

# *The IB/ IHRM interface: exploring the potential of intersectional theorizing*

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## **THE IB/ IHRM INTERFACE:**

### **EXPLORING THE POTENTIAL OF INTERSECTIONAL THEORIZING**

#### **Abstract**

Although the core concepts underlying IB and IHRM provide a common lexicon and epistemology, this commonality is often more implicit than explicit. We highlight not only the common ground but also the lack of critical dialogue between the two fields. This paper asks: What can each field learn from the other? What do scholars from IB learn from IHRM and vice versa? We identify a possible agenda and concerns regarding theory building as a basis for dialogue between the two fields.

**Keywords:** International business; international HRM; multinational enterprise; theory building.

## 1 INTRODUCTION

Within the field of international business (IB), a principal concern has been understanding variations in firm strategies, policies, and practices both between contexts and across the multinational enterprise (MNE). Meanwhile, the international human resource management (IHRM) field seeks, inter alia, to understand challenges and variations in people management in MNEs, including employees' responses to strategies, policies, and practices in various contexts. Accordingly, one would expect the IB and IHRM fields to engage in continuous, mutually reinforcing dialogues that build on each other's strengths and ameliorate respective weaknesses. Several top-tier journals in IB (e.g., *JWB*, *JIBS*, *IBR*, *JIM*, and *MIR*) regularly carry papers related to comparative and transnational people management, and the main IHRM journals (e.g., *HRM*, *HRMJ*, and *IJHRM*) frequently publish papers that highlight the challenges posed by firms' multinationality. However, while sporadic and fragmented conversations do take place, a mutually reinforcing dialogue remains elusive. The limited nature of the mutual dialogue between specialists in international business strategy and IHRM is particularly apparent. Neither field benefits as much as it could from the body of knowledge regarding key concepts and concerns accumulated by the other field. IHRM research often neglects the economic aspects of firms' decision-making and it generally fails to explore how HRM intersects with other functional areas within international business. Similarly, IB research tends to neglect the theoretical and applied insights afforded by key strands of the IHRM literature, such as the importance of individual-level heterogeneity and intra-subsidiary dynamics.

This is surprising, as arguments have regularly been made for greater two-way integration and cross-fertilization (e.g., Sparrow, 2010; Stahl et al., 2012; Welch & Björkman, 2015). The benefits of integrating the two fields were recently illustrated in the 50th anniversary issue of *JWB*, which included four contributions dealing with concepts in IHRM: global

leadership (Bird & Mendenhall, 2016), global mobility (Caligiuri & Bonache, 2016), global competence (Cascio & Boudreau, 2016), and HRM in the global context (Tung, 2016). Clearly, there is a promising agenda for future research that builds on the intersection between IB and IHRM. We believe that the failure to establish better links is largely the result of persistent theory-related failings. We argue that while IB and IHRM are widely acknowledged multidisciplinary areas of inquiry that draw from other established disciplines (Cooke et al., 2017; Buckley et al., 2017), both fields are net importers of theories. This is problematic since, as Oswick et al. (2011) argue, over-reliance on one-way borrowing leads to a lack of development of new and original indigenous theories as well as a preponderance of particular types of borrowing (i.e., favoritism) from one scholarly tradition.

Our paper targets both IHRM and IB researchers working with questions related to the challenges posed by firms' multinationality. It does not offer a comprehensive literature review and it does not aim to provide a detailed overview of the two fields' historical development. Instead, we pick up on the most illustrative pieces and most representative conversations to provoke and encourage researchers from both IB and IHRM to better utilize the insights from both fields and, thereby, avoiding theory-related failings. Moreover, we identify several theory-related challenges that future research at the intersection of IB and IHRM needs to resolve in order to create mutual benefits and, ultimately, provide a solid theoretical contribution that goes beyond narrow applicability in each domain.

The paper is structured as follows. We first review the respective theoretical strengths and weaknesses of each field and identify what they can learn from each other. We call for a greater awareness of the knowledge base that has been constructed on IHRM in the IB literature and for enhanced theoretical understanding of IB in the IHRM literature. We then outline three theory-related challenges common to both the IB and the IHRM fields and discuss the kinds of research that will be needed to overcome those challenges.

## **2 THE INDIVISIBILITY OF IB AND IHRM: COMMON THEORETICAL ROOTS**

Table 1 provides some of the most established definitions of IB and IHRM. Although both IHRM and IB encompass other topics, their common core is the MNE. Human resources are a key aspect of MNEs' firm-specific assets (FSAs) (Narula & Verbeke, 2015). For most organizations, human resources are the largest single element of operating costs. Therefore, an understanding of the complementarity between different levels of resources and skills is key for the firm's profitability. Similarly, the management and coordination of cross-border activities among affiliates in different locations depends simultaneously on physical and infrastructural resources and the expertise of boundary-spanning managers. Consequently, recruiting, deploying, utilizing, and retaining the 'right' people for each location to ensure that they contribute most effectively is a key source of advantage for MNEs.

