CHAPTER OBJECTIVES

When you have read this chapter you should be able to:

- explain the role of performance management in developing human capital advantage for organisations
- analyse the nature of the processes associated with performance management (goal-setting, competence, development, 360-degree feedback, performance measurement and evaluation)
- discuss how performance management operates as a form of reward
- consider the issue of managing team – as opposed to individual – performance
- analyse international issues in performance management and consider the complexities of expatriate performance management
- critically examine the role of performance management.

PURPOSE AND SCOPE

In this chapter, we present a critical evaluation of performance management which begins with a consideration of the argued importance of performance management, moves through discussion of its inherent processes and associated key issues, and ends with a critique of such processes and their organisational contribution. This evaluation permits insight into why organisations adopt performance management systems (PMS) and the challenges they face in achieving their goal: the improvement of individual and organisational performance. We tackle a number of the book’s over-arching themes, considering broadly the influence of globalisation and increased competition on an organisation’s need to maximise performance, and discuss also more specifically the increasing need to devise PMS that apply to expatriate employees, the incidence of which has increased with globalisation. Technology and change are again broadly argued to have driven an enhanced need for organisational performance, and consideration is given within the final section on future issues to the emerging role of technology within PMS.

A key theme within this chapter is that of cultural variation which we address within most of our topic areas, drawing upon Hofstede’s (2001) work on international cultures, and arguing that there is evidence of limited convergence within the PMS of many countries. In summary, we argue that performance management has the potential to make a significant contribution to individual and organisational performance, but for organisations to realise such potential, investment is required in the development and implementation of robust and consistent PMS.
1 CONCEPTUAL OVERVIEW

The idea of appraising performance has existed for many years and has revolved largely around an annual review of objectives between manager and subordinate. Such appraisal has been restricted often to management or supervisory groups, has been backwards-focused on historic performance, and has not typically sought to adopt a strategic approach. The concept of performance management, however, is a more recent development which adopts a future-oriented strategic focus and is applied to all employees in a workforce in order to maximise their current performance and future potential.

This increased focus on performance at all levels in an organisation arises from the pressures of globalisation and the associated requirement to create competitive advantage in order to survive in an international market place. Human capital, the value-creating skills, competencies, talents and abilities of an organisation’s workforce (Elias and Scarbrough, 2004), is argued to be an essential component in creating such competitive advantage (Mayo, 2001). Performance management is argued to have a key role in developing such human capital (Tahvanainen, 2000). Organisational changes arising from competitive pressures, including flatter structures, leaner staffing levels and multiskilled cross-functional teams operating with considerable autonomy (Walsh et al, 2002), have had a great impact on performance management, not least because they have made the use of conventional top-down appraisal systems more difficult and led to, for example, the increased use of multi-source feedback (Fletcher, 2001) and many of the other issues that we discuss in this chapter.

The concept of performance management

This has developed over the past two decades as a strategic, integrated process which incorporates goal-setting, performance appraisal and development into a unified and coherent framework with the specific aim of aligning individual performance goals with the organisation’s wider objectives (Dessler, 2005; Williams, 2002). Consequently, it is concerned with:

- how people work
- how they are managed and developed to improve their performance, and ultimately
- how to maximise their contribution to the organisation.

It is underpinned by the notion that sustained organisational success will be achieved through a strategic and integrated approach to improving the performance and developing the capabilities of individuals and wider teams (Armstrong and Baron, 2005). Although competitive pressures have been the driving force in the increased interest in performance management, organisations have also used these processes to support or drive culture change and to shift the emphasis to individual performance and self-development (Fletcher and Perry, 2001). There are a number of principles underlying the concept:

- Firstly, it is a strategic process in that it is aligned to the organisation’s wider objectives and long-term direction.
- Secondly, it is integrative in nature, not only aligning organisational objectives with individual objectives but also linking together different aspects of human resource management such as human resource development, employee reward and organisational development, into a coherent approach to people management and development.
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- Thirdly, it is concerned with performance enhancement in order to achieve both individual and organisational effectiveness. Performance enhancement is underpinned by two further principles: the ideas that employee effort should be goal-directed and that performance improvement must be supported by the development of employees’ capability.

- A further feature relates to communication and understanding and the fact that performance management is based on an agreement between a manager and an individual, a shared understanding of and continuing dialogue about an individual’s goals and the standards expected and the competencies needed, together with an appreciation of the organisation’s wider mission, values and objectives.

- This is linked to a final point about the process, which is that performance management – unlike performance appraisal – is owned and driven by line management rather than by the HR function.

The theoretical basis for performance management

The underlying conceptual foundations for performance management lie in motivation theory and, in particular, goal-setting theory and expectancy theory. Goal-setting theory (Locke and Latham, 1984) suggests that not only does the assignment of specific goals result in enhanced performance but that, assuming goal acceptance, increasing the challenge or difficulty of goals leads to increased motivation and increases in performance (Mitchell et al., 2000). Expectancy theory hypothesises that individuals change their behaviour according to their anticipated satisfaction in achieving certain goals (Vroom, 1964). Both these theories have important implications for the design of performance management processes which are explored later in this chapter.

