

An assessment of the level of sustainability of Foreign Direct Investments (FDI) of German companies in Latvia

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Abstract

The purpose of this paper is to find out the drivers of and barriers to Foreign Direct Investments (FDI) within the scope of sustainability considerations in order to add new knowledge to the scientific discussion. The sustainability of FDI deserves attention due to the importance of cross-border flows of capital in major fields of the economy and politics. The level of sustainability awareness of investors, however, is not known. Pioneering field research was conducted among 160 German companies in Latvia. Methodologically, a literature review, FDI statistics, primary data from an Internet-based questionnaire, the statistical evaluation of responses with SPSS, and an analysis of correlations measured by Cramér's V, based on Pearson's chi-squared statistic, were used. A gap in the scientific literature pertaining to sustainability drivers and outcomes in relation to FDI was addressed. The empirical part disclosed the level of mainstream implementation of sustainability in the operations of German investors in Latvia. The understanding of the sustainability awareness of investors can be used at the level of political decision making in Latvia and other countries in order to promote the sustainability of incoming FDI. A remarkable level of measurable awareness of sustainability issues among German entrepreneurs in Latvia was found. However, there is still room for improvement and further research.

Key words

sustainability, foreign direct investment (FDI), German investors, Latvia, ESG (social, environment and governance), COVID-19

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Introduction

Investment and economic development constitute something of a “the chicken or the egg” causality dilemma. Investment creates development and development creates investment. Part of the investment in modern economies comes from abroad. The type of development is formed by the character of investment. Sustainability is a current mainstream issue. Hence, investment, including FDI, is set to increasingly become a driver of sustainability.

The sustainability of FDI belongs to the deeper layers of problems to be investigated. The sustainability vector, adopted by the European Commission (2021), is hidden beneath the statistical data of FDI flows, cumulative balances, industrial structure, number of investors, deals and recipient enterprises. Successful FDI should be drivers of sustainability and are also instrumental in reaching the 2030 Agenda of Sustainable Development and the corresponding goals (Densia, 2010; ESCAP, 2019).

German investments directed to Latvia were chosen especially for this research. There are good reasons for the Latvian case. First, the restoration of the independence of Latvia in 1990 provided the impetus for the transition of the economy from a command-administrative system to a market-driven one within the process of globalisation. In the years that followed, Latvia prepared for membership of the EU, joining on 1 May 2004. According to a group of experts (Baltrušaitytė-Axelsson et al., 2008), the business environment in Latvia improved in the years following the restoration of state sovereignty. Second, Latvia has been part of the Eurozone since 2014 and the Organisation for Economic Cooperation and Development (OECD) since 2016, which makes Latvia even more attractive to European investors as well as those from outside the EU that strive for EU market entry and are looking for the first international market to enter. The legal and

administrative reforms in line with the EU requirements have been the major reason for this development. Third, a view of the “Heart of the New Nordics” as a destination for FDI makes Latvia attractive, as encapsulated by Magnetic Latvia (2021). CEIC Data (2021) provides insights into and pragmatic advice on FDI in Latvia. However, no research has as yet been devoted to the problem of giving a push to sustainability for the recipient economies such as Latvia.

With regard to the German origins of FDI in Latvia, the reason to direct the study towards German investors stems from their experience gained in the course of being ranked third among 127 donor states (Lursoft Statistika, 2021) after doubling their investment in Latvia and the publication of sustainability reports by the recipients Latvijas Gaze (2021), LIDL Latvija (2021), Schwenk Latvija (2021) and Latvijas Piens (2021). The research was inspired by the transparency of governance of companies with German capital and good communication facilities between Germany and Latvia.

The aim of the research is to obtain an overview of the status quo of the application and implementation of sustainability, and later to determine the factors that affect the sustainability of the flow of direct investment by German businesses in Latvia to pave the way to recommendations for further development. The primary research was carried out because to that point there had been no relevant data available pertaining to DI and sustainability from Germany in Latvia in 30 years of independent development. No primary data on FDI has been collected at an individual company level for research on sustainability in Latvia.

This paper investigates the effects on sustainability of direct investments by German investors in Latvia. All German investment recipient companies in Latvia in the period from 2017 until 2020 which were still operating by the end of 2020 were identified and invited to participate in the survey. The ques-

tionnaire singled out key relevant sustainability indicators and aimed to measure the awareness and actions of the respondents.

This paper is structured as follows. The general aim of the study is explained in the introduction. Section 1 deals with the literature review on FDI sustainability in general and in Latvia. Various relevant papers were analysed in this section to show the current status. Section 2 is devoted to methodology with the formulation of the corresponding research questions. Section 3 shows the empirical results in absolute and relative measures. Proportions, dependencies, conditional results and correlations are analysed and explained. Section 4 is devoted to discussion and the research questions are answered. This paper ends with the conclusions, including the limitations of the research, in section 5.

