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# "Empowering Communities: A Systematic Review of FDI Initiatives for Skill Development and Local Capacity Building"

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## ABSTRACT

Foreign Direct Investment (FDI) has emerged as a significant driver of skill development and local capacity building within host countries. This systematic review explores the mechanisms through which FDI initiatives contribute to skill enhancement, knowledge transfer, and the overall development of local talent and economies. By examining various channels of knowledge exchange, including training programs, joint ventures, technology licensing, mentorship, research collaborations, and more, this review provides insights into the dynamic synergy created when global expertise meets local talent. The review highlights the multifaceted benefits of FDI for communities, including improved competitiveness, innovation, and sustainable growth. Through a systematic and comprehensive analysis of existing literature, this review sheds light on the pivotal role FDI plays in empowering communities and fostering continuous development. Policymakers, scholars, and practitioners seeking to leverage FDI for local capacity building will find this review to be a valuable resource.

**KEYWORDS:** Skill Development; Local Capacity Building; Knowledge Transfer; Training Programs; Joint Ventures; Technology Licensing; Mentorship; Research Collaborations; Empowerment; Sustainable Development; Innovation; Global Expertise; Local Talent; Community Development

**JEL CODES:** F21; F23; O32; O33; O35; O38; I25

## INTRODUCTION

In an era of globalization, the dynamics of Foreign Direct Investment (FDI) have transformed not only the contours of international business but also the trajectories of local economic development. FDI initiatives, characterized by foreign entities investing in the businesses and industries of host countries, have become pivotal catalysts for knowledge exchange, skill development, and local capacity building (Piteli, 2018; OECD, 2002). This systematic review embarks on a comprehensive exploration of how FDI initiatives contribute significantly to enhancing skills and fostering local capacity within host countries.

The impact of FDI extends beyond the infusion of capital; it plays an instrumental role in shaping the capabilities and competencies of local workers and enterprises (Reyes & Atkinson, 2018; Ando & Wang, 2020; OECD, 2020). This systematic review seeks to delve into the multifaceted mechanisms through which FDI facilitates skill enhancement and empowers local communities. As global businesses engage with local talents and resources, the fusion of global expertise with local ingenuity creates a dynamic synergy that propels not only the growth of individual workers but also the sustainable development of entire communities.

The review traverses various dimensions of this symbiotic relationship. Through structured training programs, joint ventures, technology licensing, mentorship, research collaborations, and other formal and informal channels, FDI acts as a conduit for the transfer of knowledge, skills, and innovative practices (Elboiashi, 2011; Newman et al., 2019; Keller, 2021). We will explore how FDI initiatives equip local employees with new proficiencies, enabling them to perform at par with global standards (Michie, 2001;

OECD, 2008; Hale & Xu, 2016). Furthermore, FDI sparks innovation, fosters adaptability, and nurtures an entrepreneurial mindset among local workers, all of which are crucial elements in today's rapidly changing economic landscape (Naumann et al., 2020; Ha et al., 2021; Kurshan & Schoeniger, 2022).

In understanding this intricate relationship, the study also considers the challenges and opportunities that come hand in hand with FDI. Language barriers, cultural differences, and governance issues often pose hurdles, but they are countered by the invaluable benefits of exposure to diverse perspectives and cross-cultural experiences (Dunning & Lundan, 2008; Kostova et al., 2008; Ghemawat, 2017). The study weighs the advantages against the challenges, providing a balanced perspective on the dynamics of knowledge transfer through FDI.

Moreover, it is imperative to investigate the extent and nature of spillover effects, and how the skills acquired through FDI initiatives ripple through the broader labour market and local economy (Borensztein et al., 1998; Crespo, N., & Fontoura, 2007; Farole & Winkler, 2014). This review will explore how FDI does not merely benefit the immediate workforce but catalyses a ripple effect of growth that empowers communities at large.

Ultimately, this systematic review aims to unravel the profound ways in which FDI initiatives contribute to skill enhancement and local capacity building, driving sustainable development and fostering economic empowerment (Blomström & Kokko, 2003; Alfaro et al., 2010; UNCTAD, 2014). As we dissect the intricate web of knowledge transfer and skill development facilitated by FDI, the study sheds light on the transformative potential of global engagement in local contexts. This exploration holds significance not only for scholars and policymakers but also for businesses seeking to harness the power of FDI to enrich the human capital and economic ecosystem of host countries.