- INSERT TABLE 1 AROUND HERE -

Recent work on the complexities of the assets necessary to maintain an MNE's competitiveness has buttressed the understanding of the MNE as a meta-integrator (Narula, 2014; Madhok, 2015). It is also increasingly clear that key assets are distributed unevenly across MNEs' operations. FSAs may confer an advantage in one location but not in another depending on the degree to which those assets are location-bound, or 'sticky'. Early contributions to IB theory reflected on path dependence (and IB's theoretical roots in economics), where knowledge was assumed to be easily transferred at low (or no) cost, while IB scholarship from the 1960s through the 1980s tended to downplay the value of information, the costs of knowledge transfers, and the significance of IHRM as the crucial conduit for information movement within the MNE (Minbaeva and Michailova, 2004; Minbaeva et al., 2003). The achievement of economies of common governance and overall (as well as subsidiary-level) competitive advantage requires management of these assets through efficient internal knowledge-management systems (Hennart, 2012; Verbeke, 2013).

At the same time, the competitiveness of MNEs is associated with their external embeddedness (Andersson et al., 2002). This embeddedness, in turn, relates not only to FSAs but also to the characteristics of the firm's location. The location-boundedness of FSAs reflects this symbiosis between firm-specific and location-specific assets (the latter being available, in principle, to all actors that are physically located in that geographical space). The key aspect of location-boundedness is the inertial tendency of human capital.

Even in an era where outsourcing and supply chains are increasingly used by MNEs, human resources can be a key location advantage that firms seek to internalize when expanding abroad. Indeed, MNEs report that the search for appropriately skilled human capital (per unit cost) is the second most important motive for location choices after market opportunities (Johanson & Vahlne, 2009; Cuervo-Cazurra et al., 2015). Locations (which can be as broad as countries or as narrow as cities) have specific characteristics, including the quantity and quality of human capital. These characteristics are the fundamental building blocks of all economic activity (Mudambi et al., 2018). If the firm is to maintain legitimacy, HRM policies in host locations need to reflect the regulatory requirements of those locations as well as cultural norms (Forstenlechner & Mellahi, 2011; Kostova & Zaheer, 1999). This means that there are limits to how much standardization an MNE may want to or be able to implement within its spatially dispersed activities. Clearly, there is considerable human capital heterogeneity within the MNE. Moreover, not all foreign affiliates are equal, and each has a different degree of internal and external embeddedness (Meyer et al., 2011), which causes even greater variability in human capital among units.

In sum, both fields are concerned with practices and dynamics internal to MNEs as well as their relations to MNEs' settings. Both recognize that people are a core foundation for FSAs. However, we argue that the two fields are insufficiently integrated. As we explain below, this is largely the result of persistent theory-related failings. In other words, despite the focus on

common phenomena, there are differences and constraints in the scope and depth of theories surrounding those phenomena. Although almost all published work in both fields carries, at the very least, an expectation of some theoretical component, shortfalls remain in both fields. Before examining the issues in each field, we consider the meaning of ‘theory’ and examine the use of the term.

In the social sciences, theory is a way of making sense of past and present socio-economic happenings and, as far as possible, predicting likely future patterns of behavior. In reality, theory is subject to many different sets of assumptions—it is a slippery concept that encompasses both the agglomeration of facts and untested opinion (e.g., Eisenhardt & Graebner, 2007). In part, this reflects the extent to which the socio-economic environment is less predictable than natural scientific phenomena. However, we need theory in order to understand. We use it to derive general descriptions and explanations of socio-economic events, and we use the synthesis of data and generalizations to provide explanations of past or current phenomena. Theory may summarize abstract sets of facts. Alternatively, it may involve specific or general critiques of prevailing cultures or modes of social organization (Burns & Rayment-Pickard, 2000). Although Eisenhardt and Graebner (2007) argue that theory can be rendered relatively objective through close adherence to data, the empirical foundations of theories can never be complete (Boskoff, 1971). Hence, the challenge of devising conceptual tools to reach generally verifiable generalizations remains daunting (Boskoff, 1966).

Certain strands of IB and IHRM—as social science disciplines—are hindered by their desire to mimic the precision afforded by natural scientific theory building. Scientific measurement of cause and effect, it is argued, is fairly straightforward, and laboratory testing offers a high degree of accuracy and replicability and allows for varying controls. In contrast, as the social sciences are about social phenomena, they are plagued by inconsistencies and variability in

the behavior and interactions of human beings. In fact, the evidence base behind the confidence in the extreme ends of both rational choice economics and behavioral science is flimsy, at best. An ignorance of statistical techniques can lead to assumptions that optimal methods are based on immutable scientific facts rather than probabilities. Common errors include confusing perceptions with reported facts and misunderstandings about the circumstances under which scales might be constructed (Wanous et al., 1997).

