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PERFORMANCE APPRAISAL AND MNEs:
THE IMPACT OF DIFFERENT CAPITALIST ARCHETYPES

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1. INTRODUCTION

The intersection between the international business and the international human resources management (HRM) literatures (Andersson et al., 2019) is attracting increased research interest and is shedding light on the issues faced by multinational enterprise (MNE) units in local and global business environments. How organizations manage the performance of employees in different geographical locations is relevant because the economic and societal norms in different environments govern both employment relationship and labor market rules. The topic has attracted the attention of both practitioners and academics, and is dominated by ‘best practice’ approaches which have triggered calls for contributions which more overtly acknowledge the impact of the social and situational contexts and their impact on the relative viability of different systems (Murphy & Cleveland, 1991; Mellahi, Frynas & Collings, 2016). We respond to these calls which are relevant for both companies and employees operating in different institutional environments. A better understanding of these issues would allow a better alignment between workers and the corporate strategy and the generation of value. We employ data on employee performance appraisals in 27 countries and draw on comparative capitalism theory.

Employee performance management is a field that is bedeviled by a lack of construct clarity (Molloy & Ployhart, 2012; Suddaby, 2010): Both scholars and practitioners have struggled to define the parameters and objectives of performance management (Franco-Santos, Lucianetti & Bourne, 2012). Some authors use the terms performance management and performance appraisal interchangeably (Schleicher et al., 2018) while others (DeNisi & Smith, 2014) highlight their differences, and consider performance appraisal to refer to the measurement and tracking of performance over a certain period of time. They consider that this tracking over time results in an evaluation at the end of the period, and, hopefully, leads
to “a broad set of activities aimed at improving employee performance. Although performance appraisal information provides input for the performance management process, performance management focuses on ways to motivate employees to improve their performance” (DeNisi & Pritchard, 2006: 206). So, while performance appraisal is a formal and clearly defined (usually an HRM) function, performance management is considered to include more informal and ongoing management practices such as provision of immediate feedback by line managers, and the development and maintenance of employee engagement (Mone, Eisinger, Guggenheim, Price, & Stine, 2011).

In the present paper, we focus on the more objectively measurable performance appraisal practices which underpin most performance management systems. Performance appraisal is “the base practice to be evaluated as it can be seen as a core practice that is linked with all other HRM practices” (Ahlvik & Bjorkman, 2015: 501). The ‘classic’ appraisal interview involves the manager and the employee meeting to review achievements and targets during the past year, to highlight success and/or failures, set targets for the coming year, and negotiate resulting rewards, punishments or development needs (Mone & London, 2018). Thus, the appraisal interview goes beyond evaluation of recent performance and includes future performance, and also includes incentives based on the linking of performance evaluations with rewards (Murphy, 2020). The literature review includes work on both performance appraisal and performance management, given that these terms often are used alternately, and because both rely on some form of managerial evaluation of employee performance.

Some of the more recent research focuses on the benefits of performance appraisal versus its costs in both bureaucratic terms and in terms of employee morale and effectiveness (Buckingham & Goodall, 2015; Fehrenbacher, 2019). These works highlight the need for
management to rethink company approaches to performance (Bayo-Moriones, Galdon-Sanchez & Martinez-de-Morentin, 2019; Cappelli & Conyon, 2018).

In a meta-analysis of over 1,900 articles, Schleicher et al. (2018) advocate a systems-based approach to performance management, and argue for greater awareness of both the internal (organizational strategy and culture and the purpose of the system) and external (nationality, industry and type of firm) contexts. In some countries, norms and regulations may lead businesses to rely more heavily on HRM practices such as performance appraisal. For example, it has been suggested that calculative HRM practices such as appraisals, are more likely in liberal market economies (LMEs) such as developed, competitive Anglo-Saxon economies (Mayrhofer, Gooderham, & Brewster 2019; Gooderham, Nordhaug & Ringdal, 2006). MNEs need to consider the impact of the institutional context on employee performance measurements. In some contexts, including the LMEs, it is easier to adjust pay according to individual output and to fire poor performers; in others, employee rights are stronger. Different countries not only have different formal rules, they also have different informal understandings of what constitutes fair play. Some settings impose greater informal constraints on the management of employees. For instance, in contexts with closer and denser ties between the organization and the workers, calculative approaches to HRM may be less feasible.

