



UNIVERSIDADE CATÓLICA PORTUGUESA

Enhancing Urban Attractiveness for Foreign Direct Investment

InvestPorto Case

by

Tiago Gesta Pedrosa

Católica Porto Business School

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by

Tiago Gesta Pedrosa

Under supervision of
Prof. Dr. Jorge Manuel Soares Julião

Católica Porto Business School
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Resumo

Num mundo cada vez mais definido pela globalização, o Investimento Direto Estrangeiro (IDE) emerge como um motor fundamental de crescimento económico, especialmente para regiões em desenvolvimento que procuram aproveitar os benefícios dos fluxos globais de capital. Esta dissertação examina as estratégias do Porto para aumentar a sua atratividade para o IDE, focando-se nas iniciativas de desenvolvimento económico da cidade e no papel da InvestPorto, a agência de promoção de investimento. Utilizando métodos qualitativos, incluindo entrevistas semi-estruturadas com empresas multinacionais e com um representante da InvestPorto, o estudo descobre os determinantes da atração de investimento e os desafios enfrentados pelo Porto no mercado global competitivo.

Os resultados destacam a força de trabalho qualificada do Porto, localização estratégica e alta qualidade de vida como principais atrativos do IDE, enquanto identificam a complexidade regulatória e o apoio jurídico inadequado como as principais barreiras. A pesquisa defende a criação de um departamento jurídico especializado dentro da InvestPorto para fornecer apoio direcionado aos investidores estrangeiros, visando agilizar os processos de investimento e melhorar a posição económica global do Porto.

Este estudo contribui para a compreensão da dinâmica do IDE no Porto, oferecendo insights para melhorar o ambiente de investimento da cidade. Sublinha a importância do apoio e planeamento estratégico na superação dos desafios globais de investimento, enriquecendo o discurso sobre globalização económica e desenvolvimento.

Palavras-chave: Investimento Direto Estrangeiro (IDE), InvestPorto, Desafios Regulatórios, Talento e Competências, Desenvolvimento Económico

Abstract

In a world increasingly defined by globalization, Foreign Direct Investment (FDI) emerges as a pivotal driver of economic growth, particularly for developing regions seeking to harness the benefits of global capital flows. This dissertation examines Porto's strategies to enhance its attractiveness for FDI, focusing on the city's economic development initiatives and the role of InvestPorto, the investment promotion agency. Utilizing qualitative methods, including semi-structured interviews with multinational corporations and InvestPorto representative, the study uncovers the determinants of investment attraction and the challenges faced by Porto in the competitive global market.

Findings highlight Porto's skilled workforce, strategic location, and high quality of life as key attractors of FDI, while identifying regulatory complexity and inadequate legal support as principal barriers. The research advocates for the establishment of a specialized legal department within InvestPorto to provide targeted support to foreign investors, aiming to streamline investment processes and enhance Porto's global economic standing.

This study contributes to understanding FDI dynamics in Porto, offering insights into improving the city's investment environment. It underscores the significance of strategic support and planning in overcoming global investment challenges, enriching the discourse on economic globalization and development.

Keywords: Foreign Direct Investment (FDI), InvestPorto, Regulatory Challenges, Talent and Skills, Economic Development

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List of Abbreviations

FDI - Foreign Direct Investment

InvestPorto - Porto's investment promotion agency

CRM - Customer Relationship Management

STEM - Science, Technology, Engineering, and Mathematics

EU - European Union

GVA - Gross Value Added

IPAs - Investment Promotion Agencies

MNEs - Multinational Enterprises

R&D - Research and Development

IT - Information Technology

GDP - Gross Domestic Product

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Chapter 1

Introduction

Foreign Direct Investment (FDI) refers to the investment made by a company or individual in one country into business interests located in another country, often involving a long-term relationship. FDI typically includes three components: equity capital, retained earnings, and intra-company loans or debt transactions. FDI can have various impacts, such as boosting domestic investment through complementarity in production and efficiency from new advanced technology (Polat, 2017). Additionally, FDI can lead to potential spillover effects, contributing to the innovation process and increasing industrial value-added (Kartikasari & Suyanto, 2022).

FDI has been recognized as a key driver of economic growth and development in various regions, including Porto. It has been observed that FDI inflows contribute to the renewal of the local economy by acquiring or replacing domestic firms (Johansson & Lööf, 2011). Additionally, FDI is associated with technology spillovers, which are considered crucial for the development of the local manufacturing industry (Sonmez & Pamukçu, 2013). These technology spillovers from foreign to local firms are identified as a significant channel through which FDI influences the host economy.

Furthermore, the quality of FDI is a crucial factor in determining its impact on local economies. Quality FDI, as described by UNCTAD, is the kind that significantly increases employment, enhances skills, and boosts the competitiveness of local enterprises (Alfaro & Charlton, 2013). This emphasizes the importance of not only the quantity but also the nature of FDI for its effects on the local economy. In the specific context of Porto, the significance of FDI extends to infrastructure development and innovation. Research has indicated that the impact of infrastructure development on FDI is positive and significant in growing economies (Sreenu & Sekhar Rao, 2023). Moreover, FDI inflows have the potential to promote local innovation capability, thereby improving the competitiveness of local markets (Bayar & Maxim, 2020).

It is also important to consider the distribution of the household welfare effects from FDI in the local context. Studies have explored the distribution of the household welfare effects across the income distribution, highlighting the need to understand how FDI affects different segments of the local population (Artuc et al., 2019).

This research aims to identify and develop innovative strategies to enhance Porto's attractiveness for Foreign Direct Investment (FDI), with a focus on improving critical factors that influence investment decisions. The imperative to attract foreign investors is pivotal for sustainable economic growth, job creation, and innovation in the Porto region.

The objective of this investigation is to provide InvestPorto and related stakeholders with an evidence-based strategic plan to significantly enhance Porto's allure for foreign investors, thereby contributing to the economic development and sustainability of the region.

InvestPorto, tasked with promoting Porto as an investment destination, faces the challenge of standing out in a competitive global landscape, adapting to shifts in investment trends and the needs of foreign investors. The motivation for this thesis stems from the critical need to develop innovative and effective strategies that increase Porto's attractiveness to foreign investors, considering the global competitive context and local specificities. The ability to attract and retain foreign investments is crucial for the region's sustainable economic growth, contributing to job creation, economic diversification, and strengthening innovation. This work aims not only to identify key factors influencing investment decisions in urban contexts but also to propose a comprehensive strategic plan that InvestPorto can implement to improve its position in the global investment market.

The study adopts a qualitative research approach, utilizing semi-structured interviews with key stakeholders, including representatives from multinational corporations and InvestPorto, to gain an in-depth understanding of the FDI landscape in Porto. In addition to the literature review, there is also an analysis of economic data to contextualize the findings within a broader theoretical framework. By providing a comprehensive analysis of the factors influencing FDI in Porto and assessing the city's approach to attracting foreign investment, this study contributes valuable insights for policymakers, business leaders, and economic development agencies. The recommendations presented aim to bolster Porto's economic resilience, promote sustainable growth, and position the city more favorably in the global investment arena.

In the forthcoming text of this Introduction, a meticulously curated overview of the chapters to be explored will be presented. This summary aims to elucidate

the thematic structure and the core arguments that will be examined throughout the course of this scholarly work. Each chapter has been designed to sequentially build upon the preceding insights, thereby weaving a coherent narrative that contributes to our understanding of the subject matter at hand. Through this preliminary exposition, readers are invited to glimpse the intellectual journey that lies ahead, promising a comprehensive exploration of nuanced perspectives and empirical findings relevant to the field of study.

Chapter 2 delves into the specific motivations behind FDI in Porto, shedding light on the dynamic interplay of factors that attract international investment to the city. Central to this discussion is the understanding of how technology transfer, economic development signals, and the strategic efforts of Investment Promotion Agencies (IPAs) contribute to making Porto an appealing destination for global investors.

In detailing the motivations for FDI in Porto, the chapter paints a comprehensive picture of the economic, political, and socio-cultural attractors. These include the quality of life, incentives, talent, and infrastructure information, which have been significant in drawing FDI to the region. Moreover, the discussion extends to the importance of locational characteristics, institutional policies, domestic supply capacity, human resources, and innovation as critical determinants in the strategic decision-making of multinational enterprises (MNEs) regarding FDI in Porto.

Chapter 3 introduces InvestPorto, and the qualitative methodology employed to assess its influence on FDI in Porto. The approach focuses on semi-structured interviews with leading investors to understand InvestPorto's strategies, achievements, and its role in enhancing the city's economic landscape. And

provides an overview of FDI inflows into Porto, underscoring the city's success in attracting investment and creating jobs with the aid of InvestPorto. It presents statistical data and success stories, portraying a promising future for Porto in the global investment arena. It also elaborates on the services and impact of InvestPorto, emphasizing its critical role in promoting and supporting investments. The discussion covers how InvestPorto contributes to creating a competitive, innovative, and skilled environment that fosters sustainable growth and positions Porto as a prime destination for FDI.

Chapter 4 analyzes InvestPorto's viewpoint based on interviews, focusing on the agency's formation, strategies, and challenges in attracting quality investments. It highlights how InvestPorto leverages Porto's strengths, such as its talent pool and strategic location, to draw international companies. In the second part of the chapter Synthesizes feedback from multinational companies, revealing their motivations for investing in Porto, the competitive advantages of the city, and the challenges encountered. It suggests the need for enhanced legal support to overcome regulatory hurdles and improve the investment environment.

Chapter 5 focuses on synthesizing the study's findings and presenting strategies to boost Porto's appeal to global investors. The main takeaway is that InvestPorto plays a crucial role in attracting FDI by offering significant support and services to international companies. Despite this, firms identify regulatory challenges as a major obstacle to investing in Porto. To address this, the chapter recommends the creation of a specialized legal department within InvestPorto. This department would assist companies with legal matters, facilitating smoother company establishment and operation in Porto. This move aims to streamline the investment process, improve the perception of Porto's business

ecosystem, and increase investment inflows, positioning Porto as a more attractive destination for FDI. The chapter acknowledges the limitations of the current research and suggests directions for future studies to further understand and enhance FDI dynamics in Porto.

Chapter 2

Literature Review

1. FDI Investment Theories

To understand the motivations for Foreign Direct Investment (FDI) in Porto, it is essential to consider crucial theories related to FDI attraction. These theories provide a comprehensive understanding of the motivations for FDI in Porto. The Eclectic Paradigm and Internalization theory shed light on the ownership-specific, market internalization, and location-specific advantages of investing firms, as well as the strategies behind FDI and the reduction of transaction costs in cross-border activities. The Monopolistic Advantage Theory emphasizes the role of market imperfections and monopolistic advantages in driving international investments.

1.1 Electric Paradigm

The Eclectic Paradigm, developed by Dunning (1979) , is a significant theory related to Foreign Direct Investment (FDI) attraction. This paradigm suggests that the level and structure of FDI activity depend on the ownership-specific, market internalization, and location-specific advantages of the investing firm (Dunning, 2002). It provides a systemic framework that accommodates operationally testable theories relevant to FDI and Multinational Enterprise (MNE) activity (Dunning, 2002). The Eclectic Paradigm combines the resource-

based theory and the internal capabilities of the firm with external factors specific to a market, in addition to incorporating economic logic and rationality, providing a way of assessing the interplay between firm-specific and market-specific factors (Dunning, 2002). Furthermore, the Eclectic Paradigm is considered as one of the most accepted theories explaining why firms decide to establish units abroad, along with the Internalization theory (Urzelai & Puig, 2017).

