CHAPTER 5

International Performance Appraisal Policies and Practices

INTRODUCTION

International performance management is ‘a strategic human resource management process that enables the MNE to evaluate and continuously improve individual, subsidiary unit and corporate performance against clearly defined, preset objectives that are directly linked to international strategy’ (Dowling et al. 1999, p. 123, also see Festing et al. 2012; Vo and Stanton 2011). It is an important measure for MNEs to control the behaviors of expatriates as well as HCNs to ensure that foreign subsidiaries perform in appropriate ways, that is, in the interests of the corporation as a whole (Dowling et al. 2013). International performance appraisal influences promotion, compensation, and reward; consequently, it will influence employees’ work attitudes and behaviors as well as performance of MNEs (e.g. Festing et al. 2012; Logger and Vinke 1995). This chapter examines performance appraisal practices in South Korea and China, and international performance appraisal policies and practices of South Korean MNEs in China. The major international performance appraisal practices investigated in this chapter include performance appraisal procedures and methods, performance appraisal criteria, performance appraisal feedback, and international performance appraisal approaches.
Performance Appraisal Practices in South Korea and China

Performance Appraisal in South Korea

Traditionally, South Korean companies adopt the seniority-based performance evaluation system, and the purpose of such a system is solely for promotion (Park and Yu 2000). This system has been criticized as being not effective because the seniority-based system adds significant burdens to labor costs when tenure or seniority increases (Rowley and Bae 2004). Due to both internal and external pressures, South Korean companies shifted their management orientation to a more performance-based HRM system, especially the performance appraisal system (Rowley and Yang 2009).

South Korean companies use various evaluation methods, such as self-evaluation, supervisor evaluation, peer evaluation, and subordinate evaluation. Self-evaluation is a common method, and it affects training and career development. Assessment by superiors is the dominant form of performance appraisal in South Korean domestic firms (Yang and Rowley 2008). Employees are asked to rate their peers and superiors on criteria such as initiative, communication skills, and leadership skills. Another recent development in performance appraisal is the adoption of the Behaviorally Anchored Rating Scales (BARS), which is a method that identifies a set of behaviors considered critical to job performance and develops rating scales for such behaviors. The BARS is developed to avoid subjective judgment of the rater (Chung et al. 1997). Nevertheless, the 360-degree approach, which involves supervisors, subordinates, peers, team members, and customers, is not popularly used in the private sector in South Korea. For example, it is only used to evaluate managers’ performance in LG (Jhun et al. 2012).

In general, the performance appraisal is conducted annually or biannually. For example, LG adopts a single standardized process to evaluate employee performance annually to evaluate the achievement of goals, difficulty of goals, and competitiveness (LG 2016). Management by objective (MBO) is widely implemented by South Korean firms. According to the statistics, 49% of companies adopted this evaluation system in 2000 (Park and Yu 2000). The main appraisal criteria in South Korean firms include quality of work, ability, interpersonal skills, leadership skills, work attitudes (Kim 2001), and personality (Tan and Torrington 1998). For
example, SK Telecom considers factors like mid- to long-term performance, contributions to the organization, and challenges and innovations (SK 2013). Feedback is often provided, whereas managers still tend to feel uncomfortable when criticizing subordinates’ performance in face-to-face performance appraisal meetings. Managers may feel that teamwork and harmonious relationships with subordinates could be damaged if they identify their problems and criticize staff based on their performance (Rowley and Yang 2009).

In the public sector, the South Korean government has adopted various performance management approaches, such as Performance Agreement System (i.e. a process of strategic planning, setting objectives, mid-year review, reward, and feedback) and Balanced Scorecard System (i.e. a system that includes vision, mission, strategic goals, and four key performance indicators—customer, finance, internal process, and learning and growth). In 2007, the Electronic-Integrated Public Service Evaluation system (i.e. a system that ensures performance evaluations are efficient and accurate) and the E-HRM system (i.e. internet-supported way of performing HR policies and/or activities) have been established to ensure the performance evaluation procedure is transparent. Different from the private sector, the 360-degree system has been widely adopted in the public sector to appraise civil servants’ performance since 2000. For Grade 5–9 civil servants, performance appraisals are conducted biannually, and the two major appraisal criteria are firstly, job performance (e.g. completeness, job difficulties) and secondly, job-fulfilling abilities (e.g. communication, customer orientation) (Kong et al. 2013).

One of the problems concerning performance management is that South Korean companies put less emphasis on the rater’s ability to conduct fair and accurate performance appraisals. In most cases, managers are assumed to have the ability to appraise employees’ performance accurately. In addition, only a few companies (e.g. Hana Financial Group 2013) provided training to raters to improve evaluation accuracy and fairness (Rowley and Yang 2009). Performance evaluation often tends to be subjective and biased because of managers’ unwillingness to damage harmonious relationships in the workplace (Kim and Rowley 2001). Raters tend to rate leniently so that a positive culture or harmonious relationships can be maintained (Rowley and Yang 2009). Consequently, the lenient or ineffective performance appraisal fails to differentiate employees’ performance and managers only consider performance appraisal as a procedure (Chung et al. 1997).
Performance Appraisal in China

The performance appraisal system was virtually non-existent during the decades of the Chinese planned economy (Warner 1995). Individual performance appraisal was rarely conducted, and in fact, performance appraisal was not linked to individual and organizational performance. Rather, the organization typically provided individuals’ performance reports for promotion or transfer purposes. The major performance appraisal criteria for cadres included party loyalty, seniority, and the ability to maintain harmonious relationships with colleagues. Peer appraisals were mainly conducted to appraise performance and in the form of group discussions; hence, the appraisal results were largely based on the relationship with peers and supervisors (Shen 2007).

