A multinational corporation (MNC) operating in host countries may have many alternative ways to appraise its employees in overseas subsidiaries. The techniques may include:

- appraising all employees by using the home appraisal system,
- appraising all employees by using the local appraisal system and
- appraising expatriates by using the home appraisal system and appraising host-country nationals (HCNs) and third-country nationals (TCNs) by using the local system.

Performance appraisal is one of several key elements of performance management. International performance management is a strategic human resource management (HRM) process that enables the MNC to evaluate and continuously improve individual, subsidiary unit and corporate performance against clearly defined, preset objectives that are directly linked to international strategy. International performance appraisal (IPA) is important for the following reasons:

- An effective IPA ensures that a subsidiary is implementing the corporate strategy efficiently. Provided the design of the international performance appraisal system is appropriate, this will have a positive effect on a company’s performance.

- An effective IPA ensures that an international manager is performing in an appropriate way. International performance appraisal is a way of controlling international managers’ behavior and international operations in general. Effective ex-

**Keywords:** international human resource management; international performance appraisal; reward and compensation; multinational corporations

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Expatiate management lessens the incidence of expatriate failure and improves expatriate performance during an overseas assignment.3

- International performance appraisal relates to compensation and reward in material terms and guides managerial career development, future promotion decisions and compensation adjustments.4

- International performance appraisal is also about meeting expectations, job satisfaction and motivation in psychological terms. International performance appraisal influences both the extrinsic and intrinsic motivations of employees and attitudes to their companies, increasing employees’ perceptions and understanding of job tasks and subsequently their job satisfaction and retention.

**Effective appraisal creates an incentive system that can ensure the agent is acting in accordance with the principal’s interests and encourages the agent to pursue the principal’s objectives.**

This is attributable to the complexity of international practices, relating particularly to diversified operating host environment and firm-specific factors, and a lack of empirical research. According to Suutari and Tahvanainen,6 research done today in the international setting does not provide comprehensive responses to questions such as, On what source does the expatriate rely to understand what is expected of him or her? What types of performance goals are appropriate to his or her situation? Who evaluates the expatriate’s performance?

Although prior research has examined issues from selection to effective cross-cultural adjustment, relatively little emphasis has been placed on IPA. As a result, the primary theoretical basis for expatriate performance appraisal comes from the literature on domestic U.S. performance appraisals. Moreover, the existing literature has a strong focus on expatriate performance appraisal; there has not been much exploration of issues relating to HCNs and TCNs. This article therefore aims to present an overall picture of various issues of IPA, including IPA methods, IPA criteria, factors that affect IPA, implementation of IPA in MNCs and difficulties in the IPA process.

**Complexity of International Performance Appraisal**

Appraisal at an international level is extremely complex because there is no obviously correct way to assess the performance of someone operating far away in circumstances not fully understood by the appraiser. Many Chinese managers believe that it is harder to conduct IPA than in domestic operations.7 IPA is complex mainly because of “information asymmetry”8 and “goal incongruence” between the parent and subsidiary.9 Information asymmetry occurs when there is a significant difference in the information needed/available between a parent and subsidiary location.

Environmental factors, such as differences in societal, legal, economic, technical and physical demands and variables associated with work tasks and the personality of the individual make it difficult to isolate job-related factors, set performance standards and devise procedures. For example, developing a market in foreign subsidiaries may be generally slower and more difficult to achieve than at home. The staff involved at headquarters may have difficulty forming a pre-
cise image of the circumstances in which the various subsidiaries have had to operate to achieve their results.

Knowledge asymmetry also occurs between HCN/TCN managers and PCN employees and between PCN managers and HCN/TCN employees. Consequently, the context of performance may be lost. Goal incongruence may arise in the headquarters-subsidiary relationships because the subsidiary may not consistently support the parent organization’s resource requirements. Therefore, the financial results are not always a good yardstick, and data obtained from subsidiaries are not always reliable for measuring the actual contribution.

International Performance Appraisal Methods
The existing literature has a strong focus on expatriate performance appraisal, and the issue of HCN and TCN appraisal has been consistently ignored. Shen\textsuperscript{10} therefore suggested that an MNC should appraise not only parent-country nationals (PCNs) but also HCNs and TCNs.