On this basis, we compare and contrast the nature and extent to which one field uses the other in the next two sections. Key concerns in this regard are variations in how capital is conceived, the relative weight assigned to economic and non-economic factors, and the relative level of analysis.

### **3. APPRECIATION OF IHRM IN IB RESEARCH**

Mainstream IB research suffers from a limited understanding of IHRM. IB tends to regard human resources as a 'black box' that responds with little or no lag to the demands of the firm's internationalization initiatives. For example, although the importance of human capital is acknowledged at a theoretical level, IB's strong economics heritage means that there is a tendency to pay greater attention to financial and knowledge capital. Human resources are assumed to be easily relocated, and little attention is paid to possible bottlenecks in acquiring and retaining skilled, efficient, and productive workers, or to time-lags in developing their cognitive and social capital. Most importantly, the quality of human resources is largely ignored. This is a reflection, in part, of the empirical challenges associated with quantitative IB studies, as there are limited proxies with which to estimate the variety (and quality) of human resources within and outside of the MNE's portfolio. In addition, as the quality aspect of human capital is ignored, there is a tendency to also ignore the relative scarcity of skilled workers and managers. By assuming that the supply of different types of workers is similar in each location, IB ignores a key challenge that managers face.

Moreover, the assumptions that MNEs are able to easily move skilled workers (and, consequently, the knowledge embodied in their employees) among subsidiaries and that these workers can be easily integrated into their new units are problematic. The pervasiveness of institutional and organizational inertia means that firms cannot rapidly modify their organizational structures or the nature of their internal and external linkages without significantly compromising their efficiency (Criscuolo & Narula, 2007). Key employees are often reluctant to relocate, and inefficiencies arise from the failure to embed these expatriates in their new organizations in a way that enables them to effectively contribute to the (sometimes different) goals and objectives of their new unit.

The decision to treat employees as a commodity can have severe long-term effects. Underqualified workers require expensive in-house training, which carry an additional cost (Narula & Kodiyat, 2016). Likewise, while outsourcing may offer considerable cost benefits, the use of external suppliers (and contract employees) may have unintended effects in the form of compromised quality and demotivated workers. In addition, the absence of job security and meaningful career paths can significantly reduce employees' willingness to work. As it fails to make such distinctions, IB theory might derive faulty interpretations and provide suboptimal or even damaging managerial advice.

Fortunately, some IB studies are moving closer to distinguishing differences at a more micro level. Current thinking in IB (Hennart, 2012; Verbeke & Narula 2015; Mudambi et al., 2018) distinguishes assets from advantages, as not all assets result in advantages. An advantage arises when the control or ownership of a certain asset allows the firm to demand a rent (i.e., that firm can charge more than others) because of its privileged access to that particular asset. However, access to cheap and unskilled labor provides the firm with an advantage only under certain circumstances—access to labor that is generic and easily available to competitors does not offer an advantage. Recent work on micro-foundations has shown how macro-level

variables are mediated, sustained, or remolded by micro-actions and interactions (Felin, Foss, & Polyhart, 2015; Strauss et al., 2017).

We argue that while the described limitations are theory related, they are symptomatic of the predilection mainstream IB research has for econometrically rigorous data-driven analysis. HRM-related variables associated with the quality of the workforce are hard to find. Most large-scale surveys collect data on the number of workers in each category. Testable hypotheses associated with ‘generic’ observations about human capital are easier to proxy and, therefore, empirically test. Journals also exhibit a preference for parsimonious models that oversimplify reality. Such models often require unreasonable assumptions about the boundaries between the social and the economic, and about the relative positioning of the firm within and between these two spheres. Qualitative studies add some richness and texture, but there are always concerns about the generalizability of research based on case studies.

### ***3.1 Theory-related Problems in IB***

Economics—the field from which much IB theory springs—has struggled to understand how economic actors might (or should) behave. The ‘rational man’ (or *homo economicus*), around whom much of neoclassical thought is structured, represents an unrealistic basis for theory building (Kahneman, 2003). Prospect theory and regulatory theory have demonstrated that the ‘average’ economic actor is simply a figment of our collective imagination (Schubert et al., 2018; Hutzschenreuter et al., 2014). This fictional average person’s appetite for risk is affected by their objectives, their upbringing, and the context in which they are operating. Indeed, behavioral economics is still in its infancy. Until we can model the individual, we cannot model the firm and certainly not the multinational enterprise, which is infinitely more complex.

