% of people at risk of being socially apart, even when social transfers are considered. This severely impacts social welfare, since social welfare is on one hand, dependent on economic growth and economic development, which may be measured as the increase in productivity and economic growth in the medium and long-term, but it is also impact by social and economic inequalities that lead the most vulnerable population groups to be faced in a situation of material and social deprivation.

Furthermore, it was also studied the work at risk poverty rate, comprising the share of employed persons that have an equivalized disposable income below the risk of poverty threshold (60% of the national median equivalized disposable income (after social transfers). Annex 14 shows that while, between 2008 and 2019, Portugal and Poland manage to converge to the European average of 9% of people employed that are below 60% national median income threshold, the increase in the work at risk poverty rate in Portugal is a worrying sign of an increase of poverty risk in the employed population. Knowing that, 20% of people face risk of social and economic exclusion, and, at the same time, 9% of the people, even though employed still face poverty risk, there needs to be a shift in European and national policies that focus on the creation of value and wealth trough high value added activities, that are related to innovation. As innovation is defined by the company's capacity to create entrepreneurial success through its research activities , and the capability of transforming innovation into economic growth and welfare is dependent on Domestic and Foreign Investment, there needs to be policies that support investment policies and, namely, Foreign Direct Investment, as Foreign Direct Investment can generate value by transferring best practices from a multinational enterprise in one country to another, generating *spillover* effects to that country's economy (Pessoa, 2014).

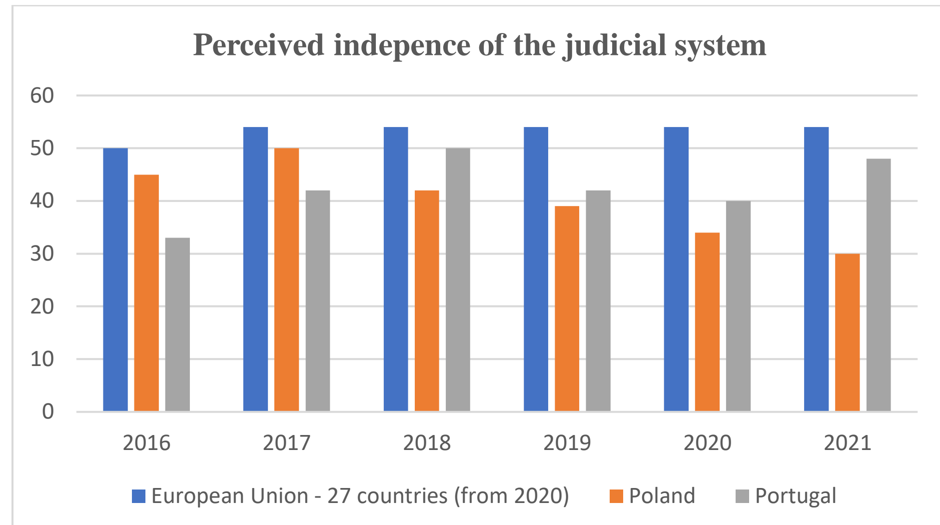
Besides this, the question of socially and materially deprivation, and on the whole, social inequality, leads to inequality of opportunities, as defined by Crane and Matten (2016), for that reason, it was studied the income inequalities in the European Union, Portugal and Poland. Accordingly, it was studied the income share of the bottom 40% of the population, to study the evolution of income inequalities in Poland and Portugal.



Graph 15: Income share of the bottom 40% of the population; Own Elaboration based on data obtained by EU (2022)

From the analysis of income inequalities, under the lens of SDG 10 that aims to reduce inequalities, from both Portugal and Poland, despite minor oscillations the bottom 40% of the population earned about 20% of the total disposable household income, throughout the period in analysis, as it is detailed on Annex 15.

This creates a situation where the disfavored population groups, face several inequalities in reaching education, health and social services as there purchasing power is relatively diminished in comparison with more favored population groups. As there are inequalities in access to those activities, there are a perpetuation in inequalities in opportunities which makes it difficult for social mobility granted by merit and sustainable and competitive capital and labor markets.



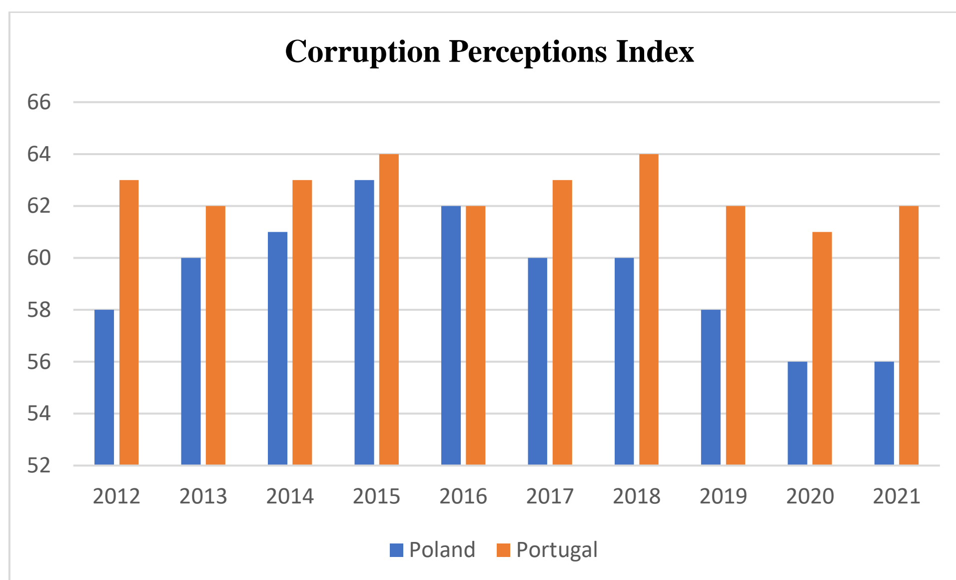
Graph 16: Perceived independence of the judicial system; Own Elaboration based on data obtained by EU (2022)

Another important aspect in battling against social inequalities is dependent upon the quality of institutions at the national level, using SDG 16 approach, which aims for Peace and Strong Institutions. To this sense, social sustainability relies on the independence of the judicial system in relation to the political power, as independence in the judicial system contributes to a more efficient societal organization and better enforcement mechanisms that generate positive externalities to a society. To this regard, the European Commission's Directorate-General for Justice and Consumers, devised the Flash Eurobarometer surveys. This survey evaluates the percentage of the inquires that evaluate the independence of the judicial system as particularly good or fairly good in the overall sample.

In this context, the perceived independence of the judicial system in both Portugal and Poland remained below the European Union average throughout the sample period. However, according to Annex 16, while Portugal managed to have increments in the perceived independence of the judicial system from 30% in 2016 to around 50% in 2020 (despite major oscillations in the interval years), Poland made the opposite path, as the perceived independence of the judicial system decreased from 45% in 2016 to 30% in 2021.

Another important aspect, in evaluating social welfare, sustainability and efficient resource allocation in a country is the extent to which through its social, legal and economic environment a country manages to maintain corruption at low levels, so that such value destroying activities do not damage the value creation capability of a country's

economy. For that reason, it is also analysed the Perception Corruption Index detailed on Graph 17.



Graph 17: Corruption Perceptions Index in Poland and Portugal from 2012 to 2021; Own Elaboration based on data obtained by EU (2022)

This indicator gathers data from thirteen diverse sources and studies the corruption on the public sector, as transparency and non-corruption environments are important to achieve SDG 16. based on a ranking sector, where zero represents a very corrupt country, while one hundred represents a country that faces no significant corruption problems.

On Annex 17 it is shown that while Poland has managed to increase its score, implying a cleaner country from 2012 to 2015, the tendency inverted and started decreasing reaching a score of 56 in 2021. In Portugal, from 2012 to 2018 there is not a clear tendency on the evolution of the corruption perceptions index ranging from 62 to 64 throughout this period, as elaborated on Annex 17. However, after 2018 the corruption perception index reduced from 64 in 2018 to 62 in 2021, reaching its minimum value in 2019.

