The ethics of foreign knowledge brokers: a conceptual and empirical framework

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Abstract: This paper presents a conceptual and empirical framework to analyse international knowledge brokerage from an ethical perspective through political and corporate incentives on foreign employment. Exploiting non-linear regressions on a global dataset covering bilateral jobs created by Foreign Direct Investment (FDI) between 161 countries during a seven year period, we find empirical evidence to support an ethical trilemma where knowledge, democracy and corporate openness seem to be mutually incompatible in less developed countries. This paper responds to a theoretical and empirical need since the dynamic link between FDI, knowledge brokerage and ethics has often been neglected in the specialised literature.

Keywords: FKB; foreign knowledge brokers; FDI; foreign direct investment; knowledge brokerage; corporate culture; IBE; international business ethics; incentive-based ethics; foreign employment; multinational enterprises; developing countries; international management.

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1 Introduction

The aim of this paper is to provide a conceptual and empirical model to analyse and estimate the ethical implications of knowledge brokerage across borders. We construct a theoretical framework that enables a dynamic econometric study of the ethical incentives provided by foreign firm's employees or foreign knowledge brokers (FKB) on their host's policy makers. In the first place, we justify the link between FDI, knowledge brokerage, ethics and corporate culture through foreign employment, filling a gap in the International Business Ethics (IBE) literature. Secondly we hoist this relationship into a classical job market model, which we estimate with non-linear regressions.

We focus our analysis on a rather neglected factor in three distinct literature corpuses: foreign employment created by FDI in a host country. We argue that foreign jobs play a central linking role between FDI, IBE and knowledge brokerage. In a nutshell, following Yolles (2007b), we frame FKB as a social corporate collective in the host country, capable of influencing domestic politics (Scherer and Palazzo, 2007) through corporate culture (Fink et al., 2012), and therefore subject to moral analysis (Melé, 2012) via incentive-based ethics (Luetge, 2005; Homman, 2008).

To showcase our argument, consider the gambling resort Eurovegas, which Las Vegas Sands Corporation (LVS), an US casino company, is planning to execute in Spain (The Economist, 2012). The $21 billion foreign investment project is expected to create 260,000 foreign jobs, roughly half the unemployed in Madrid. In return, LSV demands policy changes in local labour, tax, gambling and health regulations. Struck with unemployment rates of 23%, Spanish regional authorities have enrolled in a beauty contest bargain, assuring unconditional government support for the project. This example enlightens our three arguments: (a) LVS' main asset is foreign employment, which is a scarce resource in a depressed economy; (b) LVS' employees, through a distinct corporate culture, diffuse new knowledge into a traditional sun-and-beach touristic economy; (c) LVS plays a major role in Spanish domestic politics and therefore subject to ethical analysis through the incentives provided to local authorities to alter domestic regulations which affect other stakeholders.

The structure of this paper is as follows: Section 2 provides the conceptual framing; Section 3 builds the empirical model; Section 4 presents the results' discussion; Section 5 performs a robustness check; and Section 6 finally concludes with a summary.

2 A conceptual framework for the ethics of FKB

IBE is part of the general business ethics, which itself lies under and cannot be separated from the ethics of the social order (Homman, 2008). However, international business and ethics have often been elusive (Doh et al., 2010; Crane et al., 2011): Between 1997 and 2008 less than 3% articles related with international business dealt directly with ethics (Egri and Ralston, 2008). Nonetheless, international business and ethics have found a common ground on FDI with three tangent points in the areas of corruption (Wei, 2000; Habib and Zurawicki, 2002; Lam, 2002; Ashforth and Anand, 2003; Fox et al., 2005; Simmons et al., 2005;), corporate social responsibility (Roberts, 2003; Portney, 2004; Banerjee, 2008; Hurn, 2008) and environmental issues (Jaffe et al., 1995; Crane, 2000; Keller and Levinson, 2002; D.K. Peterson, 2002; Javorcik and Wei, 2005; Siegel et al., 2012).