Since the 1980s, performance appraisal has been rigorously adopted by enterprises regardless of ownership to determine promotion and pay (Cooke 2012; Qiao et al. 2009). Performance appraisal procedures mainly include self-assessment, peer group discussion, and the superior’s final comments (Shen 2008). Management by objective, which sets a series of factors such as quality of products and working hours, at the beginning of a certain period, has become very popular in Chinese enterprises. Manufacturing industries normally set goals more frequently than other industries (Shen 2007). SOEs assess both qualitative (e.g. work attitudes) and quantitative (e.g. productivity, outcome) performance appraisal criteria. In particular, quantitative criteria like quality and quantity of products are critical for production workers. Performance appraisals for workers are evaluated by direct supervisors, who would then send a copy of assessment results to the line manager for recording purposes (Zhu and Dowling 2000). Meanwhile, POEs tend to emphasize less on the ‘qualitative’ criteria such as party loyalty and work attitudes (Shen 2007). The common performance appraisal procedure starts from self-evaluation, and then peer group discussion, and finally, the supervisor’s appraisal report (Zhu and Dowling 1998). Performance appraisal is normally held biannually or annually in enterprises (Poon et al. 2010), but sometimes, it is also conducted monthly to determine monthly bonus (Zhu and Dowling 2000). In SOEs, performance appraisal results remain confidential because managers are not willing to pass any negative comments to subordinates so that the harmonious relationship could be maintained. They usually provide limited feedback, especially negative feedback, to employees (for the sake of ‘saving face’ and not affecting one’s bonus) (Chen and Eldridge
This kind of performance appraisal has been criticized as lacking transparency, fairness, and openness (Shen 2007).

In POEs, performance appraisals are used to determine pay and promotion. Appraisals are often conducted between individuals and their direct supervisors. Instead of peer appraisals, the direct supervisor usually conducts a performance appraisal meeting with the subordinate. However, effective and meaningful feedback is seldom provided to employees. In small- and medium-sized POEs, the production unit-based appraisal system is utilized for production workers. For managers and office workers, appraisals are conducted by comparing the work plan and level of work completion. Performance appraisal criteria are different for production and non-production workers. Specifically, quality and quantity of products and working hours are critical to production workers, while task completion and customers’ complaints (including internal customers, i.e. workers) are important criteria for non-production workers (Shen 2007). In JVs, individuals’ attitudes toward the Communist Party and interpersonal relations are not used as performance appraisal criteria. There is instead a strong focus on quantitative criteria when evaluating employee performance. Supervisors conduct formal discussions with their subordinates annually. Appraisers are normally trained and experienced in giving feedback to save employees’ face and maintain interpersonal harmony (Björkman and Lu 2000).

In the public sector, civil servants’ performance appraisals are normally conducted annually (Cooke 2005). The appraisal procedure includes self-evaluation and supervisor review (Ye and Ni 2013). The Key Performance Indicator approach is adopted for evaluating individual tasks, which include virtue (de), ability (neng), diligence (qin), achievement (ji), and freedom from corruption (lian). Qualitative questionnaires are used to evaluate virtue and freedom from corruption, while quantitative measures are designed to measure the remaining indicators. For example, ability, diligence, and achievement are given values of 20%, 30%, and 50% out of a total score of 100. Diligence is measured by checking the individual’s attendance record; ability is measured on employees’ performance and attendance at training to assess the professional skills being developed (Ye and Ni 2013).

There are significant problems in Chinese workplace performance management systems. For example, many companies are unable to align performance indicators with their strategic objectives (Chen 2011). Employees’ feedback is normally not sought and performance appraisal
results are not used to identify performance areas for improvement. As such, employees consider performance appraisals as merely an organizational procedure (Shen 2004). Secondly, guanxi plays an important role in performance appraisals. Raters often give biased ratings when they evaluate their favored subordinates. In addition, there is also a lack of communication between managers and employees, thereby causing misunderstandings of appraisees’ performance (Chow 1995). Employees do not actively ask for help from their superiors, and on the other hand, superiors do not show support in terms of making improvement to their subordinates (Chen 2011). Furthermore, the appraisers normally do not have adequate and proper skills to evaluate employees’ performance. Most companies do not provide systematic training to the managers, and companies do not pay enough attention to performance appraisal results in order to improve their job performance (Chen 2011). It is suggested that to address the abovementioned problems, Chinese enterprises should develop clear formal policies and procedures for performance appraisals. Supervisors should be provided with more training on how to fairly evaluate employee performance and provide feedback to employees, especially for those workers who are not performing well. Finally, an effective audit system needs to be established to prevent management bias (Solutions Consultant 2014).