1.2 Internalization theory

The internalization theory of Foreign Direct Investment (FDI) is a significant framework that explains the motivations and strategies behind FDI. This theory is based on the idea that firms engage in FDI to internalize transaction costs and manage uncertainties in the international market (Bagchi-Sen & Schunder, 2015). It is suggested that the internalization theory is a logical intersection of three distinct theories: the theory of international capital markets, the theory of the firm, and trade theory (Singh, 1999). The internalization theory provides a micro-level perspective for analyzing offshore incorporation and related FDI to tax havens and offshore financial centers (Buckley et al., 2018). It also encompasses ownership and locational advantages, as well as the reduction of transaction costs in cross-border activities (Kuşluyan, 2018). Furthermore, the theory explains how transitional companies grow and the motivation behind achieving FDI (Hansen, 2010). The internalization theory has been challenged by behavioral, evolutionary, and resource-based models, but it still holds a dominant position within the theory of FDI (Karakuş, 2017).

1.3 Monopolistic Advantage Theory

The Monopolistic Advantage Theory, as proposed by Hymer, emphasizes the significance of market imperfections and monopolistic advantages in explaining

the international investments of firms (Kuşluvan, 2018). This theory suggests that firms can achieve monopolistic profits in foreign markets based on internal competitive advantages, such as technological innovations and product differentiation (Bagchi-Sen & Schunder, 2015). Additionally, the theory highlights the role of monopolistic competition in international trade, where firms' profitability gains from returns to scale are limited by consumers' desires for product diversity (Neary, 2001). Furthermore, the theory has laid the foundation for the development of new trade theories, such as the explanation of intra-industry trade under monopolistic competition (Acharyya, 2023).

2. FDI Motivations

2.1 Key Motivators for FDI

In the context of Porto, several key motivators for FDI can be identified. Firstly, FDI is associated with the transfer of technology and managerial capabilities, which can contribute to reducing unemployment and enhancing productivity (Widia et al., 2019). Additionally, FDI is considered a key indicator of economic development, highlighting its significance in driving growth and prosperity (Abekah-Koomson & Chinweokwu, 2020). Furthermore, the active support of international agencies has led to the increasing perception of FDI as a fundamental component of development policy (Narula & Pineli, 2017). Moreover, the location of FDI is influenced by various motives, which can be categorized into different types. Some of these motives include the pursuit of key resources or capabilities in host countries, rather than solely focusing on market opportunities (Yamin & Sinkovics, 2014). Additionally, the motives for FDI location choice can be influenced by factors such as infrastructure and the presence of impediments in the target region (Serwicka et al., 2016). Furthermore,

the incentivization of FDI involves not only supporting foreign investment but also promoting learning and investment in local firms (Blomström & Kokko, 2003). This approach emphasizes the importance of fostering a conducive environment for both foreign and local businesses to thrive, thereby contributing to overall economic growth.

2.1.1 Economic, Political, and Socio-Cultural factors attracting FDI

The economic, political, and socio-cultural factors attracting Foreign Direct Investment (FDI) to Porto are multifaceted and encompass a range of determinants. Economic factors such as the quality of life, incentives, talent, and infrastructure information have been identified as significant attractors for FDI (Gomes & Gaio, 2021). Additionally, local economic conditions, political stability, and FDI attraction-focused policies play a crucial role in determining FDI inflows (Chang & Vo, 2020). Furthermore, the relevance of cultural factors, such as those identified by Hofstede, has been discussed as determinants of FDI inflows, highlighting the socio-cultural dimension of FDI attraction (Silajdzic & Mehic, 2020).

In the context of Porto, the literature emphasizes the importance of locational characteristics as key factors in the decisions of multinational enterprises (MNEs) on where to invest (Görg & Greenaway, 2016). This includes institutional policies, domestic supply capacity, human resources, technological development, and innovation as key criteria for selecting a strategy that attracts regular FDI (Huynh & Phi, 2021). Moreover, the legal and regulatory environment in host countries has been highlighted as a critical factor in attracting FDI (Saurav & Kuo, 2020). From a political perspective, the research evaluates the volume of FDI inflows into the region, the factors that attract them, including incentives and regulations, and their contribution to economic and societal development (United Nations, 2018).

Additionally, the domestic political economy has been recognized as a significant factor in supporting the model for attracting FDI (Brazys & Regan, 2021). Furthermore, studies have established a link between political risks, FDI, and economic growth, underscoring the interplay between political factors and FDI attraction (Onyeiwu, 2015).

2.1.2 Investment Promotion Agencies

To understand the success of Investment Promotion Agencies (IPAs) in attracting Foreign Direct Investment (FDI), it is essential to consider the existing literature on the topic. While there has been a lack of broad empirical studies on the effectiveness of IPAs in attracting FDI, recent research has shown that these agencies tend to be associated with higher FDI inflows (Mera, 2016). Additionally, it has been found that FDI can deliver growth-enhancing effects to recipient countries (Hoang My, 2013).

Furthermore, the presence of efficient investment policy frameworks, good practice investment promotion agencies, key investments in infrastructure, and dedicated vocational training have been shown to attract foreign investors and transform industries in various countries (Bombarda & Gamberoni, 2019). The importance of IPAs in catering to the needs of private investors, both large and small, has also been emphasized (AUC/OECD, 2018)

Moreover, it has been suggested that the most positive impact on FDI occurs when regional integration agreements coincide with domestic liberalization and macroeconomic stabilization in member countries (Blomström & Kokko, 2002). Additionally, there is a growing focus on increasing the development impact of IPAs (Heilbron & Kronfol, 2020) as well as planning for success through the strategies employed by these agencies (Sawaqed & Griffin, 2023). Furthermore,

the institutional embeddedness of transnational corporations has led to the creation of separate institutional structures, including investment agencies, which have become central to the "investment promotion machines" in many countries (Šćepanović & Bohle, 2018).

3. Challenges and Strategic Opportunities

3.1 Challenges

Porto faces several challenges in attracting and retaining Foreign Direct Investment (FDI), including sector-specific issues. One of the main challenges is related to the absorptive capacities of the region, which are crucial for accruing growth benefits from inward FDI (Li & Tanna, 2018). Additionally, tax incentives play a significant role in attracting FDI, but developing countries face challenges following the introduction of projects to tackle base erosion and profit shifting by multinationals (Valderrama, 2020).

In the context of sector-specific challenges, the quality of policy improvements in different service sectors has been found to attract FDI and is associated with post-1990 growth performance in transition economies (Duggan et al., 2013). Regional integration agreements coinciding with domestic liberalization and macroeconomic stabilization have had a positive impact on FDI (Blomström & Kokko, 2002). Additionally, there is evidence of FDI diversion due to investment incentives offered by other countries in the same geographic region (Harding & Javorcik, 2007).

Infrastructure also plays a crucial role, as nations with appropriate infrastructure conditions have an advantage in attracting FDI to develop

supportive industries, while a lack of infrastructure has the opposite effect (Huynh & Phi, 2021). Furthermore, the relationship between infrastructure and FDI is dynamic, and valuable outcomes related to emerging markets are of significant interest to policymakers (Sreenu & Sekhar Rao, 2023).

Moreover, the effects of financial development in source and destination countries have been found to have various impacts on FDI, and causality has been established by exploiting variations in both country-specific financial development and sector-specific financial vulnerability (Desbordes & Wei, 2014). In the public sector, managing the complexity of outcomes is a significant challenge, as public organizations must appeal to a broad range of the public, often dealing with individuals with urgent, multiple, and intersecting needs (French et al., 2021). Additionally, cross-border knowledge flows through R&D FDI have implications for low- and middle-income countries, and the motivations and implications of this type of FDI have been discussed, building on a critical review of the existing literature (Amendolagine et al., 2022).

Furthermore, digital transformation and innovation play a crucial role in attracting FDI, especially in the context of digitalization, value creation, and knowledge management (Väyrynen et al., 2022). Cultural distance and its impact on FDI also present challenges, as studies have shown mixed results regarding the influence of cultural distance on FDI flows (Silajdzic & Mehic, 2020).

Lastly, challenges related to information systems procurement in the public sector, such as requirements specification, change management, cooperation among stakeholders, competence, and technology and infrastructure, also impact the region's ability to attract and retain FDI (Moe & Päivärinta, 2011).

3.2 Opportunities for Enhancement

To improve Porto's attractiveness for Foreign Direct Investment (FDI), several actionable opportunities can be identified based on the existing literature. Firstly, the city can leverage its cultural heritage and transform it into marketable products, fostering entrepreneurship and creativity (Pascoal et al., 2021). This can be achieved through interdisciplinary pedagogical strategies, such as those implemented in the Masters in Intercultural Studies for Business at the Porto Accounting and Business School. Additionally, the city can focus on sustainability strategies, as highlighted in the context of insular territories, to promote cooperation and sustainable development (Lousada & Castanho, 2020). This approach aligns with the growing importance of cultural activities in European cities, including Porto, and can enhance the city's appeal to potential investors (Ferreira et al., 2019).

Moreover, fostering social innovation and entrepreneurship, as evidenced by studies conducted in the Porto region, can create valuable relationships and opportunities for investment (S. Carvalho, 2019). In addition to these strategies, it is essential for Porto to explore the benefits of innovation at the regional level, as regional dynamics play a crucial role in fostering firm-level innovation and overall economic development (Virkkala et al., 2018). This can be achieved through research and initiatives aimed at boosting innovation within the region, ultimately enhancing its appeal to potential investors.

Furthermore, the city can consider the potential benefits of international policy transfers, such as participatory budgeting, microfinance, and other successful policies, to adapt and implement effective strategies for attracting FDI (de Oliveira, 2021). Moreover, focusing on sustainable development and economic potential, particularly in the port complex, can position Porto as an attractive investment destination (Rutkowski & Santos Dalbelo, 2021). Leveraging the city's economic potential and emphasizing its development can significantly enhance

its attractiveness for FDI. Additionally, exploring the relationship between trade and poverty, as demonstrated in the context of Zambia, can provide insights into complementary policies that support employment opportunities and poverty reduction, ultimately contributing to a more favorable investment environment (Gillingham, 2008).

3.2.1 Implementation of Policies and Strategic Initiatives

To address the challenges and leverage Porto's strengths in FDI, several strategies can be considered. Firstly, it is essential to develop a coherent long-term development strategy that can effectively harness high-tech FDI (Ruiz Cordero & Paus, 2009). This strategy should focus on leveraging the complementary strengths of physics-based models and deep learning methods to simulate and understand complex systems, as demonstrated in the work by (Jia et al., 2019). Additionally, it is crucial to consider the issues of FDI incentives and policies to best leverage the features of globalization for development (Reinert, 2017). This can involve attracting FDI to support sustainable economic growth on an ongoing basis, as highlighted in the study by (Huynh & Phi, 2021).