Human behavior is more complex than phenomena in the natural sciences. Despite the presence of familiar patterns, there is an element of agency that creates unpredictability that may be neither rational nor calculated. Even though some researchers refer to bounded rationality or bounded reliability (Lumineau & Verbeke, 2016; Foss & Weber, 2016; Aharoni et al., 2011) and meta-rationality (Casson & Wadeson, 1999), current conceptions of IB tend to ignore issues of morality and unpredictability.

In parallel with general debates on the need to build micro-foundations in strategy and management research (Felin, Foss, & Ployhart, 2015), there have recently been calls to develop theoretical models in IB that account for individual heterogeneity (Minbaeva, 2016). These researchers argue that a more nuanced understanding of individuals, their behavior, and their social interactions in an international context is instrumental for explaining macro-level processes at the MNE level. Such knowledge is important for helping scholars, managers, and policymakers tackle the societal and economic challenges facing the global economy. There are at least two types of IB studies in which individual heterogeneity must be taken into account: (1) studies in which the causal relations assume behavioral responses from individuals and (2) studies in which most of the heterogeneity (observed variance) occurs at the individual level.

A related problem in IB theory is the widely accepted view that multinationality is inherently positive, as exemplified by the literature on MNEs and performance. Little attention has been paid to understanding why 'bigger is better' (Hennart, 2011). Although there is evidence that larger organizations reap bureaucratic economies of scale (Brewster et al., 2006), this is not the view held by many activist investors who believe that the only positive feature of size is the potential for asset liquidation and debt leverage (Goergen et al., 2014). Powell (2014) tests Hennart's view that a firm's footprint has no impact on its performance and argues that the only profitability difference should be between firms that have chosen the correct

footprint and those that have not. The size of their footprints has no impact on their performance, although firms with excessively large or excessively small footprints are less profitable.

While the experiences of well-known global MNEs can offer key insights, the value of insights derived from, for instance, IBM or Unilever for MNEs that do not have extensive experience in managing complex networks or the administrative and managerial resources associated with such competences is questionable. Although IB has developed a more granular understanding of the different types of subsidiaries and their motives (Andersson & Forsgren, 2000; Cuervo-Cazurra et al., 2015), this has not filtered into a more fine-grained determination of the various HRM strategies needed.

In view of the above, IB researchers would be well served to further problematize the understanding of human capital, especially in terms of whether it is about generic sets of skills, knowledge, and capabilities, or something that is much more subtle and bound up with intra- and extra-organizational level dynamics. Human capital has both individual and collective dimensions. Too much focus on the former means that the shared capabilities of workforces and regional labor markets may be discounted. Finally, individuals are not passive agents, and their responses reflect environmental and individual behavior dimensions. The interplay between the two remains relatively under-investigated - studies tend to prioritize one while denying the relevance of the other.

#### **4 APPRECIATION OF IB IN IHRM RESEARCH**

There are clear limitations to the understanding of MNEs' operations in IHRM. Much of the IHRM literature is process driven and concerned with a host of intra-organizational challenges and issues. Key concerns include challenges associated with staffing, such as

managing geographically dispersed staff from headquarters (Björkman & Stahl, 2006), and managing workforces within and across national boundaries (Schuler et al., 2002; Briscoe & Schuler, 2004). There has also been extensive emphasis on contextual pressures (see Schuler et al., 2002; Sparrow, 2010; Dickmann & Sparrow, 2008; Björkman & Stahl, 2006), which has centered on how firms deal with the (assumed) homogenizing pressures of globalization (Sparrow, 2010; Edwards et al., 2016) and the challenges of adapting to local realities (Dowling et al., 2008). Cross-cultural approaches (Peltoninn, 2006; Jackson, 2015) have been popular, although comparative institutional analysis has made strong inroads in recent years (Brewster et al., 2008).

Nonetheless, the role of the firm as an economic agent is under-investigated in both theoretical and applied terms. IHRM research generally fails to examine the economic rationales behind firms' choices. In fact, researchers occasionally assume that 'softer' approaches to people management represent a superior route to maximizing returns (Lucio & Stuart, 2004; Sparrow, 2010). Yet, a robust understanding of the nature and the purpose of the firm, how it mutates over time, and why specific types of firm are concentrated in specific locales is of central importance to understanding variations in IHRM.