When the expatriate is on assignment, his or her individual performance must be appraised. Given the cost of expatriates and the important role they perform, it would be anticipated that MNCs monitor and record their performance rather rigorously. Because IPA is more complex than appraisal of domestic operations, more time is needed to achieve results in subsidiaries than is customary in a domestic market. There is a close link between performance expectations and expatriate failure rates; that is, a company’s expectations of high performance may contribute to expatriate failure. To ease the acculturation process and avoid costly mistakes, expatriates should be exempted from active management duties in the first six months of arrival in a foreign country.\textsuperscript{11}

There are debates on the advantages and disadvantages of using different nationals for appraising expatriates. The reasons for using different nationals as appraisers are as follows:\textsuperscript{12}:

- HCNs: The use of HCNs assists in devising a suitable appraisal system and in overcoming the dilemma of cultural adaptation.
- Ex-expatriates: A manager who is used to guiding and supervising a group through involvement and participation could receive a negative appraisal in a local culture if local management is called in to give their opinions. In such circumstances, an ex-expatriate would be needed to put the situation right.

The existing literature has a strong focus on expatriate performance appraisal, and the issue of HCN and TCN appraisal has been consistently ignored.

- HCNs and PCNs: The ideal appraisal team would seek a balance of raters from both the host and home country.

In addition, employees can evaluate themselves, referred to as self-evaluation.\textsuperscript{13} Furthermore, using an employee’s peers as appraisers is also effective as peers often work in close proximity and have ample opportunities to observe each other’s behavior. Outsider appraisers, such as those representing upper management or internal or external customers, can participate in the appraisal process as well. The so-called 360-degree appraisal by using more than one rater will avoid rater bias by providing more than one perspective. It does not seem to matter to appraisees who sets goals and who evaluates them as long as the appraisal is fair. However, it does matter to the MNC because an appraiser is required to be well qualified and trained. Appraisers not only have to be aware of the goals, criteria for assessment and working environment but also must be trusted by the organization and its employees.

As for performance appraisals for different nationals, MNCs should be culturally sensitive as international performance appraisal confronts the issue of cultural applicability. For example, in some Asian countries, such as China and Japan, feedback is normally not given in order to “save face,” and group meetings are often held in appraisal processes to achieve group harmony. This aspect of Asian culture is strikingly different from Western culture, where individualism is emphasized.\textsuperscript{14} A lack of communication and the reluc-
A lack of communication and the reluctance of appraisers to pass negative evaluation on to their appraisees usually make appraisees unaware of problem areas.

Performance Appraisal Criteria

Paauwe and Dewe\textsuperscript{17} suggested that criteria of assessment should be accessible, easy to understand, equitable and motivating for every manager, regardless of nationality and cultural background. The officially set performance goals (i.e., in a written form) are usually received as fairly good evaluations by appraisees. Various aspects need to be assessed, such as sales, profits, market shares, customer relationships, relations with local communities, technical abilities, management skills, cultural empathy, adaptability and flexibility, diplomatic skills and language aptitude, sensitivity to foreign norms, laws and customs, adaptability to uncertain and unpredictable conditions and so on. These issues can be put into two categories:

- **Hard goals** (quantitative goals) are objective, are quantifiable and can be directly measured as return-on-investment (ROI), market share, sales, profits, units produced and so on.
- **Soft goals** (qualitative goals) tend to be relationship- or trait-based, such as customer relations, initiative, cooperation, loyalty, attitude, degree of effort, specific abilities and skills, relationships with local communities, leadership style and interpersonal skills.

However, although specifying goals will help employees develop clear expectations, “traditional quantitative goal setting for managerial jobs has
been said to be counterproductive because it focuses on short-term, seemingly effective outcomes.\textsuperscript{7-18} The use of soft goals also has its disadvantages, because they are subject to potential bias and inaccuracies. Data on soft goals are hard to interpret. Therefore, Gregersen et al.\textsuperscript{19} and Dowling et al.\textsuperscript{20} suggested the MNCs should assess “contextual goals” by taking into consideration factors that result from the situation in which performance occurs. Also, a combination of criteria may be used, depending on the employee’s job description, and detailed criteria are sometimes less strictly applied.

