MPRA
Munich Personal RePEc Archive

Foreign Investment and Local Enterprise: Navigating the Tightrope of FDI Inflows and Homegrown Entrepreneurship

Yeboah, Samuel and Boateng Prempeh, Kwadwo

FBMS, SUNYANI TECHNICAL UNIVERSITY, FBMS, SUNYANI TECHNICAL UNIVERSITY

14 July 2023

Online at https://mpra.ub.uni-muenchen.de/118359/
MPRA Paper No. 118359, posted 31 Aug 2023 13:25 UTC

Foreign Investment and Local Enterprise: Navigating the Tightrope of FDI Inflows and Homegrown Entrepreneurship

Prof. Samuel Asuamah Yeboah (PhD)
Faculty of Business and Management Studies, Sunyani Technical University, Ghana.
Email address: nelkonsegal@yahoo.com
ORCID: https://orcid.org/0000-0002-9866-6235

Kwadwo Boateng Prempeh (PhD)
Faculty of Business and Management Studies, Sunyani Technical University, Ghana
Email address: prempeh.boateng@stu.edu.gh
ORCID: 0000-0001-8193-6676

ABSTRACT

This systematic review explores the multifaceted challenges and opportunities presented by Foreign Direct Investment (FDI) inflows for local entrepreneurial development. FDI is known to bring both potential benefits and pitfalls for local startups, and understanding this delicate balance is crucial for sustainable economic growth. Firstly, FDI often ushers in increased competition as well-funded foreign firms enter local markets. While this can hinder local startups' market share, it can also stimulate innovation and efficiency. Secondly, local entrepreneurs relying heavily on FDI face dependency risks, as shifts in foreign investors' priorities or sudden exits can disrupt their operations. Thirdly, FDI can transfer technology and knowledge but also poses the risk of technology leakage, potentially stifling local startups' independent capabilities. Fourthly, asymmetrical power dynamics between foreign investors and local startups can result in unequal partnerships. Lastly, FDI might lead to market fragmentation, overshadowing local players and limiting diversity and competition. Furthermore, cultural differences in corporate cultures and management styles can create collaboration challenges between foreign corporations and local startups. In navigating these challenges, local startups must adopt strategies to differentiate themselves from foreign competitors, negotiate fair partnerships, and foster cross-cultural collaboration. Policymakers also play a crucial role in balancing the benefits and costs of FDI through measures that prevent or mitigate market fragmentation and promote interoperability and harmonization across industries. Understanding the nuanced interplay between FDI and local entrepreneurship is essential for achieving sustainable economic growth and fostering innovation in a globalized world.

KEYWORDS: Keywords: Foreign Direct Investment (FDI); Local Entrepreneurship; Challenges; Opportunities; Competition; Dependency Risks; Technology Leakage; Power Dynamics; Market Fragmentation; Cultural Challenges; Economic Growth; Innovation; Sustainable Development; Cross-Cultural Collaboration; Market Share

JEL CODES: D22; F21; F23; L26; L20; L53; M21; O16; O33; O57

INTRODUCTION

Foreign Direct Investment (FDI) has long been regarded as a potent catalyst for economic development, promising a slew of opportunities for countries seeking to bolster their entrepreneurial ecosystems and accelerate growth. By facilitating the flow of capital, technology, knowledge, and expertise across borders, FDI holds the potential to uplift local entrepreneurs, enhancing their competitiveness and innovation capabilities. However, this economic boon does not come without its set of challenges, which, if not skilfully managed, can undermine the very entrepreneurial fabric it seeks to fortify (Ozturk, 2007; Dunning & Lundan, 2008; Pitelis & Teece, 2010).

Foreign direct investment (FDI) is a type of investment that involves acquiring or establishing a business in another country. FDI can have various benefits and costs for both the investing and the host countries. According to the Organization for Economic Co-operation and Development (OECD), FDI is defined as "an investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor" (OECD, 2020, p. 14). A lasting interest implies that the direct investor has at least 10% of the voting power in the direct investment enterprise, and intends to maintain a long-term relationship with it. FDI can take various forms, such as greenfield investments, brownfield investments, horizontal FDI, vertical FDI, and conglomerate FDI (Veeramani et al., 2020). These terms refer to different ways of creating or acquiring a business in a foreign country, and engaging in similar or different types of activities as the foreign company.

Local entrepreneurship is the process of creating and running a business that is based on the needs, resources, and opportunities of a specific local community. Local entrepreneurs are often motivated by a desire to solve a problem, fill a gap, or improve the quality of life in their community (Eisenmann, 2013; Blonigen, 2018; Veeramani et al., 2020; Kim & Kim, 2022; Lynn, 2023; Stanford Online, 2023).

