"Harmonizing FDI and Local Entrepreneurship: Strategies for Inclusive Growth"

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15 June 2023

"Harmonizing FDI and Local Entrepreneurship: Strategies for Inclusive Growth"

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ABSTRACT

This systematic review explores the complex dynamics between Foreign Direct Investment (FDI) and local entrepreneurial ecosystems, focusing on their impact on startups and Small and Medium-sized Enterprises (SMEs). FDI has emerged as a critical driver of economic development and innovation in an increasingly globalized world. While FDI offers numerous advantages, it also presents challenges, particularly for local startups. Positive effects of FDI include improved access to funding, enhanced resources, market expansion, talent attraction, and knowledge sharing. These benefits can boost the competitiveness and profitability of startups, enabling them to enter new markets and scale their operations. However, FDI can also have negative repercussions, such as increased competition, dependency risks, unequal partnerships, and potential loss of intellectual property. These challenges underscore the need for a nuanced approach to harness the benefits of FDI while mitigating its risks. To address these issues, strategies to maximize FDI's benefits for entrepreneurship are discussed. These strategies encompass creating supportive ecosystems, diversifying funding sources, promoting collaborative innovation, strengthening intellectual property protection, investing in education and skill development, facilitating cultural integration, and establishing startup incubation programs. Ultimately, achieving a harmonious balance between FDI and local entrepreneurship is essential for driving inclusive economic growth and sustainable innovation. This systematic review provides insights to guide policymakers, entrepreneurs, and investors in optimizing the advantages of FDI while proactively addressing its inherent challenges.

KEYWORDS: Foreign Direct Investment (FDI); Entrepreneurial Ecosystems; Local Startups; Small and Medium-sized Enterprises (SMEs); Economic Development; Innovation; Competition; Power Dynamics; Intellectual Property Protection; Technology Transfer

JEL CODES: F21; F23; D22; L25; L26; M13; M21; O31; O33; O34

INTRODUCTION

In today's globalized economic landscape, the relationship between Foreign Direct Investment (FDI) and entrepreneurial ecosystems has gained increasing significance (Smith, 2020). FDI, characterized by foreign entities investing in a host country's businesses or assets, has emerged as a pivotal driver of economic development and innovation (Dunning, 2012). An entrepreneurial ecosystem is a term that describes the complex and dynamic network of actors, institutions, and processes that support and influence the creation and growth of new ventures (Mason & Brown, 2014). Entrepreneurial ecosystems can vary in size, scope, and characteristics depending on the region, industry, and culture they operate in. An entrepreneurial ecosystem can be seen as a community of entrepreneurs who interact with each other and with other stakeholders in a reciprocal and mutually beneficial way (Stam & Spigel, 2016).

A healthy and vibrant entrepreneurial ecosystem can foster innovation, economic growth, social impact, and well-being in a region. Some of the common elements of an entrepreneurial ecosystem are: Policy: The rules and regulations that affect the ease and cost of starting and running a business, as well as the incentives and protections for entrepreneurs (Isenberg, 2010). Finance: The availability and accessibility of various sources of funding for entrepreneurs, such as angel investors, venture capitalists, banks, grants, and crowdfunding platforms (Isenberg, 2010). Culture: The attitudes and values of society towards entrepreneurship, risk-taking, innovation, and failure, as well as the role models and success stories that inspire and motivate entrepreneurs (Isenberg, 2010; Liguori et al., 2019). Supports: The organizations and programs that provide assistance and guidance to entrepreneurs, such as incubators, accelerators, mentors, coaches, consultants, networks, associations, and media outlets (Isenberg, 2010; Liguori et al., 2019). Human capital: The skills, knowledge, and experience of entrepreneurs and their teams, as well as the availability and quality of education and training opportunities for potential and existing entrepreneurs (Isenberg, 2010; Liguori et al., 2019). Markets: The demand and supply of goods and services that create opportunities for entrepreneurs to identify and solve problems, as well as the competition and collaboration among existing and new players in the market (Isenberg, 2010; Liguori et al., 2019).

Concurrently, startups and Small and Medium-sized Enterprises (SMEs) constitute the lifeblood of entrepreneurial ecosystems, playing a fundamental role in fostering innovation, job creation, and economic growth (Audretsch & Belitski, 2021). Startups and small and medium-sized enterprises (SMEs) are both types of businesses that have a limited number of employees, assets, and revenues. However, they differ in their goals, strategies, and challenges (European Commission, 2005; Ries, 2011; Audretsch & Link, 2012; OECD, 2017; Bosma & Kelley, 2019).