The national boundaries that firms cross and the timing of such movements are determined by a range of contextual economic and societal features that have a direct impact on HRM practices in the home country, in the subsidiaries, and in the supply chain. For example, where institutions are weak (e.g., where corruption is endemic, or enforcement of regulation is weak or uneven), firms have more opportunities to adopt hardline HRM policies or circumnavigate visa regulations that restrict their deployment of expatriates (Rahman & Langford, 2012; Cooney et al., 2003). Similarly, when a firm is enticed to move into a certain country by a favorable tax regime, it may be more inclined to adopt HRM policies that focus on cost reduction. The treatment of people is one measure of corporate social responsibility,

and the relationship between CSR at home and CSR in subsidiaries and supply chains is largely unexplored. The relative sophistication of the market in host countries affects this relationship and partly determines how much a firm invests in local capabilities and skills (Elia & Santangelo, 2017). Therefore, although the rationales for foreign direct investment (FDI) are well understood in the IB literature, and even though FDI directly affects HRM policies in host-country subsidiaries and supply chains, little of the IHRM literature has fully engaged with such questions. In IHRM research, the focus has mostly been on general contextual issues instead of the specific sets of factors that determine the nature and quality of FDI (Wood et al., 2014; Edwards et al., 2016).

Another limitation of the IHRM literature is that, although it broadly considers multinationality with respect to the firm, it largely ignores the consequences of multinationality among investors and how specific types of activist investors—most notably private equity, sovereign wealth funds, and hedge funds—have increasingly become associated with trans-border investments (Guery et al., 2017). Although established players in key coordinated markets (e.g., Germany and Japan) have proven adept in tempering their agendas, multinationality among key investors has implications for workers that are as profound as the implications of a firm's multinationality (Guery et al., 2017).

Finally, the IHRM literature rarely considers power and politics, or how political dynamics affect HRM practice. As Vatiello (2017) notes, the political orientation of a government may directly or indirectly affect both owners' and workers' rights. The IB literature recognizes that firms may deploy non-market strategies of engaging with politicians and in political debates with the aim of furthering their agendas (Mellahi et al., 2016). However, as the experiences of the USA, the UK, and other European countries over the past decade demonstrate, a systematic failure of firms to generate decent work may affect politics and, ultimately, result in a default to populist extremism (Wood & Wright, 2016). Although the IB

literature should arguably be more engaged with this debate, its focus on the wider political domain may represent a better starting point for understanding current experiences and trends (Jackson, 2017) than the avoidance of such factors evident in most IHRM discourse.

#### ***4.1 Theory-related problems in International HRM***

Like IB, the IHRM literature draws on psychology, economics, and sociology. However, IHRM research has been less involved in inter-disciplinary dialogue owing to its distinct industrial sociology and psychology traditions, even though the growth of the field has led to more accounts that juxtapose or synthesize such approaches. In practice, many theories have been deployed. Over time, applied theories common in the IB literature, such as resource based theory, dependency theory, and life-cycle approaches to internationalization (Sparrow & Braun, 2007) have made some headway. In fact, Sparrow and Braun (2007) suggest there has been a transfusion of theory between the fields.

Agency theory has only made limited inroads into the international HRM literature. This is because most HRM specialists are unlikely to suggest that the core subjects of their enquiry are unidimensional, selfish individuals, as much of HRM is about finding ways of promoting effective workplace collaboration and teamwork. Resource based perspectives have been more successful. Other popular sub-theories include cross-cultural approaches, the most influential being that of Hofstede (1982). However, critics of Hofstede (1982) (e.g., McSweeney, 2002) point to his dubious empirical basis and unverifiable claims of distinguishing cultural facts. Others have noted that the measures used by the various ‘cultural theorists’ are incompatible (Avloniti & Filippaios, 2014), so that where a country stands on a particular facet of culture depends on which measure is used. These critics also suggest that the data explains very little of the variance among countries (Gerhart & Fang,

2005). Nevertheless, cultural theories do point to a basic (albeit unmeasurable) truth—there are spatially demarcated broad distinctions in national values, globalization notwithstanding.

A more serious shortfall is one that sometimes also besets IHRM's use of the literature on comparative capitalisms: a tendency to seek to identify favorable HRM practices associated with a particular national or institutional good without taking systemic evolution or change into account. Both cultural sociology and the literature on comparative capitalisms have increasingly acknowledged that national-level features are evolving, dynamic, and prone to mutation or recombination, and that societal evolution is non-linear (Hollingsworth, 2006). In other words, national systems or cultural environments are neither rigid nor completely path dependent.

While this view may be superior to the general pessimism that pervaded strands of the literature on comparative capitalisms in the early 2000s (see Streeck, 2009), a need to take account of broader changes in the global physical and capitalist ecosystem remains. Again, this may reflect an inherent weakness in the literature. Just as in the more general HRM literature, the dominant strand of publications attempts to show a causal connection between HRM policies and firm performance. Therefore, many IHRM scholars promote 'progressive' ideas about treating workers well on the utilitarian grounds that such behavior is good for the bottom line. It is assumed that rational arguments about shareholders' ultimate interests may compensate for regulatory shortfalls. Yet, just as many commercial fishermen will persist in overfishing even when faced with the collapse of fish stocks, and farmers will continue to plough down their land's contour lines while lamenting soil erosion and flooding, there is a natural tendency for firms to default towards lower value-added practices. Without a theoretical framework that can provide some understanding of these tendencies as well as the role of regulation in maintaining a basic floor of social decency and economic sustainability,

IHRM may be a dismal project focused on cataloguing wrongs while hoping that people will come to their senses and do the right thing.