Furthermore, leveraging FDI for economic development requires a balanced approach, such as encouraging both FDI and domestic firms to leverage technology parks, as exemplified in the case of Bhutan by (Rai & Kurnia, 2017). It is also important to recognize and leverage the strengths of local contexts to facilitate improvement in practice, as evidenced in the work by (Moyi et al., 2021). Moreover, it is essential to recognize the potential of ambidextrous leadership for innovation, which can offset potential risks and leverage the strengths of diversity (Bledow & Mueller, 2011). This can be particularly relevant in the context of leveraging the developmental strengths of young children, as discussed by (Bulotsky-Shearer et al., 2020). Furthermore, overcoming major barriers to build efficient decision support systems, as described by (Kreimeyer

et al., 2022), can provide valuable insights for leveraging FDI strengths in decision-making processes.

4. Overview

Table 1 aims to succinctly and precisely encapsulate the core concepts and noteworthy ideas discussed throughout the Literature Review, as articulated by the various authors cited.

FDI Investment Theories	<p>Eclectic Paradigm (Dunning, 1979): Emphasizes the specific advantages of ownership, market internalization and location as determinants of FDI activity.</p> <p>Internalization Theory: Explains FDI as a strategy to internalize transaction costs and manage uncertainties in the international market.</p> <p>Monopolistic Advantage Theory (Hymer): Highlights the importance of market imperfections and monopolistic advantages in realizing monopoly profits in foreign markets.</p>	<p>(Dunning, 2002; Urzelai & Puig, 2017).</p> <p>(Buckley et al., 2018).</p> <p>((Bagchi-Sen & Schunder, 2015; Neary, 2001).</p>
FDI Motivations	<p>Economic, Political and Socio-Cultural Factors: These include quality of life, incentives, talent, infrastructure, local economic conditions, and political stability as attractions for FDI.</p>	<p>(Gomes & Gaio, 2021; Chang & Vo, 2020).</p>
Challenges	<p>This includes issues of absorption capacity, tax incentives, sector-specific challenges, infrastructure, and financial development.</p>	<p>(Li & Tanna, 2018; Valderrama, 2020).</p>
Strategic Opportunities	<p>This focus on leveraging cultural heritage, sustainability, social innovation, entrepreneurship, and regional development to attract FDI.</p>	<p>(Pascoal et al., 2021; Lousada & Castanho, 2020).</p>

Table 1- Overview of the Literature Review

Chapter 3

Research Methodology

1. Introduction

This study aims to investigate the underlying drivers of FDI in Porto, Portugal, and to propose tactics for increasing the city's appeal to global investors. With a particular focus on InvestPorto, the regional agency responsible for enticing investment to Porto, this study will explore the methods and initiatives implemented to create a favorable environment for FDI. By conducting an in-depth analysis of InvestPorto as a case study, this paper seeks to comprehend the role and strategies of the agency, as well as evaluate its effectiveness in promoting Porto as an attractive destination for foreign investors. Section 2 will detail the research methodology and analytical framework used to examine FDI motivations in Porto. In Section 3, we will analyze FDI inflow trends into Porto, offering insights into its economic landscape and factors contributing to its allure for foreign investors. Section 4 will provide a comprehensive overview of InvestPorto underscoring its strategic significance in driving the city investment promotion efforts and facilitating foreign investments.

2. Methodology

As previously said, this study investigates the determinants of FDI in Porto and examines strategies to enhance its appeal to international investors, with a particular emphasis on InvestPorto as a case study. Considering the primary aim of this study, we opted for a qualitative analysis as it is considered the most suitable approach to address the research question. According to (Patton, 2022), qualitative methods are crucial in research as they allow for in-depth exploration and understanding of complex phenomena, providing rich and detailed insights that quantitative methods alone cannot capture. In line with this perspective, we have chosen the case study strategy within the qualitative approach, recognizing its potency in offering an in-depth and contextualized exploration of specific instances within a real-life phenomenon. The case study of InvestPorto presents an exemplary scenario for investigating the factors influencing FDI in Porto. This methodological choice underscores our intent to delve into the dynamics, processes, and elements that contribute to Porto's attractiveness to international investors. Through this case study, we aim to uncover specific insights, practices, policies, and strategies that potentially make Porto a favorable destination for FDI, emphasizing the qualitative method's ability to capture the complexity and richness of the investigated phenomenon in a detailed and nuanced manner.

This case study focuses on InvestPorto, which has been one of the key investment pillars of the city since its establishment in 2015. Over the past three years, Porto has become increasingly attractive for investment, with the creation of over seventeen thousand jobs and more than 2 billion euros in investment projects. Furthermore, the volume of foreign companies' investments reached a record six hundred million euros in 2022 alone, with expectations for continued

growth (EY Attractiveness Survey Portugal, 2023). A study focused only on Leading Investors was chosen to be conducted.

According to (Yin, 2003), we carried out is explanatory in nature as it aims to comprehend the factors driving foreign direct investment into Porto. Consequently, we conducted semi-structured individual interviews that are crucial for this study, providing a flexible way to deeply explore the participants' views. According to (Osborne & Grant-Smith, 2021), semi-structured interviews strike a balance between a pre-set list of questions and the flexibility to probe unexpected answers, making them appropriate for in-depth exploration of topics. These interviews were carried out with some companies from the Leading Investors group and Ricardo Valente, City Council for Economy, Tourism and Commerce and the current leader of InvestPorto.

To understand the perspectives of companies, their reasons for selecting Porto as an investment destination, their future objectives, and possible enhancements in attracting FDI, a total of 33 multinational corporations were approached. Moreover, one Portuguese company with an international presence was included to assess similarities or differences in motivations. From the invitations sent out, 16 interviews were successfully conducted.

To understand the perspectives of companies, their reasons for selecting Porto as an investment destination, their future objectives, and potential improvements in attracting Foreign Direct Investment (FDI), our sample selection was strategically based on the Leading Investors program by InvestPorto. Consequently, we approached a total of 33 multinational corporations, along with one Portuguese company with a national presence, deliberately chosen to capture a diverse range of sectors and investment motivations. Out of the invitations sent, we successfully conducted 16 interviews.

In addition to direct interviews, our analysis was enriched with qualitative data collected from InvestPorto's - Customer Relationship Management (CRM) system, specifically pertaining to Leading Investors. This multifaceted approach ensures a more profound and comprehensive understanding of the importance of FDI to the region.

The interviews were all conducted virtually via Microsoft Teams software. The objective of the interview conducted on January 25 was to gain insights into the role and impact of InvestPorto since its inception, as well as its current initiatives to enhance services and persist in attracting and retaining foreign investment. The questions asked to the companies are available for consultation in Appendix 2 and the question made to InvestPorto can be seen in Appendix 3.

Table 2 and 3 provides details on the multinational companies interviewed, showcasing their representation in various industry sectors by name, as well as information regarding the interviewees, including their organization's influence on the city of Porto. Additionally, Table 4 specifies the dates of the interviews and the roles of the interviewees within their respective multinational companies.

	Blip	Continental Engineering Services	Critical Software	Critical TechWorks	FinTrU	Intellias	ISS Tech Portugal	Korber Porto
Sector of activity	Information Technology	Shared Services	Information Technology	Information Technology	Shared Services	Information Technology	Information Technology	Information Technology
Headquarters	Ireland	Germany	Portugal	Germany	United Kingdom	Ukraine	Denmark	Germany
Establishment	2012	2019	1998	2018	2022	2022	2023	2020
Operating revenue	36 923 906 €	9 790 266 €	72 788 862 €	79 305 492 €	-	481 030 €	258 936 €	7 112 943 €
Gross Value Added (GVA)	34 066 649 €	8 843 258 €	62 125 819 €	59 296 902	-	349 127 €	229 936 €	6 219 520 €
Export Intensity	100%	100%	67,03%	100%	-	100%	100%	100%
Investment	21 768 481 €	34 000 000 €	27 000 000 €	2 500 000 €	10 000 000 €	60 000 000 €	21 000 000 €	6 000 000 €
Employees	700	275	1300	2451	192	70	100	190

Table 2 - Concise Overview of the companies interviewed (First Part).

	msg insur:it	Natixis	NTT Data Portugal	Sodexo	Vestas Portugal	Voltalia Portugal	Wunderman Thompson Commerce	Zuhlke Engineering
Sector of activity	Information Technology	Shared Services	Information Technology	Shared Services	Energy,environment and mobility	Energy,environment and mobility	Information Technology	Information Technology
Headquarters	Germany	France	Japan	France	Denmark	France	United Kingdom	Switzerland
Establishment	2012	2017	2021	2018	2017	2016	2022	2021
Operating revenue	4 974 970 €	111 405 159 €	71 001 619 €	12 657 366 €	50 217 233 €	64 947 308 €	7 136 244 €	-
Gross Value Added (GVA)	3 305 863 €	71 489 946 €	48 887 435 €	10 668 543 €	26 675 558 €	6 103 141 €	3 478 347 €	-
Export Intensity	76,5%	100%	30,58%	100%	54,67%	44,49%	100%	-
Investment	3 500 000 €	16 500 000 €	-	6 800 000 €	12 000 000 €	20 000 000 €	1 800 000 €	4 500 000 €
Employees	80	2200	1500	270	700	282	110	80

Table 3 - Concise Overview of the companies interviewed (Second Part).

	Date of the interview	Interviewee's function within the multinational company
InvestPorto	25 January 2024	City Councillor for Economy, Tourism and Commerce
Blip	19 February 2024	Operations Manager
Continental Engineering Services	23 January 2024	CFO - Director of Operations
Critical Software	23 January 2024	CFO - Director of Operations
Critical TechWorks	22 January 2024	Director of Operations
FinTrU	2 February 2024	Site Lead
Intellias	22 January 2024	Country Head for Portugal
ISS Tech Portugal	5 March 2024	Head of Tech Centre Operations
Korber Porto	7 February 2024	Lead HR Business Partner
msg insur:it	5 February 2024	Managing Director
Natixis	2 February 2024	Communication and Marketing Manager
NTT Data Portugal	1 February 2024	Director
Sodexo	22 January 2024	Head of Sodexo Business Services Porto
Vestas Portugal	16 February 2024	Managing Director
Voltaia Portugal	24 January 2024	Country Manager Portugal
Wunderman Thompson Commerce	25 January 2024	Portugal Operations Director
Zuhlke Engineering	16 February 2024	CEO Portugal

Table 4 - Information of the Interviewees.

3. FDI inflows in Portugal and economic outlook in Porto

3.1 Portugal Outlook

According to (EY Attractiveness Survey Portugal, 2023), there are significant insights into Portugal's position in foreign direct investment (FDI). In 2022, Portugal registered the highest growth in FDI projects among the top 10 European countries, with 248 projects indicating a positive outlook for the country's future. The Software and IT Services sector led these projects, emphasizing Portugal's appeal in the digital economy. Additionally, 72% of surveyed investors plan to establish or expand operations in Portugal within the next year, highlighting the country's growing attractiveness to international investors. This trend is supported by a broader optimism, with 59% of investors expecting Portugal's attractiveness to improve over the next three years, surpassing perceptions in several other European economies (EY Attractiveness Survey Portugal, 2023). The (EY Attractiveness Survey Portugal, 2023) highlights that Portugal's primary influx of FDI was dominantly sourced from the European Union, led by Germany, and closely followed by France. These nations and the United States directed their investment efforts mainly towards Portugal's burgeoning Software and IT Services sector. This trend underscores the significant role of EU countries and the US in nurturing Portugal's technology and digital service industries.