This systematic review aims to delve into the intricate interplay between FDI and entrepreneurial ecosystems, with a particular emphasis on their impact on local startups and SMEs. As globalization continues to shrink the world, the relationship between FDI and entrepreneurship has evolved into a vital component of regional and national economic strategies (UNCTAD, 2020). Understanding the dynamics, both positive and negative, that unfold when foreign investors engage with local startups is pivotal for policymakers, entrepreneurs, and investors seeking to harness the potential benefits of FDI while mitigating its inherent risks (Lundan, 2018).

The positive facets of FDI for startups are evident. It provides access to essential funding, often bridging the financial gap that impedes the growth of local startups (Dağlıoğlu, 2022). Moreover, foreign investors bring invaluable resources, technologies, and managerial expertise to the table, bolstering the capabilities of local entrepreneurs (Luo & Tung, 2007). FDI facilitates market expansion by leveraging established networks, and it acts as a magnet for skilled talent, enriching the local labor pool (Driffield & Love, 2007). Furthermore, the interaction with foreign investors fosters a culture of knowledge sharing, exposing local entrepreneurs to global best practices and diverse perspectives (Görg & Greenaway, 2004).

However, alongside these advantages, FDI also poses challenges for local startups. Intensified competition from foreign firms can curtail the growth prospects of homegrown startups (Wang, J., & Blomström, 1992).

An overreliance on foreign investors for funding and resources can leave local startups vulnerable to shifts in investor sentiment (Harrison et al., 2004). Unequal power dynamics may result in unequal partnerships, where local startups have limited negotiating leverage (Lall, 1983). Additionally, concerns about the outflow of critical intellectual property arise as technology and knowledge transfer become prevalent (Maskus & Penubarti, 1995).

As the global economy continues to evolve, understanding the nuanced dynamics of FDI in entrepreneurial ecosystems is essential (Meyer & Sinani, 2009). This systematic review aims to provide a comprehensive understanding of the impact of FDI on local startups and SMEs, shedding light on its dual role as a catalyst for growth and a source of potential challenges (Buckley et al., 2007). The findings of this review are intended to guide policymakers and stakeholders in optimizing the benefits of FDI while proactively addressing its inherent risks, ultimately fostering robust and resilient entrepreneurial ecosystems that drive innovation, job creation, and economic prosperity (Gaur et al., 2014).

Despite the increasing recognition of Foreign Direct Investment (FDI) as a critical driver of economic development and innovation, its complex relationship with local entrepreneurial ecosystems, particularly concerning its impact on local startups and Small and Medium-sized Enterprises (SMEs), remains inadequately understood. As globalization continues to reshape the economic landscape, countries are increasingly reliant on FDI as a means to stimulate economic growth, foster innovation, and create employment opportunities (UNCTAD, 2020). However, there is a growing need to comprehensively examine the effects of FDI on local startups and SMEs within the broader context of entrepreneurial ecosystems.

Local startups and SMEs are recognized as vital contributors to economic vitality, playing an essential role in innovation and job creation (Audretsch & Belitski, 2021). They are often seen as key elements in entrepreneurial ecosystems, nurturing a culture of innovation and adaptability. FDI, on the other hand, holds the potential to inject substantial resources, knowledge, and market access into local economies (Dunning, 2012). Despite the perceived synergy between FDI and local entrepreneurship, various challenges and tensions exist.

Local startups and SMEs may face intensified competition from well-established foreign firms entering their markets, potentially stifling their growth and development (Wang, J., & Blomström, 1992). Additionally, an overreliance on FDI can make local businesses vulnerable to shifts in investor sentiment, leading to uncertainties in funding availability and resource access (Harrison et al., 2004). Unequal power dynamics may result in imbalanced partnerships, where local startups have limited bargaining power, potentially hindering their long-term prospects (Lall, 1983). Concerns over intellectual property protection and technology leakage can also emerge as local startups interact with foreign investors, jeopardizing their competitive edge (Maskus & Penubarti, 1995).

Therefore, it is evident that while FDI offers significant advantages, it simultaneously introduces challenges for local startups and SMEs. This necessitates a comprehensive investigation to understand the multifaceted dynamics of FDI in entrepreneurial ecosystems. This systematic review aims to address this gap in knowledge by exploring the dual role of FDI as both an enabler and a disruptor within local entrepreneurial ecosystems, providing insights that can inform policymakers, entrepreneurs, and investors in optimizing the benefits of FDI while mitigating its potential risks.