Given this, there is still a significant margin to improve in public's sector corruption as it can severely affect, private investment levels, both foreign and domestic, lead to more uncertainty and higher volatility and to a distrust climate in public institutions. Therefore, there needs to be policies geared towards a better transparency, lower bureaucracy and a more efficient public system that allocates resources according to

economic criteria, using a weighted approach that evaluates the opportunity cost of each decision and decides accordingly.

Besides this, not only uncertainty will decrease and limit the amount of economic growth as it leads to lower investment levels, less innovation incentives and lower productivity, it also generates an effect on social welfare, as it does not allow for a country to significant tackle social inequalities, which may lead to a perpetuation of material deprivation and social exclusion in certain population groups.

4.5. McDonald's Corporation

McDonald's Corporation is a company that operates on the Informal Eating Out segment that comprises, which includes quick service restaurants and take away companies, drink bars, street kiosks and cafeterias. McDonald's value creation preposition is based upon the compromise of improving and engaging in value added activities to the companies in which it operates in. Accordingly, its mission it's based on three propositions:

> "Purpose to feed and foster communities; Mission to create delicious feel-good moments for everyone; and Core Values that define who we are and how we run our business."(McDonald's Corporation, 2022, p.4)

To achieve this goals McDonald's bases its decisions on five premises:

> "1. Serve – We put our customers and people first; two. Inclusion – We open our doors to everyone; 3. Integrity – We do the right thing; 4. Community – We are good neighbors; and 5. Family – We get better together "(McDonald's Corporation, 2022, p.4)

Even though the first restaurant was opened in 1940, only in 1948 they started streamline the restaurant's operations, on McDonald's San Bernardino restaurant in United States. With this strategy it was possible for McDonald's to reduce costs while being able to benefit from economies of scale. Accordingly, McDonald's launched the 15 cent burgers, shakes and fries. McDonald's value proposition was therefore dependent upon three premises: Time, Efficiency and Affordability. On one hand with the Streamlined operation system, they were able to quickly serve customers and create a competitive

advantage, which were now able to have a better service and customer experience. On the other hand, with the focus of presenting an attractive offer to their customer base, McDonald’s operational efficiency was a distinctive factor in the industry that would deliver better value to its customers.

In 1967, McDonald’s began its expansion to international markets with the opening of new restaurants in Canada and Porto Rico.

At the moment, McDonald’s operates in 119 countries and has 40 031, from which 37 295 are franchised and 2 796 company operated restaurants.

Knowing the impact of its business decision on stakeholders, McDonald’s published its first Social Responsibility Report on 2002.

From there onwards, the company has been introducing and adapting its governance system to new environmental and social challenges. In 2018, it was adopted the McDonald’s Human Rights Policy. Its impact is reflected upon McDonald’s Standard of Business Conduct, applicable, with the respective adaptation, on all the countries that McDonald’s operates in. Besides this, McDonald’s enforced sustainability business practices on its suppliers, trough McDonald’s Suppliers Code of Conduct that McDonald’s counterparts should follow and set standards for human rights policy on the company’s suppliers. Company employees are also required to be annually certified on the understanding of McDonald’s code of conduct and its implications (McDonald's Corporation, 2022).

Furthermore, in 2021, McDonald’s defined and implemented the Global Brand Standards that aims to intervene in four domains: harassment, discrimination, and retaliation prevention; workplace violence prevention; restaurant employee feedback; and health and safety.

Regarding Environmental Sustainability has supported initiatives to reduce greenhouse gas emission, increase the efficiency on the management of natural resources and eliminate deforestation caused by McDonald’s supply chain. Finally, it also focused in reducing waste and increasing recycling in their restaurants, while shifting from individual use plastic products to reduce its global environmental impact.

To achieve, evaluate and establish a standard measure to evaluate and define a plan of action to McDonald’s activities McDonald’s analyses the impact of its policies using UN Sustainable Development Goals and decides whether its policies would pave the way

for the accomplishment of those objectives, or, on other words, McDonald's business long term sustainability (McDonald's Corporation, 2022)

4.6. McDonald 's Portugal

4.6.1. General Description of Activities

McDonald's launched its activity in Portugal on May 23rd with the opening of the first restaurant in Lisbon District. McDonald's Portugal operates under the strategy "Act Global, Think Local" which tries to create a homogeneous value creation preposition to customers and, on a more holistic approach, stakeholders, guided by the same purpose, value and missions that are adopted since McDonald's foundation while adopting local answers and solutions to community problems that affect McDonald's business environment. This is related to McDonald's approach of involvement with the local communities in which it is inserted in while enhancing adaptability and flexibility in its business approach. At the moment, McDonald's has 183 Restaurants, from which 90% are franchised, distributed across the country with 115 products and 87 McCafé's. In 2020, McDonald's had an average of 133 000 customers per day (McDonald's Portugal, 2021).

McDonald's Portugal supports the Ronald McDonald Foundation with the opening of the first Ronald McDonald Foundation House in 2008 in Lisbon and the opening of the second Ronald McDonald Foundation House in 2013 in Porto.

McDonald governance practices, and its environmental and social responsibility plan is guided upon the UN Sustainable Development Goals to establish a link between its business activity with its stakeholders, under its four pillars: Food, People, Planet and Community.

McDonald's established business relationships with seven hundred business partners, which represents 70% of the total McDonald's Portugal suppliers and 50% of its total purchases (in value).

McDonald's Portugal (Sistema McDonald's Portugal, Lda) is a limited liability company founded in 1989 with its headquarters in Oeiras, Portugal. McDonald's Portugal operates in the IEO Informal segment. The company is able to manage and operate company owned restaurants and manage and celebrate franchise contracts, acquire ownership of real estate assets to pursue its activity or celebrate long-term real state lease

contracts to establish and operate new restaurants. Besides this, it also manages intangible assets, namely McDonald's trademark and author rights in Portugal (Guedes, 2019).

The company is owned by McDonald's Restaurant Operations (99,998%) and McDonald's Corporation (0,002%). (Indirect control relationship by McDonald's Corporation since McDonald's Restaurant Operation is a subsidiary of McDonald's corporation) (Guedes, 2019).

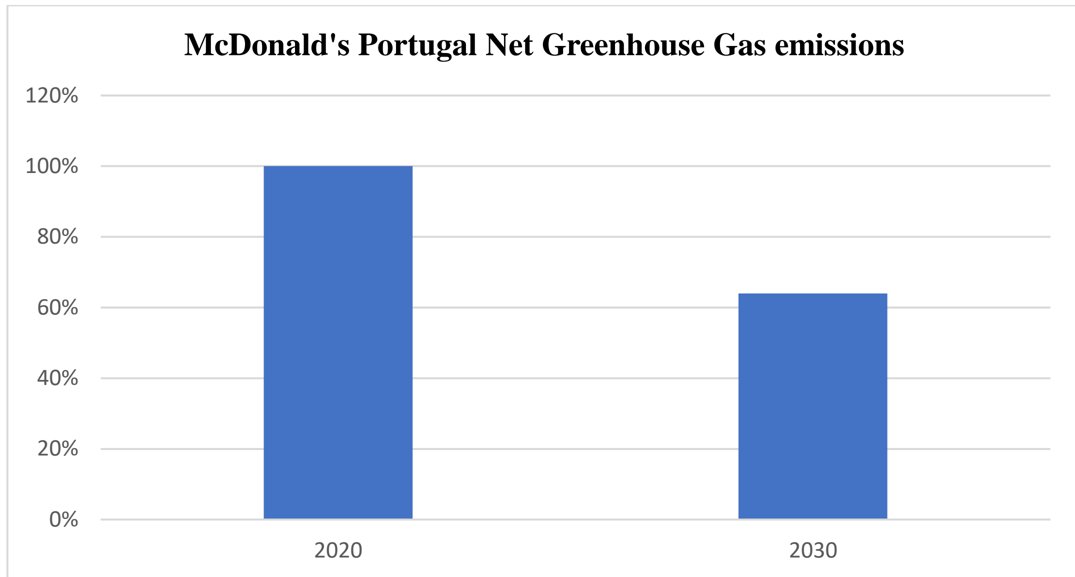
"Having Company-owned and operated restaurants provides Company personnel with a venue for restaurant operations training experience. In addition, in Company-owned and operated restaurants, and in collaboration with franchisees, the Company is able to further develop and refine operating standards, marketing concepts and product and pricing strategies that will ultimately benefit McDonald's restaurants." (McDonald's Corporation, 2022, p.3).