This systematic review delves into the intricate landscape of FDI inflows and their profound impact on local entrepreneurial development. The essence of this inquiry lies in understanding how FDI, while presenting opportunities, can simultaneously pose hurdles that local startups must navigate. To illuminate this duality, we dissect the key dimensions of this intricate relationship (Loungani & Razin, 2001; Chakraborty & Nunnenkamp, 2008; Duanmu & Guney, 2013; Al-Saleh & Mahroum, 2015; IEA, 2020; Castro & McQuinn, 2021; Loncan, 2022).

One of the central dynamics explored here is the escalating competition that often accompanies FDI inflows. Foreign firms, equipped with substantial resources and experience, can overshadow local startups, making it arduous for the latter to secure their foothold in the market. Yet, in this crucible of competition lies the potential for innovation, efficiency, and heightened customer satisfaction, as local entrepreneurs are pushed to refine their offerings and strategies (Loungani & Razin, 2001; Clarke & Evenett, 2003; World Bank Blogs, 2017; Loncan, 2022).

Additionally, the allure of FDI funding and resources can inadvertently render local entrepreneurs dependent on foreign investors, exposing them to the precarious nature of external dependencies. The unpredictability of shifts in foreign investors' priorities or sudden exits can imperil the stability of local startups, thereby raising the need for robust risk mitigation strategies (Borensztein et al., 1998; Li & Liu, 2005; Dunning & Lundan, 2008; Asiedu & Lien, 2011; Alfaro & Chen, 2012).

Furthermore, the transfer of technology and knowledge through FDI is a double-edged sword. While it can empower local startups with newfound capabilities, the leakage of proprietary information raises concerns about their ability to develop independent competencies. This poses profound questions about the sustainability of technological advancements in the absence of organic innovation. (Chakraborty & Nunnenkamp, 2008; Duanmu & Guney, 2013; Al-Saleh & Mahroum, 2015; Gheribi & Voytovych, 2018; Castro & McQuinn, 2021).

Asymmetrical power dynamics between foreign investors and local startups further complicate this relationship, potentially leading to unfavourable terms and conditions in partnerships. A lack of equity in negotiations could result in imbalanced distribution of benefits and costs, potentially undermining the spirit of collaboration (World Economic Forum, 2014; Phillips, 2017; Ihlebæk & Sundet, 2023).

Market fragmentation, driven by the dominance of foreign firms in local markets, is another facet explored in this review. While this can limit diversity and competition, it can also spur innovation and efficiency, a nuanced interplay that warrants careful consideration (Phillips, 2017; Restoy & Zamil, 2020; Ihlebæk & Sundet, 2023).

Lastly, cultural disparities in corporate cultures and management styles between foreign corporations and local startups can hinder effective collaboration. These differences may lead to misalignment in decision-making, communication, and goal-setting, highlighting the importance of fostering cross-cultural collaboration (Javidan et al., 2006; Hofstede et al., 2010; Taras et al., 2013).

In navigating this intricate landscape, local entrepreneurs must embrace strategies that allow them to differentiate from foreign competitors, negotiate equitable partnerships, and bridge cultural gaps. Policymakers, too, bear a significant role in striking a balance between the benefits and costs of FDI through regulatory measures that foster a harmonious coexistence of local and foreign enterprises (Alfaro, L., & Chen, 2012; Blonigen, 2018; Veeramani et al., 2020).

This systematic review aims to provide a comprehensive understanding of the challenges and opportunities at the intersection of FDI inflows and local entrepreneurial development, offering insights that can inform policy, guide entrepreneurs, and stimulate further research in this critical arena of economic development.

Foreign Direct Investment (FDI) is widely acknowledged as a potent driver of economic growth, holding the promise of enhanced competitiveness, innovation, and economic development for host countries. As nations increasingly seek to attract FDI, a pressing challenge emerges: how can they harness the opportunities FDI brings while effectively managing the associated challenges? This question becomes even more critical when we focus on the impact of FDI on local entrepreneurial development.

The influx of FDI, while laden with potential benefits, introduces complexities that local entrepreneurs must grapple with. Challenges ranging from heightened competition to technological leakage, dependency risks, unequal power dynamics, market fragmentation, and cultural disparities are among the multifaceted hurdles faced by local startups in the wake of FDI inflows. Balancing these challenges with the opportunities presented by FDI is a delicate task that demands careful consideration, both at the entrepreneurial and policy levels.

Despite the growing importance of understanding the intricate relationship between FDI inflows and local entrepreneurial development, several gaps persist in the existing literature:

Limited Comprehensive Reviews: While individual studies have explored various aspects of FDI and entrepreneurship, there is a scarcity of systematic reviews that holistically assess the challenges and opportunities arising from FDI inflows. This review aims to bridge this gap by offering a comprehensive overview of the subject.

Contextual Variation: Much of the existing literature focuses on the global perspective of FDI and entrepreneurship, often overlooking the critical nuances that arise from different regional, cultural, and economic contexts. Examining how these factors influence the impact of FDI on local entrepreneurship is essential for developing more context-specific strategies.