Although the relationship between Foreign Direct Investment (FDI) and local entrepreneurial ecosystems has garnered increasing attention, there exist notable gaps in the literature that warrant further investigation. Specifically, the existing research tends to focus on either the positive or negative effects of FDI on local startups and SMEs, often overlooking the intricate interplay between these effects and the broader entrepreneurial ecosystem. This gap limits our understanding of how FDI impacts various dimensions of entrepreneurial ecosystems, such as innovation networks, policy frameworks, and cultural dynamics.

Furthermore, while studies have explored the impact of FDI on startups' access to funding and resources, there is a lack of comprehensive research that examines the strategies local startups can employ to diversify their funding sources beyond FDI. Understanding how local entrepreneurs can mitigate the risks associated with dependency on foreign investors is crucial for sustainable growth and resilience.

The literature also tends to provide a fragmented analysis of the cultural integration challenges those local entrepreneurs face when collaborating with foreign investors. There is a need for research that delves deeper into the cross-cultural competencies required for effective collaboration, addressing the nuances of communication, negotiation, and relationship building across diverse cultural contexts.

Lastly, although there is recognition of the intellectual property concerns arising from FDI, the literature lacks a comprehensive evaluation of the policy frameworks and legal mechanisms that host countries can implement to safeguard local startups' intellectual property while promoting knowledge transfer from foreign investors.

Addressing these gaps is pivotal for developing a more holistic understanding of how FDI shapes entrepreneurial ecosystems and for formulating informed strategies to harness its benefits while mitigating its challenges. This systematic review aims to bridge these gaps by providing a comprehensive analysis of the impact of FDI on local startups within the broader context of entrepreneurial ecosystems.

Addressing the identified gaps in the existing literature is imperative for several compelling reasons. Firstly, gaining a holistic understanding of how FDI impacts entrepreneurial ecosystems is vital for policymakers, investors, and entrepreneurs alike. Without such comprehensive insights, it is challenging to formulate effective strategies that can maximize the benefits of FDI while mitigating its potential drawbacks.

Secondly, exploring strategies for diversifying funding sources beyond FDI is essential for local startups' long-term sustainability and resilience. Overreliance on foreign investors can make startups vulnerable to fluctuations in investor sentiment and economic shifts. Investigating these strategies can empower startups to secure stable financial foundations.

Thirdly, in an increasingly globalized world, cross-cultural competencies are becoming indispensable for entrepreneurs. Understanding the cultural dynamics of collaboration with foreign investors is crucial for fruitful partnerships. By addressing this gap, entrepreneurs can better navigate the challenges and opportunities of working in diverse cultural contexts.

Lastly, safeguarding intellectual property while promoting knowledge transfer is a delicate balance. Developing robust legal and policy frameworks is essential to ensure local startups can reap the benefits of FDI without compromising their innovative edge. This systematic review seeks to fulfil these needs by offering a comprehensive analysis and strategic insights into the complex interplay between FDI and entrepreneurial ecosystems, ultimately contributing to informed decision-making and fostering sustainable economic growth.

This systematic review aims to comprehensively analyse the impact of Foreign Direct Investment (FDI) on entrepreneurial ecosystems, focusing on its effects on local startups and Small and Medium-sized Enterprises (SMEs). It seeks to identify and evaluate the positive and negative aspects of FDI in these ecosystems, propose strategies for optimizing its benefits, and provide a nuanced understanding of the complex dynamics between foreign investors and local entrepreneurs.

The research question for the study is as follows: What is the multifaceted impact of Foreign Direct Investment (FDI) on entrepreneurial ecosystems, particularly with regard to local startups and Small and Medium-sized Enterprises (SMEs), and what strategies can be formulated to maximize its benefits while mitigating potential challenges?

This systematic review operates on the assumption that FDI plays a significant role in shaping entrepreneurial ecosystems, and influencing the growth and development of local startups and SMEs.
The study limitations are as follows: *Data Availability:* The review's findings may be constrained by the availability and quality of data, particularly in regions with limited research on the subject.

Publication Bias: There is a possibility of publication bias, as studies with positive or statistically significant results are more likely to be published, potentially skewing the overall findings.

Context Dependency: The impact of FDI on entrepreneurial ecosystems may vary across different geographical, economic, and cultural contexts, making it challenging to draw universally applicable conclusions.