MNEs face competing pressures from the home country corporate institutions (especially the relative weight assigned to shareholder returns) and host country regulations, resulting in policies and practices that reflect elements of each (Walker et al., 2018). However, the ability to cross national boundaries can enable ‘regime shopping’ to identify contexts with less strict or more flexible rules (Rutherford et al., 2018).

To enable comparison among institutional settings, we rely on comparative capitalism theory (Amable, 2003; Hall & Soskice, 2001; Jackson & Deeg, 2008). This body of work
focuses specifically on theorizing differences in the institutional effects among national contexts in order to understand the pattern of management practices in different countries and stylized national archetypes (Kalleberg, 2009; Wood & Allen, 2020). We look at the differences between categories of countries and the MNEs that straddle them (DeNisi & Murphy, 2017). We add to earlier work which highlights the greater prevalence of appraisal in LMEs, and argue that the institutional context plays a major role in the effectiveness – and potential validity - of the performance evaluation process.

The paper is organized as follows. Section 2 reviews the recent literature on performance management and appraisal and proposes three hypotheses. Section 3 describes the methodology which tests for differences in the use of performance appraisal between market economies and between MNEs and other organizations. Section 4 presents the findings and how they contribute to the universalist approach to performance evaluation more generally. We argue that our understanding of the topic is enhanced by a clear focus on the context and the role of MNEs. Section 5 provides some implications for research and practice and discusses some limitations of this study.

1. PERFORMANCE EVALUATION AND CONTEXT

2.1. The significance of context

Different aspects of HRM can be examined using different lenses (Brewster, 1999; Delery & Doty, 1996). The universalist model is the most common HRM model and is used by most universities and business schools, most experts and most consultants. It focuses on universal laws and the ability to predict. It identifies ‘best practice’ that can be applied universally (Boon et al., 2018). The alternative contextualist paradigm considers context to be important and seeks the ‘best fit’ with the context (Nadeem et al., 2018). Most of the work on performance appraisal adopts the universalist approach (Cappelli & Tavis, 2015, Cardy,
2004; Pulakos & O’Leary 2011). This is confirmed by Schleicher et al.’s (2018), systematic literature review. The authors argue that inevitably contextual factors constitute inputs to the process, and emphasize the need for more research on differences in firm level practices depending on the setting. The present study responds to this call.

2.2 National context

To date, most comparative studies of HRM focus mainly on variations in involvement and participation, and consider the national training regime as secondary (Mayrhofer, Gooderham, & Brewster, 2019; Walker et al., 2018). Few studies examine the impact of the national context on performance management. Most extant work on comparative performance management, including the studies mentioned above, focuses as Claus and Hand (2009) note, on the minority of world countries characterized as Western, educated, industrialized, rich and developed (Henrich, Heine & Norenzayan, 2010) and ignores more peripheral varieties of European capitalism, and emerging markets. For example, Vo and Stanton (2011) study performance management practices in US and Japanese MNEs operating in Vietnam; Buchelt (2015) examines performance management in the context of Polish companies internationalizing their market activities; Dewettinck and van Djik (2013), Dewettinck and Vroonen (2017) focus on the Belgian context and Suutari and Tahvanainen (2002) on the Finnish one.

DeNisi and Smith’s (2014) study examines the link between performance management practices and business performance rather than the HRM process, and acknowledges the relevance of contextual factors. They consider that their proposed model could be applied to various cultures but acknowledge that their research was conducted primarily in a Western context. They call for further cross-national research into performance management.
Boselie, Farndale, and Paauwe (2018) provide empirical data on performance management from the Cranet survey and their Global HRM Research Alliance study of 16 MNEs. Overall, they found that appraisal systems prevailed, particularly for clerical and manual workers. They conclude that while there are contextual differences among countries in terms of leadership styles, communication and information sharing, and the role of the individual in the appraisal procedure, appraisal practices are very similar. This is in line with work on comparative capitalisms which suggests that there are strong global forces driving convergence with the LME model (Colvin & Darbishire, 2013). DeNisi, Varma and Budhwar (2008) and Engle, Festing and Dowling (2014) argue that these global pressures are likely to lead to similar performance management systems and expect emerging markets to evolve to resemble something approximating the LME model and the with associated performance management systems.