**International Performance Appraisal of South Korean MNEs**

Interestingly enough, while the focus of the general international performance appraisal literature has been put on expatriates’ performance appraisals (e.g. Gregersen et al. 1996; Woods 2003), past research on international performance appraisal of South Korean MNEs mainly investigated performance appraisal practices of HCNs (Taylor et al. 2001; Lansbury et al. 2006; Zou and Lansbury 2009). Taylor et al. (2001) revealed that performance appraisals of HCNs in South Korean MNEs are conducted by line managers and HR officers in subsidiaries. Appraisal criteria mainly include work attitudes, work behavior, work results, and work hours. The appraisal results are translated into ‘points’ which determine employees’ level of pay. Similarly, Lansbury et al. (2006) also examined performance appraisal criteria for HCNs. According to the authors, discipline, cooperation, punctuality, and attendance are the important appraisal criteria. Zou and Lansbury (2009) reported that BHMC changed from a seniority-based to a more performance-based
appraisal system in the late 2000s. In addition to objective performance appraisal criteria, BHMC considers work ethic and the ability to minimize mistakes at work to be important. However, a number of important issues such as international performance appraisal approaches and expatriates’ performance appraisals, including performance appraisal criteria, appraisal procedure, frequency of appraisals, and provision of feedback, have been largely unexplored.

The Importance of International Performance Appraisal

International performance appraisal is critical to MNEs for a number of reasons. First, effective international performance appraisal ensures a subsidiary to implement the corporate strategy effectively (Sparrow et al. 1994). Secondly, effective international performance appraisal ensures international managers do their job in an appropriate way. It is in fact an essential tool for controlling expatriates’ behavior and international operations in general. Thirdly, international performance appraisal affects employees’ career development, promotion, and compensation (Logger and Vinke 1995). Fourthly, international performance appraisal influences employees’ job satisfaction motivation and work in-role and extra-role behavior and thus, the MNE’s performance (Shen 2005a). Research in the US indicates that organizations with strong performance management systems are 51% more likely to outperform their competitors on financial measures (Bernthal et al. 2003).

International performance appraisal is also viewed as one of the most difficult management practices to implement (Chiang and Birtch 2010; Fletcher and Perry 2002; Huo and Von Glinow 1995; Suutari and Tahvanainen 2002). When conducting performance appraisals in a different country, factors such as language barriers, different values, and different cultures all come into play. These factors all help to make international performance appraisal more complex (Appelbaum et al. 2011; Brewster 1988). Managers at headquarters often do not know exactly what their employees accomplish in their company’s subsidiaries due to the geographical distance (Shen 2004). Appelbaum et al. (2011) and Brewster (1988) argued that complexity in the system has resulted from the lack of knowledge of what is the correct way to assess the performance of employees. The problem lies in different norms and policies, legal systems, and economic environments between home and host countries.
International Performance Appraisal Practices

To be effective in international performance appraisals, MNEs should use appropriate raters, performance appraisal criteria, and appraisal frequency to ensure performance appraisals are effective (Shay and Baack 2006). Accurate performance appraisal depends largely on whether raters are knowledgeable of appraisees’ performance (Blau 1999; Gabris and Ihrke 2001; Martin and Bartol 2003). Particularly, in the expatriate setting, the extent of this knowledge is often affected by the rater’s location, that is, whether he or she is in the home or host country. Ideally, the 360-degree (multi-rater) appraisal method which involves multiple raters could ensure an accurate and fair appraisal outcome (Appelbaum et al. 2011). However, the 360-degree appraisal method has also been criticized because it is based on observers’ memory, which is often an incomplete appraisal of past performance. In addition, the observer may also be unable to evaluate performance objectively (Garavan et al. 1997).

Given the complexity in conducting international performance appraisals, it has been suggested that raters of expatriate performance appraisals include direct supervisors and peers in both the foreign subsidiaries and home country (Gregersen et al. 1996). Immediate supervisors are usually considered well qualified to evaluate overall performance due to their close observation of expatriates’ work behavior (Cleveland et al. 1989; Harris and Schaubroeck 1988; Murphy and Cleveland 1991). For example, in American and Finnish MNEs, expatriates’ immediate supervisors (either HCNs or senior expatriates) in foreign subsidiaries rate expatriates’ performance (Gregersen et al. 1996; Suutari and Tahvanainen 2002). HCNs in general are appropriate expatriate performance appraisal raters due to the fact they are familiar with the soft criteria and contextual factors. Subsequently, they have greater knowledge concerning expatriates’ performance (Briscoe and Claus 2008; Mendenhall and Oddou 1991). However, the drawback of using HCN managers as raters is that they evaluate expatriates’ performance within their own cultural contexts and, thus, do not necessarily focus on issues important to the MNE as a whole (Briscoe and Claus 2008). As a result, it is important for MNEs to specify in advance the most important performance areas for the term of the assignment and indicate who will appraise each area (Logger and Vinke 1995).