3.2 Porto Outlook

In the case of Porto, the city has made significant progress in attracting FDI, especially in Southern Europe. Porto has attracted over €2.7 billion in investment projects, creating 17,400 jobs over the last three years. The volume of investment by foreign companies in Porto reached a record level of €600 million in 2022,

surpassing €1 billion over the last seven years (EY Attractiveness Survey Portugal, 2023). This achievement places Porto's strategy of promoting FDI at the forefront, earning it a top spot in the 2023 European Cities and Regions of the Future under the "FDI strategy - Large cities" category by the Financial Times (InvestPorto, 2023d).

According to the data gathered in Invest Porto interview, they had been crucial in fostering FDI in Porto, supporting approximately 560 projects. The current composition of investment in the region highlights the success of these initiatives, with 66% of the projects coming from foreign investors and 34% from local sources. This balance underlines Porto's global attraction as an investment destination and the strength of local business engagement. The scope of this study consists of 43 companies from 14 different countries, including Portugal, Denmark, France, Ireland, Germany, Netherlands, United Kingdom, United States, Ukraine, Switzerland, Japan, Austria, Sweden, and Norway. The distribution of investment between local and foreign sources in this group is 30% and 70%, respectively, as illustrated in Figure 1.

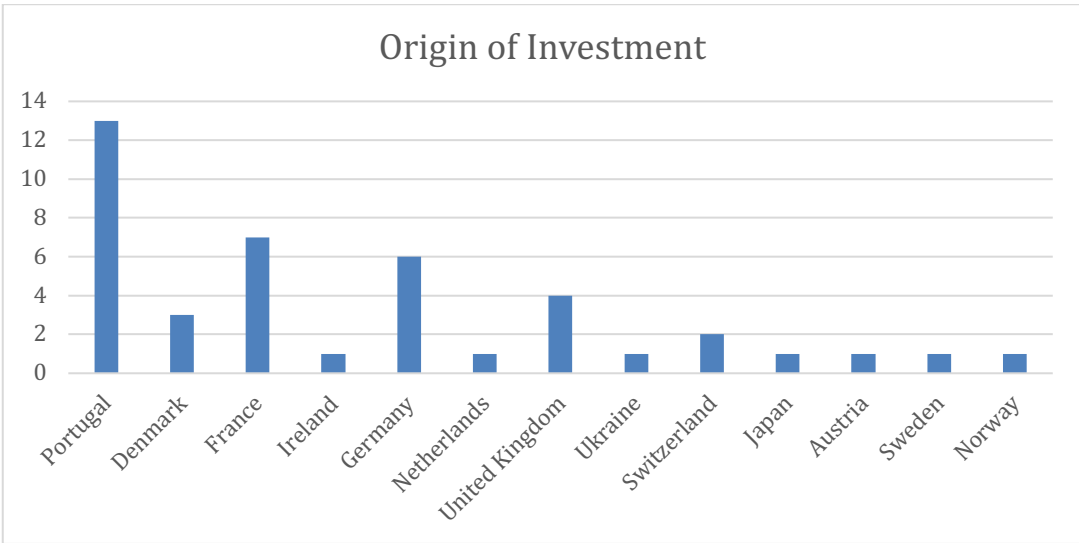


Figure 1 - Origin of Investment

Additionally, the sectoral analysis of FDI in Porto reveals a predominance in the Information Technology (IT) sector, representing 60% of the total investment, followed by Shared Services with 26%. These data highlight Porto's significant inclination towards technological innovation and providing shared services (Figure 2).

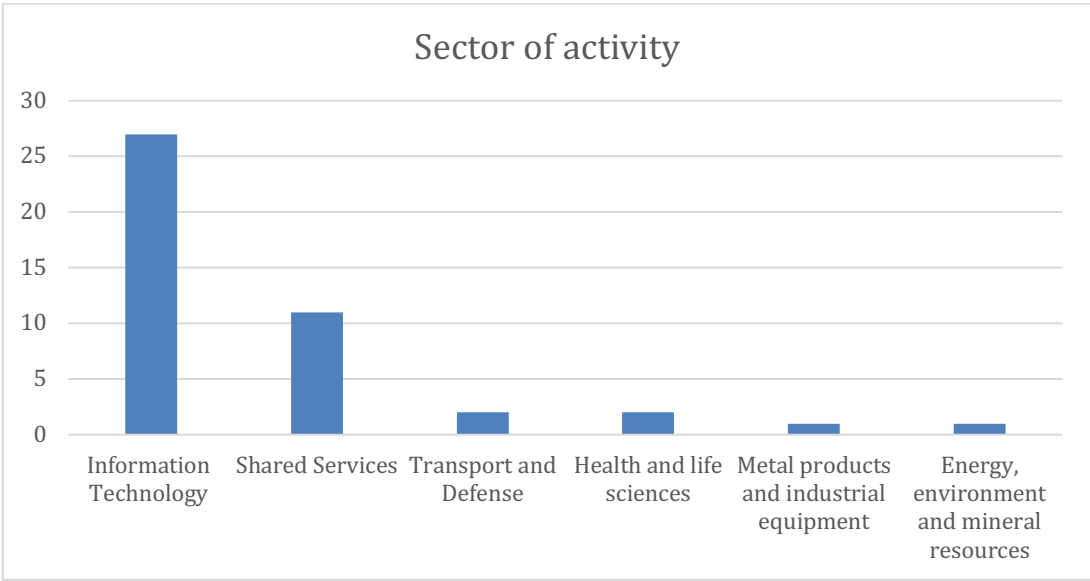


Figure 2- Sector of Activity

4. InvestPorto

InvestPorto is crucial in promoting, winning, and supporting investments in Porto, Portugal. Established to create a competitive, innovative, and skilled environment, InvestPorto works hard to add value to the community and sustainably grow operations. The Mayor of Porto, Rui Moreira, points out the city's strengths, such as talent, a strong presence of higher education and research institutions, modern infrastructure, and a good quality of life. All these factors

prepare the city to face the current competitive needs and the challenges brought by changes in digital technology, energy, and climate (InvestPorto, 2023c)

InvestPorto offers services to help investors, business people, founders, talent, and visitors understand and navigate Porto's business environment. The organization's dedication to providing tailored information and help for free shows its commitment to being a long-term partner, focusing on building trust and delivering results. (InvestPorto, 2023c). The success of InvestPorto's methods is evident from its achievements since starting in 2015. It has supported over 450 investment projects, bringing over 1 billion euros into the city, and creating over 17,800 jobs, significantly boosting its economy and international competitiveness. (InvestPorto, 2023c)

Porto's economic environment is attractive for investment. The city and NW Portugal have a good mix of industry and services, with a strong export sector that plays a significant role in the country's GDP growth. The region is a crucial supplier of Portuguese products sold worldwide, making up 47% of the country's exports of goods. In recent years, the city has seen economic growth driven by increased tourism, foreign investment, and entrepreneurship, putting it at the forefront of technology and innovation. (InvestPorto, 2023a)

4.1 InvestPorto Leading Investors

InvestPorto's Leading Investors program is a strategic initiative designed to support and engage key investors and influential businesses that play a vital role in Porto's economic growth. Focused on creating a solid and successful business environment, the program recognizes these primary investors as crucial partners in the city's development journey. Through this initiative, InvestPorto ensures that these investors receive comprehensive support and resources and feel

valued and integral to the city's economic success. The program is tailored to meet each investor's unique needs, providing personalized assistance, valuable local connections, and dedicated services to facilitate their business operations and growth in Porto (InvestPorto, 2023b). Additionally, in Appendix 4, you can see what companies are part of this initiative.

Chapter 4

Results and Data Analysis

1. Introduction

Following the completion of the interviews, an exhaustive compilation and verbatim transcription of all conducted dialogues were undertaken. This foundational phase was pivotal in guaranteeing the veracity and completeness of the data amassed. In the subsequent phase, the qualitative analysis software Nvivo was employed for a meticulous examination of the content. This procedure initiated with the organization of inquiries into a variety of thematic clusters, to which distinctive codes were allocated, thereby instituting a stringent classification schema. Evidence of the coding can be found in Appendix 5.

Upon the establishment of these codes, a comprehensive encoding of all transcriptions was executed, ensuring that each fragment of text was scrutinized and allocated to the corresponding code. The ensuing phase entailed a detailed investigation of each delineated code, to elucidate the outcomes associated with them. Given the general ambit of this analysis, it does not afford a direct insight into the specific disclosures made by each entity based solely on the transcriptions. Rather, the analysis endeavors to distill overarching trends and patterns emanating from the aggregate data, thus furnishing a more profound comprehension of the themes under examination.

2. InvestPorto's perspective

In this section, we introduce the data gathered from the interviews conducted by InvestPorto. The subsequent paragraphs will detail Ricardo Valente's viewpoints on the asked questions.

InvestPorto was established primarily to attract investment to Porto, especially after the financial crisis triggered by Troika's adjustments around 2013. The initiative was deemed necessary to prioritize the economy in political decisions and to foster the city's development. Initially lacking organization, InvestPorto underwent restructuring under a new administration, transforming into a unique municipal division called InvestPorto. This division seeks investments and manages talent and economic information, functioning as an investment promotion agency. With a team of eight, InvestPorto focuses on attracting high-value companies to Porto and the surrounding region, emphasizing quality of life and specialization over attracting corporate giants.

InvestPorto operates on a budget of around 2 million euros and has been involved in over 560 investment projects from 2015 to 2023, with approximately 66% of these investments being foreign. The organization capitalizes on Porto's strengths, such as the availability of talent, particularly in STEM fields, a high quality of life, and a strategic location within Europe to attract international companies. Unlike traditional investment attraction policies that rely on direct incentives like reduced-price land, Porto focuses on creating a competitive environment with accessible resources and good infrastructure.

Porto's competitive advantages in technology and life sciences, attributed to the quality of local hospitals, research centers, and a favorable business

environment, have positioned the city as a significant tech hub and a center for life sciences. However, the interview highlights several challenges and barriers to investment, including legislative instability, high tax burdens, excessive bureaucracy, and a critical view of the private sector.

To overcome these barriers, InvestPorto aims to improve its service and alignment with the dynamic investment market, enhance relationships with existing companies, and provide continuous support. Ricardo Valente also identifies the energy sector, particularly the electrification of vehicles and energy self-generation and storage, as areas requiring attention and development. The interviewee suggests enhancing collaboration between InvestPorto and foreign companies by fostering closer, more personalized relationships and moving towards a more proactive engagement strategy. He emphasizes the significant impact of foreign investment on Porto's economic growth, with €7.1 billion in investments creating over 22,000 jobs between 2015 and 2023, transforming the city economically and raising average salaries.

In conclusion, InvestPorto, under the guidance of initiatives like those proposed by Ricardo Valente, demonstrates a focused strategy to attract foreign investment, overcome existing challenges, and leverage Porto's unique advantages, contributing significantly to the city's economic development and growth.

