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Maley, J. & Kramar, R. (2007). International Performance Appraisal: Policies, Practices and Processes in Australian Subsidiaries of Healthcare MNCs, *Research and Practice in Human Resource Management*, 15(2), 21-40.

## International Performance Appraisal: Policies, Practices and Processes in Australian Subsidiaries of Healthcare MNCs

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### ABSTRACT

Difficulties in executing performance appraisals are widely reported. However, little is known about the conduct of performance appraisals for host country managers. These managers are usually isolated from their supervisors, and it could, therefore, be expected that they would also experience difficulties in the conduct of their performance appraisal. This paper examines the extent, nature and limitations of performance appraisals for host country managers in a sector of the healthcare industry in Australia. The study found performance appraisals are widely used, but in most cases are done poorly. In over 80 per cent of cases the appraisals were perceived as ineffective, which is higher than world wide reactions to appraisal. The performance appraisal process was found to be influenced by the emphasis given to the bottom line, the relationship with the supervisor and the effect of the multinational's parent strategy, structure and nationality. The findings suggest that the host country manager's experience of the appraisal often results in the manager perceiving limited opportunities for career development and advancement in the company. This may impact on the overall long term performance of the subsidiary. It is recommended that some straightforward modifications to the appraisal could make a significant contribution to both the retention and development of these managers, and, therefore, to company performance.

### INTRODUCTION

This article explores the effectiveness of international performance appraisals (PA) in a key, but under researched area, the use of appraisals for the managers of subsidiaries of multinational corporation's (MNCs). The paper examines the influences that impact on the PA and feedback processes, and it highlights the limitations and benefits of the practice. Indeed, the article reports

on a study among 18 managers in a sector of the healthcare industry, and it reveals that appraisals are widely used, but largely perceived as being ineffective. In over 41 per cent of cases the appraisals were conducted over the phone with no face to face contact between the appraiser and appraisee. In addition, there was considerable dissatisfaction with the feedback and follow up of the appraisal process. The reported 80 per cent of managers who perceive their appraisal systems to be ineffective is even greater than the worldwide reactions to appraisal. For example, from an United States of America (U.S.) survey by consulting firm Watson Wyatt it was recently reported that the majority of MNCs are experiencing problems with around 70 per cent of their international PA systems (Watson Wyatt 2004).

The dissatisfaction of these managers is of concern given the important role they play in MNCs. MNCs dominate the competitive landscape, and have a significant influence on patterns of international trade and investment (Chung, Gibbons & Schoch 2006). MNCs profoundly affect the process of globalisation principally through their subsidiaries, which, therefore, places an immense dependence on the subsidiary, and as a consequence, a strong reliance on the manager of the subsidiary. These managers, commonly called host country managers (HCMs), are responsible for the performance of the subsidiary and the implementation of strategically critical tasks, such as the management of a number of staff and the achievement of the revenue and profitability targets of the subsidiary. The HCM must be able to manage these tasks within the objectives and guidelines handed down by the MNC. Thus, the MNC's control of the subsidiary and its HCM are a central integrating function in the MNC (Chang & Taylor 1999).

Performance management and particularly PA is a strategic human resource management (HRM) process. These mechanisms enable the MNC to continuously evaluate and improve individual, subsidiary unit and corporate performance against clearly defined, preset objectives that are directly linked to company strategy (Dowling, Welch & Schuler 1999). Thus, an effective PA creates a mechanism that can ensure the HCM and their overseas subsidiaries are acting in accordance with the parent MNC's interests. While there is wide recognition of the importance of PAs, most MNCs have not effectively managed their international appraisals. It has been argued that mismanagement of international PAs is primarily due to information asymmetry and goal incongruence between the parent company and its subsidiaries (Shen 2005).

Strategic international HRM has become a critical management issue as MNCs increasingly globalise their operations, requiring effective managers throughout the world (Schuler, Dowling & De Ceiri 1993). Past research has focused heavily on expatriation based staffing for managing the subsidiary. This study focuses on the HCM, a candidate pool which has been for the most part neglected by previous researchers (Harvey, Speier & Novicevic 2001), and examines a critical component of HRM, the PA of this manager. The first part of the article examines the international context of PA, including the characteristics of PA, the influence of subsidiary structure and strategy, and the effect of culture. The second part describes the methodology used to explore the nature of appraisals for HCMs in Australian subsidiaries of healthcare MNCs. The third part of the manuscript presents the results and focuses the discussion on the factors that influence the appraisal process. At the end of the paper certain conclusions are drawn, and potential issues and opportunities are identified in the sphere of the HCM's appraisal. The implications for practitioners in MNCs are also discussed, and the conclusion compares the study findings to agency, trust based and motivational theories.

## PERFORMANCE APPRAISALS IN AN INTERNATIONAL CONTEXT

### Characteristics of Performance Appraisal

Performance appraisal is considered as one of several key elements of performance management (Suutari & Tahvanainen 2002), the others being the communication of company strategy through individual objective setting, development and compensation. Despite the fact that much of the research has been performed within the U.S. context little research has been carried out on either

performance management or PA at international settings (Dowling, et al. 1999). This dearth of research means that very little is known about the effects of PA on job satisfaction among employees in MNC subsidiaries where the majority of employees are host country nationals (Lindholm 1999). The scant international appraisal research that has been conducted suggests that problems that have been identified at the domestic level will be exaggerated when a firm globalises its operations (Harvey, Novicevic & Speier 2002). Two important cases in point are the lack of agreement among researchers in regards to the most effective criteria for assessing PA and what constitutes a satisfactory or effective appraisal. If these fundamental issues have not been established at the domestic level, it is no surprise that frequently MNCs measure some attributes and behaviours of international employees that are inappropriate and that international employees are despondent about their appraisals (Vance 2006).

