PERFORMANCE MANAGEMENT SYSTEM IN INTERNATIONAL CONTEXT

DR. ABHISHEK GUPTA, MBA, PH.D
Administrative-cum-Accounts Officer & Head of Office
Sardar Swaran Singh National Institute of Renewable Energy
(Ministry of New & Renewable Energy, Govt. of India)
Kapurthala (Punjab), India.

ABSTRACT

The aim of this research is to draw together the relevant literature on performance management in the international context as it relates to International Human Resource Management (IHRM). The focus is on identifying those aspects that require a substantial modification of traditional performance management (especially appraisal criteria and processes) that are imposed by international operations. We specifically address the aspects of multinational performance management at the global and local level considering aspects such as non-comparable data, the volatility of the global environment, the effect of distance and level of subsidiary maturity, performance management, multinational's control system, factors associated with expatriate performance including compensation package, task and role, headquarters' support, host environment factors and cultural adjustment with it. Performance management of expatriates and non-expatriates and for those on non-standard assignments such as commuter and virtual issues related to the performance appraisal of international employees is also discussed.

Key Words: Performance Management, Expatriates, Non-expatriates, subsidiary maturity, cultural adjustment, performance appraisal, Customized Performance

1. INTRODUCTION

One of the most challenging aspects for a firm operating internationally is how to manage the performance of its various overseas facilities. Performance management control matters become more complex as the geographical spread, product and operation mode become more diverse. Staffing decisions are only part of the picture. The multinational requires an effective system for managing the performance of its global operations that assists strategic cohesion and competitiveness but, at the same time, does not impose burdensome reporting procedures that impinge upon local responsiveness. Monitoring performance and
ensuring conformance to agreed standards are important elements of a multinational's managerial control system. In this study, we differentiate between 'performance management' and 'performance appraisal'. Performance management is a process that enables the multinational to evaluate and continuously improve individual, subsidiary unit and corporate performance, against clearly defined, pre-set goals and targets. It provides a convenient starting point for our exploration of the link between the multinational's internationalization strategies, its goals for individual units in terms of contribution global profitability and the performance management of individual employees.

2. MULTINATIONAL PERFORMANCE MANAGEMENT: CONSTRAINTS AFFECT TO GOAL ATTAINMENT

While its general strategic position may be international, multinational, global or transnational, a multinational makes strategic choices based on economic and political imperatives. Within this context, the multinational has specific expectations for each of its foreign subsidiaries, in terms of market performance and contribution to total profits and competitiveness. When evaluating subsidiary performance against these expectations, however, it is important to recognize various constraints that may affect goal attainment. A multinational is a single entity that faces a global environment, which means that it simultaneously confronts differing national environments. Integration and control imperatives often place the multinational in the position where it decides that the good of the whole is more important than one subsidiary's short-term profitability. A multinational establishes an operation in a particular market where its main global competitor has a dominant position. The objective of entering the market is to challenge the competitor's cash flow with aggressive pricing policies. The difficulties in quantifying such a global strategy in terms of the usual return-on-investment objectives are obvious. Another situation is where the multinational establishes a joint venture in a particular market in order to have a presence there, even though it has low expectations in the short term and may provide minimum resources to the venture. Therefore, the consequences of such global decisions for subsidiary management must be taken into consideration for performance appraisal. Frequently, the data obtained from subsidiaries may be neither interpretable nor reliable. Physical measures of performance may be easier to interpret than in the above examples, but difficulties may still arise. For instance, notions of what constitutes adequate quality control checks can vary widely from one country to another, import tariffs can distort pricing schedules, or a dock strike in one country can unexpectedly delay supply of necessary components to a manufacturing plant in another country. Further, local labor laws may require full employment at plants that are producing at below capacity. These factors can make an objective appraisal of subsidiary performance problematic and may complicate the appraisal of individual subsidiary managers.