2.3. Performance appraisal and comparative capitalisms

The literature on comparative capitalisms considers that institutions exert composite effects on the nature and strength of the ties between different actors. This idea has become increasingly influential in the international business literature (Walker et al., 2018; Jackson & Deeg, 2019; Deeg & Jackson, 2007). A distinction has been made between Anglo-Saxon LMEs and the mainly continental European coordinated market economies (CMEs) (Dore, 2000; Hall & Soskice, 2001; Lincoln & Kalleberg, 1990). LMEs are based on competition between and within firms, the assumption that government should play only a limited role, and a focus on short-term results for business owners. This context is likely to be more suited to individual targets and performance-based rewards (Boselie, Farndale, & Paauwe, 2018; Marsden, 2007). In CMEs, firms collaborate more - with each other and with government, and firms are more supported and/or restricted by legislation, and are required to focus on survival and the long-term interests of a wider group of stakeholders (Wood et al.,
2014; Jackson & Deeg, 2019). One of the effects of this context is that employees tend to stay with one employer for longer, and transfers between firms are less common. Thus, for both employer and employee, the emphasis in performance appraisal and development conversations is more likely to go beyond short-term achievement of targets linked to bonuses. Comparing (CME) Germany and (LME) the UK, Festing (2012) highlights the fact that in Germany performance management tends to involve highly qualified employees whereas in the UK performance management generally involves all employees.

Amable (2003) distinguishes CME types and refers to Rhineland, Nordic, Mediterranean and transitional European forms of capitalism. He describes the Rhineland economies as the classical CME countries (‘continental European capitalism’ or CEC), and the Nordic states\(^1\) as social democratic economies (SDEs) based less on regulation and more on social consensus, with high government involvement, extensive welfare provision and particularly high trade union presence. The Mediterranean economies\(^2\) which Rhodes et al. (2007) call mixed market economies or MMEs, are characterized by a particularly high incidence of family-owned businesses, mostly run paternalistically, with lower levels of social protection but high levels of employment protection (Ilhan-Nas et al., 2018; Rhodes et al., 2007). The central and east European post socialist transitional states (emerging market economies or EMEs) are more fluid, and are subject to different influences based on the dominance of neo-liberalism in the policy community and counter pressures which include the more social democratic aspects of the Europeanization process and institutional features of the past (Farkas, 2018). However, according to a study by Serafini and Szamosi, (2015: 980), there is evidence in the EMEs of “modern practices in terms of performance

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\(^1\) Amable, whose geography is less impressive than his economics, includes Finland in his ‘Scandinavian’ group.

\(^2\) Amable includes Portugal in his Mediterranean economies despite Portugal’s lack of a Mediterranean coastline.
management … as would occur in an advanced CME economy”. Figure 1 summarizes these different types.

**Figure 1 Capitalist archetypes in Europe**

*Capitalist archetypes in Europe*
- Liberal market economy (LME)
- Continental European capitalism (CEC)
- Social democratic economy (SDE)
- Mediterranean market economy (MME)
- Transitional emerging market economy (EME)

Given the original objective of explaining why some economies are more successful than others, it is understandable that the comparative capitalisms literature focuses on European states, north America and Japan. Some attempts have been made to extend the analysis to other territories (e.g., Latin American ‘hierarchic market economies’ - Schneider, 2009, and African ‘fragmented market economies’ Wood & Frynas, 2006). However, this
these categories are poorly defined, include countries with limited data availability and still exclude much of the world. Although we endorse calls for more research, in the present paper our study of performance appraisal is restricted to Europe.

In the comparative capitalism literature, the key distinction is between LMEs and other economies where markets are mediated such that the freedom of action of investors and the managers they appoint is constrained (Lazonick & Shin, 2019). In LMEs, specific types of activist investors are particularly influential which promotes a focus on short-term shareholder value (Lazonick & Shin, 2019). Therefore, it could be expected that performance appraisal would be more common in LMEs, compared to other market economies since in LMEs, shareholders have more power to enforce their rights and push firms to maximize short-term returns:

Hypothesis 1: The use of performance appraisal is more likely in LMEs than in CECs, SDEs, EMEs or MMEs.