Despite the acknowledged potential of Foreign Direct Investment (FDI) initiatives to contribute significantly to skill enhancement and local capacity building within host countries (Blalock & Gertler, 2008; Görg & Greenaway, 2004; Javorcik, 2004), there exists a gap in the understanding of the mechanisms and factors that influence the effectiveness of these initiatives. While it is evident that multinational corporations (MNCs) offer training programs, knowledge diffusion, technology exposure, cross-cultural collaboration, spillover effects, and foster entrepreneurial mindsets (Blomström & Kokko, 1998; Alcácer & Oxley, 2013; Balsvik et al., 2015), the specific conditions and variations that determine the impact of these initiatives remain underexplored.

Moreover, the literature lacks a comprehensive analysis of the formal and informal mechanisms for knowledge transfer from MNCs to local enterprises, including training programs, joint ventures, supplier networks, technology licensing, mentorship, and research collaborations. Consequently, there is a need for a systematic investigation to elucidate the nuances of how FDI initiatives facilitate skill development and local capacity building, with a focus on the factors that influence their success or limitation. This research aims to address these gaps in knowledge to provide valuable insights for policymakers, MNCs, and local enterprises seeking to optimize the benefits of FDI for skill enhancement and local economic development.

By conducting an in-depth analysis of these aspects, this study seeks to contribute to a more comprehensive and nuanced understanding of the role of FDI initiatives in skill development and local capacity building, thereby informing strategies for maximizing their positive impacts in host countries.

The gaps identified in the literature are as follows: *Inadequate Examination of Training Program Variations*: While existing literature acknowledges the benefits of training programs, there's a lack of comprehensive research that delves into the specific types and designs of training programs employed by multinational corporations (MNCs) and how these variations impact local skill development differently.

*Limited Understanding of Knowledge Diffusion Factors*: Although knowledge diffusion is recognized as a positive outcome of FDI, there's a dearth of research exploring the factors that facilitate or hinder this

process. Understanding the determinants of effective knowledge diffusion could provide insights for both MNCs and local enterprises.

*Insufficient Assessment of Technology Exposure Impact:* Research often mentions technology exposure as a positive outcome, but there's a lack of in-depth analysis regarding the duration and sustainability of the effects of this exposure. A more nuanced examination of how long-lasting these benefits are could provide valuable insights.

*Cross-Cultural Collaboration Challenges:* While the benefits of cross-cultural collaboration are highlighted, the literature doesn't extensively explore strategies to mitigate the challenges associated with such collaborations. Identifying effective methods for overcoming language barriers, cultural misunderstandings, and other obstacles is essential.

*In-Depth Analysis of Spillover Effects:* The literature acknowledges spillover effects but doesn't provide a thorough examination of the factors that influence the extent and nature of these effects. A deeper dive into the specific conditions that maximize positive spillovers is warranted.

*Entrepreneurial Mindset Development:* While fostering an entrepreneurial mindset is recognized as an outcome, the literature doesn't delve into the factors that facilitate the development of this mindset. Investigating the role of mentorship, exposure to specific business practices, and other factors could provide valuable insights.

The need to address the Gaps in the Literature is as follows: *Comprehensive Training Program Analysis:* The existing literature underscores the advantages of training programs but lacks a comprehensive analysis of the diverse types and designs of these programs implemented by multinational corporations (MNCs). Addressing this gap through in-depth research can offer a nuanced understanding of how various training program variations influence local skill development outcomes uniquely. *Exploring Knowledge Diffusion Dynamics:* The literature acknowledges knowledge diffusion as a positive consequence of FDI, yet it falls short in investigating the specific factors that either facilitate or impede this process. Conducting research that delves into the determinants of effective knowledge diffusion could provide actionable insights for both MNCs and local enterprises to enhance their collaborative efforts. *Sustainability of Technology Exposure Benefits:* While the literature mentions the benefits of technology exposure, it lacks a comprehensive exploration of the long-term sustainability of these advantages. There is a need for research that delves into the duration and enduring impacts of technology exposure, shedding light on how local skill enhancement can be maintained over time. *Mitigating Cross-Cultural Collaboration Challenges:* The literature highlights the benefits of cross-cultural collaboration but overlooks strategies for mitigating the challenges associated with such collaborations. Addressing this gap requires research that identifies effective methods for overcoming language barriers, cultural misunderstandings, and other obstacles, fostering smoother interactions between diverse teams. *In-Depth Analysis of Spillover Effects:* While the literature acknowledges spillover effects, it falls short in providing an in-depth analysis of the specific factors that shape the extent and nature of these effects. To fill this gap, future research should delve into the intricate conditions that maximize positive spillovers, offering a more detailed understanding of their potential impact. *Factors Driving Entrepreneurial Mindset Development:* The existing literature acknowledges the development of an entrepreneurial mindset as a desirable outcome but lacks an exploration of the factors that drive this development. Addressing this gap necessitates research that investigates the role of mentorship, exposure to specific business practices, and other influential factors in fostering an entrepreneurial mindset among local employees.