The limited international PA research suggests that applied qualitative criteria, such as employee attitude and acceptance, are more helpful ways of assessing effectiveness of the PA in the global setting (Milliman, Taylor & Czaplewski 2000). Additionally, appraisal satisfaction and effectiveness from the perspective of the ratee in an international context has been found to increase when the ratee has regular communication and a positive relationship with the rater (Milliman, Nason, Zhu & De Cieri 2002). Satisfaction with the appraisal system by appraisees is more likely when they perceive the PA to be fair (Taylor, Masterton, Renard & Tracey 1998, Bradley & Ashkanasy 2001), and when their feedback is timely and accurate (Cascio 2000, Milliman, et al. 2000, Sully De Luque & Sommer 2007). Moreover both the rater and ratee in the international setting have been found to be satisfied with the PA process when the appraisal has a clearly defined purpose within the organisation and when the PA is part of a performance management process (Lindholm 1999). Consequently, a MNC's purpose for conducting appraisals needs to be clearly verbalised by the MNC and understood by both the subordinate and her/his supervisor. In other words, not only should the subordinate's and supervisor's expectations be aligned, but also, both need to be in congruence with the MNC's rationale for conducting the PA (Milliman, et al. 2002, Shen 2005).

Feedback has been found to be vital for a successful international appraisal and is seen as one of the important ways in which a MNC can more fully tap and develop the talent of their diverse employees, as well provide a sense of direction (Milliman, et al. 2000, Sully De Luque & Sommer 2007). Nevertheless, evidence suggest that international employees feel they do not have the opportunity to discuss their career, personal needs, views and feelings nor do they receive feedback during their appraisals (Milliman, Nathan & Mohrman 1991). Interestingly, the reluctance to give feedback does not appear to improve as managers become more experienced and work internationally. For example, Longenecker and Gioia (1992) illustrate this point by advancing the idea that the more a manager is promoted, the less likely the manager will receive quality feedback. When people receive feedback more frequently, they perceive it to be more precise and timely (Gosselin, Werner & Halle 1997, Milliman, et al. 2000). Where a subordinate and supervisor are geographically distant, regular feedback has been found to be imperative (Cascio 2000, Milliman, et al. 2002, Sully De Luque & Sommer 2007). However, due to practical and logistical reasons, frequent, timely and accurate feedback, particularly face to face feedback, may be challenging for the supervisor of the HCM. For instance, the HCM's supervisor in general looks after a large geographical territory (Harvey 1997), which usually demands extensive travelling for the supervisor. Australia is probably one of her/his most remote territories and the Australian business may not be an immediate business priority. Notwithstanding, evidence in the literature (Milliman, et al. 2002, Harzing 2005) also indicates that for Australians both feedback and expression are key to their acceptability of the PA.

## Structure and Strategy on Performance Appraisal Characteristics

The nature and conduct of PA in subsidiaries of MNCs have been argued to be influenced by the company's particular HRM strategy and structure (Ghoshal & Bartlett 1998). These strategies and structures reflect the various stages of internationalisation. The first stage of an international

strategy involves subsidiaries being viewed as an extension of the parent and as a result HRM policies are exported to the subsidiaries (Ghoshal & Bartlett 1998). The next stage is a multinational strategy in which subsidiaries have specialised capabilities and are able to develop their subsidiary specific HRM policies (Harvey, et al. 2002). The next two stages of development are a global strategy in which a cost effective approach to the market is adopted and a highly centralised control structure, which also includes human resource policies, is employed. And finally, there is the transnational strategy in which subsidiaries are provided with the opportunity to exert control on many issues, including their human resource policies. This strategy views the firm as a complex integrated network in which coordination and cooperation across entities create value and network flexibility (Adler & Ghader 1997).

Multinational corporations structure and staff their subsidiaries in different ways. Four broad approaches to staffing have been identified (Perlmutter 1969, Heenan & Perlmutter 1979). When an ethnocentric approach is adopted, subsidiaries have little autonomy and key positions are filled by expatriates from the parent country, while in a polycentric approach, the subsidiary is treated as a distinct entity with some decision making autonomy, but the HCM is rarely promoted to head office. When a geocentric approach is adopted, the company recognises that each subsidiary makes an unique contribution and managerial positions are filled from its worldwide pool of employees. A regiocentric approach provides subsidiaries with some autonomy within their region and uses employees within a region to fill managerial roles.

Some research has addressed structure and strategy issues in the MNC. For instance, through the 1970s and early 1980s, there was an exploration that focused on the fit between structural forms and corporate strategy (Daniels & Tretter 1984). Studies from a subsidiary perspective (Ghoshal & Bartlett 1990, Jarillo & Martinez 1990, Roth & Morrison 1992) examined types of structures. Very little research has attempted to explore structure and strategy in the context of the new conceptualisations such as the transnational organisation or how structure and strategy may shift over time (the exceptions here are Birkinshaw & Morrison 1995, Birkinshaw & Hood 1998). Birkinshaw and Hood (1998) reason, that if it is accepted that the interdependence between structure and strategy is one of the cornerstones of strategic management, then bringing together these two bodies of work will be an important contribution to understanding subsidiary evolution. Improving understanding of subsidiary evolution could illuminate the most effective way to manage the subsidiary and as a consequence these findings may assist MNCs in managing the HCM and her/his PA process.

## The Effect of Culture

Milliman, et al. (2002) assert that appraisal is based on similar fundamental notions in many countries, although its specific purpose and practice may vary between nations and cultures. They found that nations high in individualistic cultures (Hofstede 1980), and in particular Australians place, an enormous emphasis on subordinate expression, which is viewed as a crucial part of the appraisal purpose. Cultural distance versus geographical distance and the impact of both on the management of Australian subsidiaries was examined by Harzing and Noorderhaven (In press). They found that that Australian subsidiaries may suffer from geographical isolation and as a result benefit from knowledge inflow from HQ and enjoy higher levels of informal communication and autonomy compared to subsidiaries in other countries.

The country of origin of a firm's parent influences HRM practices in subsidiaries ( Hofstede 1980, Ghoshal & Bartlett 1990, Schuler, et al. 1993, Harvey, et al. 2000, Harzing 2001, McGraw 2002, Shen 2005). For instance, U.S. firms are more likely to export their HRM than European and British firms. And there were variations within Europe, with Germany having an authority structure based on technical expertise, while in French companies political skill and technical ability have been found to be vital (McGraw 2002). Moreover, Harzing (2001) investigated staffing practices in 200 MNCs in 23 different industries and found that there are considerable differences between MNCs headquartered in different European countries. Despite these findings, she contests that in previous studies these differences were not given enough recognition and that European

MNCs were considered as one single group.