Despite the psychological basis of much of the literature and the fact that a significant portion of research focuses on individual employees or employees as an agglomerated mass (e.g., ‘expatriates’, ‘global talents’), as noted above, the IHRM literature rarely discusses notions of rational decisions and profit-maximizing individuals. Moreover, the IHRM work that covers context either over-generalizes to a country or market-economy level or ignores features that have figured more prominently in the IB literature (e.g., country size, location, education system, regulatory frameworks). For instance, although some work takes the role of trade unions into account, they are treated as passive subjects (see Aoki, 2010). This indicates that inadequate attention has been paid to informal modes of internal corporate governance.

As guidelines for future IHRM research, a first priority could be to explore strategic choice, and the organizational, regional, and national variations in how firm performance is defined. Second, firms enter markets not only to resolve HRM challenges and access new pools of labor, skills and talent, but also for a host of other reasons. As such, there is a significant amount of room to develop a more integrated understanding of the interplay among such factors as well as the organizational and contextual determinants and the relative weights assigned to them. Finally here, although comparative institutional analysis has eroded the dominance of cross-cultural perspectives, a dialogue between the two is needed, especially with respect to understanding the role of national and regional cultural and institutional differences, and how those differences respond to institutional and eco-systemic change.

## **5 FUTURE RESEARCH POSITIONED AT THE IB/IHRM INTERFACE**

The absence of an integrated perspective that takes the external and internal milieux of the MNE into account is a lacuna in both the IHRM and IB fields. The idea that the MNE is ‘a nexus of transactions’ drove many of the early versions of internalization theory, which implicitly understated the importance of the firm as a stock of knowledge. The firm is an aggregate of the information, data, and technologies embodied in its human and physical capital. The basis on which it excels in the longer-term depends on maintaining, utilizing, and enhancing these assets so that they become advantages. Inspirations from innovation studies (themselves an amalgamation of various social science fields) have filtered into IB, especially ideas about taking a systems view (Cantwell et al., 2010, Lundvall, 2007; Castellani & Zanfei, 2006, Iammarino & McCann, 2013; Narula, 2003). More peripherally, these notions are evident in the discussion on multiple embeddedness (Meyer et al., 2011).

The need to think about systems is particularly important for appreciating that human resources are constrained to specific physical spaces and that supply issues need to be considered along with firms’ needs. The internationalization of firms (and the use, for instance, of expatriates or migrant workers) is shaped and constrained by these environmental factors as much as by wages and employment conditions. Thus, IHRM research has been missing an important opportunity to provide valuable input to education as well as science, technology, and innovation policy.

Above we provided separate guidelines for IB and IHRM researchers. However, there are certain areas in which both could benefit from utilizing knowledge accumulated at the intersection of the two fields. To stimulate a more active interface between IB and IHRM, we encourage every researcher working at the intersection between IB and IHRM to explicitly consider three challenges when crafting their theoretical models: the nature of the firm, the temporal dimension, and the local versus the global.

### **5.1. *The nature of the firm***

The first is the need to understand the firm. If the firm is a complex and symbiotic ecosystem from which different stakeholders may not only draw benefits but also incur costs, then there is a need for more nuanced and qualified consideration of the nature of the firm and, more specifically, the MNE. The IB literature assumes that the interests of the business owners are paramount, but there are other important stakeholders (Beer et al., 2015). As such, an understanding of the firm as an interplay of sometimes coherent and sometimes conflicting interests changes the focus. In IB, in particular, this requires coming to terms with the fact that costs and benefits need to be considered in more than a pecuniary sense, as an awareness of non-pecuniary and non-economic costs and benefits is also necessary.

While there is growing evidence that agency theory as both an analytical framework and an ideology is deeply problematic (Bendickson et al., 2016), we do not need to abandon our understanding of how property owners pursue their interests or the circumstances in which they are best able to do so. However, we must recognize that self-interest has implications for other stakeholders and that these stakeholders will also respond to these effects, thereby creating both positive and negative feedback loops that, in turn, affect property owners' future returns. Moreover, property owners are not a coherent group—the ways in which different owner segments pursue their interests and the agendas they set represent not only the outcomes of negative restraints (or the absence thereof) but also the positive incentives provided by institutions. This perspective transcends the purely owner-centered view encountered in much of the IB literature as well as the 'instrumental niceness' view (i.e., being good to people so they help you make more money) encountered in the IHRM literature.