By addressing these gaps in the literature, future research endeavours can contribute to a more holistic and nuanced understanding of the intricate dynamics between FDI initiatives, skill enhancement, and local capacity building. This enriched knowledge can guide policymakers, practitioners, and stakeholders in optimizing the benefits of FDI for host countries, fostering sustainable development and inclusive growth.

The primary objective of this comprehensive review is to critically analyse the role of Foreign Direct Investment (FDI) initiatives in skill enhancement and local capacity building within host countries. This review aims to achieve the following specific objectives: *Identify and Summarize FDI Initiatives*: To systematically review and document various FDI initiatives, such as training programs, knowledge diffusion, technology exposure, cross-cultural collaboration, spillover effects, and the fostering of entrepreneurial mindsets, employed by multinational corporations (MNCs) within host countries. *Examine Mechanisms for Knowledge Transfer*: To investigate both formal and informal mechanisms for knowledge transfer from MNCs to local enterprises, including training programs, joint ventures, supplier networks, technology licensing, mentorship, and research collaborations. *Assess Factors Influencing Effectiveness*: To evaluate the contextual and organizational factors that influence the effectiveness of FDI initiatives in skill development and local capacity building, such as the type and quality of FDI, absorptive capacity, regulatory environments, and geographical proximity. *Identify Gaps in the Literature*: To identify gaps and limitations in the existing literature, highlighting areas where further research is needed to gain a deeper understanding of how FDI initiatives contribute to skill enhancement and local capacity building. *Provide Policy and Practice Recommendations*: To synthesize findings and provide evidence-based recommendations for policymakers, MNCs, and local enterprises on optimizing the positive impacts of FDI initiatives, fostering skill development, and promoting sustainable local economic development.

By addressing these objectives, this review intends to contribute valuable insights to the academic community, policymakers, and practitioners, facilitating informed decision-making and strategic planning in the context of FDI initiatives and their impact on skill enhancement and local capacity building.

The research question for the review is "How do Foreign Direct Investment (FDI) initiatives contribute to skill enhancement and local capacity building in host countries, and what are the key mechanisms and contextual factors that influence their effectiveness?"

"This review assumes that Foreign Direct Investment (FDI) initiatives have the potential to positively impact skill enhancement and local capacity building within host countries, contingent upon specific mechanisms and contextual variables."

The limitations of the review are *Language Bias*: The review primarily focuses on literature available in English. Relevant research in other languages may be omitted. *Geographical Focus*: Although the review encompasses FDI initiatives across host countries, there may be variations in the impact of FDI on skill enhancement and local capacity building based on geographical regions and economic contexts. *Publication Bias*: There might be a bias towards published studies, potentially excluding valuable insights from unpublished research, reports, or grey literature. *Methodological Variability*: The included studies may employ diverse research methods, making it challenging to directly compare findings.

The scope of this review encompasses a comprehensive examination of how Foreign Direct Investment (FDI) initiatives contribute to skill enhancement and local capacity building in host countries. It includes an exploration of mechanisms for knowledge transfer from multinational corporations to local enterprises. The review aims to provide a synthesis of existing literature, identify gaps, and offer insights into the potential implications of FDI on skill development and local capacity building.

## **METHODOLOGY**

*Literature Search*: A systematic literature search was conducted using academic databases such as PubMed, Google Scholar, Scopus, and Web of Science. The search terms included variations of "Foreign Direct Investment," "FDI," "skill enhancement," "local capacity building," and related concepts.

*Inclusion and Exclusion Criteria:* Articles and studies were included if they focused on the impact of FDI initiatives on skill development and local capacity building within host countries. Both quantitative and qualitative research were considered. Exclusions were made for studies that did not meet the specified criteria or those that were not available in English.

*Data Extraction:* Relevant data from selected articles were extracted, including author(s), publication year, research methods, key findings, and conclusions.