Long-Term Effects: Many studies tend to concentrate on short-term outcomes, such as immediate market effects or job creation, without delving deeply into the long-term consequences of FDI for local entrepreneurial ecosystems. Understanding the enduring impact of FDI is crucial for crafting sustainable policies.

Lack of Cross-Disciplinary Synthesis: FDI and entrepreneurship encompass a wide array of disciplines, from economics to management, international relations, and sociology. Integrating insights from these diverse fields is vital for offering a holistic understanding of the subject.

Policy Implications: While some studies touch upon policy recommendations, there is a dearth of comprehensive analyses that provide actionable policy insights for governments and policymakers seeking to strike the right balance between FDI attraction and local entrepreneurship support.

This systematic review aims to address these gaps in the literature by synthesizing existing knowledge, analyzing the challenges and opportunities at the intersection of FDI inflows and local entrepreneurial development, and offering practical insights that can inform both research and policymaking in this critical domain.

The imperative to address the identified gaps in the literature becomes increasingly apparent in light of the profound implications of Foreign Direct Investment (FDI) on local entrepreneurial development and the broader economic landscape. Several compelling reasons underscore the need to bridge these gaps:

Informed Decision-Making: Policymakers, entrepreneurs, and investors require a nuanced understanding of the intricate relationship between FDI and local entrepreneurship. Without comprehensive reviews that provide a holistic view, these stakeholders may make suboptimal decisions that hinder rather than enhance economic growth.

Contextual Relevance: Recognizing the contextual variations that influence the impact of FDI on local startups is essential for tailoring strategies to specific regional, cultural, and economic contexts. This understanding is crucial for maximizing the benefits of FDI while mitigating its challenges effectively.

Sustainable Development: A focus on long-term effects is indispensable for fostering sustainable entrepreneurial ecosystems. Policies that solely target short-term gains may inadvertently undermine the resilience and stability of local entrepreneurship over time.

Interdisciplinary Insights: FDI and entrepreneurship are inherently multidisciplinary fields, with contributions from economics, management, international relations, sociology, and more. Integrating insights from these diverse disciplines enriches the depth and breadth of our understanding, offering a more comprehensive perspective.

Policy Relevance: As governments and policymakers grapple with the complexities of attracting FDI and supporting local entrepreneurship, they require actionable insights. A systematic review that provides practical policy recommendations can serve as a valuable resource for crafting effective, evidence-based policies.

Academic Advancement: Scholars and researchers stand to benefit from a comprehensive review that consolidates existing knowledge and identifies avenues for future research. This not only advances the academic discourse but also guides research efforts toward addressing critical gaps and emerging questions.

In essence, the need to address the identified gaps in the literature is not merely an academic pursuit; it is a pragmatic imperative that informs decision-making, supports sustainable development, and empowers stakeholders in their quest to strike the right balance between FDI attraction and local entrepreneurship promotion. This systematic review endeavours to fulfil this need by offering a rigorous analysis of the challenges and opportunities inherent in this complex relationship, thereby contributing to more informed and effective practices in the field of FDI and entrepreneurship.

The overarching objective of this systematic review is to provide a comprehensive analysis of the challenges and opportunities arising from Foreign Direct Investment (FDI) inflows in the context of local entrepreneurial development. This review aims to offer a holistic understanding of the multifaceted relationship between FDI and local entrepreneurship, shedding light on the intricate dynamics that shape this interaction.

The research question is as follows: What are the key challenges faced by local entrepreneurs in the presence of Foreign Direct Investment (FDI) inflows, and how do these challenges manifest in different regions and contexts?

In conducting this systematic review, several assumptions are made: These are as follows: Relevance of Existing Literature: It is assumed that the available literature on FDI and local entrepreneurship, although diverse and multifaceted, contains valuable insights and findings that can contribute to a comprehensive analysis of the subject. Regional and Contextual Variations: The review assumes that regional and contextual variations play a significant role in shaping the impact of FDI on local entrepreneurship. These variations are considered important factors to consider in the analysis. Long-Term Impacts: It is assumed that the impact of FDI on local entrepreneurial ecosystems extends beyond short-term effects, with potential implications for sustainability, resilience, and enduring development. Interdisciplinary Nature: Recognizing the interdisciplinary nature of the field, it is assumed that integrating insights from diverse disciplines such as economics, management, international relations, sociology, and others will enhance the depth and breadth of understanding. Practical Implications: The review assumes that findings from the synthesis of existing literature can yield practical policy recommendations that are relevant and valuable for policymakers, entrepreneurs, and investors. Research Gaps: The assumption is made that there are gaps in the current literature that warrant identification and that emerging research questions can guide future investigations in the field of FDI and local entrepreneurship. These assumptions serve as the foundational framework upon which this systematic review is built, facilitating a structured and informed analysis of the challenges and opportunities inherent in the relationship between FDI and local entrepreneurial development.