2.4. Performance appraisal and multinational enterprises

The international business literature is replete with discussions of the standardization/differentiation paradox in the context of MNEs (Edwards, Marginson & Ferner 2013) and the notions of knowledge transfer (Andersson, Buckley & Dellestrand, 2015; Szulanski & Jensen, 2006) and transfer of practices (Mellahi & Collings, 2010) while the HRM (Evans, Pucik & Barsoux 2002) literature refers to the transfer of HRM practices (Björkman, Fey & Park, 2007; Morris et al. 2009). MNEs rely on standardization to replicate practices, usually by transferring them from headquarters across all their subsidiaries in the interests of internal coherence and bureaucratic economies of scale. However, this happens less in the case of emerging economy MNEs (c.f. Chung, Brewster & Bozkurt, 2020).
The notion of differentiation refers to the assumed limits to this process based on institutional pressure or unwillingness to adopt certain practices. The international business literature refers to subsidiary (Rugman & Verbeke, 2001) or location specific advantage (Dunning, 1988) which deter firms from enforcing global practice and focusing instead on exploiting local capabilities and local practices (Narula, 2019; Wood et al., 2012).

Comparative HRM studies suggest that MNEs may be subject to both country of origin and country of domicile pressures – leading to hybrid approaches to people management. This strand of work suggests also that their potentially larger size and greater resources allows MNEs to impose the practices associated with the model they see as being ‘best’, often the LME model. Chung, Sparrow and Bozkurt, (2014) provide the example of a South Korean MNE which used a management consultancy to identify world ‘best practice’ (it chose US practices) and impose them across the whole organization. The relative functionality and relevance of employee performance appraisal systems in MNEs has been widely debated (Bernardin & Wiatrowski, 2013; Edwards & Tempel 2010; Chung, Sparrow & Bozkurt 2014); however, it seems that performance appraisal is more likely in MNEs compared to single country firms (especially those from non-LMEs).

Given their resources and expertise, MNEs may find it relatively easy to monitor formal compliance (e.g. the completion of appraisal forms) but more difficult to identify whether the process is carried out in the same way in all national subsidiaries (Arregle et al., 2018; Narula, 2019). It could be argued that MNEs see performance appraisal systems as useful to control employees in various national subsidiaries and focus them on performance. Foreign MNEs are likely to have weaker ties to the country of domicile than indigenous companies, and hence, the differences between MNEs and other firms are likely to be pronounced (Walker et al., 2018). Hence:
Hypothesis 2: Foreign MNEs are more likely than domestic firms to use performance appraisal.

We are interested in the range of practices reported by the MNEs in our sample. Larger MNEs are likely have more resources and more developed and sophisticated HRM practices, and thus be more likely to base decisions about training and development, career development and workforce planning on appraisal interview (see also Schleicher et al., 2018 and Murphy, 2020). Larger MNEs may find internal coordination more difficult but may be better able to exploit bureaucracy economies of scale. Among small MNEs these differences are likely to be most pronounced in foreign MNEs where the use of more integrative approaches to human resource management is likely to be seen as both desirable and feasible. Therefore:

Hypothesis 3: Foreign MNEs are more likely than domestic firms to go beyond basic performance appraisal to deploy an approach that integrates appraisal outcomes with other components of HRM practice.

2. METHODOLOGY

3.1. Sample

To test our hypotheses, we use large-scale international data on HRM from the Cranet survey (Parry et al., 2020). This is a cross-sectional survey which is administered at four or five year intervals. We use data from the most recent (2016) round on the 27 countries which fall into Amable’s (2003) categorization of economy types. The survey is completed by the most senior human resources manager in each institution. The questionnaire asks about the organization’s HRM practices and employment relations. For each country, a nationally representative sample is constructed, based on employment by industry. To achieve consistent terminology and interpretation across countries, the survey is translated into the
appropriate native language(s) and back-translated into English by an HRM professional who is also a native speaker.

Response rates vary across individual countries but the overall response rate was around 30% which is within the range considered acceptable for other similar international comparative studies in business and management (Mellahi & Harris, 2016). Our initial sample of 5,366 observations was reduced to 3,221 after list-wise deletion and before estimation of the regression models. Table 2 present the breakdown of the total sample, and the percentage of positive responses to the key performance appraisal questions.

3.2 Measures

We are interested in the range of practices in our sample firms. Although the primary focus is on performance appraisal, we are aware that some organizations incorporate other means. For many firms, the results of these evaluations are used to make decisions about pay, training and development, career development and workforce planning (Hypothesis 3). Our aim was not to identify the use or not of performance appraisal and the factors influencing the probability of use of performance appraisal. We were also interested in understanding who was involved in the appraisal exercise, and how the information obtained was subsequently used. This allowed a more nuanced measure of performance management for each organization. Figure 1 provides a conceptual mapping of types of economies, types of organizations and key performance management areas considered.

