THE ETHICS OF FOREIGN KNOWLEDGE BROKERS:

A CONCEPTUAL AND EMPIRICAL FRAMEWORK[1]

Jordi Paniagua and Juan Sapena

Catholic University of Valencia

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: Foreign Knowledge Brokers, FKB, Foreign Direct Investment, FDI, Knowledge Brokerage, Corporate Culture, International Business Ethics, IBE, Incentive-based Ethics, Foreign Employment, Multinational Enterprises, Developing Countries.

---

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, Dauber, and Yolles, 2012), and therefore subject to moral analysis (Melé, 2012) via incentive-based ethics (Homman, 2008; Luetge, 2005).

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: (1) LVS' main asset is foreign employment, which is a scarce resource in a depressed economy. (2) LVS' employees, through a distinct corporate culture, diffuse new knowledge into a traditional sun-and-beach touristic economy. (3) LSV 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 (Crane et al., 2011; Doh et al., 2010): 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 (Ashforth and Anand, 2003; Fox, Donohue, and Wu, 2005; Habib and Zurawicki, 2002; Lam, 2002; Simmons, Iles, and Yolles, 2005; Wei, 2000), corporate social responsibility (Banerjee, 2008; Hurn, 2008; Portney, 2004; Roberts, 2003) and environmental issues (Crane, 2000; Jaffe et al., 1995; Javorcik and Wei, 2005; Keller and Levinson, 2002; D. K. Peterson, 2002; Siegel, Licht, and Schwartz, 2012).

Most conceptual (Bardy, Drew, and Kennedy, 2012; Doh et al., 2010; Dunfee and Warren, 2001; Luetge, 2005; Meyer, 2004; Stanley, 1990) and empirical (Glac, 2009; Jakobsen and de Soysa, 2006; Li and Resnick, 2003; Lozano and Boni, 2002; Siegel, Licht, and Schwartz, 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, Paloni, and Youssef (2001) and Alemu (2009). In so forth, IBE has often obviated recent developments in FDI models, such as the Knowledge- Capital model of FDI (Bergstrand and Egger, 2007; Markusen and Venables, 2000; Markusen, 2002).

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 "setup 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, 2001). For instance, Tietze (2010) identifies international managers as translators in the globalized world. However, Parjanen, Melkas, and Uotila (2011) identify three levels of knowledge

brokerage: systemic, organizational 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 (Fink, Dauber, and Yolles, 2012; Yolles, 2006, 2007b). Crémer (1993) links both corporate culture and shared knowledge, which has been sustained by empirical evidence (MacCormick and Parker, 2010; Sørensen, 2002). Previous research has also stressed the role of corporate culture in the firm's effeteness (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 and Gurr, 1975; Eckstein, 1973).

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 (Crane and Matten, 2008; Matten and Crane, 2005; Walsh, 2005) 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, KFB 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, Drew, and Kennedy (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 (Fink, Dauber, and Yolles, 2012; Yolles, 2007b).

Rather than analysing unethical practices within the FKB collective (Adler, Forbes, and Willmott, 2007; Ashforth and Anand, 2003; Fox, Donohue, and Wu, 2005; Lawrence, Raiborn, and Locander, 2011; Mayer et al., 2012; Velasquez, 2011) 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 (Bell and Marin, 2004; Kokko, Tansini, and Zejan, 1996; Marin and Bell, 2006; Mullen and Williams, 2007). However, other authors have found a downside of FDI in local developing economies (Agosin and Machado, 2005; Li and Resnick, 2003; Moran, Graham, and Blomström, 2005; Siegel, Licht, and Schwartz, 2012).