The evidence is that the HCM is managing an ever increasing percentage of the MNCs empire (Harvey & Novicevic 1999). Despite this substantiation, very little is known about the experience of HCM's appraisals. As a consequence, this study has focused on the major factors that influence the HCM's experience of PAs and has identified the causes of these factors. A qualitative approach, embedded in grounded theory, was used to generate a significant amount of data about the experience of HCMs with PAs. This approach also enabled the exploration of the factors that influenced this experience.

## Research Question

Before outlining the research questions it is important to mention that as the framework of grounded theory evolves during the research, the research questions tend to be broader and less specific (Strauss & Corbin 1990). Given these points there are two key research questions.

- What are the main factors that influence the experience of the HCM's PA?

This research focused on the HCM; specifically it addressed the following sub question.

- What are the causes of these factors?

## METHODOLOGY

### Site

The focus of the study was the use of PAs for HCMs currently employed by medium sized Australian subsidiaries of a sector of the healthcare industry. Healthcare is an enormous field, so the sector used in this study includes companies whose products are used in medical diagnostics, devices, life science and equipment industries. The range of products is diverse, extending from everyday items used in large quantities, such as bandages and syringes, to sophisticated and costly items of capital equipment, such as x-ray, imaging and radiographic equipment, implants, and fine measuring devices. The industry employs over 10,000 people in its Australian subsidiaries (CSI 2002). This study specifically examines the non pharmaceutical sector of the healthcare industry and excludes large pharmaceutical companies. Healthcare covers many sub disciplines and it was beyond the scope of this study to examine the whole healthcare market in Australia.

Healthcare companies are among the top industry performers and the U.S. market is worth \$U.S. 1.6 trillion and the European market is worth \$U.S. 700 billion. In Australia the industry has been estimated to be worth \$A 4.5 billion in local sales (CSI 2002). The aging population and increasing need for sophisticated diagnostic procedures and medicines guarantees industry longevity. However, success is complex and often dependent upon strong relationships with key decision makers. Success of the industry depends not only on sufficient government funding, but also on obtaining complex Australian therapeutic goods administration (TGA) approval, and tortuous reimbursement submissions, which make the industry unique. In a manner similar to many high technology industries, healthcare products require sophisticated marketing techniques, including professional selling skills.

### Participants

A total of 24 HCMs, all from different organisations, were approached for an interview and 18 accepted. Firms from the U.S., the U.K., Denmark, France, Sweden, Norway and Germany were represented in the study. The organisations represented all four sub categories of strategy (Ghoshal & Bartlett 1998) and structure (Perlmutter 1969). The participants were selected for the study based on four criteria.

- They currently hold a position as HCM of a medium sized Australian subsidiary of a Healthcare MNC (subsidiary turnover between \$A10 M to \$A100 M).
- They report directly overseas.
- They have held their position for more than two years.
- They have had at least two appraisals as HCM.

## Procedure

The research questions were explored using grounded theory. This approach is qualitative, subjective, humanistic and interpretist and is a useful strategy when relatively little is known about the topic or when few adequate theories exist to accurately explain or predict the outcomes. The grounded theory approach involves identifying the relevant variables in data, rather than focusing on predetermined perspectives or variables. This approach enables the researcher to capture both the behaviour of the participants in natural settings and the context that gives the behaviour background and meaning. This permits the theory to logically emerge from the study (Glaser & Strauss 1967).

Using the grounded theory approach, the discovery and conceptualisation of the process under study are embedded in the empirical data. For example, this method involves both an inductive and deductive approach to theory construction and attempts to achieve one or more of the objectives of both qualitative and quantitative research. The adoption of these ideals, that were given by Denzin and Lincoln (1994), enable researchers to (a) to initiate new theory, (b) to reformulate theory, (c) to refocus theory, and (d) to clarify existing theory. These elements were endorsed in this study.

As the study progressed theoretical sampling (Glaser 1978) was employed. In this process the researcher sought informants and other data sources as directed by the initial findings of data analysis. Additional informants initially included a supervisor of HCMs based in the U.K., two international HR managers, two industrial psychologists, and two professional recruiters. Later in the analysis three further informants were targeted. One was a managing director of an Australian healthcare company, a second was a manager of a subsidiary that did not perform PAs, and the third was a female HCM. The aim of this approach was to look for variation, and to seek data that elucidated on the developing theme, or indicated new properties of the categories or processes. Interviewing using this approach has been described as targeted interviewing (Silverman 1989) and was used to pursue specific issues that emerged as being significant. It was also used to verify information about issues that appeared to be controversial, sensitive, or about which there appeared to be some misinformation regarding the PA.

Seven key informants were interviewed twice and two were interviewed three times. Reinterviewing enabled the verification, clarification, and elaboration of information obtained in the first interview or to crosscheck information acquired from other sources. Interviews ceased when saturation of the core theoretical category had occurred, that is, no additional data were found to develop new categories or properties of the categories.