Figure 2: Conceptual map of performance management in context
The analysis focuses on three categories of questions relating to performance appraisal. First, coverage of performance appraisal, that is whether it is a formal process which includes managers, professional staff and manual/clerical workers. Second, participation, that is whether it includes employees, supervisors, someone senior to the supervisor, and peers or subordinates. Third, how the data are used, that is whether the performance appraisal data are used to inform decisions about pay, training, career development and workforce planning. These categories included a total of 12 questions related to our three hypotheses. Table 1 indicates the proportions of positive responses to each of the questions. The results are presented for each country in the sample with an average figure for comparative capitalism types.

Table 1: Breakdown of Positive Responses to Twelve Performance Appraisal Questions Presented by Country and Comparative Capitalism Grouping
### 3.3. Analysis

The responses were coded yes = 1 and no = 0. We could have created scales by summing the responses and giving a value between 0 and 12, for example, as the combined scale for each organization. However, for most possible values of the scale, especially those in the mid-range, a large number of combinations of responses would yield the same value on the scale. This would introduce the risk that firms that are fundamentally different in terms of their approach to and use of performance appraisal are treated as being the same. We therefore chose to create scales based on the individual responses to the survey questions by applying Mokken’s non-parametric model for one dimensional cumulative scaling (Sijtsma & Molenaar, 2002). Rather than simply summing responses, the Mokken scaling approach weights individual responses based on the proportion of ‘no’ responses to each question.
which means that less common features have a bigger impact on the value of the scale than those features that are more frequent across the sample. Therefore, even if firms have responded ‘yes’ to the same number of questions they will not have the same value in the scale unless they respond ‘yes’ to exactly the same questions, with the difference in the value of the scale being determined by the relative scarcity of positive responses to the questions to which they have responded ‘yes’.

We created four separate Mokken scales; a combined scale using all 12 questions, separate scales for coverage, extent of participation, and use of performance appraisal in line with our hypotheses. In each case, a reliability test showed that the variables included provided acceptable results (Cronbach’s alpha; 0.84 combined, 0.88 coverage, 0.73 extent and 0.71 use). Therefore, it was a valid statistical step to create these scales which were then used as the dependent variables in the empirical analysis.

To test our hypotheses, we used ordinary least square to estimate the regression models, using the scales described above as the dependent variables. Each was estimated as a function of size, sector (in terms of both public/private and manufacturing/service sectors), union density, economy type, and ownership (differentiating between domestic and foreign-owned organizations). We use firm size and sector as controls. We expect that since organizational size has a major impact on organizational HRM, second only to the impact of nationality (Sels et al., 2006; Fabi, Raymond & Lacoursiere, 2007; Bhatt & Reddy, 2011), this will apply also to performance management. It is clear that the greater informality (Davila, 2005) and closer personal control of owners (De Grip & Sieben, 2009) in small businesses will likely lead to a smaller perceived need for performance appraisal in these types of firms (Kroon, Voorde & Timmers, 2014; Sels et al., 2006; Cardon & Stevens, 2004; Wu, Bacon & Hoque, 2014). It is plausible also that firm performance and/or firm age likely to have an impact; however, our data do not provide this information.
Sector is also likely to have an effect. Hoque and Bacon (2006) found that even amongst small firms, some kind of performance appraisal is more likely in education, health and other community sectors than in manufacturing. In larger organizations, it has been shown that performance appraisal is more likely in service sectors (Fabling & Grimes, 2014) while performance management tends to be more frequent in manufacturing sectors (Combs, Yongmei, Hall, & Ketchen, 2006). Whether the organization is operating in the private or the public sector may also have an effect. In the context of China, Bai and Bennington (2005) found that performance management was more frequent in the state-owned sector.

Firm size is based on total number of employees, and union density is measured as the proportion of employees who are union members. The remaining factors are represented by a series of dummy variables differentiating between manufacturing and services firms, public and private sector organizations, and domestic owned and foreign owned companies. We also employed dummies to differentiate economy types (CEC, SDE, MME and EME based on Amable, 2003) (see figure 1 and table 1). The reference category is domestic owned, private sector, manufacturing firms operating within LMEs.