1. Literature review

The literature review in this section presents an overview of different perspectives and provides points of reference with regard to FDI in relation to sustainability issues. This serves the purpose of determining what has already been examined and detecting any research gap in terms of the sustainability awareness of German investors in Latvia and corresponding achievements. For the purposes of this research, sustainability is defined as a concept uniting environmental, social and governance (ESG) business activity on the corporate level and above for an economy to be competitive in the long term. It is assumed that German investors are strong supporters of sustainability, which – as a working hypothesis – has to be either proven or rejected.

The literature research can be split into two parts. The major part is devoted to the relevant publications focusing on research on FDI in relation to the challenge of sustainability. Recently, the intensification of research occurred due to the European Green Deal, a plan by the European Commission

to trigger action across all sectors of the European Union (EU), to make its economy more sustainable.

The second part of the review is devoted to publications about Latvia as a national case study that might be representative of the FDI sustainability challenge in a Baltic context.

There is no doubt that FDI are important accelerators of economic development, although not without contradictory consequences. A significant amount of scientific literature demonstrates a variety of aspects of FDI. Sustainability has recently emerged and is poised to become a mainstream topic in the near future, attracting the attention of governments, companies, the general public, as well as researchers. Scientists worldwide are striving to determine the determinants of sustainable development. Theoretical and empirical studies show that FDI flows, as a share of global capital, play a crucial role in the sustainability perspective of host economies. Generally speaking, capital seeks not the highest rate of return *per se*, but in combination with sustainability considerations as well.

The theoretical foundation of the research is laid out in the following literature review. The theory of sustainability of FDI has a solid substantiation. However, significant development efforts can be traced in the recent literature. Dunning (2001), as one of the founders of research on FDI and multinational enterprises (MNE), introduced the eclectic paradigm and developed a model consisting of ownership, location and internationalisation (OLI) in order to substantiate and examine the allocation of investment. The key proposition of this paradigm is that success is determined by the configuration of the set of OLI variables, which are likely to be country-specific on both sides of FDI (Dunning, 2001, 176-177). His main focus was to explain internationalisation and the FDI flows of companies on the basis of a particular country or a group of countries. One should add that decisions pertaining to lo-

cation are one of the first decisions taken by a company, and are particularly important for decisions concerning the investment of capital outside its home country (Witkowski et al., 2017). FDI has been proven to enhance economic growth in the recipient countries, push innovations, create jobs, generate taxes, and develop human capital (Melane-Lavado et al., 2017). It is not a matter of dispute, however, that the positive influence of FDI does not materialise by itself. Many researchers are looking for the vector of stimulating the positive influence of FDI.

Historically, the investigation of the pollution haven hypothesis (PHH) of the 20th century (Wei and Smarzynska, 2004) paved the way to the sustainability mainstream in FDI research of today. Transnational enterprises (Dunning, 1994) used to relocate manufacturing units to other countries, seeking less stringent regulations and/or lower costs of input factors. The pollution factor has become increasingly important (Zhang et al., 2021) in terms of the environmental, social and governance (ESG) concept.

Questions are beginning to be asked by researchers about the current state of the complex and multifaceted challenge of quantifying companies' environmental, social and governance performance (Kemplay, 2021). One of the flows of research focuses on the role of FDI in ESG promotion. Chipkalitti et al. (2021) econometrically examined the linkages between ESG and FDI inflows on a sample of 161 countries. They suggest that FDI inflows are attracted by good governance in a destination country, while good scores on Human Development Reports deter FDI. Further on, higher FDI flows are associated with higher levels of carbon emissions in the case of emerging markets. Sustainability reporting attracts FDI to commodity-exporting countries.

The main focus of FDI sustainability research is the Sustainable Development Goals (SDGs) of the United Nations (2016), which nowadays are globally supported. Spaiser et

al. (2017) visualised the 17 SDGs and tested, quantified and modelled the alleged inconsistency of this set. Environmental (E) and social (S) factors formed the initial pillars of the model. As a result of a series of scientific research projects, a three-pillar model emerged with governance factors (G) included, from whence the abbreviation ESG came. There is no doubt that 169 targets can serve as a basis for further research, but not all at once.

Singh and Kapuria (2021) suggest four sustainability determinants, namely economic, environmental, social and governance, in a four-pillar model in FDI research. The importance of the four determinants cannot be neglected. However, a three-pillar model proves more attractive because economic and governance factors logically merge. In turn, Kang et al. (2021) reveal a strong and favourable relationship between gross domestic product and renewable energy use under FDI influence. Research based on aggregated data can be applied to other nations, including Latvia, but does not provide guidance and direction to help meet the goals of sustainable development. Furthermore, Alshubiri (2021) pioneered the inclusion of financial sustainability indicators of higher education institutions in FDI analysis. Empirical evidence in the OECD countries is relevant to Latvia as a member, and higher education institutions are crucial for the dissemination and development of SDGs.