Judgments concerning the congruence between the multinational and local subsidiary activities are further complicated by the physical distances involved, time-zone differences, and the frequency of contact between the corporate head-office staff and subsidiary management and the cost of the reporting system. Developments in sophisticated worldwide communications systems, such as fax machines, video telephone conferences and e-mail, do not fully substitute ‘face-to-face’ contacts between subsidiary managers and corporate staff. In some areas, the telecommunications system may be so overloaded, or underdeveloped, that reliable telephone, fax services and Internet connections cannot be assumed. It is
often necessary to meet personally with a manager to understand fully the problems that managers must deal with. For this reason, many multinational corporate managers spend a considerable amount of time traveling in order to meet expatriate and local managers in foreign locations. It is then possible for HR corporate staff, when designing performance management systems, to take account of country-specific factors. Without the supporting infrastructure of the parent, market development in foreign subsidiaries is generally slower and more difficult to achieve than at home, where established brands can support new products and new business areas can be cross-subsidized by other divisions. As a result, more time may be needed to achieve results than is customary in a domestic market and this fact ought to be recognized in the performance management process. Further, variations in customs and work practices, between the parent country and the foreign subsidiary, need to be considered. In summary, there are a number of significant constraints that must be considered when appraising the performance of a foreign subsidiary. Because this appraisal is primarily based on strategic factors, it affects the appraisal and success of the subsidiary's chief executive (or managing director) most directly.

3. PERFORMANCE MANAGEMENT: CONTROL SYSTEM

Although it is not often described as such, performance management is a part of a multinational's control system. It will be recalled from the discussion of control mechanisms in that performance targets were listed as part of formal control. Through formal control mechanisms and communication through the feedback and appraisal aspects, performance management also contributes to shaping corporate culture, both formally and informally, thereby acting as an informal control mechanism as well as part of the bureaucratic control system. It is through formal and informal control mechanisms that the multinational achieves the consistency, coordination and compliance of desired behavior and outcomes to implement its global strategy. These behaviors and outcomes are expected at all levels and areas both at subsidiary level and at headquarters. In a sense, by adopting a performance management approach, multinationals are drawing on a number of human resource management functions to realize performance goals set during the performance appraisal process. Its proponents argue, somewhat convincingly, that effective performance management is beneficial to both the individual and the firm.

4. PERFORMANCE MANAGEMENT OF INTERNATIONAL EMPLOYEES: INDIVIDUAL

Having considered the broader context, we now turn our attention to individual performance management. It is essential that we recognize the importance of remuneration and reward in the performance equation. Perceived financial benefits, along with the career progression potential associated with an overseas assignment, are often important motives for accepting the posting. If these expectations are not realized during the assignment, the level of motivation and commitment is likely to decrease, thus affecting performance. As outlined earlier, expatriates are assigned to foreign operations to fulfill specific tasks. Hays identified four such tasks. In her study of expatriate performance management in the Finnish multinational Nokia Telecommunications, Tahvanainen identified five categories of top managers, middle managers, business establishers, project employees and R&D project personnel. There were clear differences in the way performance management was approached within these groups. For example,
middle managers played a moderate role in establishing performance goals, whereas business established played a strong role in establishing their performance goals and job descriptions. Task variables are generally considered to be more under a multinational's control than environmental factors. Because of this relative control, task variables can be better assessed and more easily changed, depending, of course, on the level of position and the nature of the task assignment. Along with the specifics of the task, the multinational, like any other organization, determines the role that accompanies each task position. A role is the organized set of behaviors that are assigned to a particular position. Although an individual may affect how a role is interpreted and performed, the role itself is predetermined. For the expatriate (role recipient), the parent company (role sender) predetermines his or her role in the foreign assignment and role expectations may be clearly communicated to the expatriate before departure.

The expatriate assignment differs from a domestic relocation as it involves the transfer of the individual and accompanying family members into a foreign environment, outside their normal cultural comfort zones. The individual's primary motivation for accepting the assignment may be career or financially orientated, but this is often mixed with a genuine feeling of loyalty and commitment to the sending organization. As mentioned previously, the process of adjustment to the foreign location typically produces, to varying degrees, a range of emotional and psychological reactions to unfamiliar situations encountered over the period of the stay in the host country. The environment has an impact on any job, but it becomes of primary importance with regard to expatriate management. The type of operation to which the expatriate is assigned is important. For instance, it may be relatively easier to perform in a wholly owned subsidiary than in a joint venture with a state-owned enterprise in China. Conflicting goals between the parent companies are a common problem within international joint ventures and can make the expatriate's job more difficult. Similarly, the stage of the international business will influence the success of the expatriate. An expatriate overseeing the establishment of a new facility in a foreign country, especially in a developing or emerging market, will face different challenges and constraints to one who is posted into a mature operation. The process of cultural adjustment may be a critical determinant of expatriate job performance. Indeed, much of the literature reviewed in our discussion of the cause of expatriate 'failure' covers the process of adjustment. It is likely that expatriates and their families will have some difficulty adjusting to a new environment and this will impact on the manager's work performance. The dilemma is that adjustment to a foreign culture is multifaceted and individuals vary in terms of their reaction and coping behaviors. Determining the relevance of adjustment to the new environment when assessing expatriate work performance may be problematic. The five variables compensation package, task, headquarters' support, host environment and cultural adjustment are not mutually exclusive, but interact in a way that has significant implications for the appraisal of international employees' performance. Designers and users of performance management systems need to be conscious of and responsive to, the impact of these variables.