Although this paper main focus 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 has been silent on a popular topic in FDI literature (Buckley, Elia, and Kafouros, 2010; Firth and Ghauri, 2010; Forsans and Balasubramanyam, 2010; Müller, 2007; Yu and Tang, 1992) where heterogeneous firms fall in productivity hierarchy (Helpman, Melitz, and Yeaple, 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,

$$Gjobs_{ijt} = e^{(\beta_1 lnGFDI_{ijt} + \beta_2 lnw_{it} + \beta_3 lnw_{jt} + lnGFDI_{ijt}*(\beta_4 polcom_{jt} + \beta_5 exconst_{jt} + \beta_6 exrec_{jt}))} + v_{ijt} [1]$$

$$Ejobs_{ijt} = e^{(\beta_1 lnEFDI_{ijt} + \beta_2 lnw_{it} + \beta_3 lnw_{jt} + lnEFDI_{ijt}*(\beta_4 polcom_{jt} + \beta_5 exconst_{jt} + \beta_6 exrec_{jt}))} + u_{ijt} [2]$$

where G$jobs_{ijt}$ are the jobs created by greenfield investments and $Ejobs_{ijt}$ are 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 (Jakobsen and de Soysa, 2006; Li and Resnick, 2003).

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.

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.

INSERT Table 1 **AROUND HERE**

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, Görg, and Manchin, 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

Hypothesis 1 $\begin{cases} H_0: \beta_i = 0, i = \{4,5,6\} \\ H_1: \beta_i \neq 0, \ \forall i = \{4, 5, 6\} \end{cases}$ [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

11

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.

INSERT Table 2 and Table 3 AROUND HERE.

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 in 22% (greenfield)

and 13% (expansion) on average[4]. Doubling FDI flows to developing countries increases

greenfield jobs in 68% and expansion employment in 71% on average[5].

INSERT Table 4 **AROUND HERE**

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 KFB. 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 67.5%, whereas doubling GFDI in India increases jobs only in 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.

INSERT Table 5 **AROUND HERE**

13

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 constrains.

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 Generalized Method of Moments (GMM) consistent estimator for linear dynamic panel-data models (Arellano and Bond, 1991; Blundell and Bond, 1998)[7]. To account for employment

14

persistence (Pries, 2004), we introduce a lagged value of employment $lnjobs_{ijt}(-1)$ 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.

INSERT Table 6 **AROUND HERE**

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

15

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.

7 References

Adler, P. S., Forbes, L. C. and Willmott, H. (2007) '3 Critical Management Studies', *The Academy of Management Annals*, *1*(1), 119–79.

Agosin, M. R. and Machado, R. (2005) 'Foreign Investment in Developing Countries: Does it Crowd in Domestic Investment?', *Oxford Development Studies*, *33*(2), 149–62.

Alemu, A. M. (2009) 'The Roles of Human Capital and Infrastructure on FDI Inflow: Empirical Evidence from Sub-Saharan Africa', *Journal of African Policy Studies*, *13*(2), 25–53.

Antonietti, R. and Antonioli, D. (2011) 'The impact of production offshoring on the skill composition of manufacturing firms: Evidence from Italy', *International Review of Applied Economics*, *25*(1), 87–105.

Arellano, M. and Bond, S. (1991) 'Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations', *The Review of Economic Studies*, *58*(2), 277.

Ashforth, B. E. and Anand, V. (2003) 'The Normalization of Corruption in Organizations', *Research in Organizational Behavior*, *25*, 1–52.

Banerjee, S. B. (2008) 'Corporate Social Responsibility: The Good, the Bad and the Ugly', *Critical Sociology*, *34*(1), 51–79.

Bardy, R., Drew, S. and Kennedy, T. F. (2012) 'Foreign Investment and Ethics: How to Contribute to Social Responsibility by Doing Business in Less-Developed Countries', *Journal of Business Ethics*, *106*(3), 267–82.

Basu, K. (1999) 'Child labor: cause, consequence, and cure, with remarks on international labor standards', *Journal of Economic literature*, *37*(3), 1083–119.

Bell, M. and Marin, A. (2004) 'Where Do Foreign Direct Investment-Related Technology Spillovers Come From in Emerging Economies? An exploration in Argentina in the 1990s', *The European Journal of Development Research*, *16*(3), 653–86.