Most conceptual (Stanley, 1990; Dunfee and Warren, 2001; Meyer, 2004; Luetge, 2005; Doh et al., 2010; Bardy et al., 2012) and empirical (Lozano and Boni, 2002; Li and Resnick, 2003; Jakobsen and de Soysa, 2006; Glac, 2009; Siegel et al., 2012) work on IBE has focused on the effect of capital investments in developing countries, leaving human capital out the picture; for exceptions see Noorbakhsh et al. (2001) and Alemu (2009). In so forth, IBE has often obviated recent developments in FDI models, such as the Knowledge-Capital model of FDI (Markusen and Venables, 2000; Markusen, 2002; Bergstrand and Egger, 2007).

The Knowledge-Capital model provides a sound theoretical background to FDI by resolving pricing equations (marginal revenue equals marginal costs) under general equilibrium conditions to determine endogenously the conditions of investment across borders, such as the ratio of national vs. MNE firms, their outputs and the allocation of capital between countries. The primary assumption is that 'setups of plants (firms) are *relatively* more physical (human) capital intensive, which we conjecture is true empirically' (Bergstrand and Egger 2007, p.287, original emphasis). In this model, foreign employees are the key to explain FDI, which is primarily about knowledge, 'rather than movement of capital' (Graham and Krugman, 1995, p.47).

In this context, foreign employees act as knowledge brokers transferring knowledge 'from where it is known to where it is not' (Hargadon, 1998, p.210). Some authors stress the relevance of the individual as a knowledge spanner (Brown and Duguid, 1991; Brown and Duguid, 2001). For instance, Tietze (2010) identifies international managers as translators in the globalised world. However, Parjanen et al. (2011) identify three levels of knowledge brokerage: systemic, organisational and individual. On a systemic level, foreign employees act collectively as knowledge brokers since they share a common corporate goal (Melé, 2012). Furthermore, we can construe foreign employees as a coherent social collective that encourages 'the development of a shared way of thinking a behaving' (Yolles, 2007a, p.83). In an international context, this shared corporate knowledge is new to the host's context, thus producing knowledge spillovers (Hargadon, 2002). Therefore, we can define foreign employees as foreign knowledge brokers, FKB, which translate and introduce new shared foreign corporate knowledge from their home to their host country.

Knowledge spanning across borders is effectively funnelled through the foreign work force in the host country, in line with the Knowledge-Capital model. However, the extent of this knowledge migration is modulated by the firm's corporate culture (Yolles, 2006; Yolles, 2007b; Fink et al., 2012). Crémer (1993) links both corporate culture and shared knowledge, which has been sustained by empirical evidence (Sørensen, 2002; MacCormick and Parker, 2010). Previous research has also stressed the role of corporate culture in the firm's effectiveness (Denison, 1990) and performance (Kotter and Heskett, 1992). In an international context, the foreign firm's corporate culture will be limited by the host's policies on executive constraints, and the openness (plus independence) of executive recruitment (Eckstein, 1973; Eckstein and Gurr, 1975).

In their collective spanning process, FKB play a political role in the host country. In the framework of Habermas' (1962) *Öffentlichkeit,* or *public sphere*, firms are viewed as corporate citizens (Matten and Crane, 2005; Walsh, 2005; Crane and Matten, 2008) or political actors that 'sometimes assume a state-like role' (Scherer and Palazzo, 2007, p.1098). Therefore, we can refine our understanding of FKB as a social corporate collective with an active involvement in domestic policies. With this background, we can formalise our first proposition, namely, Proposition 1: *Foreign Knowledge Brokers, as a social corporate collective, exert political influence in their host country.*

Since 'the first principle of business ethics is that the corporation is itself a citizen' (Solomon, 1993, p.148), Proposition 1 implies that FKB are subject to moral scrutiny. Furthermore, FKB can be understood as a corporate 'community of persons' (Melé, 2012, p.89). Therefore, under the personalist principle (Melé, 2009), FKB should contribute to the common good through their collective knowledge transmission. However, the delimitation of the common good raises the concern of an objective determination of 'doing good' (Mackie, 1990; Yolles, 2007a). Under a utilitarian approach, FDI has been morally good whilst fostering employment, knowledge and income in developing countries (Lam, 2002). However, this approach does not suit a broader definition of FKB ethics where 'labour and technical knowledge are a universal good when they are not used to exploit the local society' (Benedict XVI, 2009, sec.40). For instance, investing in countries which systematically violate human rights might support dictatorial regimes (Hill, 2010, p.80).