3. FINDINGS

Table 2 presents the results of the various regression models of performance appraisal. Overall, the findings are in line with our expectations that larger and private sector organizations make significantly greater use of performance appraisal, greater union presence reduces the prevalence of appraisals and appraisals are less common in manufacturing firms.

Table 2: Regression Results Showing Impact of Context on Performance Appraisal Coverage, Extent and Use.
<table>
<thead>
<tr>
<th></th>
<th>Coeff.</th>
<th>t-ratio</th>
<th>Coeff.</th>
<th>t-ratio</th>
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<td>Constant</td>
<td>59.4***</td>
<td>54.5</td>
<td>87.7***</td>
<td>57.6</td>
<td>43.3***</td>
<td>34.0</td>
<td>71.9***</td>
<td>51.8</td>
<td>2.266</td>
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<tr>
<td>Size (000s)</td>
<td>0.124***</td>
<td>3.8</td>
<td>0.098**</td>
<td>2.0</td>
<td>0.172***</td>
<td>5.0</td>
<td>0.074*</td>
<td>1.9</td>
<td>0.49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>1.539*</td>
<td>1.7</td>
<td>0.093</td>
<td>0.1</td>
<td>2.889***</td>
<td>2.7</td>
<td>0.172</td>
<td>0.1</td>
<td>0.25</td>
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<td>Public</td>
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<td>-5.2</td>
<td>-1.820</td>
<td>-1.2</td>
<td>-4.034***</td>
<td>-3.0</td>
<td>-11.158***</td>
<td>-7.6</td>
<td>30.83</td>
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<td>Union</td>
<td>-0.087***</td>
<td>-5.6</td>
<td>-0.081***</td>
<td>-3.7</td>
<td>-0.090***</td>
<td>-4.9</td>
<td>-0.074***</td>
<td>-3.7</td>
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<td>CECs</td>
<td>-2.654*</td>
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<td>-10.867***</td>
<td>-5.6</td>
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<td>SDEs</td>
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<td>-7.323***</td>
<td>-4.0</td>
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<tr>
<td>EMEs</td>
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<td>-20.010***</td>
<td>-12.3</td>
<td>-17.257***</td>
<td>-12.9</td>
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<td>Foreign Owned</td>
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<td>15.866***</td>
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<td>6.6</td>
<td>10.353***</td>
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<th>Coverage</th>
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*, ** and *** indicate significance at the 10%, 5% and 1% levels respectively.

Hypotheses 1 predicted greater use of performance appraisal in LMEs; with just two exceptions, the economy type variables are negative and significant for the LME reference group. This indicates that appraisals are more frequent in LMEs, more people are included in the appraisal process and greater subsequent use is made of the data collected. This supports hypothesis 1.

Hypotheses 2 and 3 refer to MNE behavior. Hypothesis 2 predicts that MNEs compared to other organizations will be more likely to use performance appraisal. This is indeed the case as in all instances the dummy for foreign ownership is positive and strongly significant. This supports hypothesis 2. Hypothesis 3 predicts that MNEs are more likely to go beyond basic performance appraisal. The dummy for foreign ownership is positive and significant in all cases indicating that MNEs are more likely to use performance appraisal and also are more likely to employ other forms of performance management. Overall, this confirms that MNEs tend to include more employees in their appraisal processes and make greater use of performance appraisal data to inform pay, training, career development and workforce planning decisions.
4. DISCUSSION AND CONCLUSIONS

5.1. Limitations

Before discussing our conclusions, we should note that, in common with all social science research, this study has some limitations. First, we focus on Europe and do not suggest that our results are generalizable to other forms of capitalism such as the state-managed economies of Brazil, India and China (Nölke, ten Brink, Claar, & May, 2014) or the Latin American hierarchical market economies (Schneider, 2009). Early work on comparative capitalisms focused on mature LMEs and CMEs and assumes that other economies lack the same closely coupled institutions and complementarities, and hence, ultimately would merge towards one or other archetype (Hall and Soskice, 2001). However, our study highlights the heterogeneity of performance management practices beyond the LME/CME divide, although, since certain practices are more prevalent in certain capitalisms, this does not suggest diffuse diversity. The analysis should be extended to include other world areas with no expectation of commonality.

Second, we use Cranet data which restricted the analysis to the information included in these data. Although arguably institutions have a greater impact than cultural differences on management policies and practices (c.f. Keig et al., 2019; Vaiman & Brewster, 2015), a closer examination of meso- and micro-level cultural effects might yield a more nuanced picture than simple comparison of composite institutional effects.