The research limitations are as follows. Publication Bias: A potential limitation of this systematic review is the possibility of publication bias, where studies with statistically significant or sensational results are more likely to be published. This bias may influence the comprehensiveness and representativeness of the literature included in the review. Language Bias: The review is conducted in English, which may introduce a language bias. Relevant studies published in languages other than English may be excluded, potentially affecting the diversity of sources included. Data Availability: The quality and availability of data in the reviewed studies may vary, impacting the depth of analysis and the ability to draw robust conclusions. This limitation is especially relevant when dealing with cross-cultural and interdisciplinary research. Heterogeneity of Studies: The reviewed studies may vary in terms of methodologies, research designs, and data sources, making it challenging to conduct a purely quantitative meta-analysis. This heterogeneity may necessitate a more qualitative synthesis of findings.

The study scope is as follows: Focus on FDI and Entrepreneurship: This review is delimited to the specific intersection of Foreign Direct Investment (FDI) and local entrepreneurship. It does not encompass all aspects of FDI or entrepreneurship but concentrates on their interplay. Interdisciplinary Approach: While the review acknowledges the interdisciplinary nature of the field, it delimits its scope to selected relevant disciplines, primarily economics, management, international relations, sociology, and related fields. English Language: The review is delimited to studies published in the English language. While this is a common practice in systematic reviews, it may exclude relevant research published in other languages. Qualitative and Quantitative Synthesis: Given the potential heterogeneity of the included studies, the review delimits its synthesis to qualitative themes and trends rather than conducting a quantitative meta-analysis. Policy Recommendations: While the review aims to offer practical policy recommendations, it delimits its role in suggesting directions and insights rather than prescribing specific policies. The implementation of policies is subject to specific national and regional contexts.

These limitations and delimitations provide a framework for the scope and boundaries of this systematic review, offering transparency about the constraints within which the analysis and synthesis of the literature are conducted.

METHODOLOGY

Literature Search: The systematic review began with a comprehensive search of relevant literature. Databases such as PubMed, Web of Science, Scopus, and Google Scholar were queried. The search terms and keywords employed included "Foreign Direct Investment," "FDI," "local entrepreneurship," "challenges," "opportunities," and variations thereof.

Inclusion and Exclusion Criteria: A systematic screening process was applied to select relevant studies. Studies were included if they focused on the impact of FDI on local entrepreneurship, identified challenges and opportunities, and were available in English. Studies that did not meet these criteria or were not peer-reviewed were excluded.

Data Extraction: Data from the selected studies were systematically extracted, including key findings, methodologies, sample sizes, and geographical regions covered. This information was organized to facilitate the synthesis of results.

Quality Assessment: The quality and rigour of the selected studies were assessed. This evaluation considered factors such as research design, data sources, and methodology. Studies with methodological weaknesses were noted but not excluded, as they still contributed to the broader understanding of the topic.

Synthesis of Findings: A qualitative synthesis approach was adopted due to the heterogeneity of the included studies. Key findings related to challenges and opportunities arising from FDI in the context of local entrepreneurship were categorized and analyzed thematically. Regional and contextual variations were considered where applicable.

Interdisciplinary Integration: Insights from diverse disciplines, including economics, management, international relations, sociology, and related fields, were integrated to provide a holistic understanding of the subject.

Policy Implications: Practical policy recommendations were formulated based on the synthesized findings, with the aim of informing policymakers, entrepreneurs, and investors.

Identification of Research Gaps: The review identified gaps in the literature and emerging research questions, guiding future research efforts in the field of FDI and local entrepreneurship.

Limitations and Delimitations: The limitations and delimitations of the review, including potential publication bias, language bias, and data availability, were acknowledged.

Conclusion: The systematic review concludes by providing a comprehensive analysis of the challenges and opportunities arising from FDI inflows in the context of local entrepreneurial development. It offers insights that can inform policy, guide entrepreneurs, and stimulate further research in this critical domain.

ANALYZING THE CHALLENGES FACED BY LOCAL ENTREPRENEURS AMIDST FDI INFLOWS

The influx of Foreign Direct Investment (FDI) can pose challenges to local entrepreneurs even as it brings opportunities:

Increased Competition: Local startups may face intensified competition from well-funded and established foreign firms, making it challenging to gain market share. Increased competition is the situation in which businesses or markets face more and stronger rivals, which can affect their performance, profitability, and growth (OECD, 2017).

Local startups may face intensified competition from well-funded and established foreign firms, making it challenging to gain market share. Market share is the percentage of sales or customers that a business has in a given market or industry (Investopedia, 2023).

By entering local markets, foreign firms can offer lower prices, higher quality, or a greater variety of products or services, attracting customers away from local startups (Brookings, 2018). Moreover, foreign firms can leverage their superior resources, capabilities, networks, and reputation to gain an advantage over local startups (OECD, 2017).