In order to solve this puzzle we detour from Machiavellian goal-based reasoning and following Bardy et al. (2012) we identify FKB ethics as the process of reaching a moral order, or 'doing good', in the foreign knowledge spanning process. We lever on incentive and advantage based ethics. Rather than just following rules (Homann, 2002; Luetge, 2005), which can be 'subjective, involving locally made decision processes' (Yolles, 2007a, p.91), incentive based ethics considers rewards and inducements to determine the extent of 'doing good'. Thus, we need to consider the incentives that stem from Proposition 1. Given that FDI recipients support foreign investment projects (WAIPA, 2012), local policy makers find incentives to tune policies in order to increase foreign employment. In our ethical framework, FKB will be 'doing good' by incentivising policy changes which benefit the host's community as a whole, such as an increase of the host's political and democratic competition. We can state a formal proposition, namely,

Proposition 2: *Foreign Knowledge brokers are 'doing good' by providing policy incentives which benefit the host's political and corporate environment.*

For example, in our opening case, Spanish authorities are induced to lift the smoking ban in casinos to attract 260,000 foreign jobs, compromising the ethics of LVS actions. Basu (1999) uses a similar argument with child labour regulations. The effectiveness and extent of these incentives will depend on the host's policies on corporate culture (Yolles, 2007b; Fink et al., 2012).

Rather than analysing unethical practices within the FKB collective (Ashforth and Anand, 2003; Fox et al., 2005; Adler et al., 2007; Lawrence et al., 2011; Velasquez, 2011; Mayer et al., 2012) we focus our attention on the global effect of the influence of FKB in developing countries. It is precisely in countries with democratic deficit and abundant FDI where Proposition 2 becomes relevant (Hill, 2010). With an excessive focus on capital investments, previous empirical studies of this sort have highlighted the positive impact of FDI in converging countries (Kokko et al., 1996; Bell and Marin, 2004; Marin and Bell, 2006; Mullen and Williams, 2007). However, other authors have found a downside of FDI in local developing economies (Li and Resnick, 2003; Agosin and Machado, 2005; Moran et al., 2005; Siegel et al., 2012).

Although the main focus of this paper is the ethics of FKB, we provide a rationale for a dynamic change between local and foreign ethics. Deepening on the link between FKB and FDI, we can distinguish between two FKB types: greenfield and settled. Greenfield FKB are new entrants to the host market and settled FKB are the result of an expansion of settled (foreign owned) firms. Greenfield firms are often thought to be more productive than settled foreign firms (Ethier and Markusen, 1996; Markusen, 2001). We account for a dynamic relationship between FKB flavours, since settled firms were once greenfielders. Although the dynamic perspective of KB has been highlighted by Carnabuci and Bruggeman (2009), KB literature has been silent on a popular topic in FDI literature (Yu and Tang, 1992; Müller, 2007; Buckley et al., 2010; Firth and Ghauri, 2010; Forsans and Balasubramanyam, 2010) where heterogeneous firms fall in a productivity hierarchy (Helpman et al., 2004).