McDonald's Foreign Direct Investment, namely greenfield Investments, since it establishes subsidiaries from scratch in a foreign country, is a necessary condition for the sustainability of the company's business model since it establishes the operating and investment standards that their franchisees operate in and establishes a common procedure and quality standard worldwide.

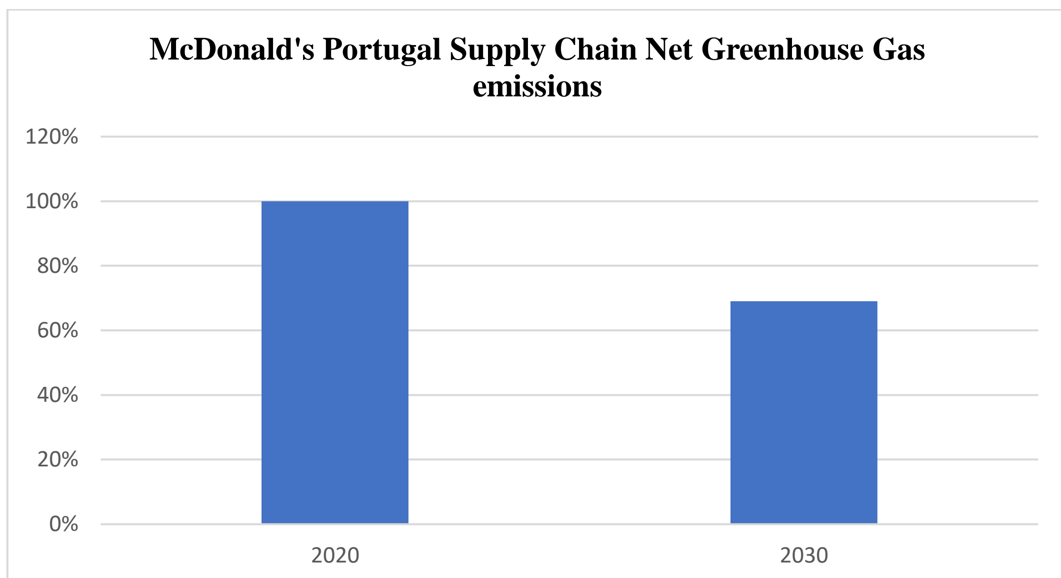
The Company believes that its people, all around the world, set it apart and bring these values to life on a daily basis.

4.6.2. Environmental Sustainability

Inserted in McDonald's global Business Strategy, McDonald's Portugal aimed to reduce the emissions of its restaurants and offices in Portugal by 36% until 2030, helping achieving SDG 13. Besides this, it also aimed to have a positive impact on the global value chain and the sustainability practices of its suppliers by decreasing by 31% the greenhouse gas emissions of the overall supply chain until 2030.



Graph 18: McDonald’s Portugal Net Greenhouse Gas Emissions; Own Elaboration based on data obtained by McDonald's Portugal (2021)



Graph 19: McDonald’s Portugal Supply Chain Net Greenhouse Gas Emissions; Own Elaboration based on data obtained by McDonald's Portugal (2021)

To achieve this, McDonald’s Portugal enhanced Green Mobility by introducing, since 2020, 18 charging posts in their restaurants. McDonald’s Portugal aims to have its car fleet moved by electric means by 2030. According to the report, in 2020, 25% of McDonald’s car fleet in Portugal was composed by electric vehicles.

Besides this, McDonald’s installed photovoltaic panels in nineteen of its restaurants which produced 60.00 kwh of renewable and sustainable electric energy. Besides this,

close to 100% of McDonald’s restaurants are fueled by sustainable sources of energy, namely, hydric energy.

4.6.3. Social Sustainability

McDonald’s Global strategy aims to increase diversity, equity and inclusion in their workplace while engaging in corporate and social responsibility policies so that it enhances their relationship with stakeholders and creates value to the firm.

In this context, McDonald’s opened a Training Center that aims to increase technical and behavioral capabilities, offering more than 12 courses for different levels. This focus on Leadership and Communication Skills that aim to increase welfare as well as productive efficiency in the company (McDonald's Portugal, 2021) .

Moreover, McDonald’s Portugal developed a Leadership formation for management assistants (DLEM – Desenvolver o Líder que há em mim), which impacted two hundred McDonald’s employees.

Besides this, it was also developed a training program for newly restaurants leaders (“Leading Great Restaurants”) in which seventy restaurant managers were enrolled.

McDonald’s training programs are part of the company’s international strategy and follow the guidelines of the *Hamburger University*, that creates personalized companies to make the company more competitive in the Quick Service Restaurants Sector (McDonald's Portugal, 2021).

In addition to this, the training programs offered by McDonald’s Portugal are certified by the Direção Geral do Emprego e das Relações do Trabalho (DGERT). Under this certification McDonald’s gives 250.000 training hours per year to their employees (McDonald's Portugal, 2021).

McDonald’s also launched the UP Program that gives scholarships to employees that are pursuing undergraduate and graduate programs. In 2020, there were attributed two hundred scholarships on the UP Program, with a total investment of 100.000 €.

The training program is established to have a long-term impact in McDonald’s business strategy. This reflects on career progression and development from McDonald’s employees, given that 90% of restaurant managers started their career as McDonald’s employees. Additionally, 50% of the collaborators on company’s office started as restaurant staff in McDonald’s restaurants.

These initiatives enhance McDonald's Portugal contribution to improve the quality of education, that is, SDG 4 ("Quality of Education).

It should be also noted that it was also locally implemented the Ronald McDonald Foundation that since 2000 started its activity on increasing children welfare and reducing inequality in the access to health. McDonald's Portugal founded their first Ronald McDonald House in 2008, close to Hospital Dona Estefânia. In 2013, it was launched the second Ronald McDonald House near the pediatric campus of Hospital São João.

In 2017, McDonald's created the first familiar space in Hospital Santa Maria, in Lisbon that aims to increase emotional welfare of children, suffering from health condition.

From the Ronald McDonald Foundation and their impact on society, McDonald's enhances welfare, and creates conditions for parents to aid their children that are in severe health conditions and therefore, it helps to accomplish SDG 3.

Another important aspect in ensuring a sustainable social activity, is trended towards food security and quality control. Quality control ensures transparency, a consistent and stable offering to the consumer, while reducing the risk of asymmetries of information in the relationship between the stakeholders and the company. For that reason, as well as McDonald's Poland, McDonald's Portugal uses the HACCP system to certify their internal procedures. Besides this, food security in McDonald's is ensured by *Associação Portuguesa de Certificação* (APCER) under the norm APCER 3002.

Besides this, McDonald's Hamburgers are certified under the norm APCER 5003 ensuring that they are made by 100% beef meat.

Finally, and as transparency is an important variable in McDonald's practices, it was implemented since 2006, the initiative "*Cozinha Aberta 365 Dias)"* which aims to share McDonald's practices regarding food manipulation and health and hygiene procedures.

Since 2020, allows consumers to do a virtual tour of McDonald's kitchens and observe the daily procedures on McDonald's kitchen. Since the beginning of the program, McDonald's Portugal did 57 000 virtual tours.