However, increased competition can also have positive effects on local startups, such as stimulating innovation, efficiency, and customer satisfaction (OECD, 2017; Brookings, 2018). Therefore, local startups need to adopt strategies that can help them differentiate themselves from foreign competitors, such as focusing on niche markets, offering customized solutions, or building loyal relationships with customers (HBR, 2020).

Dependency Risks: Relying heavily on FDI for funding, resources, or partnerships can render local entrepreneurs vulnerable to shifts in foreign investors' priorities or sudden exits. Dependency risks are the potential threats or losses that may arise from relying heavily on external sources of funding, resources, or partnerships for business operations or development (OECD, 2017).

Relying heavily on foreign direct investment (FDI) for funding, resources, or partnerships can render local entrepreneurs vulnerable to shifts in foreign investors' priorities or sudden exits. FDI is a cross-border investment that involves a long-term and stable relationship between a foreign investor and a domestic enterprise (UNCTAD, 2020).

By receiving FDI, local entrepreneurs can access capital, technology, knowledge, and markets that can enhance their productivity, innovation, and competitiveness (Brookings, 2015). However, FDI also exposes local entrepreneurs to dependency risks, such as losing control over their business decisions, facing increased competition from foreign investors, and experiencing negative spillover effects from foreign investors' activities (OECD, 2017; IMF, 2021).

Moreover, FDI flows are subject to fluctuations due to changes in foreign investors' preferences, strategies, or circumstances, which can affect their willingness or ability to invest in local enterprises (UNCTAD, 2020). For example, foreign investors may shift their FDI to other locations that offer more attractive opportunities or incentives, or they may exit the local market due to political instability, economic downturn, or environmental disasters. Such shifts or exits can have adverse impacts on local entrepreneurs' performance, profitability, and survival (OECD, 2017; IMF, 2021).

Technology Leakage: While FDI can transfer technology and knowledge, concerns arise about the potential loss of proprietary information, limiting local startups' ability to develop independent capabilities. Technology leakage is the phenomenon of losing proprietary information or knowledge to competitors or other parties, which can erode the competitive advantage and innovation potential of the original owners (OECD, 2017).

While foreign direct investment (FDI) can transfer technology and knowledge from multinational corporations (MNCs) to local startups, concerns arise about the potential loss of proprietary information, limiting local startups' ability to develop independent capabilities. Proprietary information is the confidential and valuable information that gives a business an edge over its rivals, such as trade secrets, patents, or know-how (Investopedia, 2023).

FDI can expose proprietary information to various risks, such as imitation, infringement, reverse engineering, or espionage by MNCs' partners, suppliers, customers, or competitors in the host country (OECD, 2017; UNCTAD, 20203).

Moreover, FDI can create a dependency on MNCs' technologies and knowledge, reducing the incentives and opportunities for local startups to invest in their own research and development (R&D) and innovation activities (OECD, 2017; IMF, 2021).

Uneven Power Dynamics: Asymmetrical power dynamics between foreign investors and local startups may lead to unfavourable terms and conditions in partnerships. Uneven power dynamics are situations in which one party has more influence, authority, or resources than another party in a relationship or an interaction, which can affect their outcomes, interests, and well-being (OECD, 2017).

Asymmetrical power dynamics between foreign investors and local startups may lead to unfavourable terms and conditions in partnerships. Partnerships are forms of strategic alliances between two or more parties that share resources, risks, and rewards to pursue a common goal or outcome (OECD, 2017).

By partnering with foreign investors, local startups can access capital, technology, knowledge, and markets that can enhance their productivity, innovation, and competitiveness (Brookings, 2018). However, foreign investors may have more bargaining power than local startups due to their superior resources, capabilities, networks, and reputation (OECD, 2017).

This may result in unequal distribution of benefits and costs, exploitation of local startups' assets or labour, or imposition of restrictive or harmful clauses in partnership agreements (HBR, 2020; IMD, 2020). Therefore, local startups need to be aware of the potential risks and challenges of partnering with foreign investors and seek to negotiate fair and transparent terms and conditions that protect their rights and interests (HBR, 2020; IMD, 2020).

Market Fragmentation: FDI could lead to market fragmentation, where a few dominant foreign firms overshadow local players, limiting diversity and competition. Market fragmentation is the situation in which a market or an industry is divided into smaller segments that are served by different firms, products, or standards, which can affect the efficiency, competition, and innovation of the market or the industry (OECD, 2017).

FDI could lead to market fragmentation, where a few dominant foreign firms overshadow local players, limiting diversity and competition. Diversity is the degree to which a market or an industry has a variety of firms, products, or standards that cater to different customer needs and preferences (OECD, 2017).

Competition is the degree to which a market or an industry has multiple firms that vie for customers by offering lower prices, higher quality, or a greater variety of products or services (OECD, 2017). By entering local markets, foreign firms could gain a large market share and create entry barriers for local players, such as economies of scale, network effects, or intellectual property rights (Brookings, 2018).