3 An empirical framework for the ethics of FKB

The empirical model to analyse the ethics of FKB comprehends the three pillars of the conceptual framework: the Knowledge-Capital FDI model, FKB and incentive-based ethics. As FKB, foreign employees are at the centre of this triple FDI-knowledge-ethics helix. We will hoist this relationship in an empirical FDI job market model, where foreign firms create jobs directly in the host country through their investment. Empirical literature on FDI job creation is scarce, primarily due to the lack of consistent job data. Most of the empirical work focuses on regional skill and wage differentials, for instance in Japan (Head and Ries, 2002) and Italy (Antonietti and Antonioli, 2011).We adopt a global view of the foreign job market[1], where employment depends on capital invested and salaries (Arellano and Bond, 1991; Seyf, 2000). For each country pair we identify the jobs directly created by the investment flow between country dyads. In line with the previous section, we add controls for political competition and corporate culture. However, in this classical model, additional control variables have an indirect effect on jobs through the interaction with investment[2], resulting in the following equations for greenfield and settled FKB,

$$Gjobs_{ijt} = e^{\left(\beta_1 \ln GFDI_{ijt} + \beta_2 \ln w_{jt} + \beta_3 \ln w_{jt} + \ln GFDI_{ijt} * \left(\beta_4 polcom_{jt} + \beta_5 exconst_{jt} + \beta_6 exrec_{jt}\right)\right)} + v_{ijt} \tag{1}$$

$$Ejobs_{ijt} = e^{\left(\beta_1 \ln EFDI_{ijt} + \beta_2 \ln w_{jt} + \beta_3 \ln w_{jt} + \ln EFDI_{ijt} * \left(\beta_4 polcom_{jt} + \beta_5 exconst_{jt} + \beta_6 exrec_{jt}\right)\right)} + u_{ijt} \tag{2}$$

where $Gjobs_{ijt}$ is the jobs created by greenfield investments and $Ejobs_{ijt}$ is the jobs created by settled investments (expansions) from country i in country j; $GFDI_{ij}$ and $EFDI_{ij}$ are the aggregate investments (greenfield and expansion respectively) from home country i in host country j measured in constant US dollars (base year 2000); w_i is the annual average wage in constant US dollars in country i; w_j is the annual average in constant US dollars wage in country j; t denotes time (years); and u_{ij} *and* v_{ij} are the error terms. The source of wages is the International Labour Organisation (ILO, 2011). The datasets used for Greenfield and expansion FDI and jobs have been taken from the Financial Times cross-border investment monitor (FDI Markets, 2011).

In our conceptual framework, FKB's political influence is modulated by corporate culture. We measure the extent of political competition plus executive and recruitment constrains in the host country by introducing the interaction between the variables $polcom_{jt}$, $exconst_{jt}$, $exrec_{jt}$ and FDI[3]. These variables have been obtained from the Center for Systemic Peace (CSP, 2012), a common source for empirical FDI research (Li and Resnick, 2003; Jakobsen and de Soysa, 2006).

The political competition in the host country is measured with the concept variable $polcom_{jt}$. It is a combined measure of the degree of institutionalisation, or regulation, and the extent of government restriction on political competition, rated in a standard scale from 1 to 5. Higher $polcom_{jt}$, indicates a country with open political competition. As shown in Table 1, non-OECD countries score on average 3.3 points lower on this scale than OECD countries. Within non-OECD, countries like India have higher political competition than China or Qatar.

Table 1 Two sample t-tests in OECD and non-OECD countries

Variable	*Label*	*Diff= Mean (non-OECD – OECD)*	*T test Diff<0*	*China*	*India*	*Qatar*	*USA*
Political competition	$polcom_{jt}$	–3.322	–110***	1	9	1	10
CEO powers	$exconst_{jt}$	–1.951	–97.55***	3	7	1	7
Executive recruitment	$exrec_{jt}$	–1.904	–81.31***	3	8	1	8

The variable $exconst_{jt}$ refers to the extent of institutional constraints on the decision-making powers of the chief executive officer (CEO), whether an individual or a collective executive. The variable is coded on a 7 point scale which ranges from 'unlimited executive authority' (1) to 'executive parity or subordination' (7), like in western democracies, which score 1.951 points higher on average than developing countries, as shown in Table 1. Executive recruitment is controlled with an 8-point standard scale named $exrec_{jt}$, which is a joint measure of the extent of institutionalisation of executive transfers, the competitiveness of executive selection, and the openness of executive recruitment. OECD democracies have higher values (1.90 points on average) of $exrec_{jt}$ than non-OECD countries. We also appreciate significant country variation in this scale within non-OECD members.