FDI attractiveness for sustainable development was investigated by Lei et al. (2013) on a sample of Chinese provinces. Song et al. (2021) investigated the effects of foreign direct investment on the carbon emissions performance of China. However, singling out the opposing two-sided effects of FDI on carbon emission proves instrumental on a global scale. While promoting a "green" revolution in FDI utilisation patterns, it is necessary to strengthen the interaction mechanism between FDI and low-carbon economic development. He (2006) investigated the pollution haven hypothesis, the environmental impacts

of FDI and the sulphur dioxide in China. The total impact of FDI proved far below average; furthermore, it was found that an increase in foreign capital inflow decreased the cost of compliance with pollution regulations. This is an interesting finding considering the fact that China is one of the world's largest FDI recipients.

Santander (2021) published advice on FDI in Latvia. Strengths and weaknesses, as well as government measures to motivate or restrict FDI in Latvia make a reasonable input. However, the ESG approach was not mentioned. Zamani and Tayebi (2021) studied the spillover effects of FDI on economic growth, namely technology transfer providing a path for sustainable development.

Christoforidis and Katrakilidis (2021) answered the question of whether FDI matters in the context of environmental degradation in Central and Eastern European Countries (CEEC), showing that FDI has a non-linear impact on environmental quality, thus demanding environmental and energy policies related to FDI inflows and sustainable development. Islam et al. (2020) analysed sustainability and FDI from the point of view of the moderating role of quality institutions on a sample of 79 member countries of the Belt and Road Initiative (BRI), including 18 EU countries with Latvia among them. The development of BRI host countries attracts significant amounts of FDI.

Cole et al. (2017) investigated the relationship between FDI and the environment, reviewing the impact of environmental regulations on the selection of plant locations as well as the impact of FDI on emissions and whether a spillover from foreign to domestic companies can be said to reduce pollution. They conclude that environmental practices correlate with the level of regulations in the home economies of FDI. However, the authors cannot give a clear answer to the question of environmental spillovers, as there are too many parameters to observe: model, measurement, countries and companies.

Duuren et al. (2015) examine the ways in which institutional managers of funds integrate ESG factors in their investment practice on the basis of an international study. Many fund managers have already adopted the characteristics of responsible investing. Another interesting finding is that financial analysts demand access to data on ESG factors, such as sustainability reports, in addition to all the regular financial statements.

Narula (2012) proposed applying the principles of Sustainable Investing (SI) to incoming FDI in order to achieve the goal of sustainable development (SD). FDI can serve as a catalyst to attain faster economic growth rates in emerging economies. However, the source does not cover the case of Latvia. Renneboog et al. (2008) explore the context of socially responsible investments (SRI), where both financial goals and social objectives are pursued. The authors review the causes of SRI and the corresponding impact on shareholder value, financial performance and risk exposure based on aggregated data from the US, Europe, Canada and Australia. They found no convincing evidence of a higher shareholder value associated with SRI; on the other hand, the authors conclude that there is a strong indication, albeit no unequivocal proof, that SRI investors are prepared to accept a lower level of financial performance in the pursuit of social or ethical goals.

Kardos (2014) investigates the relevance of FDI to sustainable development with empirical data from EU member states Sweden, Slovakia, Poland, France, Spain and Greece. The author points out the significance of green FDI, which has the capability to initiate positive effects. As a result, the importance and relevance of FDI in environmentally relevant sectors was emphasised. The pollution haven hypothesis was not applicable, because EU countries have the same environmental regulations. The results cannot be generalised due to limitations in methodology and sample size (Kardos, 2014, 1354).

Jansson and Biel (2011) undertook research on the motives for engaging in sustainable investment in accordance with environmental, social and ethical aspects among different groups of investors in Sweden. The common feature among the aforementioned groups was that the investment decisions were guided by financial beliefs about return on socially responsible investment (SRI) and lowering the risks associated with SRI. The authors concluded that their findings give further notice of the significance of informing investors and adjusting their beliefs in an appropriate way about the financial performance of SRI.

Brenton et al. (1999) provided an empirical analysis of foreign investment in the EU and in the Central and Eastern European Countries (CEEC) with regard to the economic integration of these countries by the means of FDI. The authors found out that the stock of FDI in CEECs does not remarkably differ from the structures which could be expected, due to general determinants of FDI allocation (Brenton et al., 1999, 119). This study was executed on a very highly aggregated level and did not include any indication of sustainability.

Researchers in Lithuania investigated the plausible impact of FDI on sustainable development indicators in countries at different levels of development (Tvaronavičienė and Lankauskienė, 2011). Said study may be described as pioneering in terms of focusing attention on the Baltic countries as recipients of FDI striving for sustainability.

Literature covering Latvia as the subject of a national case study pertaining to the sustainability of FDI emerged with a delay compared to mainstream sustainability research. This can be explained by the historically short period of market-oriented reforms after the command-administrative economy of the Soviet Union collapsed. Another factor is the accumulation and availability of relevant data facilitating scientific research. However, Lemss and Libkovska (2021) strive towards

a methodology for the creation of an adapted model for the transition to the circular economy for small and medium enterprises in Latvia.