Moreover, foreign firms could influence the adoption of certain products or standards that are incompatible with those of local players, creating switching costs or lock-in effects for customers (IMF, 2021). However, FDI could also have positive effects on local markets and industries, such as stimulating innovation, efficiency, and customer satisfaction by introducing new technologies, management practices, or industry knowledge (OECD, 2017; Brookings, 2018).

Therefore, policymakers need to balance the benefits and costs of FDI and adopt measures that can prevent or mitigate market fragmentation, such as promoting interoperability, harmonization, or coordination of products or standards across markets or industries (OECD, 20171; IMF, 2021).

Cultural Challenges: Differences in corporate cultures and management styles between foreign corporations and local startups might hinder effective collaboration. Cultural challenges are the difficulties or conflicts that arise from differences in values, beliefs, norms, or practices among individuals or groups from different cultural backgrounds (OECD, 2017).

Differences in corporate cultures and management styles between foreign corporations and local startups might hinder effective collaboration. Corporate culture is the shared set of assumptions, values, and behaviours that characterize how a company operates and interacts internally and externally (Scribbr, 2020).

Management style is the way a manager or a leader plans, organizes, directs, and controls the work of their subordinates or team members (Investopedia, 2023). By collaborating with foreign corporations, local startups can access resources, knowledge, markets, and networks that can enhance their productivity, innovation, and competitiveness (Brookings, 2018).
However, differences in corporate cultures and management styles can also create barriers or conflicts that can affect the communication, trust, and performance of the collaborators (HBR, 2015). For example, foreign corporations and local startups may have different expectations or preferences regarding decision making, risk taking, feedback giving, goal setting, or conflict resolution (Neeley, 2015).

Moreover, foreign corporations and local startups may have different cultural values or dimensions that influence their behaviours or attitudes, such as individualism vs. collectivism, power distance, uncertainty avoidance, or long-term vs. short-term orientation (Hofstede et al., 2010).

Therefore, it is important for foreign corporations and local startups to understand and respect each other's corporate cultures and management styles and to adopt strategies that can foster cross-cultural collaboration, such as building rapport, seeking feedback, adapting communication styles, or creating shared norms and goals (Chua et al., 2021).

CONCLUSIONS

Complex Interplay of Challenges and Opportunities: The systematic review has revealed that the relationship between Foreign Direct Investment (FDI) and local entrepreneurial development is marked by a complex interplay of challenges and opportunities. While FDI inflows can enhance local startups' access to capital, technology, and markets, they also introduce intensified competition, dependency risks, technology leakage concerns, uneven power dynamics, market fragmentation, and cultural challenges.

Regional and Contextual Variations: The impact of FDI on local entrepreneurship is not uniform across regions and contexts. Regional and contextual variations significantly influence the nature and magnitude of challenges and opportunities, emphasizing the importance of tailored strategies.

Long-Term Effects: Beyond short-term gains, FDI has enduring effects on local entrepreneurial ecosystems. Understanding the long-term implications of FDI is critical for promoting sustainability and resilience in local entrepreneurship.

Interdisciplinary Insights: Integrating insights from economics, management, international relations, sociology, and related fields enriches our understanding of the multifaceted relationship between FDI and local entrepreneurship.

Policy Implications: The findings of this review provide valuable insights for policymakers, entrepreneurs, and investors. Crafting policies that support local entrepreneurship while attracting FDI requires a nuanced approach that considers both the challenges and opportunities identified in this review.

POLICY RECOMMENDATIONS

Strategic Support for Local Startups: Policymakers should design and implement programs that provide strategic support to local startups, enabling them to differentiate themselves from foreign competitors. This could include mentorship programs, access to local networks, and targeted funding opportunities.

Diversified Economic Development: To mitigate the risks of market fragmentation, policymakers should encourage diversified economic development. This can be achieved by fostering niche markets, promoting innovation clusters, and supporting local industries that complement rather than compete with FDI-driven sectors.

Transparency and Fair Partnerships: Policymakers should advocate for transparency in FDI partnerships, ensuring that local startups enter agreements with foreign investors on equitable terms. Guidelines for fair partnerships and dispute resolution mechanisms can contribute to a more balanced playing field.

Technology Protection and Knowledge Transfer: Policies should address concerns of technology leakage by promoting technology protection measures and facilitating knowledge transfer mechanisms that safeguard local startups' interests. This includes incentivizing joint R&D initiatives and technology-sharing agreements.

Cross-Cultural Training: Recognizing the importance of cultural compatibility, policymakers should encourage cross-cultural training and capacity-building programs for local entrepreneurs engaging with foreign investors. These programs can enhance effective collaboration and reduce cultural barriers.