3. Multinational companies' point of view

By analyzing the responses provided by companies during the interview process, it became evident that InvestPorto has been playing a role in attracting investment. This analysis not only shed light on the performance of this IPA but also illuminated the challenges encountered by companies in selecting Porto as an investment destination. Furthermore, it offered insights into potential improvements that could be made. Additionally, the motivations behind companies' decisions to invest in Porto were unraveled, providing a comprehensive understanding of the investment landscape in the region.

3.1 Attracting Factors

To comprehend the motivations driving companies to invest in Porto, we have segmented the topic of Attracting Factors into three smaller groups. This approach enables us to achieve a broader spectrum of responses and diversity. These groups encompass motivational factors, namely the aspects companies consider most critical when investing in the city, competitive advantages differentiating Porto from other places, and finally, the challenges companies face in selecting Porto as their investment destination. The following charts analyze the company responses in detail.

Figure 3 provides a clear depiction of the factors companies find attractive about Porto when considering it as a potential investment destination. The data is segmented into various motivational factors, each highlighting the city's characteristics deemed attractive by businesses.

At the forefront of these factors is Talent, which holds the highest number of mentions. This indicates that the availability and quality of skilled professionals in Porto are the primary reasons compelling companies to invest in the city.

Following Talent in terms of references is Infrastructure. The presence of robust infrastructure is crucial for the smooth operation of businesses, encompassing transportation systems, public services, and communication networks. However, most references point to the airport as the infrastructure element driving the choice of Porto as an investment destination.

Economic factors also play a significant role in the decision-making process of companies. These include the cost of doing business and the overall economic stability of Porto. While not as frequently cited as Talent or Infrastructure, they remain an important consideration, suggesting a competitive economic environment that can support business growth.

Strategic location is another key factor, inferred to mean that Porto's geographical position offers logistical advantages and access to specific markets. This turns out to be advantageous for companies seeking an optimal location in Europe that connects various markets and provides logistical benefits, with proximity to the company's headquarters.

Culture, English proficiency, quality of life, market access, and political stability are mentioned less frequently but still contribute to Porto's overall attractiveness.

This framework is based on understanding what attracts companies to Porto, focusing on the city's competitive advantages. The factors are varied, each highlighting a different aspect of Porto's attraction from a business perspective.

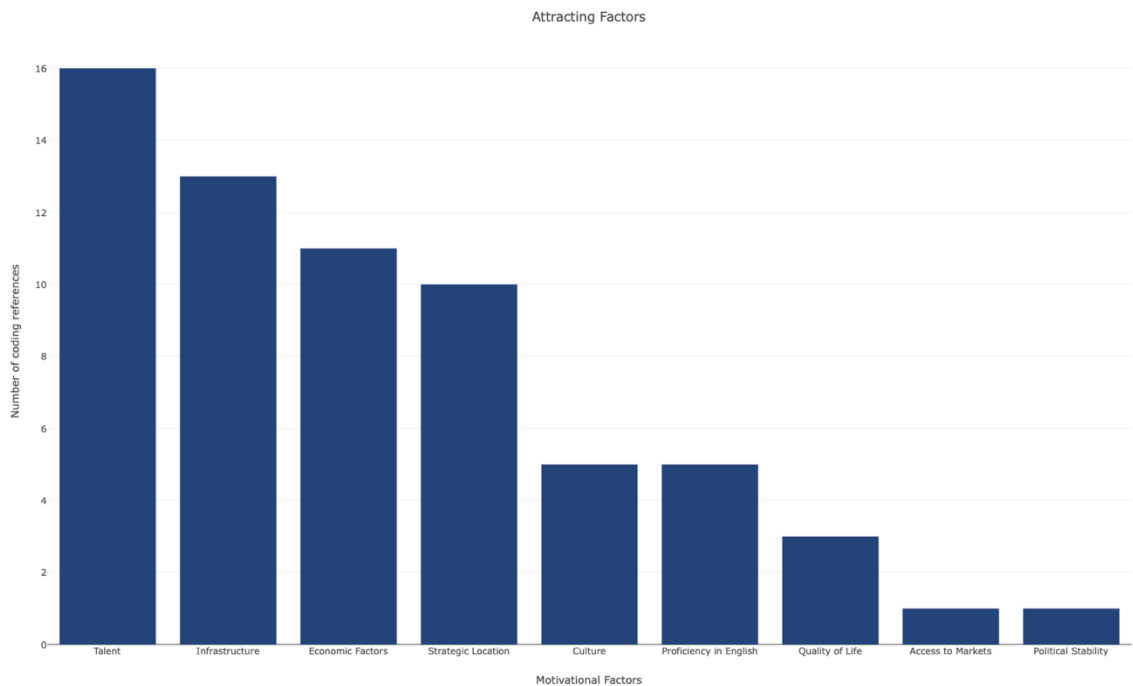


Figure 3 - Motivational Factors

Dominating Figure 4 is the Strong Local Talent Reserve, which echoes the previous emphasis on talent as a significant draw. This factor alone signifies Porto's potential as a hub for skilled professionals. Companies often prioritize the ability to recruit local talent, which can drive innovation and productivity while reducing the costs and complexities associated with relocating employees from other regions.

The Support System follows, indicating that there is a substantial infrastructure in Porto aimed at facilitating business growth and development, which companies clearly value, notably InvestPorto.

Although not as frequently mentioned as the first two factors, the strategic location continues to be important.

Superior Infrastructure suggests that, beyond basic needs, Porto offers above-average infrastructure. However, this point is again directly related to the airport, considered one of the best in the world.

Unique Offering and Sustainability Policies have fewer mentions but are still noteworthy. The Unique Offering refers to a specialized service that is uniquely available in Porto, in this case, companies mentioned the existence of InvestPorto, highlighting the importance of this entity for foreign investment. Sustainability Policies point to the city's commitment to environmental and social governance, increasingly important for companies with a forward-looking business approach.

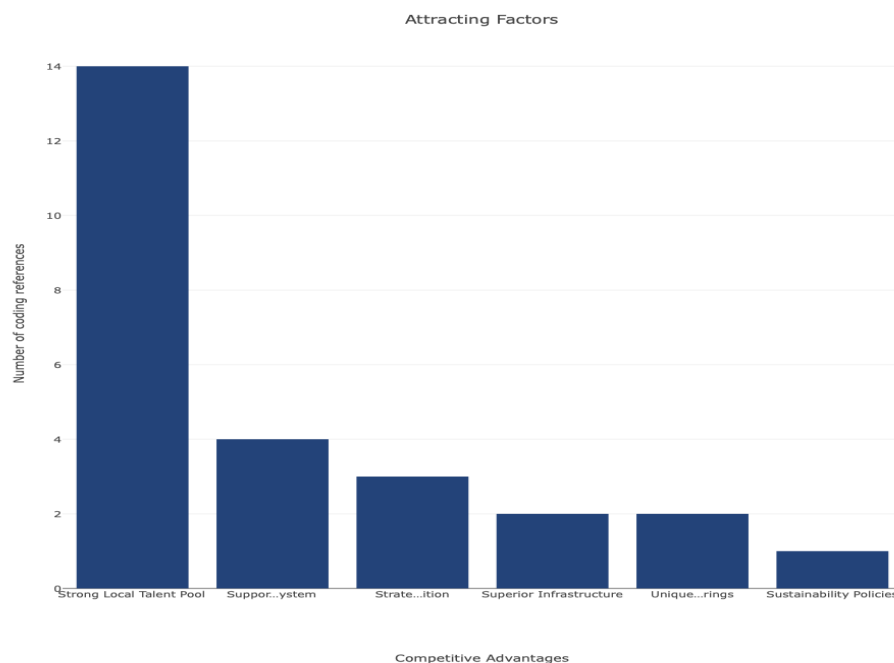


Figure 4 - Competitive Advantages

Figure 5 illustrates the challenges encountered by companies when investing in Porto, with regulatory challenges cited as the most significant. Firms report considerable difficulties with bureaucratic hurdles and governance issues after selecting Porto as their investment destination. Infrastructure, while acknowledged as an investment factor and even as a competitive advantage, emerges as the second most significant challenge. Despite the high quality of infrastructure, not all companies are satisfied, suggesting it is an area ripe for improvement.

Cost of Doing Business, Labor Market restrictions, and the Integration into local networks are cited less frequently but are nonetheless noteworthy. These factors should be considered when addressing the city's challenges to enhance Porto's attractiveness as an investment destination.

On a positive note, some companies did not face significant challenges. This suggests a balanced view and recognizes that experiences can vary among different companies. This inclusion suggests that, despite the challenges, Porto can be viewed favorably by some businesses, emphasizing the importance of addressing the identified issues to improve the city's attractiveness as an investment destination.

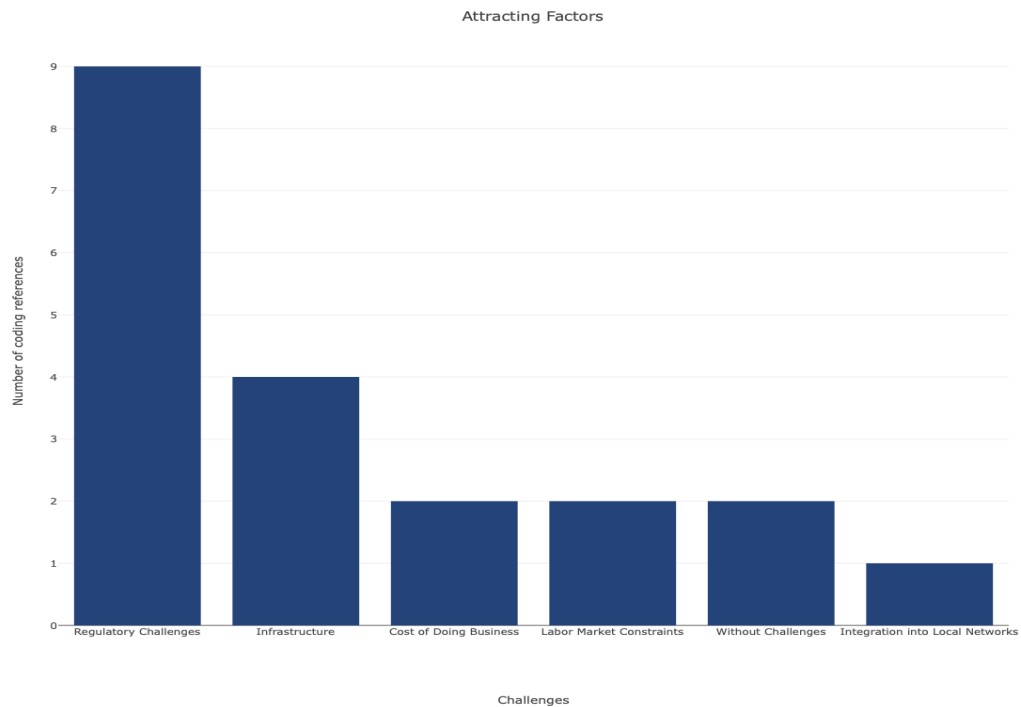


Figure 5 – Challenges

3.2 Support and Services Evaluation

Given the significant role of InvestPorto as an IPA in Porto's business environment, this study aimed to understand the evaluation of the assistance and services provided by this entity. For analysis, we divided this group into two parts: firstly, we sought to comprehend the level of satisfaction companies have with InvestPorto, and secondly, we aimed to discern from the companies' perspective which services are important to add to make business operations in Porto easier.