Another important aspect as of what transparency is concerned is the disclosure of nutritional information in the company's offering since 2006, which helps increase consumer's awareness, reduce negative externalities from less healthier lifestyles. To this regard, tried to make globally adopted changes to the meals offered to children, trough the

Happy Meal. In 2018, McDonald’s established several objectives regarding nutritional qualities of Happy Meal, to be accomplished until the end of 2022:
Ensure that at least 50% of the meals:

(i) Have less than six hundred calories
(ii) Have less than 650 mg of Sodium
(iii) Have less than 10% of their calories coming from added sugars

These changes started to be applied in 2018 and aimed to increase reading habits by launching the Happy Van between 2014 and 2016 that aimed to enhance reading habits by creating a mobile van that dislocated across the country. Besides this, since January 2019 families can opt to choose a book by a Portuguese author instead of the normal toy that usually comes with the Happy Meal.

4.7. McDonald’s Poland

4.7.1. General Description of activities

McDonald’s opened their first restaurant in Poland on 17th June 1992, and is a subsidiary of McDonald’s Corporation, in the center of Warsaw (McDonald's Poland, 2020). From there onwards McDonald’s has 449 restaurants on 150 cities.

On 2004, McDonald’s was the first restaurant chain to adopt the ISO 14001 certification, which establishes guidelines regarding environmental and sustainability management in companies.

McDonald’s also opted to increase social sustainability and welfare in the prosecution of their business activity, by introducing the GYM&Fun spaces which added personal and healthy welfare spaces in McDonald’s restaurants, enhancing McDonald’s presence to change sedentary habits, which lead to a unhealthy lifestyle (McDonald's Poland, 2020).

In 2015, McDonald’s enhanced their corporate and social responsibility activities by creating the first Ronald McDonald house in Poland in the Oncology Clinic of the University Hospital of Cracow. Through the Ronald McDonald foundation, McDonald’s ensures that there is a closer connection with parents and children in need of serious healthcare that are located in Polish hospitals. As McDonald’s environment with its

stakeholders is an important variable in McDonald's Business planning, it is also under construction, since 2020, a second Ronald McDonald House in Warsaw.

Besides this, on 2018 McDonald's made changes regarding the nutritional content of their menus offered to children, namely the Happy Meal menu. From this, the company aims to increase the nutritional qualities of their products and reduce calories, salt, and sugars from their Happy Meal Menus.

4.7.2. Environmental Sustainability

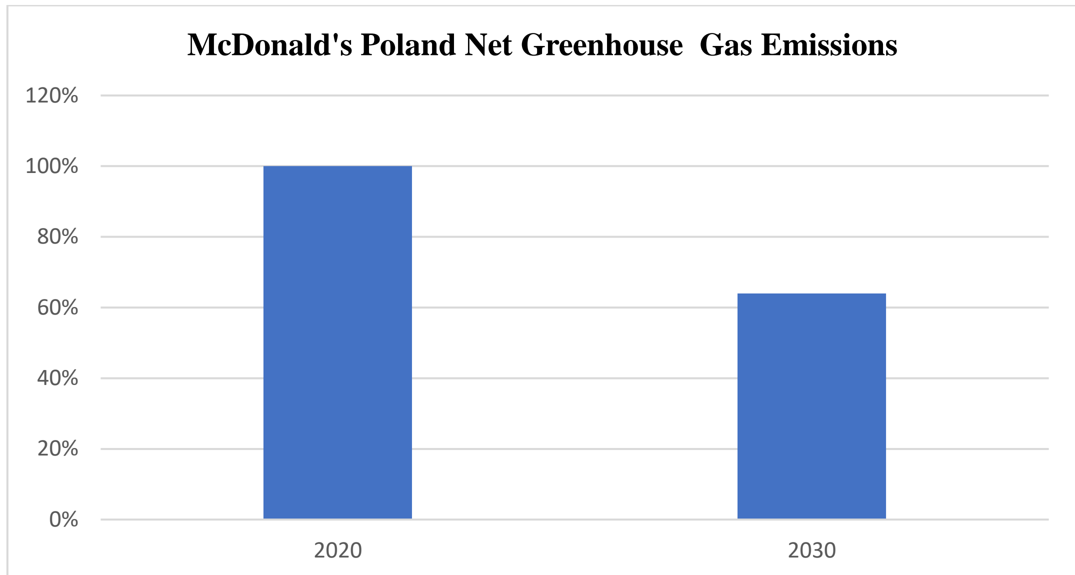
On this topic it will be studied on how McDonald's contributes to Poland's sustainability and accomplishment of Sustainable Development Goals looking at it is the environmental dimension of the company's activities.
To achieve this, it will be studied several indicators:

(i) McDonald's Poland production of net greenhouse gas emissions at company level and throughout the whole value chain

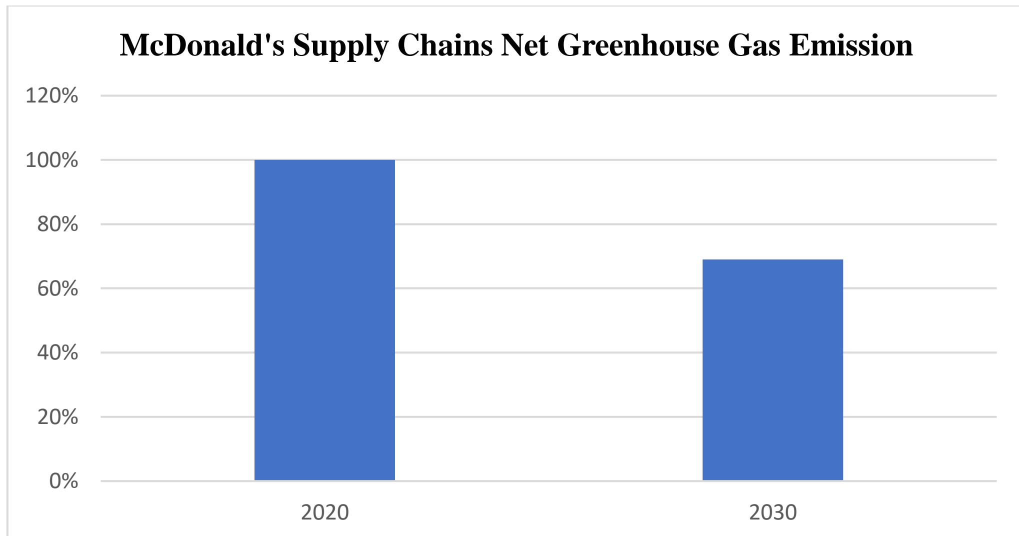
(ii) The impact of McDonald's agricultural suppliers on the reduction of gas emissions and environmental welfare and climate change

(iii) Animal welfare practices of McDonald's business suppliers

(iv) McDonald's Poland policy in terms of waste reduction, reutilization, and recycling