Valujeva et al. (2021) investigated competing demands on Baltic farmers under the Green Deal, specifically around production, greenhouse gas emission reductions, and biodiversity conservation. The proper management of abandoned farmland can lead to “triple win” synergies in some regions of Latvia, raising the level of sustainability. A priority setting of sustainability in FDI is important. A Latvian case study on food supply Green Public Procurement (GPP) by Simanovska et al. (2021) screened 97 public tenders, documenting the choice of green criteria, and found that only 15% of the screened tender documents corresponded to the national GPP requirements. Such empirical data have proven to be pioneering for sustainability research in Latvia and show that a large number of criteria without clear goals can lead to using the easiest, but least environmentally beneficial, options.

Lately, the sustainability of FDI in Latvia became an object of research by Gavaille and Zasova (2021), who focused on labour tax evasion under foreign ownership and suggested that employees of foreign-owned firms receive fewer undeclared cash payments than employees of domestic firms. For research into FDI as a sustainability driver, it is an argument in favour of going in depth of the tax payments by companies with foreign capital as an important aspect of ESG.

Kurtović et al. (2021) included Latvia in research on whether FDI crowd in or crowd out domestic investment, finding a crowding-in effect of FDI on the domestic investment of Latvia. This is in direct contrast to earlier work by Titarenko (2005), who also analysed the influence of FDI on the domestic investment process in Latvia, covering the period of 1995-2004, and found that FDI inflows seem to have a long-term crowding-out effect on investment in Latvia. Due to nu-

merous limitations, this result cannot be generalised.

Burlea-Schiopoiu et al. (2021) investigated the impact of FDI on the economic development of emerging countries of the European Union and suggested that FDI in Latvia would lead to a higher GDP per capita. Bilas (2020) indicated – albeit based on weak evidence – that FDI had a significant impact on GDP and concluded that a relationship between the GDP growth rate and FDI growth rate was indirect for only Latvia among the 13 most recent members (EU13) of the European Union over the period of 2002–2018. Irandoust (2016) investigated structural changes, FDI and economic growth in the Baltic states; for Latvia, a unidirectional causality (running from FDI to growth) was discovered. Unfortunately, the FDI sustainability driving aspect was not investigated in the above four research projects.

Summing up, the literature research presents an overview of different perspectives and provides some points of reference with regard to FDI in relation to sustainability issues. As a weak point and limiting factor, it can be stated that all reviewed research reports had the fact that they consider the variables under research in an aggregated way in common. This is the case with countries or industries on the input and output side, e.g. total FDI flows on the input side and GDP or total emissions on the output side. Many other paths of research emerge in new publications, but not a single research paper that reports on individual measures and the current status of the measures achieved in Latvia can be found. However, it can be stated that the challenge of sustainability in FDI is motivating a growing number of researchers to investigate more and newer dimensions of the phenomenon.

Generally, it is possible to summarise that the guiding principle of FDI has shifted from the sole goal of economic growth towards green growth and sustainable development. On the other hand, it may be stated that there

is little knowledge of the motives, efforts and the degree of implementation of sustainability issues on the respective company level. This finding serves as the reasoning for our research, which is based on the answers and assessments of particular companies concerning their practices to meet the individual set of SDG. Therefore, an Internet-based survey of sustainability awareness and application proves necessary. The responses of the companies in the sample serve as the empirical basis for analysis and evaluation. Thus, this paper overcomes the weak point of aggregated data and aims to contribute differentiated facts and findings to scientific discussion.

The empirical gap in the literature on FDI as a sustainability driver at company level in the recipient countries is evident. No primary data characterising the involvement of foreign investors in advancing sustainability can be found yet. This can be attributed to the diversity of approaches by researchers. However, they all lack individual data at company level.

The 17 sustainable development goals (SDG) agreed upon by more than 150 UN member states (Eurostat, 2021) can be expressed in dozens of targets to be achieved by deadlines. How to measure them remains an area of discussion (Kostoska and Kocarev, 2019). The specifics of different countries and industries lead to many different sets of indicators for research. The total set consists of 169 targets with 232 indicators. This alone should be reason enough to conduct research at the company level. Consequently, the time has come for empirical studies on individual companies under respective conditions instead of research designs on aggregated levels.

Research in small economies such as Latvia can provide experience, knowledge and primary material for further studies.

In actual fact, and for the first time in 30 years, the financial volume of German investments saw that nation reach third place in

the ranking of all 127 countries investing in Latvia. The value is still below the anticipated adequacy level, suffice to notice the slight difference in volume of DI arriving from Germany and Estonia, but progress is evident. Nevertheless, the question is whether investments from Germany can be regarded as sustainability drivers for Latvia.

