

## INTERNATIONAL PERFORMANCE MANAGEMENT – ISSUES AND CHALLENGES

Tatjana Ratković<sup>1</sup>, Mimoza Bogdanoska Jovanovska<sup>2</sup>, Jelena Anđelković Labrović<sup>3</sup>

<sup>1</sup>University of Belgrade, Faculty of Organizational Sciences, ivanovic.tatjana@fon.bg.ac.rs

<sup>2</sup> St. Kliment Ohridski University, Faculty of Administration and Information Systems Management – Bitola, Republic of Macedonia, mimozajovanovska@yahoo.com

<sup>3</sup> University of Belgrade, Faculty of Organizational Sciences, andjelkovic.jelena@fon.bg.ac.rs

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**Abstract:** *Having in mind that human resources are considered the most valuable resource for a company, monitoring and assessing performance of individual employees represents a task of great interest for every organization. However, these issues become much more complex in international environment. International performance management represents one of crucial functions of international human resource management (IHRM). The aim of this paper is to provide a more comprehensive perspective of the process of performance appraisal (as a central part of performance management) of employees in multinational companies (MNCs) - expatriates and host-country nationals. The paper seeks to address the issues related to the way of conducting this process in international settings; it explores and analyses common problems and challenges faced by multinational companies regarding this IHRM process in order to identify certain elements for improvement of international performance appraisal. Conclusion of the paper includes recommendations for best practice of performance appraisal in international context, mostly focusing on: formulation of well understood, valid and reliable goals and performance criteria, providing training for the raters, providing regular feedback, use of multi-rater system, etc. This paper may present value to multinational companies which need to manage various categories of employees intending to improve performance appraisal of their international employees in their foreign subsidiaries. Having in mind that there is limited research (both theoretical and empirical) regarding performance appraisal in MNCs, this paper is expected to partially fill the existing gaps in the literature.*

**Keywords:** *performance management, performance appraisal, multinational company, human resource management, expatriate, host-country national*

### 1. INTRODUCTION

Globalization has created many challenges for Human Resource Management (HRM). Today organizations are paying much more attention to employee performance than ever before. International performance management represents one of crucial functions of international human resource management, attracting considerable interest of both academics and practitioners. Effective performance management is necessary to ensure that employees perform their jobs effectively in all units of a multinational company disseminated throughout the world. However, unlike other aspects of international HRM (such as staffing, training or compensation), there is limited research regarding performance management in international context (Shen 2004). The literature in this field is based more on empirical research than on theoretical concepts (Claus and Briscoe 2009). Most studies refer to domestic operations, while the results usually may not be applied in MNCs. Lack of research conducted in international performance management suggests that issues regarding this HRM function that have been identified in domestic context will be exaggerated in international context (Harvey, Novicevic and Speier 2002).

### 2. INTERNATIONAL PERFORMANCE MANAGEMENT

The term performance management appeared during the late 1980s (Lindholm 1999). It refers to identification, measuring, managing, and developing performance of human resources in an organization. It evaluates the achievement of pre-determined goals and targets. Dowling et al. (1999) define international performance management as strategic HRM process which enables a MNC to assess and continuously improve performance of individual employees, performance of foreign subsidiaries, as well as performance of the whole company according to clearly predefined goals directly related to MNC international strategy. Although this aspect of performance management is not often emphasised, it also represents a part of control system of a MNC, which, among other control mechanisms, enables a MNC to achieve coordination and consistency of desired behaviour and outcomes expected both in MNC headquarters and its foreign subsidiaries (Dowling and Welch 2006).

Performance management is often considered as an extension of performance appraisal. It is claimed that individual performance management includes goal setting, performance appraisal and providing feedback (Dowling and Welch 2006). Performance appraisal represents one of central parts of performance management (Tahvanainen 1998; Suutari and Tahvanainen 2002), representing a practice used for evaluation of past performance of an individual employee. So, it can be defined as an ongoing process in which employee performance is being reviewed and evaluated. However, performance management also includes other important components beside performance appraisal, such as: strategic planning, communication of organizational strategy through individual objective setting, job analysis and design (aimed at identification of performance requirements in a particular job), feedback and monitoring, training and development, motivating employees, employee relations and compensation (Vance and Paik 2006). So, it may be claimed that performance management includes a systematic analysis and assessment of employee performance, as well as communication of that assessment to the employee aimed at improving performance over time.

### **3. PERFORMANCE APPRAISAL OF INTERNATIONAL EMPLOYEES**

It is necessary to measure individual performance on a job, regarding employee's behaviour or outcome during a specific period of time (Tahvanainen 1998). Performance appraisal is often viewed as one of HRM topics most widely debated and studied (Wright 2002). Performance appraisal represents an evaluation of the output of an individual measured periodically against specific expectations. Performance appraisals can be a critical part of organization's success because they allow the company to retain and reward high performers (Smith and Rupp 2003).