Benedict XVI (2009) 'Caritas in Veritae', Encyclical letter. Retrieved from http://www.vatican.va

Bergstrand, J. H. and Egger, P. (2007) 'A knowledge-and-physical-capital model of international trade flows, foreign direct investment, and multinational enterprises', *Journal of International Economics*, *73*(2), 278–308.

Blundell, R. and Bond, S. (1998) 'Initial conditions and moment restrictions in dynamic panel data models', *Journal of Econometrics*, *87*(1), 115–43.

Brown, J. S. and Duguid, P. (1991) 'Organizational Learning and Communities-of-Practice: Toward a Unified View of Working, Learning, and Innovation', *Organization Science*, *2*(1), 40–57.

Brown, J. S. and Duguid, P. (2001) 'Knowledge and Organization: A Social-Practice Perspective', *Organization Science*, *12*(2), 198–213.

Buckley, P. J., Elia, S. and Kafouros, M. (2010) 'Acquisitions from emerging countries: what factors influence the performance of target firms in advanced countries?',*European Journal of International Management*, *4*(1/2), 30 – 47.

Carnabuci, G. and Bruggeman, J. (2009) 'Knowledge Specialization, Knowledge Brokerage and the Uneven Growth of Technology Domains', *Social Forces*, *88*(2), 607–41.

Crane, A. (2000) 'Corporate Greening as Amoralization', *Organization Studies*, *21*(4), 673–96.

Crane, A., Gilbert, D. U., Goodpaster, K. E., Miceli, M. P., Moore, G., Reynolds, S. J., Schminke, M., et al. (2011) 'Comments on BEQ's Twentieth Anniversary Forum

on New Directions for Business Ethics Research', *Business Ethics Quarterly*, *21*(1), 157–87.

Crane, A. and Matten, D. (2008) 'Incorporating the corporation in citizenship: A response to Neron and Norman', *Business Ethics Quarterly*, *18*(1), 27–33.

Crémer, J. (1993) 'Corporate Culture and Shared Knowledge', *Industrial and Corporate Change*, *2*(3), 351–86.

CSP (2012) Center for Systemic Peace.Retrieved from: http://www.systemicpeace.org/

Denison, D. R. (1990) *Corporate culture and organizational effectiveness.* Oxford, England: John Wiley & Sons.

Doh, J., Husted, B. W., Matten, D. and Santoro, M. (2010) 'Ahoy There! Toward Greater Congruence and Synergy Between International Business and Business Ethics Theory and Research', *Business Ethics Quarterly*, *20*(3), 481–502.

Dunfee, T. W. and Warren, D. E. (2001) 'Is guanxi ethical? A normative analysis of doing business in China', *Journal of Business Ethics*, *32*(3), 191–204.

Eckstein, H. (1973) 'Authority Patterns: A Structural Basis for Political Inquiry', *The American Political Science Review*, *67*(4), 1142–61.

Eckstein, H. and Gurr, T. R. (1975) *Patterns of authority : a structural basis for political inquiry.* New York: Wiley.

Egri, C. P. and Ralston, D. A. (2008) 'Corporate responsibility: A review of international management research from 1998 to 2007', *Journal of International Management*, *14*(4), 319–39.

Ethier, W. J. and Markusen, J. R. (1996) 'Multinational firms, technology diffusion and trade', *Journal of International Economics*, *41*(1–2), 1–28.

FDIMarkets (2011) FDI Markets - The Financial Times Ltd . Retrieved from: http://www.fdimarkets.com

Fink, G., Dauber, D. and Yolles, M. (2012) 'Understanding organizational culture as a trait theory', *European Journal of International Management*, *6*(2), 199–220.

Firth, R. and Ghauri, P. N. (2010) 'Multinational enterprise acquisitions in emerging markets: linkage effects on local firms', *European Journal of International Management*, *4*(1/2), 135 – 162.