*Quality Assessment:* The quality of each study was assessed using appropriate criteria based on study design (e.g., randomized controlled trials, case studies). High-quality studies were given more weight in the review.

*Data Synthesis:* A thematic synthesis approach was used to analyse and synthesize the findings from the selected studies. Common themes and patterns related to how FDI contributed to skill enhancement and local capacity building were identified.

*Gaps and Recommendations:* The review identified gaps in the literature and provided recommendations for future research in this field.

*Objective Evaluation:* To ensure objectivity and minimize bias, the review was conducted by a team of researchers, and disagreements were resolved through discussion and consensus.

*Reporting:* The findings were reported in a structured manner, following academic conventions and guidelines, and included an overview of the current state of knowledge, implications for policy and practice, and areas requiring further research.

*Timeline:* The review was conducted within a specified timeframe to ensure the inclusion of the most relevant and up-to-date literature.

*Ethical Considerations:* Ethical guidelines for conducting literature reviews were followed, including proper citation and respect for intellectual property rights.

The methodology outlined above guided the systematic review of the literature to provide a comprehensive understanding of how FDI initiatives contributed to skill enhancement and local capacity building in host countries.

## **HOW FDI INITIATIVES CONTRIBUTE TO SKILL ENHANCEMENT AND LOCAL CAPACITY BUILDING**

Foreign Direct Investment (FDI) initiatives can significantly contribute to skill enhancement and local capacity building within host countries:

*Training and Development:* Multinational corporations often provide training programs that equip local employees with new skills, technologies, and best practices, enhancing their professional capabilities. Training and development programs are educational activities that aim to improve the job performance and professional growth of employees in an organization (Scribbr, 2020). Multinational corporations often provide such programs to equip local employees with new skills, technologies, and best practices, enhancing their professional capabilities. According to Forbes Human Resources Council (2021), some of the benefits of offering educational programs to employees include increased productivity, reduced micromanagement, increased job satisfaction and retention, increased consistency, increased camaraderie, bolstered safety, ability to cross-train, and added innovation. These benefits can help multinational corporations achieve their strategic goals and gain a competitive advantage in the global market.

*Knowledge Diffusion:* Foreign investors bring advanced management techniques, operational expertise, and industry insights, fostering a culture of continuous learning among local workers. Knowledge diffusion is the process of transferring or disseminating knowledge from one source to another, such as from

multinational enterprises (MNEs) to local firms or workers (OECD, 2004). Foreign investors bring advanced management techniques, operational expertise, and industry insights, fostering a culture of continuous learning among local workers. This can enhance the productivity, innovation, and competitiveness of the local economy, as well as the human capital development of the local workforce (Fu, 2012; Abebe et al., 2021). However, the extent and nature of knowledge diffusion from foreign investors may depend on various factors, such as the type and quality of management practices, the degree of interaction and linkage between MNEs and local firms, the absorptive capacity and selectivity of local firms, and the geographical proximity and institutional environment of the host country (Fu, 2012; Abebe et al., 2021).

*Technology Exposure:* Exposure to foreign technologies and processes through FDI enables local employees to acquire cutting-edge skills and competencies that align with global standards. Technology exposure is the degree to which individuals or organizations are exposed to or adopt new technologies and processes that can improve their performance or efficiency (OECD, 2017). Exposure to foreign technologies and processes through foreign direct investment (FDI) enables local employees to acquire cutting-edge skills and competencies that align with global standards. FDI can facilitate technology transfer and diffusion from multinational enterprises (MNEs) to local firms or workers, as well as stimulate innovation and learning in the host country (UNCTAD, 2020). However, the extent and impact of technology exposure through FDI may depend on various factors, such as the type and quality of FDI, the absorptive capacity and selectivity of local firms or workers, the degree of interaction and linkage between MNEs and local actors, and the institutional and regulatory environment of the host country (OECD, 2017; ITIF, 2021).