2. Methodology

The chosen methodology is specific for this type of research and tailored to the scope of research. It includes a literature review, statistics of FDI in Latvia, primary data collection by means of an Internet-based questionnaire as well as analysis with data comparison, detection of dependencies and correlations and synthesis. The methodology applied constitutes an empirical research. The sustainability concept in FDI informs various aspects of research. A common feature for all of them is the impact on investing that combines corporate governance issues with environmental and social awareness. It is necessary to analyse empirical cases of FDI from Germany to Latvia from the sustainability perspective.

The scope of this study is to verify the existence and degree of the implementation of sustainability issues for German investments in Latvia. The underlying hypothesis is that direct investments from German entrepreneurs in Latvia are sustainable to a certain extent. Derived from that, two sets of questions of research can be formulated:

Q1: The first set of questions is about the three pillars of sustainability.

Q1.1: Is the term and the idea 'sustainability' implemented in corporate governance?

Q1.2: Are environmental protection principles applied in these companies?

Q1.3: Are there activities which are observable with regard to the social pillar?

Q2: The second set of questions is about awareness, correlations and preparedness.

Q2.1: Is there already an awareness of sustainability in general?

Q2.2: Are there correlations of variables to be detected as drivers and barriers with regard to companies, investment and sustainability?

Q2.3: Is there a difference between average answers and conditioned answers with regard to the condition of a positive answer to using the term 'sustainability'?

The empirical part of the research is based on a self-conducted field study in Latvia, which intends to disclose the degree of implementation, experience, motivation and obstacles of particular German-based companies investing in Latvia. These data were collected by means of an Internet-based questionnaire consisting of 22 questions. The questionnaire was specifically designed with Limesurvey for the purpose of this research topic. The answers were evaluated by means of suitable research methods in SPSS. The results are shown in descriptive statistics on different scales, relations, correlations and under specific conditions.

Strategic claims related to the sustainability of the top five German investments were additionally investigated through content analysis of the respective websites.

Study design

The research design follows the requirements proposed by business research (Wilson, 2010) methodology. To achieve the objectives which were set, primary data as well as secondary data were gathered. Secondary data were obtained from published sources on sustainable investments, international business and strategic management.

The core of this research is an exploratory study, where a great deal of effort was invested in primary data collection and analysis. The qualitative data will be matched with

quantitative data. The object of the research is the entire sample of companies in Latvia with DI from Germany with ongoing business activity from 1 January 2017 until 31 December 2020. The subject of the research is a set of factors that affect the sustainability of DI in Latvia by German investors.

Original primary data is the expected outcome of surveying a sample of respondents in Latvia drawn from the community of investors from Germany which undertook investment and were operating between 2017 and 2020. Under these conditions, 160 investors were identified. The names and addresses of the headquarters of the investors were obtained from the Lursoft database.

The invitation to participate in the survey was sent by e-mail including the link to the Internet-based questionnaire. As a result, 18 fully completed and another 18 almost fully completed questionnaires were collected. This means a response rate of 22.50%, which is quite good for empirical research, considering that the request originated from abroad. The response rate could not be expected to be higher, however, since many investors do not feel comfortable going public. In addition to this, the COVID-19 pandemic in Latvia might have affected the response rate as well.

The questionnaire created on Limesurvey was divided into four parts, including three for the three dimensions of sustainability. The number of questions and the corresponding processing time were limited with the goal of achieving a higher acceptance rate among the respondents. The general questions include questions about the company, especially the number of employees, the industry sector in which the companies operate, as well as the duration and experience of investing in Latvia. The questions about sustainability stem from the concretisation of the SDGs adopted to the Latvian reality. The study focused on core issues in order to keep the processing time for the questionnaire acceptable.

The intention was to cover only existing and long-lasting companies. A gladly accepted side effect is that the answers about experience, importance and other judgements may be based on a longer period than the selected three years. Companies identified through different websites and search engines were contacted via their official e-mail addresses. Data collection was completed in the first quarter of 2021.

The overall evaluation of the data provided by the questionnaire was carried out with the statistical analysis software SPSS. The analysis of correlations was measured by Cramér's V, based on Pearson's chi-squared statistic (Backhaus et al., 2018).

3. Research results

In the first part of the survey, general questions regarding the position of the respondent, the size of the company, and the sector in which the company operates were asked. As it turned out, 69% of the respondents were responsible employees and 31% investors or shareholders. Most companies (51%) had between 10 and 49 employees, 23% between 50 and 249 employees, 17% between one and nine employees, and 9% had more than 249 employees.

The answers pertaining to the areas of sustainability with which the companies are familiar and which are applied show that environmental protection, appropriate working conditions, working atmosphere, process optimisation and communication about sustainability are most often cited – by about 45% of all respondents (multiple answers were possible). The overall results show a broad variety of already applied areas of sustainability.

Later in the questionnaire there was a section about investing in Latvia. The results are displayed in Table 1.