Whereas the performance appraisals of expatriates who are assigned for special technical projects and short-term contracts tend to be operational and task-focused, evaluations of expatriate managers tend to be more strategic, more related to the operation of the entire unit and other locations. Therefore, many companies use the acronym SMART to help set effective goals.\textsuperscript{21} The acronym SMART indicates that goals should be Specific (job-related and position-related), Measurable, Agreed, Realistic and Time-related.

According to Janssens,\textsuperscript{22} the MNC also has three choices when setting criteria for evaluating international managers: local, home, and integrative standards. The choice of parent company standards will reflect the importance of internal consistency within the MNC. The use of local criteria meets the need for local responsiveness. Multiple performance criteria can reduce bias and acknowledge the multidimensional nature of the MNC environment.

In addition, Paauwe and Dewe\textsuperscript{23} emphasized that MNCs need to appraise the performance of both employees and the organization as a whole. Moreover, “the consequences of (long-term) global decisions for subsidiary management must be taken into consideration for performance evaluation.”\textsuperscript{24} If a firm emphasizes short-term profitability, its subsidiaries may try to meet this target at the cost of damaging intersubsidiary relations, employee relations and relationships with local governments. As a result, corporate interests may be damaged in the long run, after expatriates have returned home. There are various routes through which performance expectations can be communicated to employees. These routes include job description, daily management, getting employees to set goals of themselves and goal setting as part of a performance management process.

International Performance Appraisal Practices in MNEs

Next, the focus is turned to how MNCs implement IPAs. MNCs differ considerably in their IPA policies and practices. Brewster\textsuperscript{25} discovered that half of European MNCs had no formal appraisal systems for expatriates. In contrast to this finding, the majority of Finnish MNCs officially evaluate their expatriates by comparing the performance of expatriates with previously set goals.\textsuperscript{26} Tung\textsuperscript{27} reported that U.S. multinationals generally do not allow expatriates sufficient time to adapt to the foreign environment; hence the individual may be labeled as a misfit too soon. This is similar to the practice of Chinese MNCs, where expatriates are not exempted from active management duties and performance appraisal in the first six months of arrival in a foreign country.\textsuperscript{28} However, Japanese companies do not expect peak performance from expatriates until the third year of the assignment.\textsuperscript{29} Hamill\textsuperscript{30} speculated that British companies also have lower performance expectations than American firms.

According to Dowling et al.,\textsuperscript{31} U.S. MNCs have often used the same appraisal form for HCNs and TCNs as for their domestic employees. This practice has drawbacks as HCN and TCN employees may not understand the appraisal system and domestic staff may not understand the appraisal results. Shen\textsuperscript{32} reported that Chinese MNCs adopt a dual approach to performance appraisals of employees of different nationalities or those who are in different managerial positions, but these corporations pursue a uniform and consistent performance appraisal policy across national boundaries. Headquarters conduct performance appraisals of executives/deputy executive managers but leave full responsibility to executive managers of subsidiaries for performance appraisals of nonexecutive employees, including both HCNs and expatriates.

Gregersen et al.\textsuperscript{33} revealed that the expatriate’s immediate supervisor is the most common expatriate rater (either HCN or PCN) in U.S. MNCs. U.S. MNCs rarely use peers, sponsors, subordinates or customers as raters. The expatriate’s immediate supervisor is also the most common expatriate rater in Finnish MNCs. However, expatriates themselves and peers also frequently participate in expatriate performance appraisal. According to Shen,\textsuperscript{34} Chinese MNCs’ performance appraisal procedures for executive/deputy executive managers include self-
assessment and peer opinions. Performance appraisal procedures for nonexecutive HCNs are host-based, including self-assessment and assessment by direct managers or executives. Performance appraisal procedures for nonexecutive expatriates either consist of self-assessment and peer opinions or consist of self-assessment and assessment by direct managers or executives.

The evidence from the Finnish MNCs shows that one or two appraisals a year are considered by expatriates to be most effective.

No local management or former expatriates are called in to participate and assist in Chinese MNCs’ performance appraisal of expatriates. Chinese MNCs do not provide training for appraisers to improve appraisers’ skills. Also, Chinese companies lack transparency and feedback in performance appraisal processes and do not directly or immediately give appraisees feedback or provide reasons as to why appraisal results are negative.