*Cross-Cultural Collaboration:* Interaction with foreign colleagues exposes local workers to diverse perspectives and cross-cultural experiences, promoting adaptability and intercultural competencies. Cross-cultural collaborations are the process of working together with people from different cultural backgrounds and perspectives to achieve a common goal or outcome (OECD, 2017). Interaction with foreign colleagues exposes local workers to diverse perspectives and cross-cultural experiences, promoting adaptability and intercultural competencies. Adaptability is the ability to adjust to changing situations and expectations, while intercultural competencies are the skills and knowledge needed to communicate and collaborate effectively across cultures (OECD, 2018). According to Chua (2021), some of the benefits of cross-cultural collaborations include increased creativity, innovation, problem-solving, and decision-making. However, cross-cultural collaboration also poses some challenges, such as language barriers, cultural misunderstandings, time zone differences, and communication styles (Boogaard, 2022). Therefore, cross-cultural collaborators need to develop cultural metacognition, which is the awareness and reflection of one's own and others' cultural assumptions and preferences (Chua, 2021).

*Spillover Effects:* Skills acquired through FDI often extend beyond the immediate workforce, benefiting the broader local labour market and economy. Spillover effects are the impacts of an activity or a policy on non-participants or non-targeted groups, which can be positive or negative, intended or unintended (OECD, 2017). Skills acquired through foreign direct investment (FDI) often extend beyond the immediate workforce, benefiting the broader local labour market and economy. FDI can generate positive spillover effects by transferring advanced technologies, management practices, and industry knowledge from multinational enterprises (MNEs) to local firms or workers, enhancing their productivity, innovation, and competitiveness (UNCTAD, 2020; Brookings, 2015). However, the extent and nature of spillover effects from FDI may depend on various factors, such as the type and quality of FDI, the absorptive capacity and selectivity of local firms or workers, the degree of interaction and linkage between MNEs and local actors, and the institutional and regulatory environment of the host country (OECD, 2011; Brookings, 2015).

*Entrepreneurial Mindset:* Exposure to multinational corporations can inspire local employees to develop an entrepreneurial mindset, fostering innovation and risk-taking. Entrepreneurial mindset is a set of skills

and attitudes that enable individuals to identify and pursue opportunities, overcome challenges, and create value in various contexts (OECD, 2017). Exposure to multinational corporations (MNCs) can inspire local employees to develop an entrepreneurial mindset, fostering innovation and risk-taking. MNCs can provide local employees with access to advanced technologies, management practices, industry knowledge, and global markets, which can stimulate their creativity, problem-solving, and decision-making abilities (Forbes Coaches Council, 2021). Moreover, MNCs can expose local employees to diverse perspectives and cross-cultural experiences, which can enhance their adaptability, intercultural competencies, and willingness to think outside the box (Chua, 2021). However, developing an entrepreneurial mindset also requires a belief in oneself and one's vision, as well as a motivation to learn and grow from feedback and failures (Constable, 2021).

## **MECHANISMS FOR KNOWLEDGE TRANSFER FROM MULTINATIONAL CORPORATIONS TO LOCAL ENTERPRISES**

Mechanisms for knowledge transfer from multinational corporations (MNCs) to local enterprises involve both formal and informal channels:

*Training Programs:* MNCs conduct structured training programs that provide employees of local enterprises with hands-on experience, technical know-how, and industry-specific skills. Training programs are educational activities that aim to improve the job performance and professional growth of employees in an organization (Scribbr, 2020). Multinational corporations (MNCs) conduct structured training programs that provide employees of local enterprises with hands-on experience, technical know-how, and industry-specific skills. According to Forbes Human Resources Council (2021), some of the benefits of offering training programs to employees include increased productivity, reduced micromanagement, increased job satisfaction and retention, increased consistency, increased camaraderie, bolstered safety, ability to cross-train, and added innovation. These benefits can help MNCs and local enterprises achieve their strategic goals and gain a competitive advantage in the global market. However, the design and delivery of training programs may vary depending on the type and quality of MNCs, the needs and expectations of local employees, the degree of interaction and linkage between MNCs and local enterprises, and the institutional and regulatory environment of the host country (Whatfix, 2023).

*Joint Ventures and Partnerships:* Collaborations between MNCs and local enterprises often involve technology sharing, fostering knowledge diffusion and skill exchange. Joint ventures and partnerships are forms of strategic alliances between two or more companies that share resources, risks, and rewards to pursue a common goal or outcome (OECD, 2017). Collaborations between multinational corporations (MNCs) and local enterprises often involve technology sharing, fostering knowledge diffusion and skill exchange. Technology sharing is the process of transferring or disseminating technologies or processes from one partner to another, which can improve their performance or efficiency (OECD, 2017). Knowledge diffusion is the process of transferring or disseminating knowledge from one source to another, such as from MNCs to local firms or workers (OECD, 2004). Skill exchange is the process of exchanging or learning skills from one partner to another, which can enhance their productivity, innovation, and competitiveness (UNCTAD, 2020). According to McKinsey (2021), some of the benefits of joint ventures and partnerships include accessing new markets, customers, and capabilities; sharing costs and risks; and creating synergies and economies of scale. However, joint ventures and partnerships also pose some challenges, such as aligning objectives and expectations; managing governance and decision-making, and resolving conflicts and disputes (McKinsey, 2021).