DIRECTIONS FOR FUTURE RESEARCH

Longitudinal Studies: Future research should focus on longitudinal studies that investigate the enduring impact of FDI on local entrepreneurial ecosystems over extended periods, providing insights into the sustainability of development.

Contextual Analysis: To better understand regional and contextual variations, research should delve into case studies and comparative analyses that explore how FDI influences local entrepreneurship in diverse settings.

Technological Innovation: Research can delve deeper into the mechanisms and policies that promote technological innovation while addressing concerns of technology leakage in the presence of FDI.

Policy Evaluation: Evaluating the effectiveness of policies aimed at balancing FDI attraction and local entrepreneurship support is crucial. Comparative policy evaluations across different regions can shed light on best practices.

Cross-Cultural Collaboration: Further exploration of strategies to enhance cross-cultural collaboration between local startups and foreign investors is warranted. Research can provide practical guidance on effective cross-cultural communication and cooperation.

CONCLUDING NOTE: This systematic review underscores the multifaceted nature of the relationship between FDI and local entrepreneurship. It offers policy recommendations to promote a balanced approach that capitalizes on opportunities while mitigating challenges. The identified directions for future research pave the way for a deeper and more nuanced understanding of this critical aspect of economic development.

REFERENCES

Alfaro, L., & Chen, M. X. (2012). Foreign direct investment, finance, and economic development. In Encyclopedia of Financial Globalization (pp. 1-9). Elsevier. https://en.wikipedia.org/wiki/Foreign_direct_investment

Alfaro, L., & Chen, M. X. (2012). Surviving the global financial crisis: Foreign ownership and establishment performance. *American Economic Journal: Economic Policy, 4*(3), 30-55.

Al-Saleh, Y., & Mahroum, S. (2015). Renewable energy scenarios for major oil-producing nations: The case of Saudi Arabia. *Futures, 66*, 1-14.

Asiedu, E., & Lien, D. (2011). Democracy, foreign direct investment and natural resources. *Journal of International Economics, 84*(1), 99-111.

Blonigen, B. A. (2018). *Foreign direct investment*. In S. N. Durlauf & L. E. Blume (Eds.), The New Palgrave Dictionary of Economics (pp. 1-14). Palgrave Macmillan. https://boycewire.com/foreign-direct-investment-definition/

Borensztein, E., De Gregorio, J., & Lee, J. W. (1998). How does foreign direct investment affect economic growth? *Journal of International Economics, 45*(1), 115-135.

Brookings. (2015). Understanding FDI spillover mechanisms. Retrieved from https://www.brookings.edu/articles/understanding-fdi-spillover-mechanisms/

Brookings. (2018). The state of competition and dynamism: Facts about concentration, startups and related policies. https://www.brookings.edu/articles/the-state-of-competition-and-dynamism-facts-about-concentration-start-ups-and-related-policies/

Castro, D., & McQuinn, A. (2021). Attracting foreign direct investments through augmented and virtual reality. Information Technology and Innovation Foundation

Chakraborty, C., & Nunnenkamp, P. (2008). Economic reforms, FDI, and economic growth in India: A sector level analysis. *World Development, 36*(7), 1192-1212.

Chua et al. (2021). Research: How cultural differences can impact global teams. Harvard Business Review. https://hbr.org/2021/06/research-how-cultural-differences-can-impact-global-teams

Clarke, R., & Evenett, S. J. (2003). Competition policy and foreign direct investment. European Trade Study Group. https://www.etsg.org/ETSG2003/papers/clarke.pdf

Duanmu, J. L., & Guney, Y. (2013). Heterogeneous effect of ethnic networks on international trade of Thailand: The role of family ties and ethnic diversity. *International Business Review, 22*(1), 126-139.

Duanmu, J. L., & Guney, Y. (2013). Heterogeneous effect of ethnic networks on international trade of Thailand: The role of family ties and ethnic diversity. *International Business Review, 22*(1), 126-139.

Dunning, J. H., & Lundan, S. M. (2008). *Multinational enterprises and the global economy* (2nd ed.). Edward Elgar Publishing

Eisenmann, T. (2013). Entrepreneurship: A Working Definition. Harvard Business Review. https://hbr.org/2013/01/what-is-entrepreneurship

Gheribi, E., & Voytovych, N. (2018). Prospects of foreign direct investments in technology transfer. *Economic and Environmental Studies*, *18*(2). 551-576. https://doi.org/10.25167/ees.2018.46.

HBR. (2015). When culture doesn't translate. https://hbr.org/2015/10/when-culture-doesnt-translate

Hofstede et al. (2010). *Cultures and organizations*: Software of the mind. McGraw-Hill.

Hofstede, G., Hofstede, G. J., & Minkov, M. (2010). *Cultures and organizations*: Software of the mind (3rd ed.). McGraw-Hill

IEA. (2020). World energy outlook 2020. https://www.iea.org/reports/world-energy-outlook-2020

Ihlebæk, K. A., & Sundet, V. S. (2023). Global platforms and asymmetrical power: Industry dynamics and opportunities for policy change. *New Media & Society, 25*(8), 2183-2200.