Table 1. Duration and experience of investments in Latvia

Year in which operations in Latvia commenced		Experience of investing in Latvia	
Investment	58% before 2015		positive negative
		rate of return	47% 0%
		approval process	60% 29%
	8% 2015, 2016, 2017	coordination with authorities	53% 29%
		publication obligations	0% 0%
		workforce	53% 14%
	4% 2018, 2019, 2020	bureaucracy	13% 57%
		taxes	13% 57%
		other	7% 0%

Source: own elaboration

It is interesting to note that 58% of the surveyed companies have been operating for more than six years in Latvia. About 8% started in 2015, 2016 and 2017, and 4% have been operating for fewer than three years. The others did not want to answer this question. With regard to experience, there was mostly a positive indication given, except in the case of bureaucracy and taxes. It is remarkable that 47% indicated a positive experience with rate of return and no negative mentions were made. Multiple answers were possible.

The second part of the survey focused on the three pillars of sustainability: positive environmental impact, good corporate governance and positive social impact. The results of research on these pillars can be seen in Tables 2, 3 and 4 below.

The upper part of Table 2 shows the current environmental protection activities arranged according to the frequency of the answers. The most popular action is reduced water consumption with 44%, followed by utilisation of recycled materials with 39%.

In the lower part of Table 2 the answers of those companies that answered “yes” (condition) to the question of whether they undertake environmental remediation activities are listed. At the top is “CO₂ savings”, with 67%, followed by “reduction of power consumption” with 50%. This means that one-third of the surveyed companies already undertake specific remediation activities with the focus on air pollution control, power saving as well as water and ground pollution control, which are the most pressing problems.

Table 2. Environmental impact

Positive environmental Impact	What environmental protection activities does your company currently undertake?	reduction of water consumption	44%
		utilisation of recycled materials	39%
		investments in energy-efficient buildings	28%
		measurement of pollutant emissions and water/power consumption etc.	28%
		monitoring of CO ₂ emissions	22%
		utilisation of sustainable natural resources	22%
		utilisation of alternative energy sources	11%
		utilisation of biofuels	11%
		other	11%
		my company currently does not undertake any environmental protection activities	28%
Does your company undertake environmental protection activities? 33% Yes / 67% No		saving of CO ₂	67%
		reduction of power consumption	50%
		filter to protect air pollution	33%
		energy rehabilitation of buildings	17%
In case of 'Yes': Which activities do you undertake?		other	17%
		removing ground water contamination	0%
		remediation of contaminated ground	0%

Source: own elaboration

Based on Table 3, it can be stated that more than half of the companies (57%) use the term 'sustainability' as a guideline for

their orientation. 63% do not issue a sustainability report and 69% indicate that investor transparency is secured.

Table 3. Corporate governance

Corporate Governance	Is the term 'sustainability' used in the mission, vision and/or values of your corporation?	Does the company issue a sustainability report (similarly to e. g. Swedbank)?	Is investor transparency secured in your company
	 57% yes	 16% yes	 69% yes
	 36% no	 63% yes	 10% yes
	 7% prefer not to say	 21% prefer not to say	 21% prefer not to say

Source: own elaboration

According to the results given in Table 4, a large majority (94%) of the companies surveyed stated that they support their employees with regard to their skills and health. The most frequently mentioned action here was the provision of training programmes with 88% of respondents mentioning this factor,

followed by health checks and ergonomic workstations with 47% each.

Only 22% of the companies surveyed stated that they are members of social employer initiatives. Nevertheless, all (100%) indicate further education and training of employees and 50% indicate that they install home office

workplaces. Donations for social purposes were mentioned by 50% of respondents as well.

The governmental coronavirus lockdown relief programme did not produce an import-

ant relief effect, according to 73% of the respondents, while an additional 11% did not want to answer. Overall, only a minority of 16% indicate that they have received helpful support through such a programme.

Table 4. Social impact

3rd PILLAR: POSITIVE SOCIAL IMPACT	Do you support the skills/health of your employees?	Training programmes	88%
		Health check	47%
	94% → yes 6% → no	Ergonomic workstations	47%
		Health promotion in general	35%
	How does your company support its employees?	Participation in sustainable initiatives	35%
		Mentor programs	24%
		Health courses	6%
		Other	6%
	Is your company member of social employer initiatives?	22% → yes	
		61% → no	
		17% → prefer not to say	
	Which of the following aspects were implemented in your company?	Further qualification of employees	100%
		Installation of home office workplaces	50%
		Donations for social purposes	50%
		Integration of unemployed people	25%
		Exemption of mothers with young children	25%
		Employment of disabled people	0%
		Donations for environmental purposes	0%
		Other	0%
	Is the governmental program „Coronavirus Assistance to Entrepreneurs“ an important relief effort for your company?	16% → yes	
		73% → no	
		11 % prefer not to say	

Source: own elaboration

Analysis of Correlations

The Cramér’s V measure was used for the analysis of the quantitative correlations. Table 5 displays the results of this analysis. The ta-

ble of selected correlations shows variables of strong, medium and weak correlation respectively (own calculations).