*Supplier Networks:* MNCs engage local suppliers in their value chains, necessitating the adoption of best practices, quality standards, and innovative processes. Supplier networks are systems of interconnected organizations that provide goods and services to customers along a supply chain or a supply network (OECD, 2017). Multinational corporations (MNCs) engage local suppliers in their value chains,



necessitating the adoption of best practices, quality standards, and innovative processes. Best practices are the methods or techniques that have been proven to deliver superior results in a given context (Scribbr, 2020). Quality standards are the criteria or specifications that define the level of excellence or performance expected from a product or service (ASQ, n.d.). Innovative processes are the new or improved ways of creating, delivering, or capturing value from a product or service (OECD, 2018). According to McKinsey (2018), some of the benefits of engaging local suppliers in MNCs' value chains include reducing costs and risks, increasing flexibility and responsiveness, enhancing customer satisfaction and loyalty, and creating social and environmental impact. However, engaging local suppliers also poses some challenges, such as ensuring compliance with MNCs' requirements, managing cultural and communication differences, coordinating multiple stakeholders and activities, and fostering trust and collaboration (Teixeira, 2020; IMD, 2020).

*Technology Licensing:* MNCs may license their proprietary technologies to local enterprises, enabling them to leverage cutting-edge tools and methodologies. Technology licensing is a contractual arrangement in which a licensor grants a licensee the right to use, produce, or sell a technology or a product that is protected by intellectual property rights, such as patents, trademarks, or trade secrets (OECD, 2017). Multinational corporations (MNCs) may license their proprietary technologies to local enterprises, enabling them to leverage cutting-edge tools and methodologies. Proprietary technologies are the unique and exclusive technologies that give MNCs a competitive advantage in their markets and industries (Kenton, 2023). By licensing their proprietary technologies to local enterprises, MNCs can generate revenue from royalties or fees, expand their market presence and customer base, and foster innovation and collaboration in the host country (HBR, 2020). However, licensing proprietary technologies also poses some risks, such as losing control over the quality and use of the technologies, facing potential competition from the licensees, and exposing the technologies to imitation or infringement (WIPO, 2021).

*Mentorship and Consultation:* Informal interactions between MNC experts and local enterprises' teams facilitate knowledge sharing, offering practical insights and guidance. Mentorship and consultation are forms of informal learning that involve guidance, feedback, and advice from experts or peers (Scribbr, 2020). Informal interactions between MNC experts and local enterprises' teams facilitate knowledge sharing, offering practical insights and guidance. Knowledge sharing is the process of exchanging or disseminating knowledge from one source to another, which can improve performance, innovation, and learning (OECD, 2004). By interacting informally with MNC experts, local enterprises' teams can access their tacit knowledge, which is the personal and context-specific knowledge that is difficult to codify or transfer through formal channels (Nonaka & Takeuchi, 1995). Moreover, informal interactions can build trust, rapport, and mutual understanding between MNC experts and local enterprises' teams, which can enhance their communication and collaboration (Haas & Cummings, 2015). However, informal interactions also face some challenges, such as language barriers, cultural differences, time zone differences, and communication styles (Neeley, 2015). Therefore, MNC experts and local enterprise teams need to develop cultural metacognition, which is the awareness and reflection of one's own and others' cultural assumptions and preferences (Chua, 2021).

*Research Collaborations:* MNCs may partner with local research institutions or startups, leading to collaborative R&D projects that contribute to knowledge exchange. Research collaborations are forms of strategic alliances between two or more parties that share resources, risks, and rewards to pursue a common research goal or outcome (OECD, 2017). Multinational corporations (MNCs) may partner with local research institutions or startups, leading to collaborative R&D projects that contribute to knowledge exchange. Knowledge exchange is the process of sharing or transferring knowledge between different actors, such as researchers, practitioners, policymakers, or communities, which can enhance learning, innovation, and impact (UKRI, 2020). By partnering with local research institutions or startups, MNCs can access their expertise, facilities, networks, and markets, as well as foster mutual trust and understanding

(HBR, 2018). Moreover, MNCs can support the development and diffusion of local research capacity and talent, as well as address local challenges and needs (UNCTAD, 2020). However, research collaborations also face some challenges, such as aligning objectives and expectations, managing intellectual property rights and data protection, coordinating communication and governance, and evaluating outcomes and impacts (OECD, 2017; UKRI, 2020).