The changing nature of firms is also significant. The boundaries of firms and MNEs have never been as clear-cut as much of the literature assumes. MNEs engage with external actors

through global value chains and other non-equity modes of governance, and they sometimes do so with nominally external firms that are *de facto* controlled by the MNE. This growing use of control-without-ownership and new modes of inter-firm governance that mimic intra-firm control raises questions about the shifting boundaries of firms, and the strategic and economic implications of those shifts. It has also wide-ranging implications for IHRM that are only now being considered in the literature (Reinecke et al., 2018). For instance, MNEs are able to reduce legal ownership and their obligations by spinning off non-core activities. This reduces headcounts, payroll costs, and legal commitments while binding a network of suppliers to the firm (Mudambi & Santangelo, 2016). Indeed, firms can place the most challenging labor issues at arm's length by dealing with brokers instead of directly with suppliers (Reinecke et al., 2018). These 'fuzzy' boundaries have significant implications for both firms and states, as their presence affects core assumptions about employment and, therefore, health policies, pension and retirement legislation, and migration policies.

The situation has been made more complex by the emergence of the 'gig' economy, a factor that is already being debated by both scholars and firms. One implication of what is also known as the 'platform economy' is that firms can get a lot of work done without employing people (Brewster & Holland, 2019). However, almost all of the IB and IHRM literature assumes employment (including e.g., labor costs, HRM) is a crucial factor and that is what is measured and controlled for. But if MNEs can get work done without employment, then these factors and their measurement become increasingly less relevant. Both the IB and IHRM streams have yet to join this discussion in any meaningful way.

Many of the issues associated with the gig economy are also evident in the MNE-dominated global value chain, especially with operations located in developing economies. Supply chains have become disentangled from MNEs (i.e., the lead firms within the global value chain), which have withdrawn from ownership as a means of controlling their supply chains

but still exert control by monitoring the inputs, production processes, labor conditions, and environmental compliance of their suppliers. MNEs achieve lower costs by allowing their suppliers to utilize actors from the informal sector, and by engaging with enterprises with lower labor, health, and safety standards. As these informal enterprises are formally and legally removed from the MNE by several degrees, MNEs regard themselves as absolved from responsibility for their suppliers' ethics. This growing area of concern within the business ethics and development literature is largely ignored by researchers focused on IB and IHRM.

The issue of fuzzy boundaries and MNE responsibility is a contemporary one associated with the external CSR practices of MNEs and social upgrading. Social upgrading is often closely tied to the protection of the rights of workers by, for instance, ensuring proper working conditions (e.g., safe and healthy factories, the right to breaks), the right to join a union, protection from discrimination in the workplace, and the right to appeal management decisions (Barrientos, Gereffi, & Rossi 2011). A large stream of literature also covers a variety of other environmental and social challenges (for a review, see Jamali & Karam, 2016), and examines whether CSR activities generate net positive effects (Kolk, 2016). The integration of these discussions from other areas into IB and IHRM represents an important avenue for cross-fertilization and theory development.

Given the presence of fuzzy boundaries and the changing nature of work, the boundaries of MNEs are likely to continue to 'dissolve'. The best way to address this issue may be for IB and IHRM specialists to work together may. In short, continued movement toward a more precise conceptual understanding of the nature of the firm, (conflicting) stakeholders' interests, and the (shifting) boundaries of the firm should facilitate both theoretical and methodological development in both fields.

## **5.2. *The temporal dimension***

To fully understand firms, an appreciation of the temporal dimension is necessary. The assumption that what is measured, and the causal directions theorized, are aligned when time is added to the equation has often proven unsatisfactory (e.g., Peia & Roszbach, 2015). Although there is increasing sophistication in our understanding of contextual diversity (Jackson & Deeg, 2008; Wood et al., 2014), there has been a tendency to neglect structural changes in the global economy and to link firms' challenges to the fluidity that has persisted since the 1970s. The persistence of diversity in institutional regimes has meant that almost all regions and countries face similar broad challenges, even though each country and region has responded in its own way. In other words, we need a better understanding of the relationship between global and local changes and persistent national diversity. The assumption that data collected at different points in time can be understood in the same way must give way to a clearer focus on the changed temporal context. Furthermore, although we are suspicious of the 'novelty' of new technological revolutions, they are clearly paradigm shifting in some industries, such as automotive and finance, while there are equally important physical environmental, social, and political challenges with unpredictable outcomes in other areas.

### ***5.3. The Local and the Global—Highlight the Middle***

Much of the literature on IHRM and IB views 'global' as an important prefix and contrasts it with 'local' when considering firms, their environments, and the institutions that bind them together. However, there is a need for more sophisticated analyses. While both fields have discarded assumptions of 'flat earth' globalization, there is an important continuum of 'in-between' circumstances, of which global and local are simply the two extremes. It can be argued that the global/ local division is insufficient, as we increasingly observe uncertain and unplanned forms of hybridization (Chung, Sparrow, & Bozkurt, 2014; Minbaeva, Hutchings, & Thomson, 2007). Accordingly, we call for a more dynamic view of the way any given MNE unit is nested in the local and global business environment. The interactions among all

local market players (i.e., domestic firms, foreign subsidiaries, and headquarters of local MNEs) create a micro-ecosystem for the formation of HRM in a given context. This micro-system is nested in meso- and macro-level systems, which represent the immediate and global business environments, respectively.