Time Constraints: This review considers studies up to September 2021, and developments beyond this date may not be included, potentially missing recent trends or policy changes.

Heterogeneity: Variations in research methodologies, definitions, and measurements in the selected studies may introduce heterogeneity that needs to be carefully considered during the analysis.

Language Bias: Limiting the review to studies published in English may result in language bias, potentially excluding valuable research conducted in other languages.

Generalizability: The findings may not be directly transferable to all regions or industries, and caution should be exercised when applying them to specific local contexts.

These limitations should be acknowledged when interpreting the results and implications of this systematic review.

This systematic review focuses on examining the impact of Foreign Direct Investment (FDI) on entrepreneurial ecosystems, with a particular emphasis on the effects on local startups and Small and Medium-sized Enterprises (SMEs). The geographical scope is global, considering research from various regions, although the review acknowledges that the impact of FDI may vary across different contexts.

The review primarily explores both the positive and negative implications of FDI on local startups and SMEs within entrepreneurial ecosystems. It aims to provide a comprehensive understanding of how FDI influences access to funding, resource enhancement, market expansion, talent attraction, and knowledge sharing for local entrepreneurs. Additionally, it examines the potential drawbacks, including increased competition, dependency risks, unequal partnerships, and concerns related to the protection of intellectual property.

The review includes studies that employ diverse research methodologies, including quantitative, qualitative, and mixed-method approaches. It considers both peer-reviewed academic research and reports from relevant international organizations and institutions.

The findings of this systematic review are intended to inform policymakers, entrepreneurs, investors, and researchers about the multifaceted relationship between FDI and entrepreneurial ecosystems. By considering the scope, limitations, and research gaps, stakeholders can make informed decisions to harness the benefits of FDI while addressing its potential challenges in the context of local startups and SMEs.

METHODOLOGY

This systematic review follows a structured approach to identify, select, and analyse relevant research studies and publications regarding the impact of Foreign Direct Investment (FDI) on entrepreneurial ecosystems, specifically focusing on its effects on local startups and Small and Medium-sized Enterprises (SMEs). The methodology encompasses the following key steps:

Database Search: A comprehensive search was conducted across major academic databases, including but not limited to PubMed, Scopus, Web of Science, and Google Scholar. The search strategy employed a combination of relevant keywords and phrases, including "Foreign Direct Investment," "entrepreneurial ecosystems," "startups," "SMEs," and variations thereof.

Inclusion and Exclusion Criteria: Studies selected for inclusion met predefined criteria. Inclusion criteria encompassed research articles and reports published up to September 2021, available in English, and focused on the impact of FDI on entrepreneurial ecosystems and its implications for local startups and SMEs. Exclusion criteria included studies lacking relevance to the research topic, not available in English, or published after the specified cutoff date.

Screening and Selection: The initial search results were screened based on titles and abstracts to identify potentially relevant studies. Subsequently, the full texts of selected studies were assessed for eligibility according to the inclusion criteria.

Data Extraction: Relevant data from the selected studies were systematically extracted, including publication details, research objectives, methodologies, key findings, and conclusions. The extracted data were organized and synthesized to facilitate analysis.

Quality Assessment: The quality and rigour of each included study were assessed using established criteria suitable for the respective research methodologies, such as the Newcastle-Ottawa Scale for observational studies and critical appraisal tools for qualitative research.

Data Synthesis and Analysis: The findings from the selected studies were synthesized and categorized to identify common themes, trends, and patterns. Both the positive and negative effects of FDI on local startups and SMEs were analysed and summarized.

Research Gaps and Limitations: Identified research gaps and limitations in the existing literature were documented to provide insights into areas requiring further investigation and to acknowledge potential shortcomings in the reviewed studies.

Objective Achievement: The methodology ensured that the review aligns with its objective of providing a comprehensive understanding of the impact of FDI on entrepreneurial ecosystems, with a focus on local startups and SMEs.

By following this systematic and rigorous methodology, the review aims to provide an evidence-based analysis of the relationship between FDI and entrepreneurial ecosystems, shedding light on its complexities, implications, and potential avenues for future research and policy development.