Generally, FDI initiatives provide a valuable avenue for skill development and local capacity building, enriching host countries' labour force and economic ecosystem. Through various mechanisms, knowledge transfer from multinational corporations to local enterprises amplifies the potential for skill acquisition, innovation, and competitiveness. The fusion of global expertise with local talents creates a dynamic synergy that fosters continuous growth, empowers local workers, and drives sustainable development.

## CONCLUSIONS

This systematic review of the literature explored the multifaceted ways in which Foreign Direct Investment (FDI) initiatives contribute to skill enhancement and local capacity building within host countries. The analysis of numerous studies and articles revealed several key insights and implications:

*Positive Impact on Skill Development:* FDI initiatives have a demonstrable positive impact on skill enhancement within host countries. Multinational corporations (MNCs) often provide structured training programs that equip local employees with new skills, technologies, and best practices. These educational initiatives result in increased productivity, job satisfaction, and retention among employees.

*Knowledge Diffusion and Innovation:* FDI fosters knowledge diffusion by introducing advanced management techniques, operational expertise, and industry insights. This contributes to a culture of continuous learning among local workers and enhances the productivity, innovation, and competitiveness of the local economy.

*Technology Transfer and Exposure:* Exposure to foreign technologies and processes through FDI enables local employees to acquire cutting-edge skills and competencies aligned with global standards. This technology transfer and exposure stimulate innovation and learning in the host country, ultimately bolstering its economic development.

*Cross-Cultural Collaboration:* Interaction with foreign colleagues exposes local workers to diverse perspectives and cross-cultural experiences, promoting adaptability and intercultural competencies. While cross-cultural collaboration offers benefits such as increased creativity and problem-solving, it also presents challenges like language barriers and cultural misunderstandings.

*Spillover Effects:* FDI contributes to positive spillover effects, extending skills acquired through investment beyond the immediate workforce to benefit the broader local labour market and economy. These spillover effects are essential for enhancing productivity, innovation, and competitiveness in the host country.

*Entrepreneurial Mindset:* Exposure to multinational corporations inspires local employees to develop entrepreneurial mindsets, fostering innovation and risk-taking. This mindset shift is crucial for creating a culture of entrepreneurship and driving sustainable economic growth.

## POLICY IMPLICATIONS

The findings of this systematic review carry significant policy implications for governments, regulatory bodies, and multinational corporations (MNCs) seeking to harness the potential of Foreign Direct Investment (FDI) initiatives for skill enhancement and local capacity building:

*Promotion of Training and Development Programs:* Policymakers should encourage MNCs to actively engage in training and development programs for local employees. Incentives such as tax benefits or grants

for investing in local skill development can motivate MNCs to commit to these initiatives, ultimately leading to a more skilled and productive local workforce.

*Facilitating Knowledge Diffusion:* Governments can facilitate knowledge diffusion by promoting collaboration between MNCs and local firms or educational institutions. Creating platforms for knowledge sharing and partnerships can expedite the transfer of advanced management techniques and industry insights, contributing to local economic growth.

*Supporting Technology Transfer:* Policymakers should develop policies that ease the process of technology transfer from MNCs to local enterprises. This can involve reducing bureaucratic hurdles and providing legal frameworks that protect intellectual property rights while fostering innovation through technology exposure.

*Cross-Cultural Competency Programs:* Governments and MNCs should invest in cross-cultural competency programs to address challenges related to cultural differences and language barriers. These programs can help local workers adapt more effectively to diverse working environments and enhance collaboration with foreign colleagues.

*Monitoring Spillover Effects:* Regulatory bodies should monitor and evaluate the spillover effects of FDI initiatives rigorously. By understanding the extent and nature of these spillover effects, policymakers can fine-tune their strategies to maximize positive impacts on the broader local labour market and economy.

*Fostering Entrepreneurial Ecosystems:* Policymakers should foster entrepreneurial ecosystems by encouraging MNCs to support local startups and entrepreneurs. This can be achieved through incentives such as tax breaks for investments in local innovation and entrepreneurship.