Figure 6 offers a clear visualization of the evaluation of support and services provided by InvestPorto, as perceived by multinational companies. Three levels of satisfaction are represented: high, medium, and low. The prevalence of references to a high level of satisfaction is notable and immediately apparent, dominating the chart with a substantially larger bar than that shown for medium

satisfaction. The absence of a bar for low satisfaction is a positive indicator, suggesting that none of the surveyed companies categorized their satisfaction as low.

We can infer that most companies are quite satisfied with the support and services received. The medium satisfaction level bar, though significantly smaller than the high, indicates that there is a proportion of companies that consider the support and services to be adequate but not exceptional. The non-existence of low satisfaction is a strongly positive point, suggesting that InvestPorto maintains a service standard that at least meets the expectations of the involved companies.

The dominance of the high satisfaction level suggests that InvestPorto is performing its functions well and creating a positive investment support environment. However, the presence of a medium satisfaction level points to an opportunity for improvement, where InvestPorto can aim to convert these perceptions into higher evaluations by identifying and enhancing specific aspects of its services.

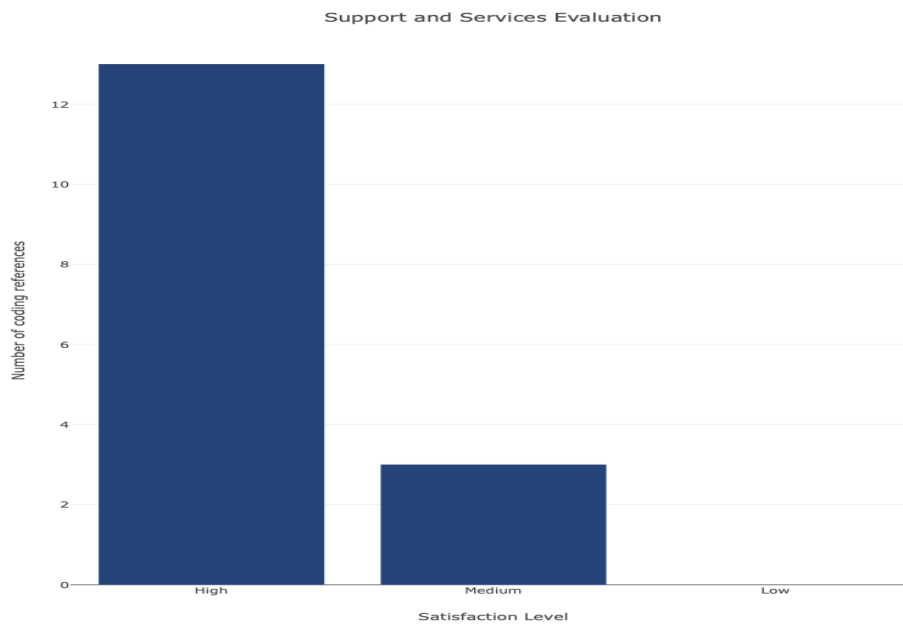


Figure 6 - Satisfaction Level

Figure 7 highlights the services that companies find necessary when investing in the city of Porto. In this graph, different service categories are presented: Legal Assistance, Networking Opportunities, Office Relocation, and University-Industry Collaboration.

The bar corresponding to Legal Assistance is by far the tallest, indicating that this is the most referenced service by companies. Networking Opportunities and Office Relocation have a significantly lower number of references, suggesting that while still valued, these areas are not as critical and are being adequately addressed in other ways. University-Industry Collaboration has the fewest references, indicating it is the least needed of the listed categories and that there is satisfaction with the existing opportunities in this field for most companies.

The dominance of Legal Assistance in the chart reveals what had been analyzed in previous graphs: companies report considerable difficulties in

understanding the legal aspects of the country, such as taxes, regulatory aspects, and even legal matters, such as starting a company from scratch in the country. Therefore, it is important to place greater value on services that help navigate the legal complexities of the business environment in Porto.

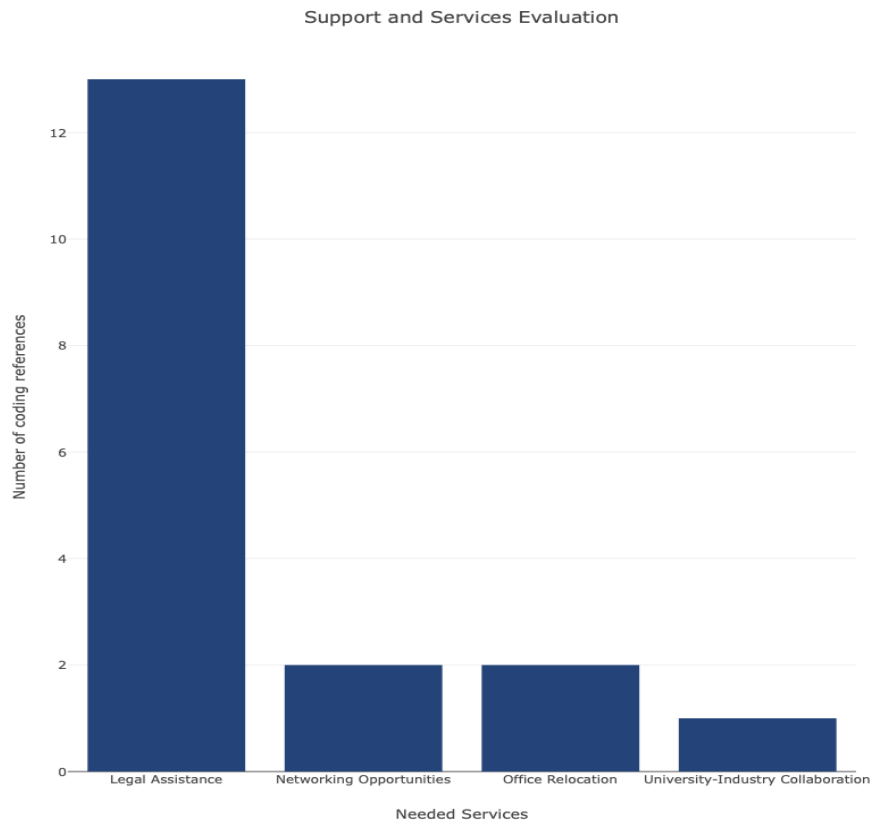


Figure 7 - Needed Services

3.3 Future Perspectives

Figure 8 represents the investment intentions of the interviewed companies. There are three categories of investment intentions listed: Increase, Maintain, and Decrease.

The bar representing the intention to Increase investments is the most prominent, indicating that most respondents (12 in total) are inclined to expand their investments. This means that companies that have decided to invest in Porto are pleased with the city's business environment and wish to expand.

The Maintain category shows a significantly smaller number of references. This indicates that companies are satisfied with the current performance of their investments, opting for a 'wait and see' strategy. Some of these companies are prioritizing stability, and others do not foresee significant changes that would justify an increase or decrease in their investments.

Notably, there are no references to the intention to Decrease investments. This occurs because companies are happy in the city and do not plan on moving anytime soon.

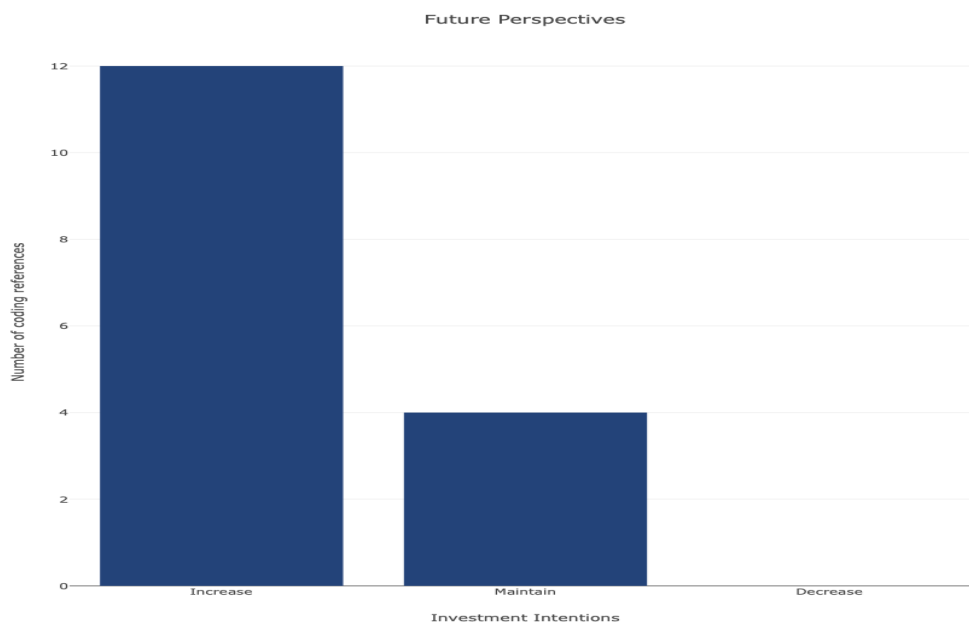


Figure 8 - Investment Intentions

3.4 Recommendations

Figure 9 represent the recommendations of companies for improving Porto as an investment destination. The predominance of recommendations regarding Regulatory and Legal Framework Improvements reflects an urgent need to enhance these processes.

The next highlighted category, Marketing and Promotion Strategies, underscores the importance of increasing visibility or improving the perception of Porto as an investment destination. This implies an effort to achieve better market positioning and capture new industries interested in investing in the city.

The moderate concern with Infrastructure and Logistics Improvement and Success Stories and Testimonials indicates recognition of the importance of a solid operational base and the power of public perception. Adequate infrastructure is crucial for any operation, while success stories can be powerful marketing tools.

On the other hand, the chart shows that Flexible Office Spaces, Housing Offer, and Economic and Financial Incentives received less emphasis. This suggests that, although recognized as important, these areas are mostly satisfying current needs.