Following the seminal paper of Silva and Tenreyro (2006), we use a non-linear specification of equations [1] and [2] in order to estimate them with Pseudo Poisson Maximum Likelihood (PPML) (Silva and Tenreyro, 2010). PPML is widely used in empirical FDI literature (Head and Ries, 2008; Hijzen et al., 2008; Kleinert and Toubal, 2010). It offers three advantages over linear specifications: in first place, it is compatible with the presence of zeros in the datasets; secondly it is robust to heteroskedasticity in the error term (Silva and Tenreyro, 2006), and thirdly it assures convergence of the maximum likelihood estimation (Silva and Tenreyro, 2011). Additionally, PPML is appropriate for count data, like employment. This estimation method enables the empirical translation of Proposition 1 into a simple Wald test against a $\chi^2(3)$ distribution, namely

$$\text{Hypothesis 1} \begin{cases} H_0 : \beta_i = 0, i = \{4,5,6\} \\ H_1 : \beta_i \neq 0, \forall_i = \{4,5,6\} \end{cases} \qquad [\text{H.1}]$$

The rejection of the null hypothesis in [H.1] will add empirical evidence to support Proposition 1, where FKB played a political role in their host countries. Following this path for Proposition 2, we will inspect the signs of the estimated coefficients in [H1] to discern if KFB are "doing good". For example, if countries like China or Qatar find incentives to implement policies which redound in democratic openness, we can argue that FKB are doing good. On the other hand, if countries like India are incentivised to reduce their democratic values, FKB are ethically compromised. We are able to track a dynamic component in FKB ethics by running two regressions, for expansion and greenfield FDI.

The database covers a large number of countries and a wide time span, tracking aggregate the jobs created by FDI between country pairs. The greenfield dataset covers bilateral aggregate investments and jobs between 161 countries from 2003 to 2009. All 161 hosted investments in the time period from 120 home countries. Overall, the database is heavily unbalanced with 1307 non-zero observations for non OECD host countries. The dataset has 148 unobserved elements, considered to be null. The dataset for settled investments covers bilateral aggregate investments and jobs between 143 countries from 2003 to 2009. All 140 hosted investments in the time period from 56 home countries. Overall, the database is heavily unbalanced with 387 non-zero observations for non OECD host countries. Table 2 shows the descriptive statistics for greenfield FDI and Table 3 for expansion.

Table 2 Descriptive statistics greenfield FDI for non-OECD countries

Variable	*Label*	*Observations*	*Mean*	*Standard Deviation*	*Minimum*	*Maximum*
Employment	$jobs_{ijt}$	1455	1122.945	4539.523	0	79742
Foreign Direct Investment	$\ln FDI_{ijt}$	1455	18.93533	1.858068	8.409793	24.24179
Home wages	$\ln w_{it}$	1455	7.23744	1.852913	0.0702654	15.70396
Host wages	$\ln w_{jt}$	1455	6.102015	1.852913	0.0702654	15.70396
political competition	$polcom_{jt}$	1455	6.131918	3.225781	1	10
CEO powers	$exconst_{jt}$	1455	4.670914	2.018689	1	7
Executive recruitment	$exrec_{jt}$	1455	5.86139	2.529693	1	8

Table 3 Descriptive statistics for settled FDI for non-OECD countries

Variable	*Label*	*Observations*	*Mean*	*Standard Deviation*	*Minimum*	*Maximum*
Employment	$jobs_{ijt}$	387	922.2946	1834.908	1	15782
Foreign Direct Investment	$\ln FDI_{ijt}$	387	17.81628	1.781203	8.68893	21.64635
Home wages	$\ln w_{it}$	387	6.606564	1.742002	0.4730981	10.16677
Host wages	$\ln w_{jt}$	387	6.671037	1.692149	0.4730981	10.16677
political competition	$polcom_{jt}$	387	7.528443	3.17733	1	10
CEO powers	$exconst_{jt}$	387	5.584288	1.894995	1	7
Executive recruitment	$exrec_{jt}$	387	6.784538	2.125649	1	8