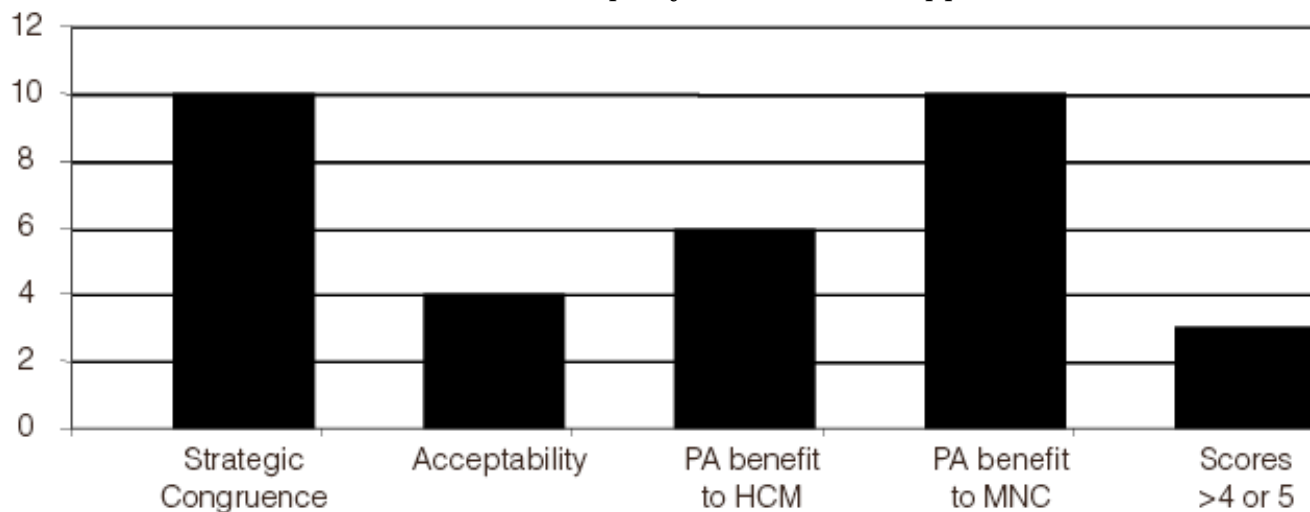
Strategic congruence emphasises the need for the performance management and the PA to provide guidance so that employees can contribute to the firm's success. The dimension acceptability refers to whether appraisees accept the performance measure (De Cieri & Kramar 2005). Both of these constructs have been deemed as imperative criteria for a successful PA (Milliman, et al. 2002), and they were identified. For example, strategic congruence was confirmed by two determinants. Firstly, if the HCM's objectives and goals were aligned to the MNCs; and secondly, if the MNC had higher ranking HRM executives at board or senior level. Acceptance was acknowledged by the HCM's satisfaction with her/his PA, which inevitably was found to be reliant upon the quality and quantity of communication between the HCM and her/his supervisor. For instance, the regularity of face to face contact throughout the year, the feedback process and the PA follow up emerged as being very important to the participants.

## Measures

Data were collected from a variety of sources. These points of collection included company documents, field notes, memos, performance appraisal documents, participant observation and most importantly semi structured formal interviews with the 18 HCMs. Prior to commencing the interviews a pilot study was undertaken to determine the effectiveness of PA, and as a basis for creating the semi structured interview questions. This informal study was conducted with five international HCMs. The study findings revealed that most HCMs did not look forward to their appraisal, there was a general belief that the PAs were ineffective, and there was a perception by HCMs that they were not important to the MNC. The semi structured questions for the formal interviews are shown as Appendix 1. The questions were semi structured in order to give the interviews some direction, but at the same time permit enough flexibility in accordance with the guidelines of grounded theory.

Two fundamental yet crucial questions were determined. The first established if the informant believed that the appraisal benefited them self personally and the second determined if the informant thought that appraisal was useful and of benefit to their company. These two questions were based on a ten point scale. Answers above four were determined as a 'yes' comment while answers below four were determined as a 'no' response. The scores of the questions were tallied. Informants who scored positively for all four questions were deemed as having an exemplary appraisal. Those that scored three, four or less were considered as having an unsatisfactory appraisals. These tallies were then compared to the results of the grounded theory analysis and were found to compare very similarly. The informants whose appraisals scored two fours also emerged in the grounded theory method as having excellent PAs. In the same way the informants that emerged as unsatisfactory all scored less than two fours. A profile of the scores is shown as Figure 1.

Figure 1  
Conditions for An Exemplary Performance Appraisal



Note: Scores over 4 or 5 and above are 'Exemplary', while scores 3 to 4 and below are 'Unsatisfactory'.

While not strictly part of the grounded theory methodology, categorising the informants' appraisals was a practical reference point during the study. The categorisation, therefore, assisted the grounded theory methodology in identifying the firms that were conducting exemplary PAs. The important point here is that the principles of grounded theory identified the important issues in the study and firms that were conducting exemplary appraisal naturally emerged in the analysis. The categorisation is, therefore, an extremely simplified illustration of a more complex analysis.

## Analysis

The constant comparative method of qualitative analysis using NVIVO software was used as a

means of coding the data. Coding was done at a number of levels and in a number of ways. Substantive, open and theoretical coding, code mapping and memo writing was undertaken. Initial analysis was directed towards revealing the core or basic problem. Once this was done, the analysis was directed towards identifying the core category, in this case a process which formed the substance of the theoretical framework. The theoretical framework developed has alternated between inductive and deductive thought. First, the researcher inductively gained information, which was apparent in the data collected. Next, a deductive approach was used which allowed the researcher to turn away from the data and think rationally about the missing information. Theory was generated from data systematically obtained and analysed by a process of constant comparative analysis, so called because every datum is compared with every other datum, rather than comparing totals of indices (Glaser & Strauss 1967).

The information obtained in the interviews with the HCMs was used to assess the effectiveness of the appraisals. The informants' appraisals that emerged from the data as being effective for the HCM were labelled 'exemplary'. Effectiveness of the appraisal become apparent in three key ways: firstly, the contribution of the appraisal to the HCM's own development; secondly, the effect of the appraisal on the HCM's motivation; and thirdly, the HCM's perceptions of the appraisals overall benefit to the company. The exemplary firms were also cross checked by a second technique which involved categorising four criteria: strategic congruence; acceptability; and PA of benefit to HCM; PA of benefit to MNC.

## RESULTS

### Characteristics of Performance Appraisal

The study found that PAs were widely used, but poorly done. All but one of the HCMs had experienced a PA, but more than 41 per cent of these appraisals were conducted over the phone without any face to face contact.

### Satisfaction With Performance Appraisal

The findings showed that there was considerable dissatisfaction with the feedback and 'follow up'. A total of 78 per cent were dissatisfied with the feedback and 95 per cent experienced no follow up after the feedback. Only a third of the HCMs believed their current appraisal was beneficial to them. The HCMs and her/his supervisor were found to meet face to face infrequently. One informant met his boss three monthly, but another had not had face to face contact with his boss for over two years. On average the HCMs and their supervisors met twice a year. Each HCM was also questioned on where she/he met the supervisor and the quality of contact. Answers varied enormously. For example the HCM typically visited the head office once a year or, where a region existed, they were more likely to visit twice a year. Several informants spoke about doing many things and seeing numerous people when they visited the regional or head office, and there was often not much time spent with their supervisor. An example that was given by an informant delineates the experience of an employee.

" When I go there I don't get much time with F, in fact the last time I hardly saw him, I seem to rush around catching up with marketing, regulatory affairs, corporate. I run around like a headless chicken there are so many people to see."