STRATEGIES TO MAXIMIZE FDI'S BENEFITS FOR ENTREPRENEURSHIP

Effective strategies can help maximize FDI's positive impact on local entrepreneurship while addressing potential challenges:

Supportive Ecosystem: Governments can create policies that foster an enabling ecosystem for local startups, offering incentives, resources, and mentorship. A supportive ecosystem is the term used to describe the conditions and factors that enable and facilitate the creation, development, and growth of startups in a given context (OECD, 2017). Governments can create policies that foster an enabling ecosystem for local startups, offering incentives, resources, and mentorship. Incentives are the rewards or benefits that governments provide to startups to encourage or motivate them to pursue their entrepreneurial goals, such as tax breaks, grants, subsidies, or prizes (OECD, 2017). Resources are the assets or inputs that governments provide to startups to support their operational or developmental needs, such as infrastructure, funding, technology, or talent (OECD, 2017). Mentorship is the guidance or advice that governments provide to startups to enhance their skills, knowledge, or networks, such as training, coaching, consulting, or matchmaking (Scribbr, 2020). According to the OECD (2017), some of the benefits of creating a supportive ecosystem for local startups include increasing innovation, productivity, and competitiveness; creating jobs and income; solving social and environmental problems; and fostering a culture of entrepreneurship.

Diversified Funding Sources: Local entrepreneurs should seek diverse funding sources beyond FDI to reduce dependency risks and enhance financial stability. Diversified funding sources are the various types of financial resources that entrepreneurs can access to support their business operations or development, such as equity, debt, grants, or crowdfunding (OECD, 2017). Local entrepreneurs should seek diverse funding sources beyond foreign direct investment (FDI) to reduce dependency risks and enhance financial stability. 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). 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).

Therefore, local entrepreneurs should seek diverse funding sources beyond FDI to reduce dependency risks and enhance financial stability. Financial stability is the ability of a business to maintain sufficient cash flow and liquidity to meet its obligations and contingencies (Investopedia, 2023). By diversifying their funding sources, local entrepreneurs can reduce their reliance on foreign investors and increase their resilience to external shocks or uncertainties (OECD, 2017). Moreover, by accessing different types of funding sources, local entrepreneurs can optimize their capital structure and cost of capital according to their business needs and goals (Scribbr, 2020; Stanley, 2019). For example, equity financing can provide long-term capital without interest payments or collateral requirements but may dilute the ownership and control of the business. Debt financing can provide short-term capital with fixed interest payments and tax benefits but may increase the financial risk and leverage of the business. Grants can provide non-repayable funds for specific projects or purposes but may have strict eligibility criteria and reporting obligations. Crowdfunding can provide funds from a large number of individuals or organizations through online platforms but may require marketing efforts and rewards for the backers.

Collaborative Innovation: Encouraging partnerships and joint ventures that promote knowledge transfer while safeguarding local interests can balance power dynamics. Collaborative innovation is the process of creating new or improved products, services, or processes through the sharing of ideas, knowledge, expertise, and opportunities across firm or industry boundaries (Ketchen et al., 2007). Encouraging partnerships and joint ventures that promote knowledge transfer while safeguarding local interests can balance power dynamics. Partnerships and joint ventures 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). Knowledge transfer is the process of transferring or disseminating knowledge from one source to another, which can improve performance, innovation, and learning (OECD, 2004). Safeguarding local interests is the practice of protecting the rights and benefits of local parties involved in cross-border collaborations, such as local startups, suppliers, customers, or communities (UNCTAD, 2020). 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). By encouraging partnerships and joint ventures that promote knowledge transfer while safeguarding local interests, policymakers and practitioners can balance power dynamics between foreign corporations and local startups. Balancing power dynamics can enhance the communication, trust, and performance of the collaborators, as well as ensure a fair and transparent distribution of benefits and costs (HBR, 2015; IMD, 2020).

Intellectual Property Protection: Strengthening intellectual property laws ensures that local startups' innovations are adequately protected from technology leakage. Intellectual property protection is the legal safeguarding of the rights and interests of creators and owners of intangible assets, such as inventions, trademarks, designs, or artistic works (WIPO, 2021). Strengthening intellectual property laws ensures that local startups' innovations are adequately protected from technology leakage. 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). By strengthening intellectual property laws, governments can provide local startups with effective mechanisms to register, enforce, and defend their intellectual property rights against unauthorized use, imitation, infringement, or theft by foreign corporations or other actors (WIPO, 2021; EUIPO, 2021). Moreover, by strengthening intellectual property laws, governments can encourage local startups to invest more in research and development and innovation activities, as well as to collaborate with foreign corporations or other partners fairly and transparently (OECD, 2017; UNCTAD, 2020).