4 Results and discussion

The estimated coefficients shown in Table 4 are in line with economic intuition. As expected, FDI has a positive and significant effect of job creation, and home wages are significantly negative. Halving host wages increases foreign employment by 22% (greenfield) and 13% (expansion) on average[4]. Doubling FDI flows to developing countries increases greenfield jobs by 68% and expansion employment by 71% on average[5].

Table 4 Results: ethics on FDI employment

Variable \ Equation	[1] $Gjobs_{ijt}$	[2] $Ejobs_{ijt}$
Foreign Direct Investment $\ln FDI_{ijt}$	0.750*** (0.05)	0.774*** (0.04)
Home wages $\ln w_{it}$	–0.015 (0.03)	0.013 (0.03)
Host wages $\ln w_{jt}$	–0.290*** (0.05)	–0.178*** (0.05)
Political competition $\ln FDI_{ij} * polcom_{jt}$	–0.006*** (0.002)	0.001 (0.002)
CEO powers $\ln FDI_{ij} * exconst_{jt}$	0.012*** (0.002)	–0.009** (0.003)
Executive recruitment $\ln FDI_{ij} * exrec_{jt}$	–0.012*** (0.003)	0.012** (0.01)
Observations	1455	387
R^2	0.51	0.68
[H.1] χ^2 (3)	8.88 {0.00}	17.10 {0.00}
Sample (host)	Non-OECD	Non-OECD
Estimation	PPML	PPML
FDI Flavour	Greenfield	Expansion

Notes: Robust standard errors in parenthesis, ***p<0.01, **p<0.05, *p<0.1.
p-value for tests in brackets {}.

As shown in Table 4, we find empirical evidence to sustain Proposition 1. We can reject the null hypothesis in [H.1] for greenfield (χ^2 (3)=8.88 *p-value*=0.00) and expansion FKB (χ^2 (3)=17.10 *p-value*=0.00), meaning that political and corporate constraints have a joint significant effect on employment on both settled and newly foreign firms. However, political competition is only statistically significant for greenfield FKB. With time, FKB become immune to the democratic openness of the host country, and therefore their political influence is somehow limited. This result highlights the dynamic between both types of FKB. The empirical results are compatible with a scenario where local and foreign knowledge brokers evolve to different ethical standards. A possible explanation is that the ethical standards of FKB change with time as they become assimilated in the local culture.

To illustrate the results, we present in Table 5 the effect of doubling FDI in several countries. Considering only the effect of $polcom_{jt}$, doubling greenfield FDI flows into China increases foreign jobs in 67%, whereas doubling GFDI in India increases jobs only by 62% on average. Therefore, countries in the lower scale of political competition find few incentives to implement policies which increase domestic political competition. Consequently, we find no empirical evidence to support that FKB are contributing to the common good of their host countries.

Table 5 Effect of doubling FDI on employment

Variable	*Label*	*Greenfield*			*Expansion*		
		China	*India*	*Qatar*	*China*	*India*	*Qatar*
Political competition	$polcom_{jt}$	67%	62%	67%	71%	71%	71%
CEO powers	$exconst_{jt}$	72%	78%	70%	68%	64%	70%
Executive recruitment	$exrec_{jt}$	64%	57%	67%	75%	83%	72%
Combined effect		67%	61%	67%	72%	75%	71%
Without constraints		68%	68%	68%	71%	71%	71%

Notes: The combined effect is calculated as $\left(2^{\left(\hat{\beta}_1+\hat{\beta}_4*polcom_j+\hat{\beta}_2*exconst_j+\hat{\beta}_2*exrec_j\right)}-1\right)*100\%$,

for instance in China greenfield, $\left(2^{(0.750-0.06*1+0.012*3-0.012*3)}-1\right)*100\%=67\%$.