(Document 08)

Surprisingly 41 per cent of the respondents reported information was used from a number of sources (self, peers, and subordinates) to make judgements about their performance. The results of the PA were used to make bonus decisions in almost 85 per cent of the companies, but only 23 per cent of the HCM's supervisors used the appraisal information to make training and development decisions. If the ultimate purpose of PA is to assist employees to achieve organisational objectives



and contribute to the bottom line the focus on business results could be part of a PA, but another purpose of the appraisal process is to improve individual performance.

Three MNCs were found to conduct exemplary PA systems (or appraisals that were considered by the informants to be effective). Two were U.S. firms, and one was an European company. The most outstanding features to emerge from the MNCs that were conducting exemplary performance appraisals included frequent face to face contact with the supervisor, appropriate and regular feedback, appraisal follow up, and a defined career path which according to these informants would significantly contribute their long term retention in the organisation, and, therefore, they believed gave their appraisal a purpose. The exemplary firms that were determined from the grounded theory methodology were easily identified when compared with the performance criteria.

## Influences on Performance Appraisals

The data revealed three core problems that represent major influences on the PA process for HCMs. These core problems were identified as 1) the focus on the bottom line, 2) the relationship with the supervisor, 3) and the parent effect.

### The Bottom Line

Through the constant comparative method of grounded theory, the generation of theory was found to revolve around the core category, which was labelled 'bottom line'. All the other phenomena were found to relate to this category. In other words, everything was found to be dependent upon the firm's obligation to secure the sales and profit - 'the bottom line'. All HCM informants in the study spoke repeatedly about the need to achieve financial results and quantitative aspects of their job, which included market shares and volumes of sales. Firstly, the HCMs gave internal accounts of how well the subsidiary was performing. For example, many informants were clearly proud of their strong business performance, with the subsidiary often out performing other countries. This was often one of the first things they wanted to tell the researcher. All informants felt that their results were a significant achievement. Secondly, and most importantly, the informants spoke about the external quantitative measurement or the firm's obsession with bottom line to the detriment of all other measurements. Three examples of comments that were given by different informants to particular questions posed by the researcher.

" You know, you might be having some problems at home, you may have had some illness problems that you were hiding or whatever, so he may not know some of those things that he might be judging you on, when really he should know about them anyway, or I should be telling him if he is judging me? But in the end we sit down and look at the results and if the results aren't there, nothing else matters."

(Document 02)

" How did you know that you were doing well over that period of time"? (Researcher question)

" I guess it's just numbers. It's the same for my people you know, if at the end of the day when we sit down, the cold hard facts of the day are the results. We could all sit down and have a nice little talk and say what we have done, and feel good. We know that, but it's the results that really talk, the rest of it is a bit subjective."

(Document 03)

" How is your performance measured"? (Researcher question)

" Well, entirely by sales and the profit of the subsidiary,"

(Document 08)

The evidence was striking throughout the study. The informants were expectedly, aware that financial performance is paramount as this is the rationale for operating most businesses. The healthcare industry is a tough and competitive arena where shareholders demand high returns on their investment and, as a consequence, and in accordance with Western business philosophies, the

emphasis is on short term profit.