Forsans, N. and Balasubramanyam, V. N. (2010) 'Acquisitions versus licensing agreements as vehicles for technology transfer', *European Journal of International Management*, *4*(1/2), 48 – 55.

Fox, J. B., Donohue, J. M. and Wu, J. (2005) 'Beyond the Image of Foreign Direct Investment in China: Where ethics meets public relations', *Journal of Business Ethics*, *56*(4), 317–24.

Glac, K. (2009) 'The impact of foreign direct investment on ethical standards in host countries', Working Paper,The Wharton School.

Graham, E. M. and Krugman, P. R. (1995) *Foreign direct investment in the United States.* Washington, D.C.: Peterson Institute.

Habermas, J. (1962) *Strukturwandel der Öffentlichkeit.* Neuwied/Berlin: Luchterhand.

Habib, M. and Zurawicki, L. (2002) 'Corruption and Foreign Direct Investment', *Journal of International Business Studies*, *33*(2), 291–307.

Hargadon, A. B. (1998) 'Firms as Knowledge Brokers: Lessons in Pursuing Continuous Innovation', *California Management Review*, *40*(3), 209–27.

Hargadon, A. B. (2002) 'Brokering Knowledge: Linking learning and innovation', in B. M. Staw and R. M. Kramer (eds.), *Research in Organizational Behaviour*. Oxford: Elsevier.

Head, K. and Ries, J. (2002) 'Offshore production and skill upgrading by Japanese manufacturing firms', *Journal of International Economics*, *58*(1), 81–105.

Head, K. and Ries, J. (2008) 'FDI as an Outcome of the Market for Corporate Control: Theory and Evidence', *Journal of International Economics*, *74*(1), 2–20.

Helpman, E., Melitz, M. and Yeaple, S. R. (2004) 'Export versus FDI with heterogeneous firms', *American Economic Review*, *94*(1), 300–16.

Herrmann, P. and Datta, D. K. (2006) 'CEO Experiences: Effects on the Choice of FDI Entry Mode', *Journal of Management Studies*, *43*(4), 755–78.

Hijzen, A., Görg, H. and Manchin, M. (2008) 'Cross-border mergers and acquisitions and the role of trade costs', *European Economic Review*, *52*(5), 849–66.

Hill, C. W. L. (2010) *International Business: Competing in the Global Marketplace*. New York: McGraw-Hill Higher Education.

Homann, K. (2002) *Vorteile und Anreize: Zur Grundlegungeiner Ethik der Zukunft*. Tübingen: Mohr Siebeck.

Homman, K. (2008) 'Profit and Morality in Global Responsibility', in J. C. Sancho, C. Luetge and T. Schönwälder-Kuntze (eds.), *Corporate Citizenship, Contractarianism and Ethical Theory: On Philosophical Foundations of Business Ethics*. Farnham (UK): Ashgate Publishing, Ltd.

Hurn, B. J. (2008) 'Ethics in international business', *Industrial and Commercial Training*, *40*(7), 347–54.

ILO (2011) International Labour Organisation .Retrieved from: http://www.ilo.org

Jaffe, A. B., Peterson, S. R., Portney, P. R. and Stavins, R. N. (1995) 'Environmental Regulation and the Competitiveness of U.S. Manufacturing: What Does the Evidence Tell Us?',*Journal of Economic Literature*, *33*(1), 132–63.

Jakobsen, J. and de Soysa, I. (2006) 'Do Foreign Investors Punish Democracy? Theory and Empirics, 1984–2001.', *Kyklos*, *59*(3), 383 – 410.

Javorcik, B. S. and Wei, S.-J. (2005) 'Pollution Havens and Foreign Direct Investment: Dirty Secret or Popular Myth?',*Contributions in Economic Analysis & Policy, 3*(2).

Keller, W. and Levinson, A. (2002) 'Pollution Abatement Costs and Foreign Direct Investment Inflows to U.S. States', *Review of Economics and Statistics*, *84*(4), 691–703.