It is suggested that allowing appraisees to challenge performance ratings is critical to fair appraisals. Hence, self-assessment is also important
Self-assessment provides employees with an opportunity to: firstly, be more involved and committed to their personal goals (Jackson and Schuler 2003); and secondly, have a level of control over the strength and direction of their evaluations (Jawahar 2006). Most studies on self-evaluation indicate self-evaluation results in positive outcomes for employees. For example, Farh et al. (1991) stated that self-evaluations could improve the effectiveness of performance appraisal and result in more positive employees’ satisfaction with the evaluation and their perceptions of justice and fairness.

Research shows formal international performance appraisals are normally conducted on an annual basis, for example, in the Chinese and Finnish MNEs (Shen 2004; Suutari and Tahvanainen 2002). Sometimes, organizations require appraisals be done more frequently (Martin and Bartol 2003). Frequent performance appraisals can result in employees having a greater understanding of their jobs, with subsequent improvement in job performance (Cascio 1998; Nathan et al. 1991). Infrequent appraisal may hinder the timeliness of corrective actions and delay continuous improvement initiatives (Chiang and Birtch 2010). Gregersen et al. (1996) reported that both biannual and annual expatriate performance appraisals are regarded as appropriate and relate positively to perceived expatriate performance appraisal accuracy.

All interviewees reported performance appraisal to be one of the most important HRM functions in their companies due to its role in employee compensation, promotion, and career development. All case companies were clearly serious about performance appraisals and had formulated formal appraisal policies in relation to procedures, methods, and criteria. Appraisal procedures and methods differed for expatriates and HCNs in the case companies. In all the companies studied, performance appraisals for expatriates were evaluated by managers in both subsidiaries and headquarters, regardless of appraisees’ hierarchal positions. Expatriates who were junior managers reported to superiors in both local subsidiaries and headquarters. Raters included immediate supervisors in local subsidiaries and in headquarters, and departmental managers in headquarters. Generally, the procedures and methods of expatriate appraisals were as follows:

- Step 1. Expatriates conducted self-evaluation periodically (mostly monthly) and uploaded their reports to the company’s online evaluation systems.
• Step 2. Direct supervisors (either HCN managers or senior expatriate managers) in local subsidiaries then provided comments on expatriates’ performance. It should be noted that, although onsite managers’ comments on performance of expatriates are extremely important in ensuring expatriates will be accurately and fairly evaluated (HR Manager in Electronics A), they did not usually have control over the final appraisal results.

• Step 3. Immediate supervisors in headquarters appraised expatriates’ performance based on expatriates’ self-evaluations and comments provided by supervisors in foreign subsidiaries, and their interviews with expatriates. During these interviews, immediate supervisors in headquarters and appraisees discussed and mutually agreed on final grades.

• Step 4. Subsequently, supervisors passed on their evaluation results to departmental managers for their final approval.

Although expatriates conducted self-evaluations and their immediate supervisors provided comments on expatriates’ performance frequently, that is, normally monthly (in order to monitor expatriates’ performance, a common interviewees’ statement says), immediate supervisors and departmental managers in headquarters conducted formal performance appraisals for expatriates only biannually (Telecom B, Electronics A, and Electronics B) or annually (Chemical A, Telecom A, Advertising A, Telecom C, Auto A, Finance A, and Telecom D). Interviewees were also asked why performance appraisals for expatriates needed to be conducted at the headquarters rather than in Chinese subsidiaries. The following remark is a typical answer to this question:

The headquarters is responsible for compensation, training, promotion, expatriation, and manager transfer for expatriates. It therefore needs to know how well expatriates perform in subsidiaries and how competent they are in their respective roles in order to make well-informed decisions about the abovementioned issues that will have a significant effect on expatriates. (Finance Manager, Electronics B)

Performance appraisals for HCNs were conducted in Chinese subsidiaries. Headquarters did not play any direct role in assessing HCNs’ performance. Seven companies, specifically Telecom A, Chemical A, Telecom B, Telecom C, Electronics A, Electronics B, and Auto A, used multiple raters
in appraising HCNs’ performance. Raters included immediate supervisors, co-workers, peers, and departmental managers. A common reason for the use of multiple raters was: ‘We use multiple raters to ensure we do not miss anything in employee performance so that we conduct appraisals fairly and accurately.’ The performance appraisal procedures for HCNs in these seven firms included the following:

- Step 1. HCNs completed self-evaluation reports using standard forms and submitted their reports to immediate supervisors.
- Step 2. Once immediate supervisors received the reports, they sought comments from employees’ co-workers and peers.
- Step 3. Next, immediate supervisors had meetings with employees to discuss their performance and to determine mutually agreed appraisal results, which were recorded using grade systems.
- Step 4. The appraisal results were then forwarded to departmental managers for their final approval. The approved results were then archived in the employees’ personnel files, for use in determining compensation, employees’ attendance at training, and possibilities of promotion.