Having in mind that performance appraisal done in a domestic context is already a very complex process, conducting performance appraisal is even more challenging in the global environment - managing employees originating from different countries and cultures makes it difficult. International performance appraisal mainly focuses on two categories of employees: host-country nationals and expatriates; although the majority of research within the area of international performance appraisal is focused on performance appraisal of expatriates. The nature and the way of conducting of performance appraisal in MNC subsidiaries are considered to be influenced by HRM strategy and structure in the company (Maley and Kramar 2007).

Performance appraisal enables a multinational company to observe, monitor and evaluate individual performance of its employees in the workplace in relation to pre-defined standards, as well as their contribution to the success of the company. Performance can be defined by following key elements: goals, measures, assessment and feedback to employees at all levels. Appropriate implementation of this process is expected to reduce the inconsistencies in information between MNC headquarters and its host-country subsidiaries. Good performance appraisal is supposed to enable efficient control of MNC subsidiaries and to emphasize orientation at organizational goals at all hierarchical levels (Schlegel and Britzelmaier 2011), as well as to provide a realistic evaluation of international operations in order to motivate the subsidiaries to improve their performance in the future (Schmid and Kretschmer 2010).

It is often claimed that performance appraisal is used for two main purposes: to help managers to make administrative decisions (particularly referring to compensation packages and promotions - including expatriation) and to accomplish developmental objectives (regarding training and development of employees) (Brumback 1988). However, many other purposes of performance appraisal have been defined in the literature, such as assessing employee efficiency in the workplace, recognition of individual performance, improving employee performance, as well as providing information for managers' decisions regarding rises in salary, promotions, training and development opportunities, selection of employees (especially regarding selection of expatriates), retention and termination decisions. From the perspective of an individual employee the uses of performance appraisal include the following: identification of individual strengths and weaknesses, identification of individual training needs, making decisions regarding determining transfers (to international assignment) etc. In practice performance appraisals often influences other HRM systems in an organization - HR planning, determining organizational training needs, evaluating achievement of goals or identifying organizational development needs.

### **4. CHALLENGES OF CONDUCTING INTERNATIONAL PERFORMANCE APPRAISAL**

Although performance appraisal systems represent such an important part of human resource management system they are still not completely understood and appreciated (Abu-Doleh and Weir 2007) in multinational companies.

There are various problems related to the process of conducting performance appraisal in international settings. The literature has identified main failures in this field, mainly focusing on the following. There is usually a lack of formal and universal performance appraisal system for evaluating performance of expatriates (Bonache et al. 2001) and lack of agreement among researchers regarding the most effective and objective criteria for evaluating performance and what constitutes effective (or satisfactory) evaluation (Maley and Kramar 2007). Competences and bias of the rater are often considered as a challenging issue in international performance appraisal (Woods 2003).

It is also difficult to isolate only job-related factors in conducting performance appraisal in international settings (Dowling et al. 1994; Gregersen et al. 1996). Numerous studies attempted to discover key attributes which should be possessed by an individual in international assignment in order to complete it successfully; although, researchers still have not agreed on universally accepted answers to these questions (Schmid and Kretschmer 2010). This has resulted in MNCs measuring some attributes and behaviours of international employees which are inappropriate which may lead to dissatisfaction of international employees regarding their appraisals.

It is often claimed that multinational companies tend to assess the abilities of their employees in terms of technical competencies. However, it has been often noticed that technical competences may not be considered as sufficient criteria for success in international operations of MNCs (Dowling and Welch 2006). Research suggests that the use of certain qualitative criteria may be better methods for assessing effectiveness of performance appraisal in international context (Milliman, Taylor and Czaplewski 2000). These criteria may refer to evaluation of individual attributes of international employees, such as: personal attitude, cultural awareness, global (geocentric) perspective, cross-cultural skills (communication skills, learning skills, adaptability, tolerance) (Harvey i Moeller 2009).

One of the common challenges of international performance appraisal refers to the existence of a gap between the evaluations of the rater and the ratee. Performance appraisal in multinational companies represents a very complex process, as there is no best way to evaluate performance of a geographically distant employee performing a job in environment not fully understood by the rater (Shen 2004) - geographic distance between the rater and ratee often makes performance appraisal process difficult. Other factors which can increase the complexity of an international performance appraisal include: differences in socioeconomic and legal environment, different norms and policies, cultural differences, language barriers, time zone differences, gender or social status (Appelbaum et al. 2011). These factors can sometimes increase the gap between the rater and the ratee, which may result in unfair performance appraisal process from the perspective of the ratee in the foreign subsidiary - whether expatriate or local employee (Piggot-Irvine 2003).