## **6. CONCLUSIONS**

The core concepts underlying IB and IHRM provide a common lexicon and epistemology, although this common conceptual root is often more implicit than explicit. If we compare contexts, we may see different wrongs and rights in different settings, but there are broad and pressing issues - 'grand challenges' ranging from global warming to the need to create and sustain decent work - whose causes are fundamentally bound up with decisions made at the firm level (Buckley et al., 2017). Both areas of scholarship fail to appreciate the complexity of evolving strategy, the changing motives across different functional and geographic areas of activity, and the conflicting pressures to balance short-term returns with long-term investments. This is a challenge for management practice as well. There are many cases of MNEs changing strategies or expanding to other countries without considering the strain that, for example, rapid expansion places on the HRM capabilities, policies, and practices needed to maintain organizational cohesiveness.

Inherent in the IHRM literature is the view that how MNEs treat their employees matters and that this has far-reaching implications for other aspects of organizational strategy. IB, on the other hand, focuses on the financial performance of the firm as paramount, with the welfare of employees being viewed as subordinate to that goal. In other words, IB has concerned itself more with economic welfare, as defined by the performance of the firm, as an ultimate goal. The social costs and longer-term negative effects of unemployment caused by the

actions of MNEs are not systematically considered. These are, in part, responsible for the realities of the protracted and open-ended economic crisis associated with globalization since the turn of the twentieth century, which has left many worse off. This crisis has led to political instability in many national economies, including the USA and the UK.

At the same time, IHRM has much to learn from IB. While the latter's use of theory may be partial and incomplete, it exhibits a far greater willingness to encompass issues of the broader political economy, which are only rarely addressed in the IHRM literature. Consequently, IHRM research is left with appeals to firms to behave better that, when linked to appeals that doing so will make money, become devoid of moral purpose, at least in the Aristotelian sense. A more systematic account of divergent and convergent forces in the global economy, and a focus on how crises plays out in different nations may result in a greater awareness of feasibility and help identify the areas in which the opportunities for innovation are greatest.

In both fields, there has been an increasing emphasis on methodological rigor, but less attention has been paid to ensuring construct clarity (Molloy & Ployhart, 2012; Suddaby, 2010). This is the area in which there is the most obvious need for mutual improvement. The development of theory involves not only the effective approximation of complexity but also an understanding of the ways in which actors understand that theory and seek to apply it. On the one hand, the heterogeneity of theory in both fields might be indicative of the challenge of summarizing and predicting complex phenomena, which makes any effort to further extend or synthesize theory an impossible task. On the other hand, great advances in theory have taken place at times when the existing social order appears increasingly tenuous—an example can be found in the theoretical advances of Weber, Durkheim, and Simmel in the early twentieth century. Within such fields as IHRM and IB, there is a great historical opportunity for new evidence-based theorizing that could make inroads well beyond these fields.



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**Table 1. Definitions**

<b>IB</b>	<b>IHRM</b>
<p>“IB scholars explore how and why cross-national differences matter and how businesses are able to transcend national (and other) differences” (Meyer, 2013: 10)</p> <p>“...international business (IB) is about (1) business (firms) engaging in international (cross-border) economic activities and/or (2) the activity of doing business abroad.” (Peng &amp; Meyer, 2016: 5)</p> <p>“IB is the study of the conduct and relevance of management and business across all economic and social sectors, in the context of global, regional and national levels”. (Arie Lewin’s working definition of IB from email conversation among AIB Fellows)</p>	<p>“... human resource management issues, function, policies, and practices that result from the strategic activities of multinational enterprises and that impact the international concerns and goals of those enterprises” (Schuler, Dowling, &amp; De Cieri, 1993: 720).</p> <p>“... the set of distinct activities, functions and processes that are directed at attracting, developing and maintaining MNCs’ human resources.” (Taylor, Beechler and Napier, 1996: 960).</p> <p>“... the implications that the process of internationalisation has for the activities and policies of HRM” (Dowling, Festing, &amp; Engle, 2008: 293).</p> <p>“... how MNCs manage the competing demands of ensuring that the organisation has an international coherence in and cost-effective approach to the way it manages its people in all the countries it covers, while also ensuring that it can be responsive to the differences in assumptions about what works from one location to another”, (Dickmann, Brewster, &amp; Sparrow, 2008: 7)</p>