In the remaining three South Korean MNEs, only immediate supervisors and departmental managers served as raters. The appraisal procedures in these three firms differed from those in the other seven MNEs in two important ways. Firstly, there was no consultation with peers or co-workers; and secondly, there were two rounds of interviews with supervisors, with one focusing on performance and the other on capability.

Overall, performance appraisals were conducted more frequently for HCN production workers than for office workers. There were also different frequencies for HCN office workers and for production workers across the case companies. For office workers in Chemical A, Advertising A, Telecom C, Electronics A Office, Electronics B Office, Auto A Office, Finance A, and Telecom B, performance appraisals were conducted annually, usually at the end of the year. For the other two firms, performance appraisals for office workers were conducted biannually. For production workers in Electronics A, Electronics B, and Auto A, performance appraisals were undertaken twice a year, at the end of June and December.

In Telecom A, Chemical A, Electronics A, Electronics B, and Auto A, employees’ social performance was considered as one of the performance appraisal criteria. In addition, all interviewees agreed that the performance
appraisals in their companies were just and fair. There was one comment: ‘Based on my observations, both expatriates and HCNs are content with how their performance is appraised. I think the key contributors to such a high level of employee satisfaction are fairness and recognition’ (HR Manager in Advertising A). Another common statement was, ‘I feel that my company tries its best to make every appraisal fair and accurate. Using different criteria for office workers and for production workers, for example, improves appraisal accuracy’ (HR Manager in Auto A).

Performance Appraisal Criteria

Clearly defined performance appraisal criteria help to increase accuracy in performance rating and create organizational climates of fairness and trust (Cleveland et al. 2007; Maley 2009; Tziner et al. 2001). Performance appraisal criteria include hard goals, soft goals, and contextual goals (Gregersen et al. 1996; Woods 2003). Hard goals are objective and quantifiable which measure performance such as production, return on investment, sales, and profits (Whitford and Coetsee 2007). Since it is necessary to recruit CSR-relevant staff, individuals’ social performance should be assessed in their performance appraisals (Shen 2011). It has been suggested that using hard goals was associated with many problems because results-oriented measures only considered a small proportion of job performance (McGovern 1999; Muchinsky 2002).

Soft goals take into account factors that are difficult to quantify, such as work attitudes and behavior, leadership skills, interpersonal skills, and customer service quality (Janssens 1994). Assessing soft goals is important in the international setting because it is the key to expatriate success (Gregersen et al. 1996; Maley and Kramar 2007). However, the use of soft goals is also not without limitations. For example, the focus on effort and behavior instead of on outcomes encourages some employees to pretend to be busy and to cultivate their relationships with their superiors in order to obtain a promotion (Cooke 2008).

Contextual goals consider environmental factors that impact on employees’ performance (Dowling et al. 2013; Gregersen et al. 1996). Environmental factors represent external factors, which may affect both hard and soft goals when the performance occurs. The use of comprehensive criteria improves the accuracy of expatriate performance appraisals (Gregersen et al. 1996). In Western economies, performance appraisals focus more on job competence, abilities, and achievements. Less emphasis
is put on personality, attitudes, and interpersonal relationships (Siders et al. 2001). On the other hand, in the East, for example, China, interpersonal relationships are considered to be important in performance appraisal. Other main criteria include employee’s political attitudes, competence, skill level, work attitude, and work performance (Cooke 2008; Shen 2004).

According to the interviewees, all case companies had formal and written performance appraisal criteria, broadly including work performance, work attitudes, and competence. The three major components underpinned key performance indicators (KPI) for evaluating both expatriates’ and HCNs’ work. All case companies adopted a grade system to classify employees’ performance. As a General Manager in Telecom C explained:

> Once an employee’s performance is assessed, a grade (A to E) will be assigned. A represents outstanding, B good, C satisfactory, D poor, and E unacceptable. Each grade was associated with a certain level of bonus, ranging from 5% to 10% of employees’ compensation.

There were similarities in appraisal criteria for expatriates in all case companies. Headquarters set KPIs for expatriates at the beginning of each year. Work performance was linked to the standards of job task completion. Work attitudes emphasized loyalty to the company, teamwork, supervisor–subordinate relationship, and moral standards. Work competence focused on knowledge of work and skills and ability required to do particular jobs. The difficulty in assessing expatriates’ relationships with HCNs was often mentioned in interviews. A typical response was given by Operation Manager (expatriate) in Telecom C:

> A good relationship with HCNs may not be an effective relationship. Managers in the headquarters often do not understand this difference. For example, if an expatriate strictly implements the company’s disciplinary policies, this expatriate may not be popular among HCNs. For this reason, this expatriate’s relationships with some HCNs may not sound good. Therefore, it is important to investigate the nature and causes of the problems rather than just giving the expatriate a poor appraisal if there is a relationship problem.

Consequently, ‘The fulfillment of job responsibilities is regarded as the most important criterion for expatriates and it weighs at least 50% of the overall performance score in my company’s grading system’ (Operation
Manager in Telecom C). Party loyalty in China means all citizens are required to support the Communist Party (Bian et al. 2001). However, no South Korean MNEs included party loyalty in appraisal criteria when operating in Communist-ruled China.