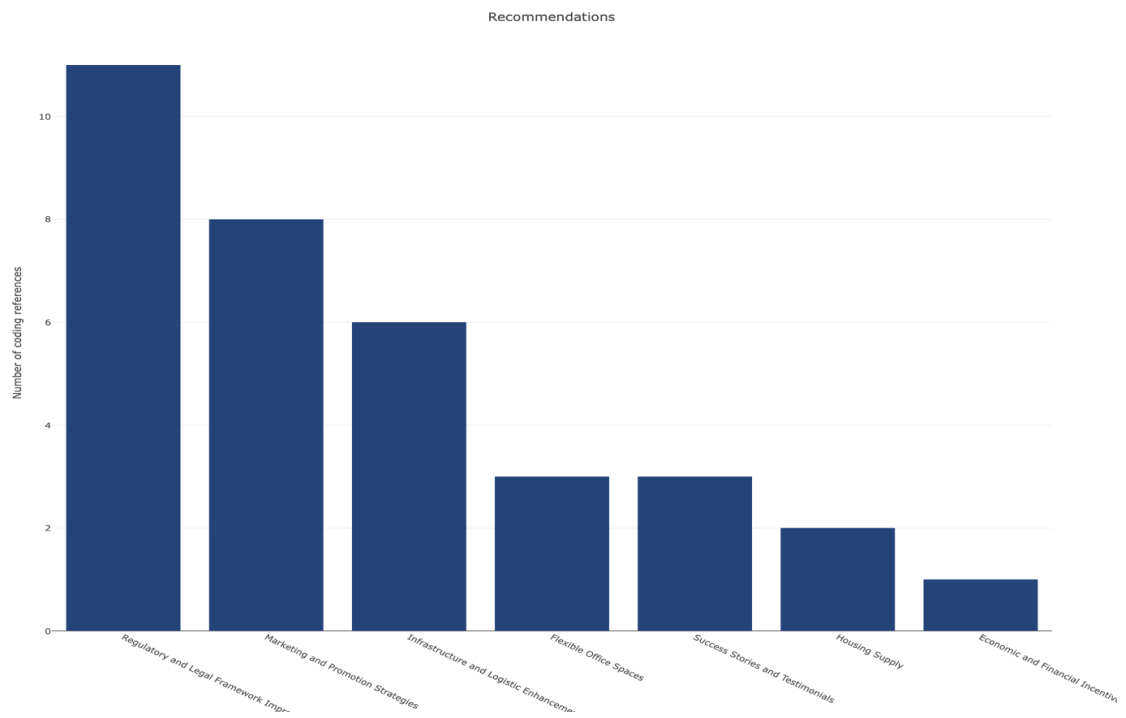


Figure 9 – Recommendations

Chapter 5

Discussion and Conclusions

1. Discussion

1.1 Legal Frameworks and Their Impact on Foreign Direct Investment: A Global Perspective

The governance frameworks pertaining to FDI hold pivotal significance in the attraction and regulation of foreign capital inflows. A plethora of scholarly works has underscored the criticality of legal regulations in molding the patterns of FDI (Otibo, 2020). For instance, the European Union (EU) has instituted a screening mechanism for evaluating FDI, prioritizing security and public order considerations (Hindelang & Moberg, 2020). In a similar vein, countries such as Macedonia and Russia have focused their efforts on augmenting their legal and institutional frameworks to enhance their attractiveness to FDI (Petrevska & Methodius, 2018).

Comprehensive investigations into the nexus between FDI and economic growth have consistently evidenced a positive association between the two variables (Carkovic & Levine, 2002). Elements such as political stability, a transparent legal system, and efficient enforcement mechanisms are found to exert significant influence on the influx of FDI (Dumludağ, 2009). Furthermore,

international investment agreements are identified as playing an instrumental role in drawing FDI towards developing countries (Beebeejaun, 2018), furnishing investors with a degree of certainty and protection that fosters capital investment.

Additionally, scholarly inquiries into the effects of FDI on specific geographical locales, such as Africa and the Western Balkans, highlight the instrumental role of foreign investment in the restructuring of export sectors and the promotion of economic development (Jirasavetakul & Rahman, 2018). Jurisdictions such as Jordan have implemented legal measures to safeguard foreign investments, emphasizing the necessity of crafting a secure investment environment (Helalat, 2021).

1.2 Strategies for Boosting FDI in Porto: The Role of Legal Support and InvestPorto

The objective of this study was to understand the motivations for Foreign Direct Investment (FDI) in Porto and to propose tactics to enhance the city's attractiveness to global investors. For this purpose, data collected from semi-structured interviews were compared and analyzed.

From the global results gathered from interviews with multinational companies, it emerged that, from their perspective, InvestPorto has been a catalyst for companies investing in Porto. Although not a decisive factor, the firms strongly agree that the support and investment assistance provided to them during internationalization, as well as the follow-up service, were highly beneficial and aided in the thriving of their investments. However, most companies had some criticisms regarding how processes are handled.

With the goal of increasing Porto's appeal as an investment destination, a comprehensive assessment was conducted to understand the challenges faced by companies. The core of this research revealed that regulatory challenges are the primary deterrent for potential investors. This conclusion was derived from a meticulous consultation process with companies currently operating in the Porto market. When asked about the types of services they deemed crucial for InvestPorto to offer or improve, an overwhelming majority highlighted the need for legal assistance.

Delving into the types of improvements companies would recommend, the discussion consistently returned to enhancing regulatory and legal frameworks. This recurring theme shed light on the global obstacle companies face: navigating Porto's intricate legal landscape. Specifically, while the city alone lacks the capacity to simplify the complexities inherent in its regulatory processes, a strategic intervention opportunity has emerged.

In response to this identified need, the recommendation presented to InvestPorto is the establishment of a specialized legal department. This entity would expressly support companies in all legal matters. Its scope of operation would range from fundamental tasks of company formation to the subtle details of payroll processing. A conceptual map developed in the meantime encompasses this strategic recommendation and elucidates the operational functions envisioned for the proposed legal department.

The envisaged functions are outlined as follows: providing comprehensive legal advice to demystify local, national, and EU legislation; facilitating company creation by guiding them through administrative mazes; managing compliance to prevent infractions; updating on regulatory changes to prevent obsolescence;

and establishing connections with authorities to promote dialogue and solve issues. The cumulative effect of these functions is anticipated to precipitate several beneficial outcomes: acceleration of company formation procedures, improvement of the perception of the business ecosystem, and an increase in investment flows to Porto.

The proposal for the creation of a legal department within InvestPorto is not merely a reactive measure to the current situation but a strategic foresight into the role that specific legal support can play in bolstering economic development. It represents a paradigm shift towards a more integrated and proactive approach to investment facilitation. By addressing the explicit needs highlighted by the business community, InvestPorto is poised to transition from a traditional facilitator to an active catalyst in the narrative of Porto's economic evolution.

1.3 Conceptual Map of InvestPorto's Legal Department Services and Outcomes

Figure 10 illustrates the schematic representation of the proposed Legal Department within InvestPorto. This diagram elucidates both the organizational structure and the multifaceted functions envisaged for the department. Central to its mission, the department aims to offer extensive legal counsel. This advisory service spans a wide array of domains, from local legislations to the broader regulatory frameworks established by the European Union. The primary objective is to facilitate the business community's navigation through the intricate regulatory environment, thereby furnishing them with strategic advantages in their operational pursuits.

In addition to legal counsel, the department would offer robust support in the establishment of companies. This involves a meticulous, step-by-step process to

aid new companies in their formation and registration, ensuring all necessary legal documentation and administrative procedures are handled efficiently.

Another critical role of the Legal Department would be compliance management. This service would involve helping businesses understand their legal responsibilities and ensure adherence to laws relating to labor, taxation, and safety standards, among others. By doing so, the department would play a pivotal role in maintaining the integrity and legal standing of businesses within the jurisdiction of InvestPorto.

Keeping businesses abreast of regulatory updates is another key function. The department would actively inform businesses about changes in laws and new regulations that could impact them, ensuring that they stay compliant and are able to anticipate and respond to the evolving legal environment.

Lastly, the department would serve as a liaison between businesses and authorities. It would facilitate communication and mediate between businesses and regulatory or governmental bodies to resolve legal and regulatory issues, thereby smoothing the path for businesses to operate within the legal framework.

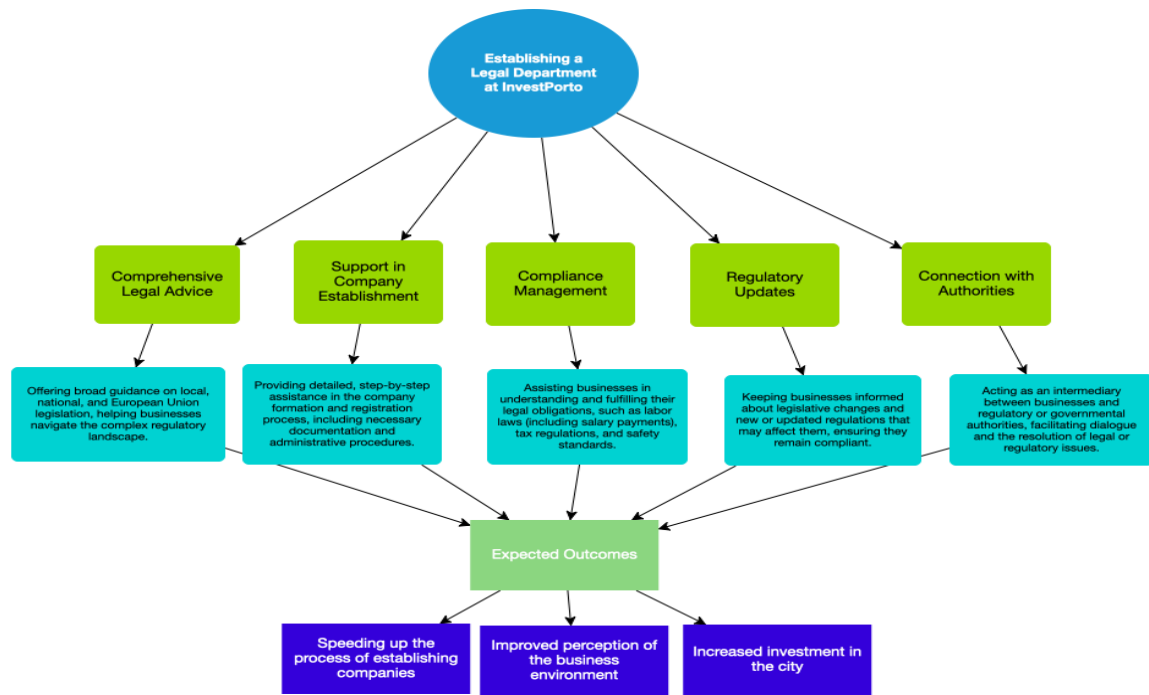


Figure 10 - Conceptual Map of InvestPorto's Legal Department Services

2. Conclusion

This study explores the dynamics and implications of FDI in Porto, emphasizing InvestPorto's critical role in enhancing the city's economic landscape. Utilizing qualitative analysis through semi-structured interviews with multinational companies and key InvestPorto figures, it reveals the motivations, challenges, and perspectives on FDI in Porto, offering a rich understanding of the investment environment.

InvestPorto is highlighted as a key player in attracting and retaining foreign investment, providing tailored support, fostering business growth, and addressing barriers, thus acting as a catalyst for economic development. Insights from multinational companies shed light on Porto's competitive advantages, such as its skilled workforce, strategic location, and quality of life, while also identifying regulatory hurdles and the need for better legal support.

The study suggests establishing a specialized legal department within InvestPorto as a proactive measure to enhance Porto's investment appeal. This recommendation underscores InvestPorto's evolving role from facilitator to a central figure in the city's economic development.

In conclusion, the research confirms InvestPorto's significant contributions to positioning Porto as an attractive FDI destination. It also highlights the importance of ongoing strategic improvements to meet changing challenges and seize new opportunities. The findings serve as a blueprint for strengthening Porto's global investment presence, ensuring it not only attracts but also retains foreign investment for sustained economic growth.

3. Limitations of Reserach

This research provides an in-depth analysis of the motivations behind FDI in Porto and the strategic role of InvestPorto. However, its findings are subject to limitations that warrant caution in interpretation.

Firstly, the reliance on qualitative methods, primarily semi-structured interviews, introduces potential subjectivity, limiting the ability to quantify investment impacts fully. Secondly, the study's focus on a select group of multinational companies may restrict the generalizability of its conclusions across different sectors and investors. Furthermore, the dynamic nature of global investment trends and economic policies suggests that the findings are specific to the current context of Porto, which could change over time due to various external factors.