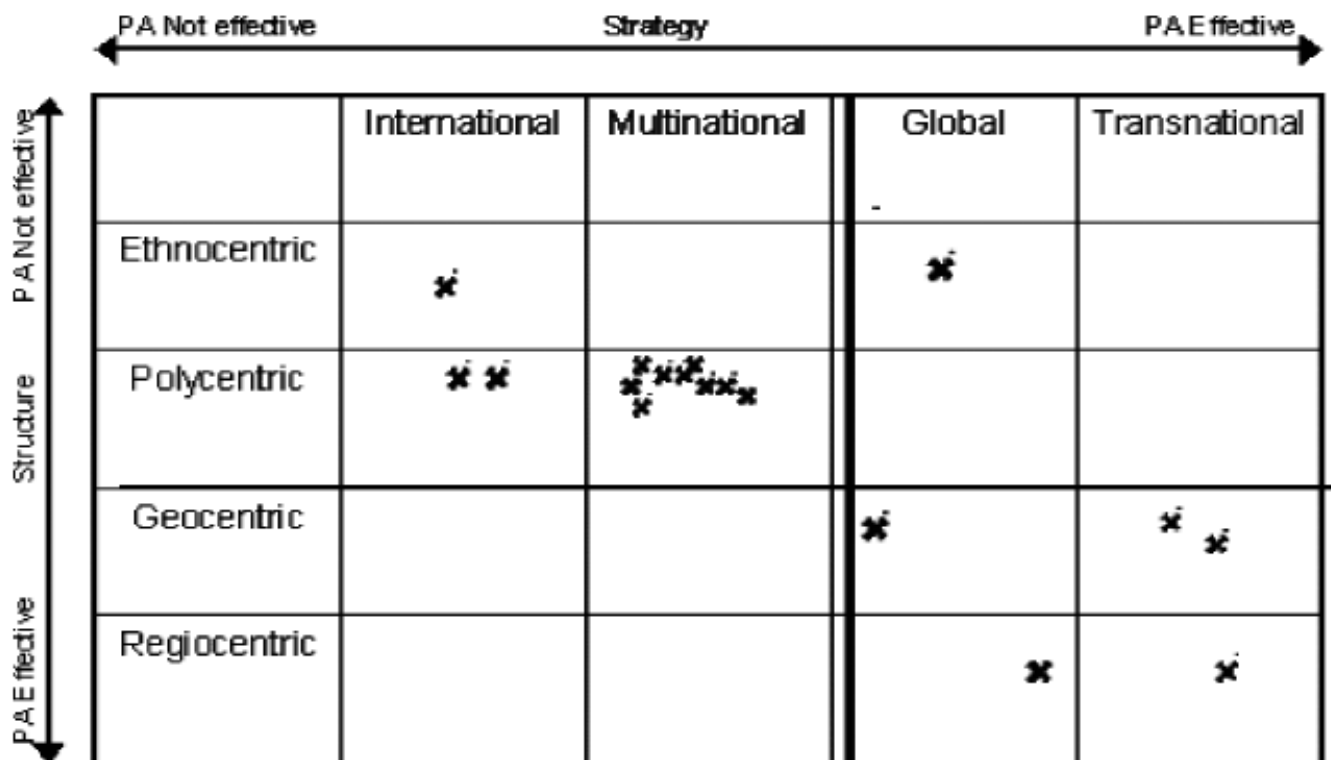
### Relationship with Supervisor

The HCM was found to be dependent on the relationship with the supervisor. And the quality of the relationship was found to be affected by the frequency of interactions, the willingness of the superior to understand the Australian conditions and the role of the HCM. Most of the HCMs in this study felt that the success of their appraisal interview depended on the nature and frequency of the interactions with their supervisor/manager and the quality of the relationship. The lack of contact does not create trust or a sufficient relationship to enable an effective performance assessment. Only three of the HCMs had contact with their superior on more than three occasions during the previous 12 months and these three (HCMs) judged their appraisals as effective. Several informants felt that their supervisor did not make any effort to learn anything about the Australian culture, local economic conditions or the role of a HCM, and felt they were often judged harshly because of this lack of understanding. Supervisors who had experience with a task are more likely to blame poor performance of subordinates on external factors than are supervisors who have not had task experience (Mitchell & Kalb 1982). Therefore, it appears that errors in performance appraisal judgements could be reduced by supervisors having task experience.

### Parent Company Effect

The parent company effect was explored through two sub key categories, strategy and structure. When the company used a global or transnational strategy and either a geocentric or a regiocentric structure, the more likely the PA was assessed as effective by the HCMs. Figure 2 illustrates the stage of subsidiary structure and strategy for each MNC. The structure of each individual subsidiary is plotted along the Y axis and the strategy is plotted along the X axis. This Figure exemplifies two pieces of information. Firstly, that majority of subsidiaries were found to have a polycentric structure and multinational strategy; and secondly, that as a subsidiary progresses, it is more likely that the PA will be exemplary. In other words, exemplary PAs were found to be conducted when a firm was plotted in the bottom right hand quadrant (i.e., a geocentric/regiocentric structure and a global/transnational strategy).

Figure 2  
The Structure and Strategy of Subsidiaries



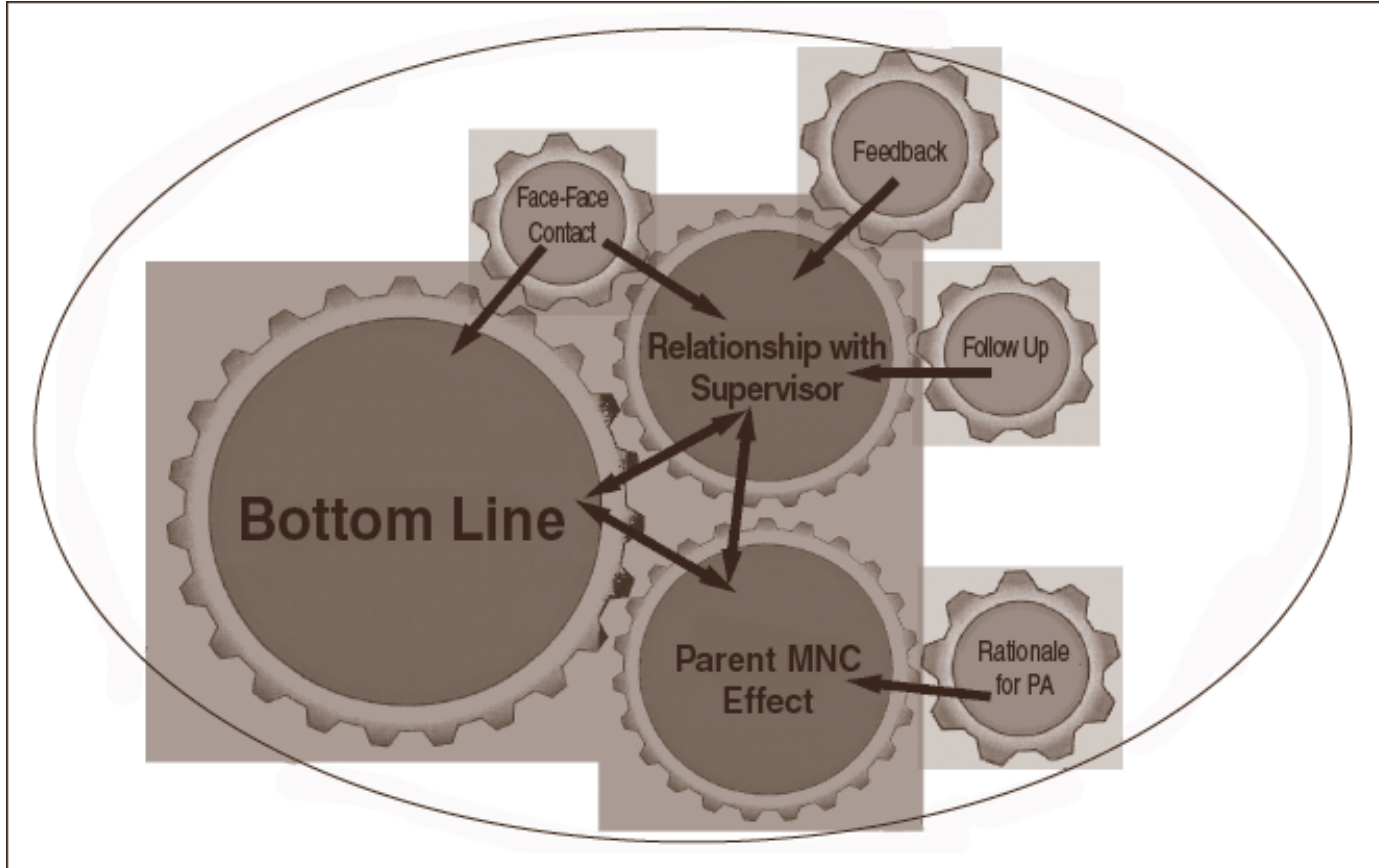
The two HCMs in organisations with a transnational strategy and a geocentric structure were strong supporters of their appraisals and were content with their career progression and opportunities in the company. These two HCMs had extensive employment experience within the

company. They felt confident, an integral part of the parent company and believed that they had a long term future with the firm. This finding reflects the contribution of Mendenhall and Oddou (1995), who found firms with a transnational strategy integrate HCMs into the parent entity. The HCM that was employed in an organisation with a transnational strategy and regiocentric structure was content with the PA process. The HCM that was employed in a firm with a global strategy and a regiocentric structure was also a strong supporter of the PA process. This manager expressed particular satisfaction with the relationship with this manager. He was to be relocated to head office for three years. Companies that follow a global strategy focus on behavioural controls and seek to integrate the HCM into the organisation by providing them with information about business models and the parent company.