Third, we examined the effects of context on firm level appraisal practices but not the more distal effects on performance. Earlier comparative studies suggest managerial reporting is a reasonably accurate reflection of actual organizational performance (Singh et al., 2016) and further examination of these issues could be fruitful.
5.2 Theoretical implications

Despite these limitations we believe our work contributes to current understanding of the level of coverage, extent and use of performance management within the different varieties of capitalism in Europe, and considers the extent to which MNEs act as a force for convergence. In response to recent calls to recognize contextual factors as inputs to the performance management process (Schleicher et al., 2018), we adopted a comparative institutional perspective to consider performance appraisal and its relationship with the institutional context, that is the form of capitalism and the organizational setting. Based on our findings, we can draw some conclusions which have both theoretical and managerial implications.

We focused on MNEs since they operate across borders and are required to deal with and adapt to diverse contexts. From our empirical work, we can conclude that MNEs rely more on use of performance appraisal compared to other firms. Previous research provides mixed findings on performance management in MNEs in different national contexts (Ahlvik, Smale & Sumelius, 2016; Smale, Bjorkman & Sumelius 2013).

Our study adds to the growing literature on comparative and international HRM (Brewster Maryhofer, & Farndale, 2018; Özçelik et al. 2019) by providing evidence that the institutional context affects use of performance appraisal by MNEs operating in different countries. Specifically, we found that, in line with the characteristics of LMEs, firms operating in such contexts are more likely to use performance appraisal but that firms in other types of economies make less use of performance appraisals. The case of SDEs is particular, perhaps due to their legacy of neo-corporatism and centralized bargaining or greater trade union power. In organizations with a strong union presence, use of performance appraisal is less widespread. This is not to say that calculative HRM practices might also be less frequent in other market economy types but rather that they may be less sophisticated and take the form of authoritarian paternalism (c.f. Wang et al., 2018). The ex-communist countries show
a wide diversity of practices, emphasizing both the divergent pressures on them, as discussed above, and the importance of managerial agency. It might be that the EME categorization needs to be more nuanced. Our study confirms that performance appraisal is affected by the local context, and firms operating in different market economies should take account of these differences in their monitoring processes.

Performance appraisals are aimed ultimately at aligning workers to the corporate strategy, and often linked explicitly to the generation of value. Does this make LME firms more effective? Our evidence is less clear cut. Good rates of return for shareholders may be accomplished using a range of mechanisms such as share buy-backs which do little to generate real value. Again, encouraging behaviors that enhance short term revenue flows seems to be associated with poor productivity, exemplified by the overall productivity rates in the USA and the UK (Goodridge et al., 2018; Kehoe et al., 2018), revealed by the fallout from the Covid-19 epidemic and unsustainable levels of corporate debt. In other words, tracing the alignment between HRM practice and wider firm-level (and, indeed, macro-economic) outcomes is a challenging process (Wood et al., 2014). Nevertheless, the extent to which certain phenomena correspond (wider use of appraisals, focus on short term shareholder returns, the tension between value generation and the financial engineering, the generation of shareholder value, and overall productivity rates) would suggest the validity of notions of complementarity (Crouch, 2005; Wood et al., 2009).

It seems clear that although use of appraisals is widespread overall productivity is less than optimal, which in turn means either that appraisals do not work as intended, or they have mixed effects. For example, by aligning firms with shareholders, either directly (in the case of managers) or indirectly (in the case of workers), appraisals may encourage or sustain a focus on predatory value extraction, as suggested by Lazonick and Shin (2019), rather than production driven value generation. In turn, this would render worker productivity less
relevant; the fact that greater use of appraisals does not result in superior national productivity rates would suggest that the links between the firm and the macro environment are either incomplete or indirect, or that in practice, appraisals are less likely to be orientated towards productivity.