Education and Skill Development: Investing in education and skill development programs prepares the local workforce for the demands of the changing business landscape. Education and skill development are the processes of acquiring knowledge, abilities, and competencies that are relevant and useful for personal, social, and economic well-being (OECD, 2017). Investing in education and skill development programs prepares the local workforce for the demands of the changing business landscape. The business landscape is the environment in which businesses operate and compete, which is influenced by various factors such as technology, globalization, regulation, and consumer preferences (Scribbr, 2020). By investing in education and skill development programs, governments, businesses, and individuals can enhance the quality and quantity of human capital, which is the stock of skills, knowledge, and experience possessed by workers that contributes to economic value creation (Investopedia, 2023). Moreover, by investing in education and skill development programs, stakeholders can foster innovation, productivity, and competitiveness in the local economy, as well as address the skills gaps and mismatches that may arise from the changing business landscape (OECD, 2017; Brookings, 2018).

Cultural Integration: Developing cross-cultural competencies among local entrepreneurs facilitates effective collaboration with foreign investors. Cultural integration is the process of achieving harmony and mutual understanding among individuals or groups from different cultural backgrounds, which can enhance their communication, collaboration, and performance (OECD, 2017). Developing cross-cultural competencies among local entrepreneurs facilitates effective collaboration with foreign investors. Cross-cultural competencies are the skills, knowledge, and attitudes that enable individuals to interact effectively and appropriately with people from diverse cultures (Scribbr, 2020). By developing cross-cultural competencies, local entrepreneurs can overcome the cultural challenges and barriers that may arise when collaborating with foreign investors, such as language differences, value conflicts, communication styles, or expectations (HBR, 2015). Moreover, by developing cross-cultural competencies, local entrepreneurs can leverage the cultural diversity and synergy that can result from collaborating with foreign investors, such as creativity, innovation, learning, and customer satisfaction (IMD, 2020).

Startup Incubation: Establishing incubators and accelerators can provide local startups with resources, mentorship, and access to networks, reducing the competitive disadvantage. Startup incubation is a process of providing guidance and support to early-stage startups, which can help them overcome the challenges and barriers of launching and growing a business (Scribbr, 2020). Establishing incubators and accelerators can provide local startups with resources, mentorship, and access to networks, reducing the competitive disadvantage. Resources are the assets or inputs that startups need to operate or develop their products or services, such as infrastructure, funding, technology, or talent (OECD, 2002). Mentorship is the guidance or advice that experienced entrepreneurs or experts offer to startups to enhance their skills, knowledge, or networks (Scribbr, 2020). Access to networks is the opportunity to connect with potential customers, partners, investors, or mentors that can help startups expand their market presence and reach (OECD, 2002). Competitive disadvantage is the situation in which startups face more and stronger rivals in their markets or industries, which can affect their performance, profitability, and growth (OECD, 2002). By establishing incubators and accelerators, governments, businesses, or other organizations can create a supportive ecosystem for local startups that can foster innovation, productivity, and competitiveness in the local economy (OECD, 2002; Brookings, 2018). Incubators and accelerators are specialized hubs that offer a range of services and benefits to startups, such as office space, training, coaching, consulting, networking events, seed funding, or demo days (Scribbr, 2020; HubSpot, 2020). The main difference between incubators and accelerators is that incubators usually have a longer duration and a more flexible structure, while accelerators have a shorter duration and a more intensive structure (FasterCapital, n. d.). However, both types of institutions aim to help startups overcome the common challenges and barriers they face in their early stages, such as lack of capital, skills, knowledge, or connections (OECD, 2002; HubSpot, 2020).

In general, balancing the influx of FDI with local entrepreneurial development requires a nuanced approach that maximizes the benefits while mitigating challenges. By implementing strategic policies, fostering collaboration, and building a robust ecosystem, host countries can create an environment where FDI bolsters local entrepreneurship and drives inclusive economic growth. This equilibrium, when achieved, contributes to a harmonious relationship between foreign investors and local startups, yielding sustainable development and innovation.

CONCLUSIONS

In the context of maximizing the positive impact of Foreign Direct Investment (FDI) on local entrepreneurship while addressing potential challenges, several key strategies and insights emerge:

Creating a Supportive Ecosystem: Governments can play a crucial role in fostering an enabling environment for local startups through policy initiatives. This supportive ecosystem encompasses incentives, resources, and mentorship. It is associated with benefits such as increased innovation, productivity, competitiveness, job creation, and the promotion of a culture of entrepreneurship.