Half of the HCMs in the study were in organisations that used a multinational/ multidomestic strategy and were structured along polycentric lines. This finding is expressed in Figure 2. All of these HCMs had been through a PA process, but they all expressed severe dissatisfaction with the process. They also expressed disappointment with poor communication and lack of career opportunities. Three informants indicated that due to their perceived lack of career opportunities they did not intend to stay with their organisations for very much longer and one informant admitted that he was actively looking for a job. Five of these managers had their appraisals conducted over the phone and none of them had any follow up after the appraisal. They also had very little contact with their managers during the year. Although Harvey, et al. (2000) indicate the lack of interference and low need for information sharing should assist performance assessment, the nature of the relationship between the HCM and the supervisor appears to have a more influential impact. Moreover, the lack of contact does not create trust or a sufficient relationship to enable an effective performance assessment. Similarly, those HCMs that were employed in companies with an international strategy and an ethnocentric structure were dissatisfied with their PAs. The two managers were expatriates and they had virtually no autonomy to make decisions in the financial, marketing and human resource areas. The reasons for the dissatisfaction or core limitations are varied. Two managers complained that they felt forgotten. A third manager complained of no 'follow up'.

Four key limitations of the PA were identified as lack of face to face contact, lack of feedback, lack of follow up and limited understanding of the rationale for the appraisal. These limitations were caused by either one or more of the core categories: emphasis on the bottom line, relationship with supervisor, or parent effect. The core categories and the limitations of appraisal are, therefore, interrelated. Regular contact, preferably face to face contact and appraisal follow up were regarded as necessary for an effective appraisal. Figure 3 displays the three main categories, one of which was the basic social process or core process; namely 'bottom line' (the largest cog). The other two near core categories (medium sized cogs) are 'Relationship with Supervisor' which the PA was contingent on and 'Parent MNC Effect,' which is related to the context of PA. The four small cogs represent the problems that influence the core categories.

Figure 3  
Core Categories and Their Problems



## DISCUSSION

### Key Influences on Performance Appraisal

Performance appraisals were widely used for the HCMs in the study and are influenced by the interactions between the emphasis given to the 'bottom line', the nature of 'the relationship with the superior' and 'the effect of the parent MNC'. However, most of the HCMs believed a limited range of criteria was used to assess their performance as a result of the emphasis given to financial and quantitative results. The appraisal would appear to be used largely for making bonus decisions based on performance of the subsidiary. The PA was not used generally for training and development, which is in contrast with the findings in recent Australian studies (Kramar 2000, Compton 2005, Nankervis & Compton 2006).

The assessment of the HCMs' performance by their supervisors was probably unreliable in many instances because of the poor relationship between the HCMs and their supervisors. This resulted from a lack of contact during the year and the supervisor's a lack of understanding of the conditions in the Australian subsidiary. The value of the appraisal as a process to improve individual performance was also limited, as almost all the HCMs had limited feedback, no follow up or training and development resulting from the appraisal.

The structure and the strategy of the parent company appeared to influence the HCM's perceptions of the appraisal process. When HCMs feel an integral part of the MNC because of experience in other parts of the company and the prospect of career progression, it is more likely that they will be satisfied with their appraisal process. This situation is more likely to occur when companies adopt a transnational approach to strategy and a geocentric or regiocentric structure.

It is possible that the purpose of the PA changes as the strategy and structure of the parent company changes. When companies adopt an ethnocentric or polycentric structure and an international or multinational strategy, the purpose of the appraisal could be to make bonus decisions based on the performance of the subsidiary. As HCMs have almost no career prospects outside the subsidiary when these structures and strategies are used, the superiors probably see

little value in using the appraisal information to make training and development decisions. However, the situation is different when a transnational strategy is used because HCMs have the opportunity for career progression beyond the subsidiary.

If the company continues to conduct appraisal in the early stages of subsidiary evolution, the process needs to be taken seriously by both the subordinate and supervisors. These personnel have to prepare for the appraisal, which must be conducted in a suitable venue, and the appraisal system should include a follow up facility. Moreover, it would appear that the purpose needs to be more clearly articulated to the HCMs. Even if the company was not going to invest in training and development of the HCM some identification of development needs could enable the individual manager to undertake learning to enhance their performance. Although HCMs are isolated from the parent company, in Australia more frequent contact between the HCM and the superior, even by e-mail and telephone, would improve informal feedback and probably facilitate more accurate and reliable assessments. This may help build an environment of trust. The use of additional sources of feedback in the form of self, peer and subordinate assessment was found to be useful to the informants of the study and should also be considered.

While it may not be possible for the HCM to be seconded to head office on a long term assignment, some extended visits to head office or short term assignments may be feasible along the lines suggested by Fenwick (2004). If the HCM were to undertake regular and occasionally extended visits to head office, it may assist in several ways. It would help the supervisor to better understand the HCM, building up rapport and trust, which are vital for successful feedback. In addition the HCM will better understand the head office culture and the parent effect. Overall both parties would have a better understanding of each other and their cultures. Harvey, et al. (2001) argue that HCMs that are unfamiliar with informal aspects of parent-company operations are unable to share the informal knowledge and coordinate subsidiary operations with the MNCs senior management unless socialised in the parent company.

## Boundaries

This research was conducted in Sydney, Australia, in the healthcare business sector. This may lead to some conditions in the generalisability of results. Eighteen informants participated in the study. By grounded theory standards this is a sufficient number, but it is not a large sample on which to make wide ranging generalisations. Logically, a comprehensive study should include all groups with whom the HCM interacts, but this was seen as outside the scope of this study. Initially the researcher had planned to independently interview the HCM and her/his supervisor. The HCMs, who had already agreed to participate in this study, did not wish the researcher to have any contact with her/his supervisor. Because of the reluctance of the key informants to involve their supervisors, the researcher had to omit the supervisors from the study, despite the potential helpfulness of their views.