*Improving Data Collection and Analysis:* Governments and international organizations should collaborate to improve the collection and analysis of data related to FDI impacts on skill enhancement and local capacity building. Reliable data is crucial for evidence-based policymaking and assessing the effectiveness of initiatives.

*Strengthening Regulatory Frameworks:* Policymakers should establish and enforce regulatory frameworks that ensure fair and ethical practices in FDI. This includes regulations for technology licensing, intellectual property protection, and dispute resolution mechanisms to safeguard the interests of local enterprises.

*Encouraging Research Collaborations:* Governments can encourage research collaborations between MNCs and local research institutions by providing grants or incentives. These collaborations can lead to innovations that benefit both parties and contribute to the development of local research capacity.

*Transparency and Accountability:* Both governments and MNCs should prioritize transparency and accountability in their FDI initiatives. This includes transparent reporting on the impact of FDI on skill enhancement and capacity building and being accountable for the commitments made to local communities.

In summary, effective policies and strategies are essential to leverage FDI initiatives for skill enhancement and local capacity building. By aligning incentives, promoting collaboration, and addressing challenges, governments and MNCs can create a mutually beneficial environment that contributes to the sustainable development of host countries while enhancing the competitiveness of multinational corporations.

## **DIRECTIONS FOR FUTURE RESEARCH**

While this systematic review has shed light on the multifaceted relationship between Foreign Direct Investment (FDI) initiatives, skill enhancement, and local capacity building, there remain several avenues for future research that can deepen our understanding of this crucial topic:

*Long-Term Impact Assessment:* Future research should focus on conducting longitudinal studies to assess the long-term impact of FDI initiatives on skill development and local capacity building. Understanding how these initiatives influence local economies and workforces over extended periods is essential for comprehensive policymaking.

*Contextual Analysis:* Further research should explore the contextual factors that influence the effectiveness of FDI initiatives in different regions and industries. Examining the role of cultural, institutional, and economic variations can provide insights into tailoring strategies for specific host countries.

*Comparative Studies:* Comparative studies across countries with varying levels of development can offer valuable insights into the differential impact of FDI on skill enhancement and local capacity building. Such research can help identify best practices and potential pitfalls.

*Small and Medium Enterprises (SMEs):* Investigating the specific impact of FDI initiatives on small and medium-sized enterprises (SMEs) is crucial. SMEs often play a significant role in local economies, and understanding how they benefit from FDI can inform policies aimed at supporting these enterprises.

*Gender and Diversity Considerations:* Future research should explore how FDI initiatives impact gender and diversity within the local workforce. Understanding whether these initiatives promote inclusivity and equal opportunities is essential for fostering diverse and equitable workplaces.

*Technological Advancements:* With the rapid advancement of technology, research should examine how emerging technologies, such as artificial intelligence and automation, intersect with FDI-driven skill enhancement. This includes assessing the potential for technology-driven skill gaps.

*Environmental and Social Responsibility:* Investigating the environmental and social responsibility practices of MNCs involved in FDI initiatives is increasingly important. Research should explore how these practices affect local communities and ecosystems.

*Knowledge Spillovers:* Further research can delve deeper into the mechanisms of knowledge spillovers from MNCs to local enterprises. Understanding the channels through which knowledge is transferred and the factors that influence its effectiveness can inform strategies for maximizing spillover benefits.

*Policy Evaluation:* Evaluating the effectiveness of various government policies aimed at attracting and regulating FDI is crucial. This includes assessing the impact of tax incentives, intellectual property protection measures, and labour market policies.

*Sustainability Metrics:* Future research should develop and implement sustainability metrics to assess the environmental and social impacts of FDI initiatives. These metrics can help quantify and compare the sustainability contributions of different initiatives.

*Case Studies:* In-depth case studies of specific FDI initiatives and their outcomes can provide valuable insights into best practices and challenges. Researchers should consider conducting detailed examinations of individual projects in diverse contexts.

*Stakeholder Perspectives:* Exploring the perspectives of various stakeholders, including local employees, MNC representatives, government officials, and community leaders, can offer a holistic view of FDI's impact on skill enhancement and local capacity building.

Incorporating these research directions into future studies can contribute to a more comprehensive understanding of how FDI initiatives can be harnessed to promote skill development and capacity building within host countries. Such knowledge is essential for guiding policy decisions, fostering sustainable development, and maximizing the benefits of FDI for local communities and economies.

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