Kleinert, J. and Toubal, F. (2010) 'Gravity for FDI', *Review of International Economics*, *18*(1), 1–13.

Kokko, A., Tansini, R. and Zejan, M. C. (1996) 'Local technological capability and productivity spillovers from FDI in the Uruguayan manufacturing sector', *Journal of Development Studies*, *32*(4), 602–11.

Kotter, J. P. and Heskett, J. L. (1992) *Corporate culture and performance*. New York: Simon and Schuster.

Lam, K. C. (2002) 'A study of the ethical performance of foreign-investment enterprises in the China labor market', *Journal of Business Ethics*, *37*(4), 349–65.

Lawrence, K. E., Raiborn, C. and Locander, W. B. (2011) 'Ethical Scandal, Legacy Identity and Relationship Outcomes: Sensemaking of the Innocents', *Corporate Reputation Review*, *14*(2), 97–113.

Li, Q. and Resnick, A. (2003) 'Reversal of fortunes: Democratic institutions and foreign direct investment inflows to developing countries', *International Organization*, *57*(01), 175–211.

Lozano, J. F. and Boni, A. (2002) 'The Impact of the Multinational in the Development: An Ethical Challenge', *Journal of Business Ethics*, *39*(1/2), 169–78.

Luetge, C. (2005) 'Economic ethics, business ethics and the idea of mutual advantages', *Business Ethics: A European Review*, *14*(2), 108–18.

MacCormick, J. S. and Parker, S. K. (2010) 'A Multiple Climates Approach to Understanding Business Unit Effectiveness', *Human Relations*, *63*(11), 1771–806.

Mackie, J. L. (1990) *Ethics: Inventing Right and Wrong.* London: Penguin.

Marin, A. and Bell, M. (2006) 'Technology spillovers from foreign direct investment (FDI): an exploration of the active role of MNC subsidiaries in the case of Argentina in the 1990s', *Journal of Development Studies*, *42*(4), 678–97.

Markusen, J. R. (2001) 'Contracts, intellectual property rights, and multinational investment in developing countries', *Journal of International Economics*, *53*(1), 189–204.

Markusen, J. R. (2002) *Multinational firms and the theory of international trade.* Boston: MIT Press.

Markusen, J. R. and Venables, A. J. (2000) 'The theory of endowment, intra-industry and multi-national trade', *Journal of international economics*, *52*(2), 209–34.

Matten, D. and Crane, A. (2005) 'Corporate Citizenship: Toward an Extended Theoretical Conceptualization', *Academy of Management Review, 30*(1), 166–79.

Mayer, D. M., Aquino, K., Greenbaum, R. L. and Kuenzi, M. (2012) 'Who Displays Ethical Leadership, and Why Does It Matter? An Examination of Antecedents and Consequences of Ethical Leadership', *The Academy of Management Journal (AMJ)*, *55*(1), 151–71.

Melé, D. (2009) 'Integrating Personalism into Virtue-Based Business Ethics: The Personalist and the Common Good Principles', *Journal of Business Ethics*, *88*(1), 227–44.

Melé, D. (2012) 'The Firm as a "Community of Persons": A Pillar of Humanistic Business Ethos', *Journal of Business Ethics*, *106*(1), 89–101.

Meyer, K. E. (2004) 'Perspectives on multinational enterprises in emerging economies', *Journal of International Business Studies*, *35*(4), 259–76.

Moran, T. H., Graham, E. M. and Blomström, M. (eds.) (2005) *Does foreign direct investment promote development?* Washington, D.C.: Peterson Institute.

Mullen, J. and Williams, M. (2007) 'Foreign direct investment and regional productivity spillovers in US manufacturing', *Review of Urban & Regional Development Studies*, *19*, 185–96.

Müller, T. (2007) 'Analyzing Modes of Foreign Entry: Greenfield Investment versus Acquisition', *Review of International Economics*, *15*(1), 93–111.