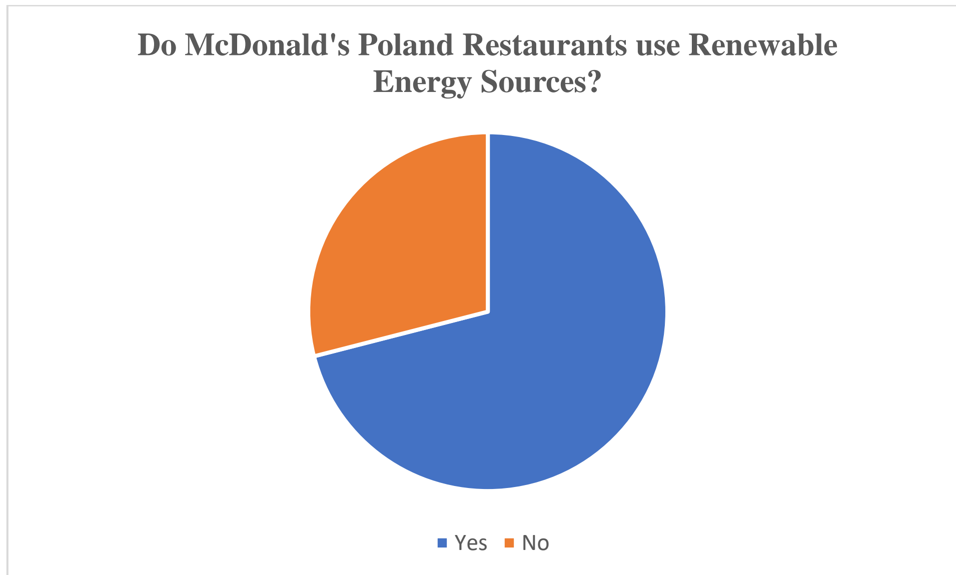


Graph 20: McDonald’s Poland Plan to Reduce Net Greenhouse Gas Emissions by 2030 on its own offices and restaurants; Own Elaboration based on data obtained by McDonald's Poland (2020)



Graph 21: McDonald’s Poland Plan to Reduce Net Greenhouse Emissions by 2030 on its overall supply chain; Own Elaboration based on data obtained by McDonald's Poland (2020)

McDonald’s has established a plan to reduce its net greenhouse gas emissions by 36% in 2030 on its own offices and restaurants, and by 31% on overall supply chain gas emissions, as it aims to contribute to combat global warming and help to construct an adaptive and strong response to medium and long-term climate challenges, under SDG 13 (Climate Action). As defined bellow this is a result of a global business strategy by the company, that establishes global directives in terms of environmental objectives but gives subsidiaries the freedom to incorporate and adapt environmental measures at a local level.



Graph 22: Use of Renewable Energy in McDonald's Poland restaurants; Source: Own Elaboration based on data of McDonald's Poland (2020)

In this context, McDonald's managed to shift from the use of non-Renewable energy Sources to renewable sources of energy. In fact, 71% of McDonald's Poland restaurants used green and non-polluting sources of energy, which corresponded to 148.639 Mwh of acquired energy as it tries to use alternative and cleaner sources of energy helping to accomplish SDG 7 McDonald's Poland (2020).

Besides this, McDonald's also aims to reduce net greenhouse gas emission in the overall supply chain. And, to achieve this objective, the key variable is the sustainability of animal sourced meat, namely beef.

McDonald's, therefore, created the Sustainability Beef Platform that unites all the market participants in the production of beef with the aim to reduce net greenhouse gas emissions, increase animal welfare and reduce the use of antibiotics (McDonald's Poland, 2020).

The idea that all market participants are part of this platform make it such that changes and measures that favor sustainability practices are implemented and practiced throughout the industry, and therefore, are significant in increasing environmental sustainability.

The Platform has established 8 Priorities regarding the production of sustainable beef production:

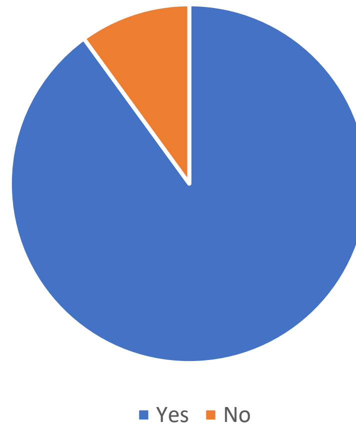
“1) Increase the rhythm of reduction of net greenhouse gas emissions by 15% by the end of 2025; 2) Total usage of antibiotics bellow 10 mg/PCU until 2023; 3) Reduce the critical usage of antibiotics by 50% until the end of 2023; 4) Mortality rate of cattle bellow 1,5%; 5) Free creation of livestock by 2030; 6) Administration of analgesics to animals in all chirurgical procedures; 7) Reduce the number of fatal accidents in beef production; 8) Enhance the financial sustainability of farms by ensuring that they act upon according to their business plan”.[1]

McDonald’s also established a partnership with OSI Food Solutions, which under the “Cultivate” Program aims to spread the best management practices related to economic, social and environmental sustainability.

Finally, McDonald’s aims to improve the reutilization and the sustainability in waste management and increase the efficiency of the supply chain. McDonald’s uses a closed economic circuit approach where the focus is on the reutilization of waste made by the production of their products.

For that reason, McDonald’s defined that 100% of the recycled of packaging must come from recycled materials. To achieve this, McDonald’s Poland started to replace their plastic packaging by paper, produced from certified sources.

[1] Free Translation to English from McDonald's Poland (2020), which is written in Polish.



Graph 23: McDonald’s disposal of separated containers available for recycling; Own Elaboration based on data obtained by McDonald's Poland (2020)

McDonald’s tries to change consumers habits related to recycling. For that reason, 90% of McDonald’s Poland restaurants have separated recycling containers so that there is on one hand, more efficient waste management while being able to reduce cost and increase operating efficiency, contributing to the accomplishment of SDG 11, namely the increase of the recycling rate of the waste generated in cities, regions and countries, and therefore enhancing environmental sustainability trough reutilization of valuable economic and environmental resources.

These measures implied a reduction of 122 898 kg of plastic per year as the straws that were used by McDonald’s were made of paper, instead of plastic. Besides this, the change in the packaging of McFlurry reduced the usage of plastic by 70 828 kg per year. Furthermore, paper balloons, instead of plastic signified a reduction of 7 540 kg per year in the usage of plastic.

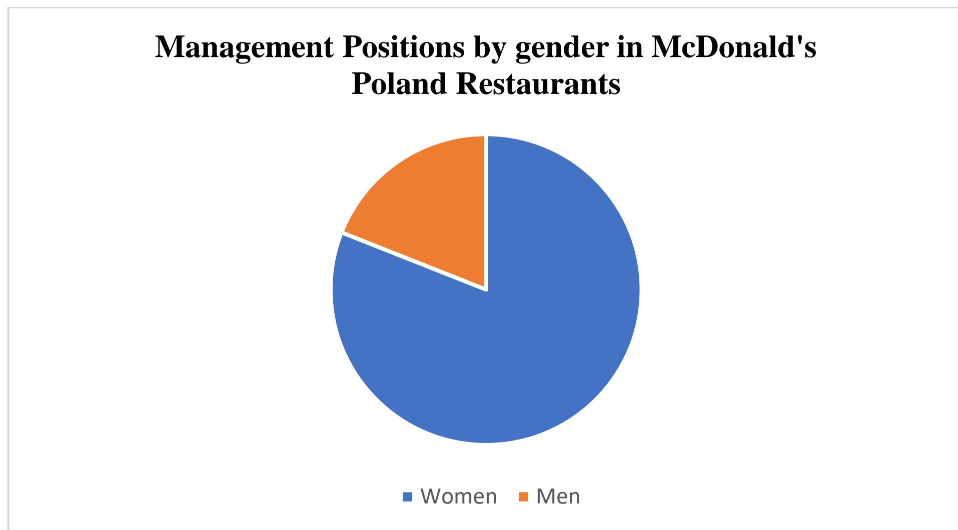
Besides this, the oil used to fry chips is reused for producing sustainable biodiesel that will help reduce net greenhouse gas emissions.