4.1. Performance Management of Non-expatriates

Non-expatriates are described as employees whose work involved international travel but who are not considered international assignees because they do not relocate to another country. The performance
Effects of factors associated with constant air travel upon the person's health and the stress of long absences from family and home have been the subject of little investigation in HR or IHRM performance management literature. As an indication of some performance-related factors, a survey by the World Bank on the effect of frequent travel upon its staff revealed an increase in psychological disorders, such as depression, nervous anxiety and sleep disturbance. We first attributed these symptoms to jet lag, but we realized that other significant factors were involved. The three main influences are separation from home and family, workload and lack of back-up abroad. However, a detailed analysis of other pre-departure and ongoing training that might be required for non-expatriate assignments is yet to be conducted. Employee expectations about rewards for performance and as elements of their working conditions, together with motivation, are important aspects of individual performance. In multinationals, the management of links between performance and rewards is already complex, owing to the specialized local knowledge required across multiple employment and legal environments. The challenges for IHRM are to determine what to reward when dealing with non-expatriate assignments and the way in which compensation for each type of international assignment fits with global compensation strategy. The impact of non-standard assignments on host-country national co-workers should also be considered particularly in terms of the impact on these staff of international business travelers and commuters who 'drop in, drop out'.

4.2. Performance Appraisal Of International Employees

Individual performance management involves job analysis, job goals and standards and performance appraisal. Traditionally, it comprises a formal process of goal setting, performance appraisal and feedback. Data from this process are often used to determine pay and training and development requirements. Company goals influence individual's job analysis and job description, against which job goals and are established and measured. There are differences in the way in which process is handled within companies. Goals tend to be translated into performance appraisal criteria so specific measurability issues are important aspects and we need to recognize the soft and contextual goals are often used as the basis for performance criteria goals are objective, quantifiable and can be directly measured such as return on investment (ROI) and market share. Soft goals tend to be relationship based, such as leadership style or interpersonal skills. Contextual goals al to take into consideration factors that result from the situation in which performance occurs. For example, multinationals commonly use arbitrary transfer and other financial tools for transactions between subsidiaries to minimize exchange risk exposure and tax expenditures. Another consideration is all financial figures are generally subject to the problem of currency conversion including sales and cash positions. Further complications arise because governments can place restrictions on repatriation of profits and currency conversion. The nature of the international monetary system and local accounting differences may preclude an accurate measurement of results. Multinationals can allow subsidiaries to become autonomous in financial management terms place controls on subsidiary managers. Hence the financial results recorded for particular subsidiary do not always reflect accurately its contribution to achievements of the corporation as a whole. Therefore, such results should not use as a primary input in performance appraisal. For this reason, a performance management approach is now advocated, rather than traditional performance appraisal, as it allows clarification of goals and expectations of performance against those goals.
Another issue is who conducts the performance appraisal. Typically, employees are appraised by their immediate superiors and this can pose problems for subsidiary chief executive officers (or managers). They work in countries geographically distant, yet are evaluated by superiors back at headquarters who are not in the position to see on a day-to-day basis how the expatriate performs in the particular situation. Consequently, subsidiary managers tend to be assessed according to subsidiary performance, with a reliance on hard criteria similar to those applied to heads of domestic units or divisions. Of course, there is a danger that a subsidiary manager will take decisions and implement local strategies that favor short-term performance to the detriment of longer term organizational goals. His or her subsidiary performance will not be affected if the manager leaves the position before the consequences of those decisions and strategies begin to take effect. Appraisal of other employees is likely to be conducted by the subsidiary's chief executive officer, or the immediate host-country supervisor, depending on the nature and level of the position concerned. With regard to expatriate performance appraisal, host-country managers may have a clearer picture of expatriate performance and can take into consideration contextual criteria. However, they may have culturally bound biases (e.g. about role behavior) and lack an appreciation of the impact of the expatriate's performance in the broader organizational context. Certainly, for the virtual assignment situation, the use of multiple appraisers would most likely be the most accurate way to determine performance. However, the availability of knowledgeable, trained raters may constrain the approach taken in the international context.