Research has demonstrated that employee perceptions regarding the fairness of their performance appraisals are useful determinants of success of performance appraisal systems (Erdogan et al. 2001). These perceptions often influence employee attitudes and behaviours (Narcisse and Harcourt 2008) and may result in employee resentment or unhappiness (Abu-Doleh and Weir 2007). Literature lists three categories of employee perceptions of fairness - distributive, procedural and interactional (Erdogan et al. 2001). Narcisse and Harcourt (2008) explain that distributive fairness of performance appraisal refers to relation between perceived justice of outcomes of the appraisal (ratings) and actual work performed; procedural fairness focuses on the perceived justice of performance appraisal procedures used; while interactional fairness refers to the perceived fairness of the interpersonal treatment of employees during the performance appraisal process.

## **5. RECOMMENDATIONS FOR IMPROVEMENT OF INTERNATIONAL PERFORMANCE APPRAISAL**

Researchers have agreed upon the importance of international performance appraisal process, but there seems to be a lack of agreement on the best practices to conduct this process in international context (Appelbaum et al. 2011). Designing and implementation of performance appraisal system (or improvement of an existing process) is never a simple and easy task. Various issues concerning implementation of this system might arise, such as: aspects of performance which are being assessed; way of defining or describing employee performance; criteria used for performance appraisal; type of scales used for evaluation; raters who conducts the appraisal; as well as the frequency of conducting performance appraisal (Abu-Doleh and Weir 2007).

It has been noted that satisfaction with the performance appraisal system by employees in international settings is more likely to be higher in the following situations: when the appraisal has a clearly defined purpose in the company (Lindholm 1999), when employees perceive performance appraisal to be fair (Bradley and Ashkanasy 2001), when there is regular communication and positive relationship between the

rate and the rater (Milliman et al. 2002) and when there is timely and accurate feedback (Sully De Luque and Sommer 2007).

Having in mind that performance appraisal is often considered to have a direct influence on job satisfaction and motivation of workers (Rusli and Nur Azman 2004), in order to achieve effective performance appraisal it is necessary to create an environment full of trust and open relationships between raters and ratees (supervisors and employees). Face-to-face communication between the rater and ratee is often considered necessary for building the mutual trust; in order to enable this regular contacts between the rater and the ratee should be arranged (whether through regular visits of the rater to the foreign subsidiary where the ratee is located or through the use of information communication technologies).

Performance appraisal needs to be based on valid and reliable criteria (Harvey and Moeller 2009). These criteria should be easy to access and understand and they should be motivating for all international employees regardless of their nationality (Shen 2004). Performance appraisal system has to be fair and to ensure equal treatment for different international employees within the same company (Woods 2003). Both employees whose performance is assessed and the supervisor (the rater) need to understand the purpose of conducting performance appraisal in the company. It is necessary that MNC provides competent raters in order to decrease the possibility for bias in conducting the appraisal. However, formulating objective performance measures that are both valid and reliable can be problematic.

The performance appraisal measures and the way of conducting this process are supposed to be well understood across the organization. It is crucial that the expatriate's and HCN's expectations are consistent with the expectations of the MNC. Employees (both expatriates and host-country nationals) need to know what they are expected to do in a particular assignment. Effectiveness of performance appraisal increases when goals are formal and written (Claus and Briscoe 2009). Employees should be included in the process of setting the goals. Regarding performance appraisal of expatriates, this process should be done during the international assignment (and not after repatriation).

Appelbaum et al. (2011) recommend that performance appraisal in a global environment should be done by 360 degree or multi-rater system, which allows the rater (manager) to receive feedback on ratee's (employee's) performance from various sources. In order to ensure appropriate use of performance appraisal and to decrease the possibility for errors regular trainings need to be provided for the raters in the following fields: setting goals and performance standards, coaching, counselling, conflict resolution, providing employee feedback. It is also important to emphasize the necessity for the manager (the rater) to take into account cultural differences between MNC home and host country when evaluating performance of a particular employee.

Feedback has been found to be a crucial part of a successful international performance appraisal. Regular provision of performance feedback is especially important in international context, where ratee (employee) and rater (manager or supervisor) are not located in the same country (Milliman et al. 2002; Sully De Luque and Sommer 2007). It is considered to be a key determinant for achieving talent development of diverse employees in MNCs (Sully De Luque and Sommer 2007). In case when employees receive feedback more frequently, they usually expected to perceive performance appraisal process to be more precise and timely. However, in practice international employees often do not receive performance feedback and might feel a lack of opportunity to discuss various problems (such as their career or personal needs) with their raters.

## 6. CONCLUSION

Literature review suggests that various issues may be related with inappropriate conducting of performance appraisal process in multinational companies. These issues and challenges mainly appear due to complexity of performance appraisal of international employees. However, elements for improvement of performance appraisal systems in MNCs have been identified in the paper. A performance appraisal system designed in suggested manner (in order to implement the proposed changes) may be successful and effective and lead to increased employee motivation and satisfaction, trust and commitment to work.

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