The estimation results also highlight the relevance of corporate culture. In line with Herrmann and Datta (2006), countries like China could increase employment by implementing limits to the power of local CEO. For instance, considering only the effect of $exconst_{jt}$, doubling greenfield FDI flows into China increases employment in 72% on average. However, we find just the opposite effect on settled firms; CEO powers have a negative impact on the job creation of settled firms. Executive recruitment has also a dual effect in cross-border job creation. Recruitment openness hinders greenfield jobs and endorses expansion hiring, in an opposite manner to CEO constraints.

Less developed countries encounter trade-off incentives to increase local corporate openness. Policies implemented to converge with western corporate and democratic standards will result in some kind of employment destruction. On average, intensifying political competition deters greenfield foreign jobs; converging to western-like corporate constraints diminishes settled foreign employment and increasing recruitment openness hinders greenfield job openings. Therefore, we observe that policy makers of developing countries face an ethical trilemma[6] where political competition, corporate openness and knowledge spanning through FDI employment seem to be mutually incompatible.

5 Sensitivity analysis

A double robustness check has been performed using a log-linear specification of [1] and [2] with a simple Ordinary Least Squares (OLS) linear regression and with a Generalised

Method of Moments (GMM) consistent estimator for linear dynamic panel-data models (Blundell and Bond, 1998; Arellano and Bond, 1991)[7]. To account for employment persistence (Pries, 2004), we introduce a lagged value of employment $\ln jobs_{ijt}(-1)$ in the GMM estimate.

The first two columns in Table 6 show the OLS results, where we find similar coefficients and test results as in the non-linear estimation. The core employment variables, FDI and wages, have the same effect in both specifications. Focusing on the GMM results shown in the last columns of Table 6, we find robust estimates of the corporate variables $exconst_{jt}$ and $exrec_{jt}$. Both specifications support empirically Proposition 1, since we find strong evidence to reject the null hypothesis in [H.1] in all cases. In line with the non-linear results, we find no evidence to support that FKB are 'doing good'. As shown in Table 6, the sign of $polcom_{jt}$ is negative in both alternative estimation techniques for greenfield FDI jobs.

Table 6 Sensitivity analysis: ethics on FDI employment

Equation / *Variable*	*[1]* $\ln(Gjobs_{ijt}+1)$	*[2]* $\ln(Ejobs_{ijt}+1)$	*[1]* $\ln(Gjobs_{ijt}+1)$	*[2]* $\ln(Ejobs_{ijt}+1)$
Jobs (lagged) $\ln jobs_{ijt}(-1)$	–	–	0.067* (0.04)	–0.243*** (0.07)
FDI $\ln FDI_{ijt}$	0.542*** (0.03)	0.768*** (0.04)	0.257* (0.14)	–0.004 (0.25)
Home wages $\ln w_{it}$	0.040 (0.03)	–0.019 (0.03)	–1.532*** (0.34)	–0.875** (0.35)
Host wages $\ln w_{jt}$	–0.150*** (0.03)	–0.107*** (0.04)	0.435* (0.32)	–0.264 (0.32)
Political competition $\ln FDI_{ij} * polcom_{jt}$	–0.008*** (0.001)	–0.003 (0.003)	–0.023** (0.01)	–0.016 (0.01)
CEO powers $\ln FDI_{ij} * exconst_{jt}$	0.015*** (0.002)	0.014*** (0.006)	0.035 (0.02)	–0.006 (0.03)
Executive recruitment $\ln FDI_{ij} * exrec_{jt}$	–0.002 (0.002)	–0.005 (0.004)	0.046** (0.02)	0.102** (0.05)
Observations	1455	387	650	198
R^2	0.20	0.65	–	–
[H.1]	8.40*** {0.00}	2.73** {0.04}	11.44*** {0.01}	7.07* {0.07}
Sample (host)	Non-OECD	Non-OECD	Non-OECD	Non-OECD
Estimation	OLS	OLS	GMM	GMM
FDI Flavour	Greenfield	Expansion	Greenfield	Expansion

Notes: Standard errors in parenthesis, ***p<0.01, **p<0.05, *p<0.1.
p-value for tests in brackets{}.
Regressand: log of jobs plus one to account for zero values.