Turning attention to how frequently IPAs are conducted, MNCs commonly conduct IPAs once a year. This policy has been supported by empirical evidence of U.S. MNCs and Chinese MNCs. Some MNCs also conduct IPA once a month, once a quarter, twice a year, at the end of the assignment or at the completion of a project. The evidence from the Finnish MNCs shows that one or two appraisals a year are considered by expatriates to be most effective.

Interactions with colleagues and with the main supervisor are the most important sources for job-related goals in Finnish MNCs. Chinese MNCs have different performance appraisal criteria for PCNs and HCNs. Appraisal for PCNs strongly focuses on De (i.e., political attitude and morality), whereas appraisal for HCNs emphasizes Ji (i.e., business achievement). There is widely strong emphasis on short-term fluctuation in sales and profitability of particular subsidiaries, together with conforming to organizational values, rather than long-term corporate strategic goals and creativity. This situation is endemic even in some companies with a high reliance on international markets.

Factors Affecting International Performance Appraisal

There is a need to understand factors influencing the existence and form of performance management practices. Brewster stated that there are clear national and industrial differences in IPAs and that these differences are caused by a number of variables. Appraising expatriate performance requires an understanding of variables that influence an expatriate’s success or failure on a foreign assignment. Several factors, including political stability, economic situation, sociocultural factors, international strategy, organizational structure, organizational culture, state of internationalization, the niche or type of industry and reliance on international markets, relate to the existence and the form of expatriate performance management.

Here we start with the impact of host-contextual factors on IPA. Performance appraisals become more difficult and complicated in politically unstable countries and regions. Subsidiaries usually underperform and therefore normally adopt more flexible appraisal criteria in regions where there are political and military conflicts. MNCs also take economic factors into consideration in setting business targets and IPA methods. For example, an MNC usually does not have high expectations of business achievement in economically underdeveloped regions. Lindholm further stated that the practice of evaluating and giving feedback on performance is likely to be sympathetic to the host culture.

The need for performance appraisal systems to be modified depends on the culture in which the MNC subsidiary operates. Shen argued that Chinese MNEs adopt a dual approach to international performance appraisal for different nationals because of differences between host and home cultures. Therefore, it is argued that MNCs need to determine if performance problems are attributable to management failure or environmental constraints. The task variables should not be evaluated in isolation from the subsidiary environment context.
Firm-Specific Factors

Various firm-specific factors also affect international performance appraisal. The MNC’s international strategy strongly affects what constitutes performance and its relative importance, that is, efficiency versus productivity and long-term development versus short-term profitability. If the MNC establishes an overseas subsidiary in order to tie up a competitor’s resources in a particular market, “the balance sheet of this particular subsidiary might be continually in the red.”

Under those circumstances, the MNC ought to be flexible in choosing the criteria to appraise its overseas operations. According to Shen, companies that use the international differentiation strategy tend to localize their IPAs. Companies pursuing a global segmentation strategy exercise more control over performance appraisals by using more home appraisal methods and criteria in subsidiaries. To pursue a competitive global strategy, an MNC is likely to focus on global performance rather than a subsidiary’s performance or regional market performance. For this reason, Scullion and Starkey argued that international performance appraisal should be aligned with long-term strategic goals of the organization.

Organizational structure and culture exert a big influence on IPAs. Companies that use a global functional structure tend to adopt a home-based IPA system. Companies that have a global area divisional structure are likely to be responsive to local conditions. An MNC with a task culture (or event-oriented culture) devolves more responsibilities for performance appraisals to managers of subsidiaries. Senior management places greater emphasis on whether objectives are achieved rather than how. Appraisal criteria are usually more focused on business achievement rather than work attitudes. If an MNC has what is termed a power culture (centralized management), its headquarters exercise more control over IPA and are more likely to export the home appraisal system abroad.

Other firm-specific factors, including internationalization stage, niche or type of industry, size of the company and reliance on international markets, are also associated with IPAs. An MNC at the stage of setting up overseas sales office will regard control and coordination of corporatewide activities as the spearheads of the international HRM (IHRM) function and tend to export more home performance appraisal systems abroad. An MNC at the production stage, however, is required to achieve global integration and national responsiveness simultaneously by employing an integrative performance appraisal system.