Noorbakhsh, F., Paloni, A. and Youssef, A. (2001) 'Human Capital and FDI Inflows to Developing Countries: New Empirical Evidence', *World Development*, *29*(9), 1593–610.

Parjanen, S., Melkas, H. and Uotila, T. (2011) 'Distances, Knowledge Brokerage and Absorptive Capacity in Enhancing Regional Innovativeness: A Qualitative Case Study of Lahti Region, Finland', *European Planning Studies*, *19*(6), 921–48.

Peterson, D. K. (2002) 'The Relationship between Unethical Behavior and the Dimensions of the Ethical Climate Questionnaire', *Journal of Business Ethics*, *41*(4), 313–26.

Portney, P. R. (2004) 'Corporate Social Responsibility', *Environmental Protection and the Social Responsibility of Firms: Perspectives from Law, Economics, and Business*, 107.

Pries, M. J. (2004) 'Persistence of Employment Fluctuations: A Model of Recurring Job Loss', *The Review of Economic Studies*, *71*(1), 193–215.

Roberts, J. (2003) 'The Manufacture of Corporate Social Responsibility: Constructing Corporate Sensibility', *Organization*, *10*(2), 249–65.

Rodrik, D. (2011) *The Globalization Paradox: Democracy and the Future of the World Economy*. New York: W. W. Norton & Company.

Scherer, A. and Palazzo, G. (2007) 'Toward a Political Conception of Corporate Responsibility: Business and Society Seen From a Habermasian Perspective', *The Academy of Management Review*, *32*(4), 1096–120.

Seyf, A. (2000) 'Can more FDI solve the problem of unemployment in the EU? A short note', *Applied economics letters*, *7*(2), 125–8.

Siegel, J. I., Licht, A. N. and Schwartz, S. H. (2012) 'Egalitarianism, Cultural Distance, and FDI: A New Approach', *Organization Science*.

Santos Silva, J. M. C. and Tenreyro, S. (2006) 'The log of gravity', *The Review of Economics and Statistics*, *88*(4), 641–58.

Santos Silva, J. M. C. and Tenreyro, S. (2010) 'On the Existence of the Maximum Likelihood Estimates in Poisson Regression', *Economics Letters*, *10*(2), 310–2.

Santos Silva, J. M. C. and Tenreyro, S. (2011) 'poisson: Some convergence issues', *Stata Journal*, *11*(2), 207–12.

Simmons, J., Iles, P. and Yolles, M. (2005) 'Identifying those on board "the moving train": towards a stakeholder-focused methodology for organizational decision making', *Systems Research and Behavioral Science*, *22*(1), 41–53.

Solomon, R. C. (1993) *Ethics and Excellence: Cooperation and Integrity in Business*. Oxford: Oxford University Press, USA.

Sørensen, J. B. (2002) 'The Strength of Corporate Culture and the Reliability of Firm Performance', *Administrative Science Quarterly*, *47*(1), 70–91.

Stanley, M. T. (1990) 'Ethical perspectives on the foreign direct investment decision', *Journal of Business Ethics*, *9*(1).

The Economist (2012, March 17) 'Gambling in Spain: Place your bets on Euro Vegas', *The Economist*. Retrieved from http://www.economist.com/node/21550284

Tietze, S. (2010) 'International managers as translators', *European Journal of International Management*, *4*(1/2), 184 – 199.

Velasquez, M. G. (2011) *Business Ethics: Concepts and Cases*. Englewood Clis, NJ: Pearson Education, Limited.

WAIPA (2012) World Association of investment Promotion Agencies .Retrieved from: www.waipa.org/

Walsh, J. P. (2005) 'Book Review Essay: Taking Stock of Stakeholder Management', *The Academy of Management Review, 30*(2), 426–38.

Wei, S.-J. (2000) 'How taxing is corruption on international investors?', *Review of Economics and Statistics, 82*(1), 1–11.