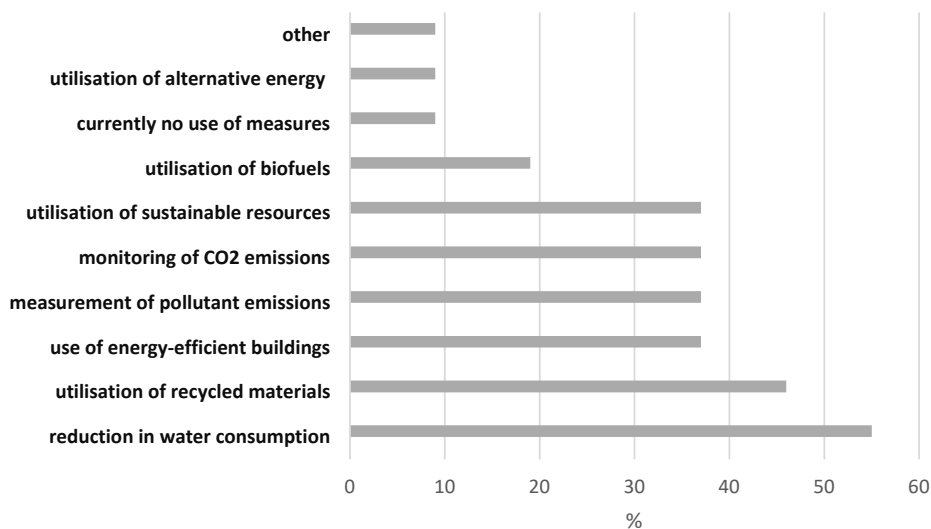
Table 5. Correlations of selected variables

Variable 1	Cramér's V	Variable 2	Correlation
Sector	0.935	Experience of investing in Latvia	<i>Strong</i>
Importance of sustainability	0.696	Year of commencing operations in Latvia	<i>Strong</i>
Membership in a social employer initiative	0.467	Year of commencing operations in Latvia	<i>Medium</i>
Company size	0.431	Experience of investing in Latvia	<i>Medium</i>
Company size	0.402	Importance of sustainability	<i>Medium</i>
Importance of sustainability	0.391	Support of the skills/health of the employees	<i>Weak</i>
Importance of sustainability	0.375	Experience in sustainable investment	<i>Weak</i>

Source: own elaboration

Figure 1 provides measures for environmental protection activities taken by companies, under the condition that they had

declared the use of the term 'sustainability' in their mission, vision and/or values of their corporation.

Figure 1. Measures for environmental protection

Source: own elaboration

In comparison with the results of Table 2, where the answers of all companies surveyed are listed, Figure 1 shows the results of those companies under the condition that they had first indicated that they use the term 'sustainability' in their mission, vision and/or values

of their corporation. Compared with the unconditioned results, it can be stated that there is a significant increase in the conditioned answers. Table 6 displays the results of the top five issues in comparison and the corresponding factors.

Table 6. Comparison of unconditioned and conditioned top five activities

activity	unconditioned	conditioned	factor
reduction in water consumption	0.44	0.545	1.24
utilisation of recycled materials	0.39	0.455	1.17
investment in energy-efficient buildings	0.28	0.364	1.3
measurement of pollution emissions ...	0.28	0.364	1.3
There are currently no measures ...	0.28	0.091	-3.07

Source: own elaboration

Thus, it can be concluded that those companies that are aware of sustainability issues demonstrate significantly higher efforts than the other companies. The factors were calculated between 1.17 and 1.24, which means 17% to 24% more environmental protection activities.

On the other side, sensitivity towards environmental protection is also shown in the indication of whether measures for environmental protection have been implemented. On average, 28% indicate that there are currently no such measures taken. In the conditioned sample, however, only 9.1% of respondents report no such measures.

Consequently, it can be concluded that the use of sustainability in the mission, vision and/or values shows that the company is aware of the importance of sustainable governance and is about 200% more prepared to install measures in order to meet the environmental protection requirements.

Table 7 shows the correlation between “company size” and “experience of investing in Latvia”. In the compound analysis (Table 5) the Cramér’s V calculated over all classes on average was 0.431, which indicates a medium to strong correlation. Table 7 allows one to obtain a deeper look on a differentiated basis.

Table 7. Correlation between company size and experience of investing in Latvia

		How has your experience of investing in Latvia been so far?	
		more positive	more negative
How many people does your company employ?	1-9	50%	50%
	10-49	77.8%	22.2%
	50-249	40%	60%
	>249	100%	0%

Source: own elaboration

The experience is balanced 50/50 between positive and negative experiences in the group of companies with between one and nine employees. In the group of companies with 10-49 employees there is a strong positive indication with 77.8%. In the group of companies with 50-249 employees there is a high indication of negative experience with

60%. Finally, in the group of companies with more than 249 employees, a unanimously positive experience was reported. Taking these results into account and weighting the numbers with the proportion of the different groups in the sample, the compound figures show a share of 66.6% having had a positive experience and 33.4% a negative experience.