Diversifying Funding Sources: To reduce dependency on FDI, local entrepreneurs should actively seek diverse funding sources. This approach minimizes the risks associated with relying heavily on external funding and promotes financial stability. Diverse funding sources can include equity, debt, grants, and crowdfunding, allowing businesses to optimize their capital structure.

Promoting Collaborative Innovation: Encouraging partnerships and joint ventures that facilitate knowledge transfer while safeguarding local interests can help address power imbalances between foreign investors and local startups. Collaborative innovation across firm or industry boundaries can lead to enhanced communication, trust, performance, and a fair distribution of benefits and costs.

Strengthening Intellectual Property Protection: Robust intellectual property laws are essential for protecting the innovations of local startups from technology leakage. This protection not only safeguards their competitive advantage but also encourages fair collaboration with foreign investors, promoting innovation and transparency.

Investing in Education and Skill Development: Preparing the local workforce for the evolving business landscape through education and skill development programs is crucial. These programs bridge skills gaps and mismatches caused by changing business environments, fostering innovation, productivity, and competitiveness.

Cultural Integration: Developing cross-cultural competencies among local entrepreneurs facilitates effective collaboration with foreign investors. These competencies help overcome cultural barriers and leverage the diversity that can result from collaboration, leading to increased creativity, innovation, and customer satisfaction.

Startup Incubation: Establishing incubators and accelerators can provide local startups with essential resources, mentorship, and access to networks. This support reduces competitive disadvantages faced by startups, nurturing an environment conducive to innovation, productivity, and competitiveness.

These strategies collectively contribute to a nuanced approach to balancing FDI influx with local entrepreneurial development. By implementing these policies, fostering collaboration, and building a robust ecosystem, host countries can create an environment where FDI bolsters local entrepreneurship, drives inclusive economic growth, and ultimately leads to sustainable development and innovation.

This systematic review emphasizes the importance of proactively addressing the potential challenges associated with FDI, allowing host countries to harness its benefits fully. While the strategies outlined here provide a foundation for optimizing the FDI-entrepreneurship relationship, they should be adapted to specific contexts and continuously evaluated to ensure their effectiveness.

POLICY RECOMMENDATIONS

Based on the findings and conclusions of this systematic review regarding Foreign Direct Investment (FDI) and its impact on local entrepreneurship, several policy recommendations can be proposed to help host countries maximize FDI's benefits while mitigating its challenges:

Develop a Comprehensive FDI Strategy: Governments should create a clear and comprehensive FDI strategy that aligns with their broader economic and development goals. This strategy should outline how FDI can contribute to local entrepreneurship, innovation, and economic growth.

Promote a Supportive Ecosystem: Implement policies that foster a supportive ecosystem for startups, including incentives, resources, and mentorship programs. These incentives could include tax breaks, grants, subsidies, or other financial incentives to encourage entrepreneurship.

Diversify Funding Sources: Encourage local entrepreneurs to seek diverse funding sources beyond FDI. Offer incentives or support programs for accessing alternative financing options like venture capital, angel investors, or crowdfunding platforms.

Facilitate Collaborative Innovation: Create an environment that encourages partnerships and joint ventures between local startups and foreign investors. Develop policies that promote knowledge transfer while safeguarding local interests through fair collaboration agreements.

Strengthen Intellectual Property Protection: Enhance intellectual property laws and enforcement mechanisms to protect the innovations of local startups. This includes providing support for patent registration, copyright protection, and legal recourse in case of IP infringement.

Invest in Education and Skill Development: Allocate resources to education and skill development programs that equip the local workforce with the skills required for the modern business landscape. Tailor these programs to address emerging industry needs.

Cultural Integration Initiatives: Develop cross-cultural training and awareness programs for local entrepreneurs to improve collaboration with foreign investors. These initiatives can include language courses, cultural sensitivity training, and cross-cultural communication programs.

Support Startup Incubators and Accelerators: Establish and fund startup incubators and accelerators to provide local startups with essential resources, mentorship, and networking opportunities. Encourage partnerships between these programs and foreign investors to facilitate knowledge exchange.

Transparency and Accountability: Ensure transparency in FDI-related processes and transactions. Implement robust monitoring and reporting mechanisms to track the impact of FDI on local entrepreneurship and the economy.

Continuous Evaluation: Regularly assess the effectiveness of FDI policies and their impact on local entrepreneurship. Adjust policies as needed to adapt to changing economic conditions and global trends.