6 General summary

This paper presents a conceptual and empirical model to analyse and estimate the ethical implications of knowledge brokerage across borders. Our theoretical framework enables a dynamic econometric study of the ethical repercussion that foreign firms' employees, or Foreign Knowledge Brokers, may have on their host country's policy makers.

We frame foreign knowledge brokers as a social corporate collective in the host country, capable of influencing domestic policies through corporate culture, and therefore subject to moral analysis via incentive-based ethics. In the process of knowledge spanning in their host country, Foreign Knowledge Brokers, i.e. foreign employees of multinational corporations, exercise influence on local policy makers. In order to increase domestic welfare through foreign investment and employment, local authorities have incentives to respond to the corporate culture of foreign knowledge brokers. We propose that foreign knowledge brokers are "doing good" when the inducements provided by the corporate culture of foreign employees do not result in a democratic, economic or ethical drawback for the host country.

Using a global dataset, we find empirical evidence that Foreign Knowledge Brokers respond to local political and corporate restrictions. In turn, local authorities find incentives to alter local policies in order to attract foreign employment, at the expense of democratic political competition. However, we find no empirical evidence to support that Foreign Knowledge Brokers are contributing to the common good of their host countries. Furthermore, we identify that the ethical inducements of Foreign Knowledge Brokers change with time.

The influence of Foreign Knowledge Brokers on local business policies and politics is relevant due to the implications that stem from the ethical considerations of knowledge spanning across borders. Under a moral prism, actions towards a respectable goal, such as economic growth or employment, might have negative consequences through the means used to reach the target. This is especially relevant in less developed countries with lax democratic and corporate regulations. Both foreign corporate managers and local policy makers can benefit from the ethical awareness provided by the scrutiny of the implications of their decisions with respect to foreign direct investment.

To gain insight on the ethical implications of Foreign Knowledge Brokers, the model presented in this paper contemplates several fields, such as knowledge brokerage, corporate culture and employment induced by foreign direct investment. As corporate citizens, Foreign Knowledge Brokers induce policy changes in the host country, which can be measured empirically. We depict a dynamic scenario where Foreign Knowledge Brokers induce a triple dilemma in their host country: Knowledge, democracy and corporate openness appear to be mutually incompatible. Two of the three might be achieved, but never all three in full simultaneously. We observe that policies aimed to increase both, political competition and open recruitment, deter new foreign employment. For example, ad-hoc changes in Spanish labour and gambling regulations might attract new investment and employment such as the casino resort, Eurovegas. However, these regulatory changes also have an effect on settled competitors as well as on other domestic firms. This ethical trilemma has moral and democratic implications for the common good of less developed countries in their pursuit of economic welfare through foreign knowledge and investment.

This paper is useful for gaining insights into the ethical influence of foreign knowledge brokers through aggregate macroeconomic magnitudes, and as a starting point for future case studies which will aid practitioners in examining the ethical implications of specific business practices and policies.

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Notes

1 The standard gravity equation derived from the Knowledge-Capital model is useful to estimate foreign sales and capital movement across borders. However, a gravity model for foreign employment has a weak economic support, since part of the affiliate's staff will be covered by local personnel.

2 Usual control variables (distance, GDPs, common language) in the Knowledge-Capital model FDI framework will affect capital investment. In our job model, employment is a result of investment. Thus these variables will be endogenous and their effect will be captured in the variations of FDI.

3 A correlation analysis has been performed for the ethical variables in order to ensure orthogonality.

4 Calculated by $(0.5)^{\hat{\beta}}$.

5 Calculated by $(2)^{\hat{\beta}}$.

6 Similar to the globalisation trilemma where democracy, national sovereignty and global economic integration are mutually incompatible (Rodrik, 2011).

7 To account for zeros, we use jobs+1.