Composition and weighting of subcomponents of appraisal criteria for HCNs were also similar across the case companies. For example, in Telecom A, 50% of assessment weight was given to employees’ performance (task completion), 30% to competence (work ability and leadership), and 20% to work attitudes (e.g. cooperation and absenteeism). In Telecom B, completion of task accounted for 50%, work attitude 30% (effort 15% and team spirit 15%), and competence 20% (knowledge 10% and responsibility 10%). Peer (or co-worker) evaluation (also called horizontal evaluation) accounted for 10% of the overall score in Telecom A and supervisor evaluation (also called vertical evaluation) accounted for 90%. Similar weightings were implemented in other South Korean MNEs. Again, the work performance of office workers when compared to production workers was evaluated differently in all case companies. As the HR Manager in Electronics A stated: ‘Production workers are assessed against product quantity and quality while office workers are assessed against general tasks.’ Appraisal criteria for expatriates and HCNs are summarized in Table 5.1.

**Performance Appraisal Feedback**

Identifying employees’ strengths and weaknesses, assessing training needs, and creating targeted skill supply strategies have become modern business imperatives (Chiang and Birtch 2010; Pfeffer 2005). Providing appropriate feedback to employees can communicate deficiencies in performance and guide training and development plans which aim to increase the skills and abilities of human capital (Cardy and Dobbins 1994; De Luque and Sommer 2000; Fenwick 2004; Milliman et al. 2000; Williams 2002). According to the main theories of work motivation, such as goal-setting theory (Locke and Latham 1990) and control theory (Carver and Scheier 1982), effective self-regulation toward goals consistently requires the types of performance feedback inherent in high-quality international performance appraisal. Research shows that providing feedback in international performance appraisal produces positive results as far as job satisfaction, work attitudes, and behaviors of international assignees are concerned (Jawahar 2006; Lindholm 1999).
### Table 5.1 Performance appraisal criteria in sample MNEs

<table>
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<tr>
<th>Company</th>
<th>Work performance</th>
<th>Work attitude</th>
<th>Competence</th>
<th>Party/Company loyalty</th>
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<tbody>
<tr>
<td>Telecom A</td>
<td>Task completion:</td>
<td>Teamwork: Exp/HCN (+), attendance: Exp/HCN (+*), interpersonal relationship:</td>
<td>Knowledge: Exp (+); work skills/ability: Exp/HCN (+), language ability: HCN (-)</td>
<td>Company loyalty: Exp/HCN(+), Party loyalty: Exp/HCN (n/a)</td>
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<tr>
<td></td>
<td>Exp/HCN (+*)</td>
<td>HCN (+)</td>
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<tr>
<td>Chemical A</td>
<td>Task completion:</td>
<td>Relationship with HCNs: Exp (+), responsibility: Exp (-), HCN(+), teamwork:</td>
<td>Knowledge: Exp/HCN (+), leadership/coaching skills: Exp (-), work ability: Exp/HCN (+)</td>
<td>Company loyalty: Exp/HCN(+), Party loyalty: Exp/HCN (n/a)</td>
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<tr>
<td></td>
<td>Exp/HCN (+*)</td>
<td>HCN (+), interpersonal relationship: HCN (+)</td>
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<td>Exp/HCN (+*)</td>
<td>teamwork: HCN (-), compliance with company rules: HCN (+), interpersonal relationship: HCN (+), attendance: HCN (+)</td>
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<td>Company</td>
<td>Work performance</td>
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Notes: Exp, expatriate; HCN, host country national; +*, very strong; +, strong; −, weak; and n/a, not applicable
Due to the long distance existing between supervisors and subordinates, providing frequent, timely, and accurate feedback can be problematic for international managers (Maley and Kramar 2007). Some scholars suggest that feedback should be provided by multi-evaluators who are knowledgeable about a given subordinate’s performance and workplace environment (Suutari and Tahvanainen 2002). How and what feedback is given is strongly influenced by national cultures, traditions, and customs (Briscoe and Claus 2008; Cascio 2006). For example, in some Asian cultures, indirect feedback or feedback provided to employees via a mutually respected third party is often considered to be more appropriate than Western-style direct feedback (Stone 2008).

When face-to-face interviews were conducted, oral feedback was provided to appraisees (both expatriates and HCNs) during the interview process in every company. Written feedback was only provided to HCNs whose performance was classified as Grade E. A typical statement was:

Employees who receive E grade normally request feedback. Direct supervisors are on the frontline to provide feedback that recognizes and congratulates achievement and identifies the improvement areas and training needs. Departmental managers provide feedback as well if there are requests from employees. Of course, underperformers also be given written warnings as well.

In addition to oral feedback, Telecom A, Chemical A, Telecom B, Telecom C, Electronics A, Electronics B, and Auto A provided written feedback online to expatriates regardless of performance standards. Some expatriates from Advertising A, Finance A, and Telecom D who had not been provided with written feedback expressed their dissatisfaction with this state of affairs. One statement that typified people’s attitude to this issue was made by the Marketing Manager (expatriate) in Advertising A: ‘I would rather receive negative feedback from my superior than be removed from the position without knowing what I have done wrong.’