## Areas for Further Research

This study indicates that the experience of the PA process in the international context could be illuminated by research in a number of areas. These include the influence of components of strategic HRM systems, such as structure, incentives and communication processes. Managing in the virtual workplace is predicted to become more widespread (Coutu 1998, Cascio 2000). Studies of the conduct of PA and managing performance in this environment could illuminate further some of the difficulties associated with the lack of face to face contact between supervisors and employees and the supervisory skills required in this environment. In addition, the development of HCMs, particularly their global leadership skills, could contribute to a greater understanding of international strategic leadership skills.

## CONCLUSION

This study has revealed three core problems that represent major influences on the PA process for

HCMs. Firstly, the HCM's appraisal was found to be limited because of the firm's overwhelming short term emphasis on sales and profit termed 'bottom line.' Secondly, the HCM was disadvantaged by being solely dependent on the remote relationship with her/his supervisor, who rarely had any commitment to the HCM's appraisal because her/his primary concern was the sales and profits of the business. Thirdly, the appraisal was found to be influenced by the international strategy and structure adopted by the parent MNCs (parent company effect). The short term emphasis on profit ('the bottom line') is the chief finding or in grounded theory terms the 'core category' of this study. The relationship with supervisor and parent structure and strategy effect are secondary or 'near core' findings. This investigation has gone some way to highlight the significance of the HCM to the MNC organisation and has identified several limitations of the HCM's PA. A number of solutions have been proffered to facilitate reducing these constrictions.

There are two types of PA taking place in the Australian subsidiaries which may be explained in part by the different underlying organisational cultures and ideologies that occur during early and advanced subsidiary evolution. The first type of PA is perfunctory and performance management is strictly outcome based and is correlated to the bottom line. This approach to PA is predominantly found in the early stages of subsidiary development (ethnocentric/international or polycentric/multinational) and reflects an agency theory mentality which has been described as a theory of performance outcome (Nilakant & Rao 1994). This theory views the relationship between the MNC and subsidiary as contractual (Eisenhardt 1989). The agency theory exposes that there are problems in the headquarters subsidiary relationship due to information and goal asymmetry between the parent MNC and subsidiary. In other words, the goals established for the parent and HCM may be incongruent. This theory, therefore, provides an appropriate backdrop which may help explain the perceived poor attention given by the supervisor to the PA of the HCM. The MNC, and hence, the HCM's supervisor is only concerned with the bottom line and has little interest in development of the HCM who they see as a temporary contractor.

The second type of PA serves a wide ranging role which includes developmental purposes and takes into account feedback and career advancement. It represents a trust based social culture (Ryan & Deci 2000), where the PA is seen as a vital management tool, and consequently, will probably be performed with a higher degree of rigour. This approach is prone to be used in the later phases of subsidiary development (geocentric/multinational or regocentric/transnational). Agency theory and trust based theories may then provide some insight into the rationale behind the execution of the HCM's appraisal. The agency theory helps to explain the poor PAs in the early subsidiary phases and the trust based conjecture justifies why the exemplary appraisals were all found in the later phases of the subsidiary development.

Another theory worthy of reflection in PA is motivational theory. For example, the consideration of expectancy theory could have some merit. The underlying focus on expectancy theory is on valence, instrumentality and expectancy factors all of which influence individual motivational effort (Vroom 1964). Valence is a preference for specific outcomes such as performance or reward where individuals have a belief that a given amount of effort will lead to a specific level of performance and that a given level of performance will lead to a specific reward (Harvey, et al. 2001). Therefore, individuals must value the outcome and believe the outcomes will occur based on their effort to be motivated to exert effort in performing a given task. In addition it has been found that this reward needs to be perceived as equitable (Harvey, et al. 2001). For this reason, if the PA does not provide an equitable reward to both the supervisor and the HCM, the appraisal may not be performed adequately. Clearly, in the agency framework there is little motivation for supervisor to exert too much energy on the appraisal as the outcome is probably not perceived as beneficial. Moreover, the HCM may see her/his reward in the PA process as inequitable, given the MNCs inability to provide a career path in the early stages of subsidiary evolution.

The investigation identified several constraints of the PA process for the HCMs, and it also indicated HCMs are regarded as important for the success of the subsidiary. If a MNC with a less advanced structure, and strategy and subsequent agency relationship attempts to make some fundamental improvements to the PA of their HCMs they will not only be managing the

competency of this important manager, but they will also be making a significant contribution to their motivation and retention. These improvements as suggested earlier may be as straightforward as showing increased support for the PA, strengthening feedback and ensuring the HCM is continuing to develop their skills and improve their competencies. Importantly, it is vital that the HCM's expectations are congruent with the MNC. In other words, her/his expectancy needs to be managed. Notwithstanding these conditions improvements to the PA will build trust, which has been found to be especially important in an agency affiliation (Bradach & Eccles 1989). Therefore, as the organisation evolve their strategic orientation from polycentric/multinational to geocentric/global activities, improvements to the PA will assist the MNC in not only improving the performance of the HCM, but also assist in the critical role of developing their global talent pool thereby giving the MNC a distinct global advantage. In summary, the issue of international strategic leadership is critical, particularly in subsidiaries (Harvey, et al. 2001). Exploration of the suitable incorporation of a global approach, which includes development and progression of the HCM through a superior performance management system incorporating an exemplary appraisal, will be a practical future development that will have an enormous impact on an organisation's quest for successful globalisation.

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## APPENDIX 1

Informants Questions: An example of the type of proposed questions for semi structured interviews

- What does PA mean to you?
- Where and when was your last performance appraisal held? Tell me about it?
- What purpose does the PA serve in your company?
- Have you have chance to express your views or get feedback?
- Did you discuss your future career or your next promotion/position?
- Did the appraisal help you focus your work effort to help your organisation achieve its goals?
- Was your performance appraisal followed up?
- Did you think at was accurate and fair?
- Was it graded, ranked/forced?
- Do you set MBO/KPI/BSC type goals?
- Are these goals aligned with your bosses?
- How often do you see your boss?
- How often does he visit Australia?
- Tell me about the HR hierarchy? Does she/he sit on the board?
- Did you believe PA benefited: A) You, B) The company? (tell me about these benefits)