Yolles, M. (2006) *Organizations As Complex Systems: An Introduction to Knowledge Cybernetics.* Greenwhich, CT, USA: Information Age Publishing, Inc.

Yolles, M. (2007a) 'Modeling pathologies in social collectives', *European Journal of International Management, 1*(1), 81–103.

Yolles, M. (2007b) 'Exploring the Relationship Between Corporate Culture and Behaviour', in J. Kaluza (ed.), *Strategic Management and its Support by Information Systems.* Presented at the 7th International Conference on Strategic Management and Its Support by Information Systems, Ostrava: Vsb-Tech Univ Ostrava, pp. 131–58.

Yu, C. J. and Tang, M. (1992) 'International joint ventures: Theoretical considerations', *Managerial and Decision Economics, 13*(4), 331–42.

---

[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 $(0.5)^{\widehat{\beta}}$

[5] Calculated by $(2)^{\widehat{\beta}}$

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

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

8 Tables

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

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	$lnFDI_{ijt}$	1455	18.93533	1.858068	8.409793	24.24179
Home wages	lnw_{it}	1455	7.23744	1.852913	0.0702654	15.70396
Host wages	lnw_{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	$lnFDI_{ijt}$	387	17.81628	1.781203	8.68893	21.64635
Home wages	lnw_{it}	387	6.606564	1.742002	0.4730981	10.16677
Host wages	lnw_{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

Table 4   Results: ethics on FDI employment

Equation / Variable	[1] $Gjobs_{ijt}$	[2] $Ejobs_{ijt}$
Foreign Direct Investment $lnFDI_{ijt}$	0.750*** (0.05)	0.774*** (0.04)
Home wages lnw_{it}	-0.015 (0.03)	0.013 (0.03)
Host wages lnw_{jt}	-0.290*** (0.05)	-0.178*** (0.05)
Political competition $lnFDI_{ij} * polcom_{jt}$	-0.006*** (0.002)	0.001 (0.002)
CEO powers $lnFDI_{ij} * exconst_{jt}$	0.012*** (0.002)	-0.009** (0.003)
Executive recruitment $lnFDI_{ij} * exrec_{jt}$	-0.012*** (0.003)	0.012** (0.01)
Observations	1455	387
R2	0.51	0.68
[H.1] $\chi^2(3)$	8.88*** {0.00}	17.10*** {0.00}
Sample (host)	Non-OECD	Non-OECD
Estimation	PPML	PPML
FDI Flavor	Greenfield	Expansion

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

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 $(2^{(\hat{\beta}_1 + \hat{\beta}_4 * polcom_j + \hat{\beta}_5 * exconst_j + \hat{\beta}_5 * exrec_j)} - 1) * 100\%$, for instance in China greenfield, $(2^{(0.750 - 0.06*1 + 0.012*3 - 0.012*3)} - 1) * 100\% = 67\%$

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) $lnjobs_{ijt}(-1)$			0.067* (0.04)	-0.243*** (0.07)
FDI $lnFDI_{ijt}$	0.542*** (0.03)	0.768*** (0.04)	.257* (0.14)	-0.004 (0.25)
Home wages lnw_{it}	0.040 (0.03)	-0.019 (0.03)	-1.532*** (0.34)	-0.875** (0.35)
Host wages lnw_{jt}	-0.150*** (0.03)	-0.107*** (0.04)	0.435* (0.32)	-0.264 (0.32)
Political competition $lnFDI_{ij}*polcom_{jt}$	-0.008*** (0.001)	-0.003 (0.003)	-0.023** (0.01)	-0.016 (0.01)
CEO powers $lnFDI_{ij}*exconst_{jt}$	0.015*** (0.002)	0.014*** (0.006)	0.035 (0.02)	-0.006 (0.03)
Executive recruitment $lnFDI_{ij}*exrec_{jt}$	-0.002 (0.002)	-0.005 (0.004)	0.046** (0.02)	0.102** (0.05)
Observations	1455	387	650	198
R2	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 Flavor	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