**International Performance Appraisal Approaches**

While there is a consensus on the importance of international performance appraisals, agreement is lacking with reference to what the best international appraisal practices are (Appelbaum et al. 2011). According to Shen (2004), MNEs can implement three alternative approaches—standard-
ized, localized, and integrative—for managing international performance appraisals. With the standardized approach, which is also known as the home-based approach, the MNE transfers the performance appraisal practices from the home company to its foreign subsidiaries (Shen 2004). This approach results from the country-of-origin effect, whereby the appraisal practices in foreign subsidiaries resemble those of the parent company. According to Schuler et al. (1993), there are two major reasons for MNEs transferring home appraisal practices abroad: firstly, MNEs might believe their home practices are superior to the practices of companies in host countries; and secondly, MNEs might be new to the international market or a particular host country and thus be inexperienced in localizing. This requires the home company to make significant changes to its management style in a host country.

The localized approach is also known as the adaptation approach, which specifically is the adaptation to local performance appraisal practices in response to the host nation’s institutional influences. Using the integrative approach, the MNE integrates the home performance appraisal practices and those of the host as well as good appraisal practices implemented by other MNEs (Shen 2005b). This approach can potentially achieve local responsiveness, coordination, and internal consistency simultaneously. It is important for MNEs to take into account a range of contextual and firm-specific factors to achieve the best organization–environment fit in order to manage international performance appraisals (Dowling et al. 2013; Schuler et al. 1993; Shen 2005b). The best-fit IHRM practices for a MNE are not necessarily those copied from the well-known role models of the US, Japanese, and German enterprises (Smith and Meiksins 1995).

The major advantage in adopting the standardized approach is the equitability for expatriates assigned to different host countries. The main disadvantage of this approach is a lack of local responsiveness, which often results in resistance from HCNs. Conversely, for the localized approach, the main advantage is responsiveness to host environments, while the disadvantages are inequity between subsidiaries and the possible loss of control by headquarters. The integrative approach has the advantages of both standardized and localized approaches. It is, however, hard to operate (Shen 2005a).

To assist in analyzing the extent of localization or standardization (Table 5.2), a five-point Likert scale was developed, in which 1 represented completely localized, 2 mostly localized, 3 integration, 4 mostly standardized, and 5 completely standardized. Each component of the
international performance appraisal practices was scored and overall those of South Korean MNEs are standardized. According to the analysis above, the case study MNEs tended to standardize performance appraisal procedures and methods for expatriates. In seven out of ten case study South Korean MNEs, performance appraisals for HCNs integrated the localization and standardization approaches, but with a strong tendency toward standardization. The other three firms (Advertising A, Finance A, and Telecom D) standardized appraisals for HCNs. The results also showed that appraisal criteria in the MNEs were standardized for expatriate appraisals but integrative for HCN appraisals. In addition, South Korean MNEs were localizing in giving feedback.

When explaining why the MNEs standardized their appraisal practices, it becomes obvious that the relative economic strength between host and home economies determined whether they localized or standardized their performance appraisal practices. This is consistent with the ‘relative strength theory’ (Myloni 2002; Pudelko and Harzing 2007). The strength or otherwise of South Korea’s economy played a certain role in determining the approaches to international performance appraisal adopted in MNEs. As Smith and Meiksins (1995) suggested, MNEs originating from advanced economies where the best management practices are supposed to exist are more likely to believe their home appraisal practices are superior to those of foreign local firms. These MNEs tend to transfer their home appraisal practices to foreign subsidiaries. Normally, HCNs in underdeveloped or developing countries are more likely to expect MNEs

### Table 5.2  Extent of localization and standardization of the international performance appraisals of South Korean MNEs in China

<table>
<thead>
<tr>
<th>Procedures and methods</th>
<th>Criteria</th>
<th>Feedback</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HCN</td>
<td>Expat</td>
<td>HCN</td>
</tr>
<tr>
<td>Telecom A</td>
<td>3</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Chemical A</td>
<td>3</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Telecom B</td>
<td>3</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Advertising A</td>
<td>5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Telecom C</td>
<td>3</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Electronics A</td>
<td>3</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Electronics B</td>
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<td>Auto A</td>
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<td>Finance A</td>
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<td>Telecom D</td>
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</tr>
</tbody>
</table>
originating from advanced economies to manage people differently from local companies by bringing in the best practices. As shown in this study, HCNs were more satisfied when MNEs did so. It therefore can be reasoned from this that HCNs may be more likely to require MNEs originating from less-developed economies to localize, although this was not tested in this research.