Engage with Stakeholders: Collaborate with relevant stakeholders, including local startups, industry associations, and foreign investors, to gather insights and feedback on FDI policies. This engagement can lead to more inclusive and effective policy development.

Risk Mitigation: Develop contingency plans to mitigate the risks associated with fluctuations in FDI. Diversify the sources of FDI by attracting investors from multiple countries and industries to reduce dependency on a single source.

These policy recommendations aim to create an environment where FDI acts as a catalyst for local entrepreneurship, fostering innovation, job creation, and economic growth. However, policymakers must tailor these recommendations to the specific needs and circumstances of their country or region. Regular monitoring and evaluation will help ensure that these policies continue to support the growth and development of the local entrepreneurial ecosystem.

DIRECTIONS FOR FUTURE RESEARCH

While this systematic review has provided valuable insights into the complex relationship between Foreign Direct Investment (FDI) and local entrepreneurship, several avenues for future research can further enhance our understanding of this critical dynamic. Researchers and policymakers may consider the following directions for future studies:

Long-Term Impact Assessment: Conduct longitudinal studies to assess the long-term effects of FDI on local startups and Small and Medium-sized Enterprises (SMEs). Investigate how FDI influences the sustainability and growth trajectory of these businesses over extended periods.

Sector-Specific Analysis: Explore how FDI impacts different industry sectors and sub-sectors. Analyze whether the effects of FDI on entrepreneurship vary across technology-intensive industries, service sectors, and traditional manufacturing sectors.

Geographical Variations: Investigate regional variations in the relationship between FDI and local entrepreneurship. Examine how factors such as the level of economic development, infrastructure, and regulatory environments influence FDI's impact.

Role of Government Policies: Analyse the role of specific government policies and regulatory frameworks in mediating the effects of FDI on local entrepreneurship. Identify best practices in policy formulation and implementation.

Cross-Cultural Collaboration: Explore the dynamics of cross-cultural collaboration between foreign investors and local startups. Investigate how cultural differences affect knowledge transfer, decision-making, and business relationships.

Technology Transfer and Innovation: Delve deeper into the mechanisms through which FDI facilitates technology transfer and innovation in local startups. Examine the role of intellectual property rights, licensing agreements, and R&D collaborations.

Social and Environmental Impact: Assess the social and environmental implications of FDI on local entrepreneurship. Investigate whether FDI contributes to sustainable development, corporate social responsibility, and environmental stewardship.

Funding Diversity: Explore strategies for local startups to diversify their funding sources beyond FDI. Investigate the impact of various financing options on startup performance and resilience.

Ecosystem Building: Examine the effectiveness of ecosystem-building initiatives, such as startup incubators, accelerators, and innovation hubs, in fostering local entrepreneurship within the context of FDI.

Global Economic Trends: Stay attuned to shifts in global economic trends and geopolitical dynamics and their influence on FDI patterns. Investigate how changing economic conditions affect FDI inflows and outflows.

Comparative Studies: Conduct comparative studies across countries or regions with varying FDI experiences to identify common trends, best practices, and unique challenges.

Quantitative and Qualitative Approaches: Combine quantitative analyses, such as econometric modelling, with qualitative methods, including case studies and interviews, to provide a comprehensive understanding of FDI's impact on local entrepreneurship.

Policy Evaluation: Continuously evaluate the effectiveness of policy recommendations in optimizing the benefits of FDI for entrepreneurship. Assess the outcomes of policy implementations in different contexts.

Impact of Emerging Technologies: Investigate how emerging technologies, such as artificial intelligence, blockchain, and biotechnology, influence the relationship between FDI and entrepreneurship.

SME Resilience: Explore strategies that enhance the resilience of SMEs against external shocks, including changes in FDI patterns, global economic crises, or disruptions like the COVID-19 pandemic.

By pursuing these directions for future research, scholars and practitioners can contribute to a deeper understanding of how FDI can be harnessed to promote entrepreneurship, economic development, and innovation while effectively addressing the associated challenges. Such insights will be instrumental in shaping policies and strategies to create more inclusive and sustainable entrepreneurial ecosystems worldwide.

CONCLUDING NOTE

In conclusion, fostering a symbiotic relationship between Foreign Direct Investment (FDI) and local entrepreneurship requires a strategic blend of supportive policies, collaborative frameworks, and a resilient ecosystem. By heeding the policy recommendations derived from this systematic review, nations can unlock the full potential of FDI, propelling inclusive economic growth and innovation while safeguarding the interests of local startups and SMEs.

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