4.7.3. Social Sustainability

As Social sustainability is a significant driver in the prosecution of McDonald’s activities in Poland, there were established several factors to evaluate the relationship

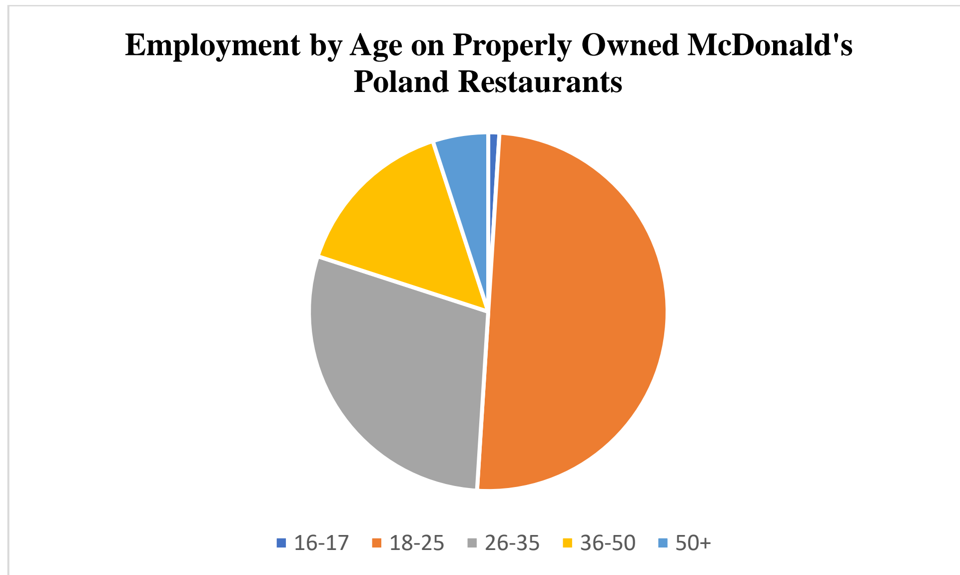
between the company's practices and its social contribution to welfare, using the Sustainable Development Goals approach:

(i) Gender equality, namely the role of women in management positions
(ii) Education and Formation of McDonald's Poland Employees
(iii) Employment and Career Progression Opportunities
(iv) Control and Food Security



Graph 24: Management Positions by Gender in 2020 in from McDonald's Poland Owned Restaurants; Own Elaboration based on data obtained by McDonald''s Poland (2020)

Looking at McDonald's Restaurants and their impact in gender equality, which is an aim for the 2030 Agenda for Sustainable Development under SDG 5, inclusion policies and diversity, according to Graph 22, 81% of the management roles in McDonald's Poland Owned restaurants are assumed by Women. This is in par with McDonald's global strategy of increasing the role of women in management positions and company decision making while adopting practices that aim to enhance diversity and social inclusion.



Graph 25: Employment by age in McDonald’s Poland Owned Restaurants; Own Elaboration based on data obtained by McDonald's Poland (2020)

McDonald’s diversity policies make it such that above 50% of the employees working in McDonald’s Properly Owned Restaurants in Poland are below 25 years old. McDonald’s offers a job opportunity that impacts younger generations through the acquisition of soft skills, related to communication, empowerment and leadership while creating a place for diverse cultures to prosper. In fact, as mentioned in Annex 25, 12% of McDonald’s employees in properly owned restaurant are foreigners.

McDonald’s strategy was materialized in August 2020, where McDonald’s became a signatory of the Charter for Diversity an initiative created by the European Commission, which aims to increase awareness, and enhance non-discrimination treatment in companies, and alert for the importance of the adoption of anti-bullying practices in companies.

Besides this, McDonald’s also developed a training program that aims to give leadership, communication and interpersonal skills that aim to increase the capability of McDonald’s employees to create value to the company. In this context, the number of hours of training provided by the department for learning and Development was 2114 hours.

Moreover, more than 1200 employees participated in language courses that improved their knowledge on English, or, in polish, if the employee was not familiar with the polish language. In fact, McDonald’s had a stipendium of 4 million PLN for its employs to enroll in language courses.

Finally, in the same year they also launched the Leon Kozminski Academy, which consists in a double post-graduation program where the McDonald’s employees acquire knowledge about management related subjects applicable to the quick service restaurant sectors, in which McDonald’s Poland operates.

From this, the question that arises is how these opportunities for professional and personal development translate into career progression and career development chances for McDonald’s collaborators.

McDonald’s Poland employs 27 000 workers, from which 4700 are employed in company owned McDonald’s restaurants, 22.600 on franchised restaurants, and 174 people in McDonald’s headquarters in Poland. Besides this, McDonald’s also generated 16.000 direct jobs from contracted and outsourcing activities in the group.

McDonald’s was also considered one of the top ten most attractive companies to work in Poland (McDonald's Poland, 2020)

Another question concerns on how the McDonald’s global strategy and its local implementation influence the quality and food security of McDonald’s offering. To this regard, McDonald’s fish fillets are certified by MSC – Marine Stewardship Council, which ensures that it is captured according to sustainable fishing practices.

Besides this, the palm oil used by McDonald’s in the production of their fries is produced ensuring future agriculture and hydric resources under the RSPO certification – Roundtable on Sustainable Palm Oil.

Additionally, McDonald’s coffee farms are certified by the RainForest Alliance, which endorses that coffee farms are in par with the best practices regarding environmental sustainability (McDonald's Poland, 2020)

Moreover, McDonald’s also adopts internal security procedures in the handling of food, trough the Hazard Analysis and Critical Control Point methodology (HACCP). McDonald’s Poland has been shifting to a digital version of the HACCP that ensures that food quality is maintained in the production process through the critical point analysis in the stages of product’s production.

McDonald’s also establishes rigorous quality control measures in relation to their suppliers. In fact, McDonald’s Poland implemented Safety and Quality Management System (SQMS) to ensure that the quality of their products is consistent and in accordance with its standards.

In relation to agricultural practices, to ensure the quality of their vegetable products, McDonald's implemented the Global GAP Plus norm.

Finally, and even though that this measures establishes strict quality control and food quality measures, McDonald's Poland is also targeted for periodic auditing procedures that evaluate the quality of the restaurant's offering, trough the Across the Counter Quality (AQTCP) program, where, on a holistic approach, it is analysed the whole production process since the delivery of food products and raw materials until the product is delivered to the final consumer. (McDonald's Poland, 2020)

Regarding the final product it is noted that McDonald's Poland cellulose packages are certified by Forest Stewardship Council (FSC) and PEFC (Program for the Endorsement of Forest Certification).

Conclusion

In this *case study* it was studied the impact of Foreign Direct Inflows on Sustainability in Poland, a transition economy and Portugal, a developed economy. To this sense, on a first instance it was made a literature review on Foreign Direct Investment and Sustainability. This established a starting point from comparing the impact of Sustainable practices on Foreign Direct Investment Inflows. Under this, as reported by UNCTAD (2022) greenfield investments have a positive impact on sustainable development. For this, it was studied analyzing the impact of *greenfield* investments to contributing to the accomplishment of Sustainable Development Goals, whether countries moved towards sustainable development, increasing welfare for present and future generations while maintaining social and environmental sustainability.

For this purpose, it was used a case study approach with qualitative analysis that looks on sustainability indicators levels at country level in Portugal and Poland, but also analyses the impact of McDonald's practices on sustainability, looking at its presence on Portugal and Poland.

Relatively to the research question that were posed on an initial stage of the study we can infer that:

Regarding the first question of the relationship between Foreign Direct Inflows and Sustainability, we concluded that Foreign Direct Investment Inflows promoted the widespread of best practices regarding sustainable development, enhancing social and

environmental sustainability. To this respect, McDonald's global strategy has an impact on sustainability as it establishes the sustainability problems that need to be addressed by the company using the 2030 Agenda for Sustainable Development Guidelines. McDonald's gives freedom for their subsidiaries to act locally, adopting the practices that have a greater effect at the local level while securing the accomplishment of the delineated objectives under the global strategy.

Considering the second question it was concluded that institutional factors have a significant role on social and environmental sustainability. The 2030 Agenda for the Sustainable Development, under SDG 16 that considers that the rule of law and good governance are key factors in enhancing sustainability. To this respect McDonald's practices, enforcement mechanisms and their relationship with formal and informal institutions at the company level ensures that the company follows their strategy and adopts measures that reduce the impact of McDonald's activity on the climate, on both Portugal and Poland, by using renewable sources of energy, and stablishing that 100% of McDonald's Packages come from recycled sources. It is also important the role of certification and strict standards, from which HACCP, is an important part in ensuring an efficient use of resources and minimal waste.