**Discussion**

This chapter explored how performance appraisals for expatriates and HCNs are conducted and the approaches to international performance appraisal in South Korean MNEs operating in China. Our results show expatriates’ performance was evaluated through self-evaluations and interviews with direct supervisors and relevant departmental managers in headquarters. Direct supervisors in the Chinese subsidiaries assisted in appraisals by providing comments on subordinating expatriates, but they did not determine appraisal results. Department (or co-worker group) discussions, which are commonly used for appraisals in Chinese companies, were not used in performance appraisals for expatriates in sample MNEs. Similar to the findings of the current study, Taylor et al. (2001) found that South Korean MNEs in India involved line managers (supervisors) and HR officers in appraisals. Clearly, the case study South Korean MNEs tended to adopt standardized (i.e. home-based) performance appraisal procedures and methods for expatriates.

Seven out of ten case companies evaluated HCNs’ performance through self-evaluations, supervisors’ consultations with peers and co-workers, and interviews with direct supervisors. While consultations with peers or co-workers represent a modified form of group discussion, conducting interviews with supervisors is not a conventional Chinese way of appraising performance. This indicates that performance appraisals for HCNs in these seven MNEs integrated the localization and ethnocentric approaches, but with a strong tendency toward the ethnocentric approach. This provides some support to Zou and Lansbury (2009), who reported Hyundai also gradually adopted an integrative approach for some of its HRM practices, for example, a combination of the seniority-based and performance-based appraisal systems, in its Beijing subsidiary. In the other three remaining firms (Advertising A, Finance A, and Telecom D), consultation with co-workers was not conducted, and self-evaluations and interviews with supervisors were the major appraisal methods. Therefore, appraisals for HCNs
in these three firms were ethnocentric in character. This finding provides some support for the literature that Western MNEs (i.e. US, Canada) tend to adopt an ethnocentric approach to manage performance appraisal when operating overseas (Chen and Eldridge 2010; Gregersen et al. 1996; Vo and Stanton 2011). Similar to the case study MNEs, Chinese MNEs often adopt different performance appraisal approaches for different nationals and managerial levels (Shen 2004).

Work performance, work attitudes, and competence were the three major performance appraisal criteria for both expatriates and HCNs. Unlike local Chinese firms, South Korean MNEs did not consider party loyalty as an appraisal criterion. Local Chinese firms generally emphasize work attitudes and moral standards/work ethics. Differently, South Korean MNEs put more weight on work performance, while still taking into account work attitudes and moral standards/work ethics. South Korean MNEs also emphasized the importance of interpersonal relationships in HCNs’ appraisals than in expatriates’ appraisals. These results show that South Korean MNEs’ appraisal criteria tended to be ethnocentric for expatriates’ appraisals but integrative for HCNs’ appraisals. These findings generally agree with the studies by Lansbury et al. (2006) and Taylor et al. (2001), which revealed South Korean MNEs’ appraisal criteria include work performance, behavior, attitudes, teamwork, and attendance. Industry-wise, the firms in service sectors including Advertising A, Finance A, and four telecom firms put more weight on work attitudes, such as attendance and customer service.

In local Chinese firms or Chinese overseas MNEs, Chinese appraisers normally do not communicate feedback, especially negative feedback, to appraisees (Cooke 2008; Shen 2004). Different from their Chinese counterparts, South Korean MNEs provided feedback to all appraisees during face-to-face interviews, and provided additional written feedback to underperformers. The case study South Korean MNEs were therefore ethnocentric when they gave feedback. As shown in Table 5.2, overall, the international performance appraisal practices of the case study South Korean MNEs tended to be ethnocentric. These findings are consistent with the study by Zou and Lansbury (2009), which reported the Hyundai Motor Company tended to transfer its core HRM practices that are beyond appraisal practices from its headquarters to the Beijing joint venture in order to maintain control over employment relations.

This research contributes to the international performance appraisal literature in several ways. Firstly, the knowledge about how South Korean
MNEs manage performance appraisals in their overseas MNEs is rather limited. This study enriches the existing international performance appraisal literature. Secondly, there is very limited research exploring performance appraisal practices for both expatriates and HCNs. By examining performance appraisals of both expatriates and HCNs, this research adds to the knowledge base of international performance appraisal literature significantly. Thirdly, this research is one of the few to investigate the international performance appraisal approaches and underlying factors associated with the approach. In doing so, this research provides a better understanding of the factors that affect MNEs’ decisions on international performance appraisal practices.

**Conclusion**

How MNEs conduct international performance appraisals and adopt appraisal approaches has to date received little research attention, despite the importance of performance appraisals having been widely recognized. This research provides important insights into how South Korean MNEs manage and what approaches they adopt to managing performance appraisals in their Chinese subsidiaries. It reveals that South Korean MNEs tend to adopt the ethnocentric approach to managing performance appraisal practices for expatriates and an integrative approach for HCNs in their Chinese subsidiaries due to the relative strength effect and contextual differences between China and South Korea. Based on the findings, it can be argued that MNEs originating from advanced economies and operating in less-developed countries tend to adopt an ethnocentric approach to international performance appraisals. Conversely, MNEs from less-developed economies operating in developed countries are more likely to adopt a multi-domestic (localized) approach to international performance appraisals. However, such an assumption needs testing using larger data involving MNEs from many countries and operating in many host countries. We will focus on international reward and compensation in the next chapter.

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