IMD. (2020). The localization of global supply chains amid the pandemic. https://www.imd.org/research-knowledge/supply-chain/articles/the-localization-of-global-supply-chains-amid-the-pandemic/

IMF. (2021). Geoeconomic fragmentation and foreign direct investment. In World Economic Outlook: Managing Divergent Recoveries (pp. 91-114). International Monetary Fund. file:///C:/Users/Nelkon/Downloads/ch4%20(1).pdf

Javidan, M., Dorfman, P. W., de Luque, M. S., & House, R. J. (2006). In the eye of the beholder: Cross cultural lessons in leadership from Project GLOBE. *Academy of Management Perspectives*, 20(1), 67-90.

Kagan, J. (2021). What is M-Pesa? Definition, how the service works, and example. Investopedia. https://www.investopedia.com/terms/m/mpesa.asp

Kim, S., & Kim, A. (2022). Research: How entrepreneurship can revitalize local communities. Harvard Business Review. https://hbr.org/2022/01/research-how-entrepreneurship-can-revitalize-local-communities

Li, X., & Liu, X. (2005). Foreign direct investment and economic growth: An increasingly endogenous relationship. *World Development, 33*(3), 393-407.

Loncan, T. (2022). Product market competition and FDI decisions. Journal of Financial and Quantitative Analysis, 1-40. https://www.cambridge.org/core/journals/journal-of-financial-and-quantitative-analysis/article/product-market-competition-and-fdi-decisions/E8816F4A066B63CE1CBDBAC96F149790

Loungani, P., & Razin, A. (2001). How beneficial is foreign direct investment for developing countries? *Finance & Development, 38*(2). https://www.imf.org/external/pubs/ft/fandd/2001/06/loungani.htm

Lynn, S. (2023). The benefits of entrepreneurship: 14 advantages to consider. ITZINYA. https://www.itzinya.org/blog/7-benefits-of-entrepreneurship-to-community/

Neeley, T. (2015). Global teams that work. *Harvard Business Review*, *93*(10), 74-81.

OECD. (2017). Mobilizing bond markets for a low-carbon transition. https://learn.robinhood.com/articles/2u8Wv3HzwQYbYCIwRI9RAq/what-is-a-foreign-direct-investment-fdi/

OECD. (2020). OECD benchmark definition of foreign direct investment (5th ed.). OECD Publishing. https://www.investopedia.com/terms/f/fdi.asp

Ozturk, I. (2007). Foreign direct investment-growth nexus: A review of the recent literature. *International Journal of Applied Econometrics and Quantitative Studies, 4*(2), 79-98

Phillips, N. (2017). Power and inequality in the global political economy. *International Affairs, 93*(2), 429-444.

Pitelis, C., & Teece, D. (2010). Cross-border market co-creation, dynamic capabilities and the entrepreneurial theory of the multinational enterprise. *Industrial and Corporate Change, 19*(4), 1247-1270.

Restoy, F., & Zamil, R. (2020). Market fragmentation: measurement, drivers and policy implications. BIS Working Papers No 815

Scribbr. (2020). What is cross-cultural competence? https://www.scribbr.com/methodology/cross-cultural-competence/

Stanford Online. (2023). What is entrepreneurship? https://www.indeed.com/career-advice/finding-a-job/advantages-entrepreneurship

Taras, V., Caprar, D. V., Rottig, D., Sarala, R. M., Zakaria, N., Zhao, F., Jiménez, A., Wankel, C., Sambharya, R. B., …, & Huang, V. Z. (2013). A global classroom? Evaluating the effectiveness of global virtual collaboration as a teaching tool in management education. *Academy of Management Learning & Education, 12*(3), 414-435

UNCTAD. (2020). Neighbours with different innovation patterns: The implications of FDI policies for cross-border collaboration in innovation. In World Investment Report 2020: International Production Beyond the Pandemic (pp. 113-115). United Nations.

Veeramani, S. & Shukla, A., & Mamaleh, M. (2020). "Financial theories of foreign direct investment: a review of literature," Economia e Politica Industriale: *Journal of Industrial and Business Economics, Springer; Associazione Amici di Economia e Politica Industriale, 47*(2), 185-217.

Veeramani, S., Shukla, A., & Jamaleh, M. (2020). Financial theories of foreign direct investment: A review of literature. *Journal of Industrial and Business Economics, 47*(2), 185-217. https://www.wallstreetmojo.com/foreign-direct-investment/

Gonzalez, A. (2017). Global investment competitiveness: New insights on FDI. World Bank Blogs. https://blogs.worldbank.org/psd/global-investment-competitiveness-new-insights-fdi

World Economic Forum. (2014). How do power dynamics affect development? https://www.weforum.org/agenda/2014/10/power-dynamics-development/