The recommendation for a specialized legal department within InvestPorto, while addressing identified needs, lacks an in-depth analysis of operational, financial, and logistical considerations.

Finally, the geographic focus on Porto means the findings may not apply to other contexts, highlighting the city's unique role in shaping FDI dynamics. Further research is recommended to address these limitations and explore the evolving landscape of FDI in Porto.

4. Recommendations for Further Research

This study on FDI motivations in Porto and InvestPorto's role highlights several areas for future research to enhance our understanding and address current limitations:

Quantitative Analysis of FDI Outcomes: Future studies should integrate quantitative methods to assess the economic impact of FDI in Porto, including job creation and sector-specific contributions, offering a statistical complement to the qualitative insights provided.

Comparative Studies Across Regions: Investigating FDI dynamics in different regions, both within Portugal and internationally, could yield insights into effective investment attraction strategies and identify best practices that InvestPorto could adopt.

Sector-Specific FDI Dynamics: Further research could delve into specific sectors like technology or renewable energy, exploring unique motivations, challenges, and opportunities.

Operational, Financial, and Logistical Aspects of the Legal Department: Building upon the recommendation for a specialized legal department within InvestPorto, future research could explore its implementation, including funding models and operational frameworks.

Impact of Global Economic Changes on FDI: The effects of global economic trends on FDI strategies, including digital transformation and sustainability

concerns, require further exploration to align Porto's investment attraction efforts with global shifts.

Legal and Regulatory Frameworks: In-depth research into the legal and regulatory challenges faced by investors, and comparative analyses of other jurisdictions, could guide more targeted reforms.

Pursuing these research avenues will contribute to a refined understanding of FDI dynamics, improving investment attraction and support strategies to bolster Porto's position as a premier global investment destination.

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Appendices

Appendix 1

TFM overview sheet

Theoretical Framework:

The theoretical framework addresses the significance of Foreign Direct Investment (FDI) as a catalyst for economic growth and development, emphasizing its effects on innovation, complementarity in domestic production, and technology transfer. The theories of FDI, including Dunning's Eclectic Paradigm, the Internalization Theory, and the Monopolistic Advantage Theory, are explored to understand the motivations behind FDI in Porto, highlighting attraction factors such as talent, infrastructure, and the city's strategic position.

Objectives:

The primary objective of this investigation is to identify and develop innovative strategies to enhance Porto's attractiveness for Foreign Direct Investment (FDI), focusing on improving critical factors that influence investment decisions. The work aims to provide InvestPorto and related stakeholders with an evidence-based strategic plan to significantly enhance Porto's appeal to foreign investors, contributing to the economic development and sustainability of the region.

Methodology:

The study adopts a qualitative research approach, utilizing semi-structured interviews with key stakeholders, including representatives from multinational corporations and InvestPorto, to gain an in-depth understanding of the FDI

landscape in Porto. In addition to the literature review, there is also an analysis of economic data to contextualize the findings within a broader theoretical framework.

Results and Their Value:

The results indicate that InvestPorto plays a crucial role in attracting FDI by offering significant support and services to international companies. Despite this, firms identify regulatory challenges as a major obstacle to investing in Porto. To address this, the study recommends the creation of a specialized legal department within InvestPorto. This department would assist companies with legal matters, facilitating smoother company establishment and operation in Porto, improving the perception of Porto's business ecosystem, and increasing investment inflows.

Limitations and Suggestions for Improvement:

The study acknowledges the limitations of the current research and suggests directions for future studies to further understand and enhance FDI dynamics in Porto. One of the key recommendations is the implementation of the proposed legal department, which could address the regulatory challenges faced by companies and significantly improve Porto's attractiveness as an FDI destination.

Appendix 2

The following appendix contains the questions asked to multinational companies:

Question: What were the main factors that influenced your company's decision to establish itself in Porto?

Question: Compared to other cities you have considered, what are the unique advantages of Porto?

Question: What are the main challenges that your company has encountered after establishing itself in Porto?

Question: How do you assess the services and support provided by InvestPorto and other local entities?

Question: What additional services or support do you believe foreign companies in Porto require?

Question: How do you envision the future of your company in Porto over the next five years?

Question: What strategies would you suggest for attracting more foreign investment to Porto?

Question: What advice would you give to a company considering establishing itself in Porto?

Question: If you could alter something in the way Porto promotes itself as an investment destination, what would it be?

Appendix 3

The following appendix contains the questions asked to InvestPorto representative:

Question: What is the primary purpose of InvestPorto, and why was it established?

Question: How is the organization structured, and how many employees does it have?

Question: Is InvestPorto's activity limited only to the municipality of Porto, or does it also extend to the Porto district or the Porto Metropolitan Area?

Question: What is the current budget of the Porto City Council dedicated to the economics department?

Question: Since its foundation, how many projects has InvestPorto been involved in? What percentage of FDI has been attracted by this entity, in relation to the total captured for Porto?

Question: What are the main economic and cultural attractions that Porto offers to international companies?

Question: How does the city of Porto distinguish itself from other cities, both nationally and internationally, in terms of infrastructure and business environment?

Question: Can you specify other competitive advantages that Porto holds over other locations?

Question: Are there any policies or programs that have been successful in attracting foreign investment to Porto?

Perceptions and Barriers:

Question: In your experience, what are the main barriers or challenges that companies face when considering Porto as an investment destination?

Question: Are there common concerns among investors that need to be addressed to improve Porto's attractiveness?

Improvements and Investor Support:

Question: What measures are being implemented to overcome these barriers and improve support for foreign investors?

Question: How is feedback from current investors being integrated to improve investment promotion and support strategies?

Question: What strategies or changes are being planned to attract more foreign investment to Porto in the coming years?





























Question: Is there any area or sector that, in your opinion, requires more attention or development to attract more foreign investment?

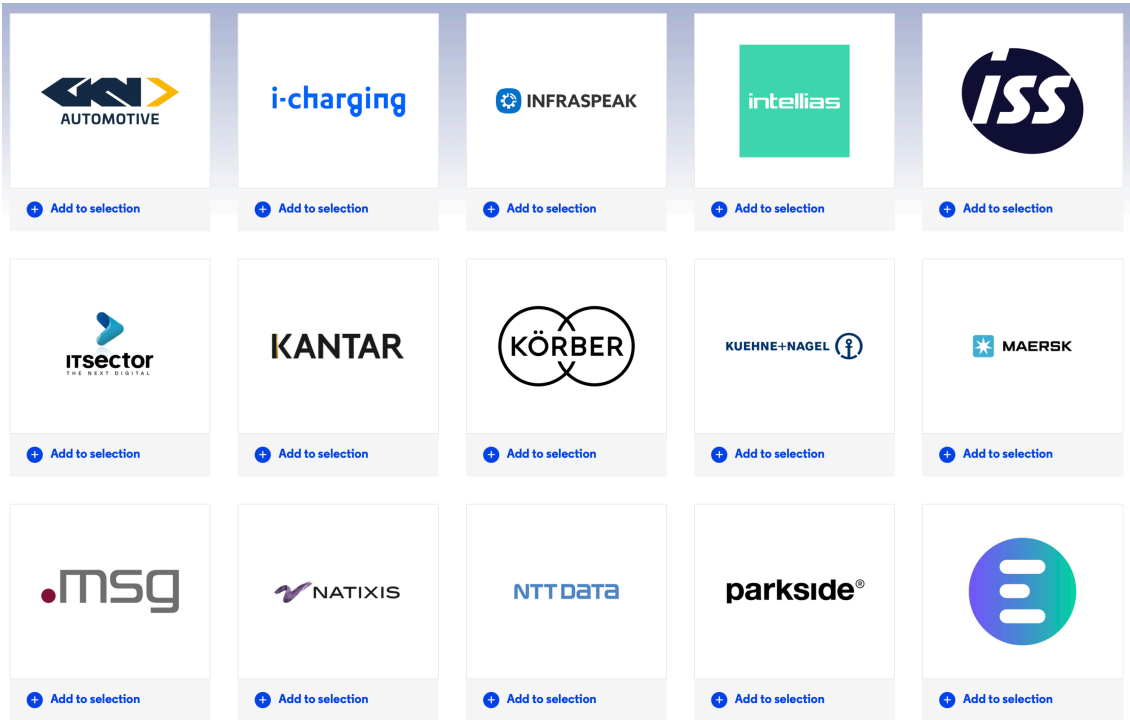
Question: What would be your suggestions for improving collaboration between InvestPorto and foreign companies interested in investing in the city?

Question: In your opinion, what is the impact of InvestPorto on the economic growth of Porto?

Appendix 4

The following appendix shows the companies that are part of the Leading Investors:

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Appendix 5

The following appendix shows the evidence of the coding performed on the interviews:

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Spread Coding

Case Classification

File Classification

Workspace

IMPORT

Data

Files

File Classifications

Externals

ORGANIZE

Coding

Cases

Cases

Case Classifications

Notes

Sets

EXPLORE

Queries

Visualizations

Maps

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References

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- [-] Cost of Doing Business

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- [-] Infrastructure

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- [-] Integration into Local Networks

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- [-] Labor Market Constraints

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- [-] Regulatory Challenges

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- [-] Without Challenges

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- [-] Competitive Advantages

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- [-] Strategic Geographic Position

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- [-] Strong Local Talent Pool

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- [-] Superior Infrastructure

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- [-] Supportive Business Ecosystem

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- [-] Sustainability Policies

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- [-] Unique Cultural Offerings

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- [-] Motivational Factors

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- [-] Access to Markets

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- [-] Culture

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- [-] Economic Factors

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- [-] Infrastructure

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- [-] Political Stability

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- [-] Proficiency in English

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- [-] Quality of Life

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- [-] Strategic Location

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- [-] Talent

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- [-] Future Perspectives

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- [-] Investment intentions

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- [-] Recommendations

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- [-] Economic and Financial Incentives

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14 Mar 2024 at 10...

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14 Mar 2024 at 10...

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- [-] Flexible Office Spaces

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14 Mar 2024 at 10...

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- [-] Housing Supply

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14 Mar 2024 at 10...

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- [-] Infrastructure and Logistic Enhancements

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14 Mar 2024 at 10...

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- [-] Marketing and Promotion Strategies

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- [-] Regulatory and Legal Framework Improv...

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14 Mar 2024 at 10...

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- [-] Success Stories and Testimonials

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14 Mar 2024 at 10...

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14 Mar 2024 at 10...

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- [-] Support and Services Evaluation

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- [-] Need Assessments

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14 Mar 2024 at 10...

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- [-] Legal Assistance

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14 Mar 2024 at 10...

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- [-] Networking Opportunities

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14 Mar 2024 at 10...

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14 Mar 2024 at 10...

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- [-] Office Relocation

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14 Mar 2024 at 10...

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14 Mar 2024 at 10...

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- [-] University-Industry Collaboration

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14 Mar 2024 at 10...

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14 Mar 2024 at 10...

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- [-] Satisfaction Level

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14 Mar 2024 at 10...

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14 Mar 2024 at 10...

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- [-] High

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14 Mar 2024 at 10...

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14 Mar 2024 at 10...

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- [-] Low

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- [-] Medium

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14 Mar 2024 at 10...

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2 item selected