Regarding the third question, even though there are differences on the implementation and advancement of sustainability policies at country level, with country-specific determinants that have an impact on each country's sustainability outlook, on a broader level, due to McDonald's global strategy we concluded that both companies are moving towards the achievement of Sustainable Development Goals. While in terms of environmental sustainability both companies opted for using renewable energy sources as their main source of energy in both restaurants and offices, there are differences implemented at the local level when it comes to social sustainability. Even though, the values of diversity, inclusion and equity are present in McDonald's activity worldwide, and while Education is an important part in achieving these goals, namely SDG 4 (Quality of Education), McDonald's Poland gives an emphasis on adopting training programs for management purposes trough their partnership with Leon Kozminski Academy, which entails the acquisition of entrepreneurial capabilities applicable at the company level, McDonald's Portugal, trough the UP Program, opts for an approach that aims to increase soft-skills, leadership and communication capabilities that are important on career

progression and career development in the long-term. However, according to Maçães (2014) McDonald's global job policies, even though they establish job contracts with their employees, favor precariousness in the job market leading employees to be in a vulnerable position where they are not capable to be socially and economically integrated in a community, and therefore with regard to career progression and development, do not enhance social responsibility.

In conclusion, FDI Inflows contribute to the transmission of best practices in the industry across countries, and, specially, from Developed Economies to Developing Economies. In this context, the global strategy of Multinational Enterprises and their corporate cultural, organization and enforcement mechanisms play a key role in enhancing sustainability at a country level.

It is also suggested, on further studies to develop on the impact of sustainability on long-term economic growth, using Foreign Direct Investment approach as Foreign Investment as a positive impact on productivity and therefore on economic growth. Besides this, the flexibility of the Multinational Enterprise's organizational structure also plays a key role in the sustainability of the enterprise investment practices, as it is important to have well defined objectives, placed under a global strategy at the group level, while giving the freedom for subsidiaries to adapt their practices depending on the context in which they operate in.

Taking this into consideration, there were limitations on the study regarding the available data used for the case-study. While the data obtained may be used to obtain analysis at the country and global level of McDonald's activities, further data needs to be developed to assert sustainability impact on local communities and environment. If such data is made available, the efficiency and the rhythm of operationalization of such measures would be increased giving an approach that considers, in a holistic view, the relationship and the impact of each stakeholder group on sustainability and the interdependencies between their activities.

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Annexes

Annex 1 - FDI Inflows in Developed and Developing Economies from 2008 to 2020; Source: UNCTAD (2022)

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Developing regions	40,19%	38,84%	46,06%	42,76%	46,19%	46,40%	49,82%	36,72%	32,62%	43,49%	48,87%	47,99%	67,11%
Developed regions	59,81%	61,16%	53,94%	57,24%	53,81%	53,60%	50,18%	63,28%	67,38%	56,51%	51,13%	52,01%	32,89%

Annex 2- FDI Inflows in Portugal between 2008 and 2020; Source: Own Elaboration based on data of UNCTADStat

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% Of GDP	1,35%	0,66%	1,22%	3,03%	3,81%	3,73%	2,13%	3,83%	2,46%	3,50%	2,94%	5,06%	2,74%

Annex 3 – FDI Outflows from Portugal between 2008 and 2020; Source: Own Elaboration based on data of UNCTADStat

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% Of GDP	0,49%	-0,12%	-3,98%	5,53%	-3,99%	-0,05%	-1,62%	2,62%	0,42%	-0,34%	0,33%	1,40%	0,99%

Annex 4 – FDI Inflows in Poland between 2008 and 2020; Source: Own Elaboration based on data of UNCTADStat

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Poland	2,30%	2,28%	2,67%	3,01%	2,49%	0,52%	2,63%	3,20%	3,32%	1,74%	2,72%	1,82%	1,70%

Annex 5- FDI Outflows in Poland between 2008 and 2020; Source: Own Elaboration based on data of UNCTADStat

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Poland	0,35%	0,41%	1,28%	0,19%	0,58%	-0,26%	0,53%	1,05%	2,45%	0,41%	0,15%	0,22%	0,31%

Annex 6 – Greenfield Investments in SDG sectors in developing economies by value; Source: Own Elaboration based on data by UNCTAD (2022)

Sectors	2019	2020	2021
Power	18484	10841	4169
Renewable Energy	40880	28977	35831
Transport Services	25921	10522	13327
Telecommunication	18285	25756	26125
Water, Sanitation and Hygiene (WSH)	1819	633	4119
Food and Agriculture	21700	11347	11847
Health	5556	3618	4805
Education	1228	858	1121
Total	133874	92551	101345

Annex 7 – Greenfield Investments in SDG sectors in developing economies by number of projects; Source: Own Elaboration based on data by UNCTAD (2022)

Sectors	2019	2020	2021
Power	45	22	20
Renewable Energy	241	190	144
Transport Services	321	182	269
Telecommunication	303	241	281
Water, Sanitation and Hygiene (WSH)	17	7	19
Food and Agriculture	428	291	271
Health	256	151	188
Education	75	63	85
Total	1686	1147	1277

Annex 8- Government support to agricultural R&D in % of GDP; Source: Own Elaboration based on data obtained EU (2022)

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
European Union - 27 countries (from 2020)	5,6%	5,8%	5,7%	5,9%	6%	6,2%	6,4%	6,6%	7,2%
Poland	1,7%	1,8%	1,4%	1,6%	1,4%	1,5%	1,7%	2,6%	3,8%
Portugal	0,9%	1,6%	1,7%	1,8%	1,8%	1,7%	1,8%	1,7%	1,7%

Annex 9 - Energy productivity in European Union, Poland, Portugal (Euro per Kilogram of Oil Equivalent); Source: Own elaboration based on data obtained by EU (2022)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
European Union - 27 countries (from 2020)	6,3%	6,2%	6,3%	6,2%	6,2%	6,3%	6,5%	6,8%	6,8%	7,0%	6,8%
Poland	2,8%	2,8%	2,9%	2,9%	3,0%	3,1%	3,1%	3,4%	3,5%	3,7%	3,6%
Portugal	6,4%	6,5%	6,3%	6,4%	6,3%	6,2%	6,6%	6,8%	7,0%	6,9%	7,2%

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
European Union- 27 countries (from 2020)	7,2%	7,2%	7,3%	7,7%	7,8%	7,8%	7,9%	8,1%	8,4%	8,6%
Poland	3,7%	3,9%	3,9%	4,2%	4,4%	4,3%	4,3%	4,3%	4,7%	4,7%
Portugal	7,3%	7,4%	7,3%	7,3%	7,1%	7,2%	7,2%	7,5%	7,7%	8,0%

Annex 10 – Share of Renewable Energy in Gross Final Energy Consumption

Year	2004	2005	2006	2007	2008	2009	2010	2011
European Union - 27 countries (from 2020)	9,605%	10,182%	10,778%	11,749%	12,552%	13,850%	14,405%	14,547%
Poland	6,882%	6,867%	6,859%	6,903%	7,686%	8,676%	9,281%	10,337%
Portugal	19,205%	19,523%	20,792%	21,907%	22,929%	24,405%	24,150%	24,603%

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
European Union- 27 countries (from 2020)	16,002%	16,660%	17,417%	17,821%	17,980%	18,412%	19,096%	19,885%	22,090%
Poland	10,955%	11,452%	11,605%	11,881%	11,396%	11,059%	14,936%	15,377%	16,102%
Portugal	24,574%	25,700%	29,508%	30,514%	30,864%	30,611%	30,203%	30,623%	33,982%