5. Standardized or Customized Performance Appraisal Form & Frequency

Domestic companies commonly design performance appraisal forms for each job category, particularly those using a traditional performance appraisal approach rather than performance management. Such standardization assists in the collection of accurate performance data on which personnel decisions can be made and allow for cross-employee comparisons. The question often posed is whether these standardized forms should be adapted when used for appraising international managers. In practice, appraisal is commonly on a yearly basis and this appears to extend to international performance systems, even though the domestic-oriented literature on this topic recommends ongoing performance appraisal and feedback. An important aspect of an effective performance management system is the provision of timely feedback of the appraisal process. One of the problems with annual appraisal is that employees do not receive the consistent frequent feedback considered critical in order to maintain or improve their performance. It is also suggested in the performance literature that regular feedback is an important aspect in terms of meeting targets and revising goals, in addition to assisting in motivation of work effort. The difficulty for the expatriate who is being evaluated by a geographically distant manager is that timely, appropriate feedback is only viable against hard criteria.

6. APPRAISAL OF EMPLOYEES

The limited research on the topic in the context of IHRM, although there is a growing body of literature on comparative HRM practices. What is important to mention here is that the practice of performance
appraisal itself confronts the issue of cultural applicability. Performance appraisal in different nations can be interpreted as a signal of distrust or even an insult. In Japan, for instance, it is important to avoid direct confrontation to 'save face' and this custom affects the way in which performance appraisal is conducted. A Japanese manager cannot directly point out a work-related problem or error committed by a subordinate instead; he is likely to start discussing with the subordinate about the strong points of that person's work, continuing with a discussion about the work on a relatively general level. Then he might continue to explain the consequences of the type of mistake committed by the subordinate, still without directly pointing out the actual mistake or the individual employee. From all this, the subordinate is supposed to understand his mistake and propose how to improve his work. One way to overcome the dilemma of cultural adaptation is to use host-country nationals to assist in devising a suitable system for appraising subsidiary employees and to advice on the conduct of the appraisal. The need for local responsiveness may affect the multinational's ability to implement effectively a standardized approach to performance management at all levels within the global operation. It seems that the process remains problematic, irrespective of cultural impacts. For example, recent research reported a common finding across ten countries or regions, which was the failure of performance appraisal to fulfill its development purpose. The study formed part of the Best Practices in International HRM project, described as a multi-year, multi-researcher, multinational project. The 10 countries/regions were Australia, Canada, China, Indonesia, Japan, Korea, Latin America, Mexico, Taiwan and the USA. The researchers noted it appears that the potential of appraisal is not fully realized in current practice, not only (as widely believed) in the US, but also in most other countries.

7. CONCLUSION

Technical competence is a necessary but not sufficient condition for successful international performance. Cross-cultural interpersonal skills, sensitivity to foreign norms and values and ease of adaptation to unfamiliar environments are just a few of the managerial characteristics most multinational firms seek when selecting international managers. The added challenge is the effective management and appraisal of performance across all of the multinational's operations. Therefore, we have explored in this research; the performance management system is conscious of and responds to, the organizational, national and international elements. Multinational performance aspects: whole (global) versus part (subsidiary); non-comparable data; the volatility of the global environment; me effect of distance and the level of maturity. Performance management as a control mechanism was briefly discussed. Factors associated with expatriate performance the compensation pack age; task and role; headquarters' support; host environment factors and cultural adjustment are studied. Further the performance management of non-expatriates and those on non-standard assignments, the issues relating to the performance appraisal of international employees. Broadening out the discussion to the multinational level and addressing performance management and appraisal concerns related to non-expatriates and those on non-standard assignments has been useful to remind us that there are many dimensions to international business operations that need to be considered when designing an effective performance management system in the multinational context.
REFERENCES