IPAs are always industry specific. Dowling et al. argued that if the firm is in a multidomestic industry, the role of the HR department will most likely be more domestic in structure and orientation. If the multinational is in a global industry, the HRM function must be structured in such a way that it delivers international support. Moreover, Shen argued that employees in trading enterprises are more likely than workers in production firms to be appraised and rewarded on the basis of individual achievement. Business objectives, furthermore, need to be set more flexible in a service industry than in a manufacturing company.

Senior management places greater emphasis on whether objectives are achieved rather than how.

Concerning the size of the MNC (both the whole company and the host unit), according to Suutari and Tahvanainen, supervisors in small MNCs in a host country will participate in IPAs less often than expatriates will. Larger MNCs are much more likely than smaller ones to have a formal IPA system. Furthermore, larger MNCs will commonly conduct IPA once or twice a year. However, smaller MNCs may vary in the frequencies with which they evaluate their international employees. The size of the MNC also relates to the type of goals. Larger MNCs were found to set hard goals and team goals more commonly than smaller firms.

Depending on the extent of reliance on international markets on IPAs, MNCs have different roles for their subsidiaries. Companies that largely depend on international markets tend to localize performance appraisals and give executives full responsibility for performance appraisals in their overseas operations. If a company’s primary interest is focused on the domestic market, it has little incentive to explore local markets. It therefore is more likely to rely on home appraisal systems. Companies that rely to a great extent on international markets are more likely than those that do not to involve HCNs as raters in IPAs.
IHRM Activities

IPA is affected by other IHRM activities too. Lindholm stated that performance management increases job fit through the identification of training and development needs that are consistent with individual and organizational goals. Logger and Vinke argued that there is a link between selection, training needs and appraisal criteria. According to Shen, the polycentric staffing approach is always accompanied by a host-based appraisal system, whereas an ethnocentric staffing approach goes hand-in-hand with a home-based appraisal approach. Companies pursuing an ethnocentric staffing approach with a strong tendency toward polycentrism tend to adopt dual approaches to employees with different nationalities and with different managerial responsibilities.

Companies that largely depend on international markets tend to localize performance appraisals and give executives full responsibility for performance appraisals in their overseas operations.

Shen also revealed that there are two reasons for conducting performance appraisals. One is to reward employees. The other is for management development. The procedures and criteria for these two purposes are significantly different. For the first purpose, IPAs are more likely to be localized and executive managers in subsidiaries are given more responsibilities for appraisals. For the second purpose, headquarters exercise more control on appraisals. Also, more attention is paid to "soft" goals, such as management skills and interpersonal relations. Effective IPAs contribute to developing a truly international management team. Concerning the impact of international reward and compensation on IPA, Shen stated that different reward and compensation approaches lead to varied performance appraisal practices. MNCs conducting the post-based pay tend to adopt the group-based appraisal system, and companies having the host-based pay adopt the individual-based system.

Conclusions

Effective management of human resources internationally is increasingly considered to be a major determinant of success in international business. IPA is emerging as an important aspect of IHRM. An effective IPA system requires officially set performance goals, preferably in a written form, and formal evaluation against those set goals. One or two appraisals a year have been shown to be most effective. IPA goals should be job and position specific. Whereas MNCs are mindful that they must appoint appraisers who are qualified, trained and trusted, employees simply want to be evaluated fairly no matter who the raters are.

An MNC has many IPA approaches to choose from. Its choices are influenced by various host-contextual, firm-specific factors and other international activities, such as staffing, management development and reward and compensation issues. Because of a scarcity of studies on IPAs, little is known about how IPA is generally implemented by MNCs. However, the existing evidence shows that most MNCs fail to establish an effective IPA system because of complexities involved in IPA or a lack of academic guidance.

This discussion has two implications for HR practitioners in MNCs. First, to make sure overseas subsidiaries and international employees (including PCNs, HCNs and TCNs) are implementing the corporate strategy correctly, an MNC needs to effectively manage its IPAs. Second, an MNC needs to be aware that IPA has no “best practice” standard. Although being SMART can be regarded as a generic standard of an IPA system, it is necessary to have some variations in the ways IPA is implemented. This is because IPA is subject to the impact of various host-contextual and firm-specific factors and other IHRM activities.

Notes

Global Compensation


24. Dowling et al. (1999, p. 120).


34. Shen (2004a).


43. Dowling et al. (1999).
44. Shen (2004a).

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