Annex 11 – Net greenhouse gas emissions; Source: Own Elaboration based on data obtained by EU (2022)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
European Union - 27 countries (from 2020)	100,0	95,9	93,3	91,6	91,3	92,2	93,6	92,2	91,2	89,4	90,2
Poland	100,0	98,9	100,8	99,0	97,9	96,0	95,3	93,0	84,9	82,9	80,9
Portugal	100,0	103,1	102,4	98,0	98,4	107,0	97,5	101,4	112,2	123,9	128,0

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
European Union- 27 countries (from 2020)	90,6	90,7	93,0	92,6	92,2	91,8	92,2	89,2	82,2	84,4
Poland	82,3	78,2	80,9	79,6	79,8	84,5	86,1	84,7	80,7	84,9
Portugal	122,0	130,1	140,3	129,3	148,4	122,7	113,0	106,6	101,4	102,4

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
European Union- 27 countries (from 2020)	82,1	80,4	78,5	76,0	77,3	77,6	79,5	77,6	74,6	66,7
Poland	83,5	81,8	80,3	79,2	80,7	81,5	84,6	84,6	83,7	79,9
Portugal	98,2	97,3	96,3	93,1	101,5	105,7	138,8	105,6	98,3	85,5

Annex 12 – Share of Environmental Taxes in Total Tax Revenues; Source: Own Elaboration based on data obtained by EU (2022)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
European Union - 27 countries (from 2020)	6,44%	6,51%	6,62%	6,71%	6,71%	6,58%	6,35%	6,07%	5,98%	6,20%	6,23%
Poland	6,51%	6,58%	7,45%	7,71%	8,56%	8,14%	7,92%	7,93%	8,14%	8,50%	8,66%
Portugal	8,41%	9,21%	9,60%	9,80%	9,75%	9,34%	8,89%	8,62%	7,89%	8,18%	8,00%

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
European Union – 27 countries (from 2020)	6,27%	6,22%	6,20%	6,20%	6,16%	6,21%	6,06%	5,99%	5,89%	5,57%
Poland	8,27%	8,06%	7,55%	8,05%	8,17%	8,11%	7,85%	7,70%	7,23%	7,12%
Portugal	7,20%	6,91%	6,49%	6,65%	7,03%	7,59%	7,56%	7,41%	7,33%	6,76%

Annex 13 - People at risk of poverty and social exclusion; Own Elaboration based on data obtained by EU (2022)

Year	2015	2016	2017	2018	2019	2020
European Union - 27 countries (from 2020)	24,00%	23,70%	22,40%	21,70%	21,10%	21,50%
Poland	22,50%	20,60%	18,70%	18,20%	17,90%	17,00%
Portugal	26,40%	24,90%	23,40%	21,60%	21,10%	20,00%

Annex 14- Work at risk poverty rate (% of population); Own Elaboration based on data obtained by EU (2022)

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
European Union	8,6%	8,4%	8,3%	8,8%	8,9%	9,0%	9,5%	9,5%	9,6%	9,4%	9,4%	9,2%
Poland	11,5%	11,0%	11,4%	11,1%	10,4%	10,7%	10,6%	11,2%	10,8%	9,9%	9,7%	9,7%
Portugal	11,8%	10,3%	9,7%	10,3%	9,9%	10,5%	10,7%	10,9%	10,9%	10,8%	9,7%	10,8%

Annex 15- Income share of the bottom 40% of the population; Own Elaboration based on data obtained by EU (2022)

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
European Union	21,2%	21,3%	21,2%	21,1%	21,2%	21,1%	20,9%	20,9%	20,9%	21,1%	21,0%	21,2%
Poland	20,6%	20,9%	20,9%	20,9%	20,9%	21,1%	21,0%	21,1%	21,3%	22,1%	22,6%	22,3%
Portugal	18,8%	19,2%	19,7%	19,6%	19,6%	19,4%	19,0%	19,4%	19,4%	19,9%	20,5%	20,7%

Annex 16 - Perceived independence of the judicial system; Own Elaboration based on data obtained by EU (2022)

Year	2016	2017	2018	2019	2020	2021
European Union - 27 countries (from 2020)	50	54	54	54	54	54
Poland	45	50	42	39	34	30
Portugal	33	42	50	42	40	48

Annex 17 - Corruption Perceptions Index in Poland and Portugal from 2012 to 2021; Own Elaboration based on data obtained by EU (2022)

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Poland	58	60	61	63	62	60	60	58	56	56
Portugal	63	62	63	64	62	63	64	62	61	62

Annex 18 – McDonald's Portugal projections of reducing Net Greenhouse Gas Emissions in their restaurants and headquarters by 36% in 2030; Source: Own Elaboration based on data of McDonald's Portugal (2021)

Year	Net Greenhouse Gas Emissions (with reference to 2020)
2020	100%
2030	64%

Annex 19 – McDonald's Portugal projections of reducing Net Greenhouse Gas Emissions by 31% in the supply chain by 31% in 2030; Source: Own Elaboration based on data of McDonald's Portugal, (2021)

Year	Net Greenhouse Gas Emissions (with reference to 2020)
2020	100%
2030	69%

Annex 20 – McDonald's Poland projections of reducing Net Greenhouse Gas Emissions by 36% in their restaurants and headquarters by 2030; Source: Own Elaboration based on data of McDonald's Poland (2020)

Year	Net Greenhouse Gas Emissions (with reference to 2020)
2020	100%
2030	64%

Annex 21 - McDonald’s Poland projections of reducing Net Greenhouse Gas Emissions by 31% in the supply chain by 2030; Source: Own Elaboration based on data of McDonald's Poland (2020)

Year	Net Greenhouse Gas Emissions (with reference to 2020)
2020	100%
2030	69%

Annex 22 - Use of Renewable Energy in McDonald’s Poland restaurants; Source: Own Elaboration based on data of McDonald's Poland (2020)

Do McDonald's Poland Restaurants use Renewable Energy Sources?	%
Yes	71%
No	29%

Annex 23 - McDonald’s disposal of separated containers available for recycling; Own Elaboration based on data obtained by McDonald's Poland (2020)

Do McDonald's Poland Restaurants have separated recycling containers?	%
Yes	90%
No	10%

Annex 24 - Management Positions by Gender in 2020 in from McDonald’s Poland Owned Restaurants; Own Elaboration based on data obtained by McDonald''s Poland (2020)

Management Positions by Gender	%
Women	81%
Men	19%

Annex 25 - Employment by age in McDonald’s Poland Owned Restaurants; Own Elaboration based on data obtained by McDonald's Poland (2020)

Employment by Age on Properly Owned McDonald's Poland restaurants	%
16-17	1%
18-25	50%
26-35	29%
36-50	15%
50+	5%

Annex 26 – Interview Script of McDonald’s Portugal meeting on Foreign Investment and Sustainability (the respective script is translated to English)

1st Part: Environmental Sustainability

1st Question: What measures did McDonald’s take to prevent and reduce pollution levels? Are those measures adopted globally, or are there significant differences in their application between Developed and Transition Economies?

2nd Question: How does McDonald’s pretend to reduce waste and adopt measures to enhance their environmental sustainability?

3rd Question: How does McDonald’s pretend to attain their objective of 100% of their packages coming from recycling sources until 2025?

4th Question: What measures did McDonald’s adopt to reduce Net Greenhouse Gas Emissions?

5th Question: Does McDonald's adopt environmental criteria in the choice of their suppliers?

6th Question: Did McDonald's achieve significant results towards environmental sustainability trough the adoption of their environmental policies?

2nd Part: McDonald's relationship with their stakeholders

7th Question: What is the impact of the McDonald's relationship with stakeholders in their business activity?

8th Question: What measures does McDonald's adopt to enhance social sustainability?

3rd Part: Employment Policies and Career Development

9th Question: Does McDonald's offers a job contract to their employees that grants a fair compensation that enhances social participation?

10th Question: How does McDonald's enhance career development and fair competition within their organizational structure?

11th Question: How do McDonald's Policies contributes to the 2030 Agenda for Sustainable Development?