We found that MNEs with foreign headquarters were more likely than indigenous businesses to make use of performance appraisal, and to favor performance management (DeNisi & Prichard, 2006; Murphy, 2020). This is in line with the findings in Ahlvik and Bjorkman (2015) related to the transfer of HRM practices. They show that being part of an MNE puts subsidiaries under pressure to comply with headquarters guidelines (Kostova & Roth, 2002). Since performance appraisal could be considered a mechanism for aligning employees with the overall organizational strategy (Longenecker & Fink, 2017), it could be argued that MNEs are more likely to be subject to the pressures and incentives imposed by transnational investors, and hence are likely to be under greater pressure to maximize shareholder value (Yamin & Forsgren, 2015). Country of domicile pressures may mitigate this, especially in terms of relative worker collective bargaining rights. Again, indigenous firms will be subject to the prevailing country of domicile corporate governance regime and the local institutional realities (Walker et al., 2018). Our study confirms that MNEs with HQs abroad are more likely to make use of performance appraisal than other firms. Domestic firms will be required to show greater compliance with local rules and conventions governing corporate governance.

The international HRM literature suggests that the way businesses treat their employees has far-reaching implications for other aspects of organizational strategy (Anderson et al., 2019). This includes using appraisals as a basis for rewards, training and development and career planning. That this is more common in MNEs may either reflect the superior resources MNEs have at their disposal and/or an emerging move towards
performance management rather than appraisal. It might also put pressure on MNEs operating in different national contexts to find ways to implement a standardized approach to HRM. This raises questions related to experience of working and being managed in MNEs. While appraisal typically is associated more with control (Minbaeva, 2008), deployment of a wider more integrated approach moves the emphasis from technical to social control and incentives for employees to change their behaviors (Neher & Maley, 2019). Such approaches may be indicative of the role of MNEs as ‘trendsetters’ (Warner, 2005) or ‘norm entrepreneurs’ (Brookes, Brewster & Wood, 2017) and their recognition of the challenges associated with recruiting, deploying, utilizing, and retaining the ‘right’ people for each location (Anderson et al., 2019). However, it would be an oversimplification to suggest that they could adopt a common policy or one-size-fits-all approach, given the institutional and cultural differences in the multiple national environments in which MNEs operate which could result in a lack of common norms and values within the organization (Kostova & Roth, 2003). HRM specialists will have to reconcile the challenges related to operating within formal and informal national regulatory frameworks with the demands and concerns of the HQ.

At a theoretical level, we highlight the continued relevance of the comparative capitalism framework, despite the many predictions of universal liberalization. In confirming greater use of appraisal in LMEs, the coincidence with other firm level and socio-economic features would suggest that either appraisal is ineffective for enhancing productivity or that any beneficial effects are diluted other shortfalls in the system such as in training and skills development (Irwin et al., 2018). Alternatively, it might suggest that appraisals have other objectives and help to resolve agency issues and more close alignment of managers’ (and workers’) behavior to that of shareholders. Whether or not this is beneficial (as suggested by Lazonick and Shin, 2019) remains a matter for debate. Finally, we show that not only are
MNEs more likely to make use of appraisals, they are also more likely to use them as part of an integrated HRM system. This might be due to MNEs’ greater room for maneuver and greater organizational resources, or to the complexities involved in managing people across borders and reconciling host and home country pressures.

5.3 Practical Implications

Our study has some implications for practice. First, large numbers of organizations continue to devote considerable time and energy to annual appraisals, despite their debatable impact on organizational performance and sustainability (Evans & Tourish, 2017). Our study shows that appraisals are more prevalent in some institutional settings, and highlights how the institutional context can make some practices more attractive or viable in some settings compared to others.

To solve the appraisal puzzle, HRM specialists must take account of the context and whether or not implementation of an appraisal system would complement or disrupt established practices. HRM specialists have to operate within certain constraints, and consider the overall organizational strategy and the wider corporate governance system, and how this affects the MNE’s relative room for maneuver. The potential for line manager agency should also be considered (Ahlvik & Bjorkman, 2015); unless subsidiary managers believe in the organizational practice, they will be unlikely to put much effort into its implementation and its results are likely to be disappointing. MNEs are more likely to use appraisal in combination with other HRM practices but there is no evidence about whether this represents superior practice given our finding that in many settings, most local firms did not emulate this.

Although the mixed results on the benefits of appraisals, and the problems related to appraisal systems being seen as other than arbitrary (Cappelli & Tavis, 2015) might suggest that appraisal is being abandoned, most companies suggested that the process should be more
streamlined (Buckingham & Goodall, 2015). Analysis of Cranet data over time suggests that appraisals are becoming more popular although with a range of national differences. Future research could explore changes in the nature and form of appraisals, and whether simplistic pay-based systems are becoming harder to sustain.
REFERENCES