4. Discussion

Sustainability promotion in the area of FDI seems to be increasingly recognised by a growing number of researchers. In the European Union, under the Non-Financial Reporting Directive (NFRD), large public interest companies with more than 500 employees are required to disclose non-financial information in annual reports, including sustainability-related policies such as environmental protection. According to Gallagher et al. (2021), the NFRD is being revised to include the EU taxonomy, for example a list of activities with performance criteria to assess the contribution of those activities toward the following environmental objectives: climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy, water prevention and recycling; pollution prevention and control; as well as the protection of healthy ecosystems.

For the most advanced participants of this discussion it comes to ask the question: how does the deal consider environmental, social, and governance strategies? The sustainability vector is a new practice introduced by foreign investors in Latvia and is supported by pioneering Latvian enterprises.

The governmental coronavirus relief programme in Latvia was critically evaluated by the respondents. The fiscal discipline council monitoring report (2021) provided information that the government's actions in providing support measures during the second wave of the COVID-19 pandemic were somewhat overdue, excessive and not particularly well targeted.

The research questions formulated in section 2 can be answered as follows.

Q1.1: Approved for corporate governance by implementing the term 'sustainability' in mission, vision and values (57%). Affirmed for investor transparency (69%). Denied for issuing a sustainability report (63% do not do so) (table 3).

Q1.2: Affirmed for the environmental pillar: A number of activities are applied by companies which benefit from German investment. The most frequently mentioned are 'reduction of water consumption' (44%) and 'utilisation of recycled materials' (39%). Companies are beginning to undertake environmental remediation activities (condition: 33% affirmed), of which 67% quote 'CO₂ savings' and 50% 'reduction of power consumption' (Table 2).

Q1.3: Affirmed with regard to the social pillar: a considerable portion (94%) of the companies indicate that they support the skills and health of their employees. Most often mentioned are 'training programmes' – 88% of respondents mentioned this (Table 4).

Q2.1: Affirmed: a remarkable level of awareness is observable. The importance of sustainability aspects was mentioned by 86% of respondents as being either 'very important' (27%) or 'important' (59%). Figure 1 shows the increased effort compared to Table 3 when awareness is present.

Q2.2: Affirmed: Strong correlations detected, e.g. between 'sector' and 'experience' as well as between the 'importance of sustainability' and 'year of beginning operations'. There is a medium overall correlation between 'company size' and 'experience' (table 5). A closer view of company size shows companies with more than 249 employees view their experience most positively (table 7).

Q2.3: Affirmed: The conditioned answers are between 17% and 24% higher than the respective answers on average. Preparedness to install and use measures for environmental protection is as much as 200% higher under the condition (Table 6).

Conclusions

The empirical study has provided new and important insights into the extent to which the companies surveyed are already acting sustainably and which activities they have implemented. As may be seen from the results of the

survey, the issue of sustainability already plays an important role for the majority of the companies surveyed. Moreover, their experiences with FDI are mostly highly positive. Thus, the assumption of the working hypothesis that FDI in Latvia from Germany are already sustainable to a certain extent can be validated.

The observation may be made that German-owned companies act in a very sustainable manner in Latvia. The three pillars of sustainability are somewhat balanced, with the social pillar being a little more pronounced. Nevertheless, there is still room for improvement in all three pillars. It is remarkable that the government's COVID assistance to entrepreneurs is seen as not relevant by the majority of respondents.

In the future, companies should further expand the following aspects in particular and take them into account in their operations. For example, measures for environmental protection could be further expanded. The use of alternative energy sources and the use of biofuels is not yet as pronounced among the companies surveyed. Furthermore, the majority of companies (67%, Table 2) did not carry out any environmental remediation activities. In the social pillar, it becomes apparent that many of the companies are not yet members of social employer initiatives.

Regarding the limitations of our study, for the sake of availability, data from the latest three years were chosen for the selection of relevant companies. The last available reports were for 2020, so the research period was for the years 2018, 2019, and 2020, given that those companies were still operating in December 2020 and January 2021. In total it might be argued that the chosen period may well have been less representative due to the COVID-19 pandemic. On the other hand, it was a time of very active DI flow from Germany to Latvia. The research design was implemented so as to best analyse the current situation and the assessments of the individual respondents.

In summary, it can be concluded that the issue of sustainability in foreign direct investment is already an important topic for most companies, and those companies are already active in this regard. Nevertheless, there is still room for improvement in many areas for more sustainable entrepreneurial action. Therefore, the inclusion of ESG factors in executive pay can be expected. Due to the increasing importance of sustainability and the climate change agenda, it can be assumed that this topic will become increasingly important to companies and other stakeholders.

The benefit of this paper is threefold: firstly, for investors to plan sustainable investments from the very beginning, so they can avoid criticisms and costs such as LIDL faced when entering the Latvian market. Secondly, Latvian politicians and institutions may also be beneficiaries of promoting FDI. They can now be realistic when it comes to dealing with foreign investors in the sustainability mainstream. Thirdly, the research and teaching community can more clearly see the level of sustainability awareness and implementation.

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