Clark (1998) suggests that both goal-setting and expectancy theory are founded on the premise that human beings think in a rational, calculative and individualistic way. Indeed, he argues that performance management is based on an extremely rationalistic, directive view of the organisation, which assumes not only that strategy can be clearly articulated but also that the outcomes of HR processes can be framed in a way that makes clear their links to the organisation’s strategic objectives. He further argues that the approach assumes causal links between different parts of the process that can be readily identified and enable under-performance in one or more aspects of the process to be managed to ensure optimum functioning of the wider PMS. However, such assumptions not only ignore the debate about the nature of strategy and its formulation (Mintzberg, 1994), but also fail to recognise the context in which a PMS operates. The social processes and power systems within which organisations operate together with the broader organisational and country-cultural context are important mediating factors in the operation and success of any system (Clark, 1998).

The cultural context of performance management

Performance management is an essentially western development originating in the United States, and much of the research into its use and operation has been conducted in a domestic setting (Locke and Latham, 1984; Armstrong and Baron, 1998). Writers have suggested that it is cultural differences which make it difficult to standardise aspects of performance management practice (Pucik, 1985; Vance et al., 1992) and a number of studies have sought to examine the impact of country culture on aspects of the process. A common starting point has been Hofstede’s (2001) dimensions (see Chapter 2 and, for example, Milliman et al., 1998; Fletcher and Perry, 2001; Mendonca and Kanungo, 1996):
power distance
uncertainty avoidance
individualism/collectivism
masculinity/femininity
long-term/short-term orientation.

What is clear is that these contextual factors pervade all aspects of the performance management process, from the content or aim of the appraisal through the goal-setting stage to the evaluation stage, as well as influencing who provides the feedback and the process or style used to deliver it. The following section explores the different aspects of the performance management process and the ways in which the country context impacts upon them.

2 PERFORMANCE MANAGEMENT PROCESSES

Although there is no universal model of performance management, a review of literature and practice suggests there are a number of elements which might typically be found in a PMS. These elements are often depicted as a performance management cycle (IDS, 2003). In general, performance management models place objective-setting and formal appraisal systems at the centre of the cycle, and the literature suggests that these two areas might be particularly affected by the cultural context (Milliman et al., 1998; Fletcher and Perry, 2001; Lindholm et al., 1999). A typical cycle may be depicted thus in Figure 2.

Figure 2 Typical performance management cycle

We consider issues relevant to this in what follows.

The role of objectives/goals

The performance planning process, where individual objectives are linked to organisational goals, is the typical starting point of the cycle and goal-setting usually occurs in line with annual standard review cycles (Suutari and Tahvanainen, 2002). Objectives are sometimes expressed as Key Result Areas or Accountabilities (KRA) and underpinned by performance
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standards and performance measures. Both practice and theory have focused on the nature of objectives, and how they are defined and expressed (see Mitchell et al, 2000, for a review of the theory and practice of goal-setting). Clark (1998) argues that although both goal-setting theory and expectancy theory emphasise the importance of setting a small number of relatively concrete goals, this may be difficult to achieve in practice because of either the lack of clear strategic organisational goals or their sheer volume, diversity or inherent instability (Fenwick, 2004). Defining objectives is not sufficient in itself. There has to be some agreement and understanding of how performance is to be measured, and this may be problematic. There has been considerable debate on the extent to which performance goals are ‘hard’, objective, quantifiable and capable of being directly measured, or ‘soft’, subjective and focused on such things as behaviours or traits – and many organisations use a mix of both hard and soft goals.

The impact of a particular national and cultural context may be reflected in the nature of the goals set, and writers have identified specific cultural differences in relation to competencies. It has been suggested that European managers rank ‘drive for results’ more highly than either their North American or Asia-Pacific counterparts (Rowson, 1998). The low individualism and low masculinity which characterise India’s work culture, for example, prioritise personalised relationships and work well recognised over the accomplishment of job objectives (Mendonca and Kanungo, 1996). Moreover, in China evaluation criteria in the large state-owned enterprises where performance appraisal is widely practised not only relate to task but also to moral and ideological behaviour (Nyaw, 1995; Shen, 2004).

Setting objectives

Much of the literature and underpinning theory supports the idea that goal-setting should be a joint activity involving the individual and her or his line manager. However, the idea of employee participation in the process is essentially a western concept which does not readily transfer across cultures, particularly those with high power distance (Fenwick, 2004), and multinational corporations (MNCs) have been found to vary their practice in different national contexts. For instance, in her study of a Finnish MNC, Tahvanainen found that goal-setting was far more likely to be a joint process in Sweden and Germany, whereas in the USA goals were more likely to be assigned to individuals (Tahvanainen, 1998, in Fenwick 2004). Similar variations have been reported in the case of China, where aspects of Chinese culture such as respect for hierarchy and importance of ‘face’ have led MNCs not only to use assigned rather than jointly determined goals but also to modify both the nature and number of goals to ensure that they are easily attainable (Lindholm et al, 1999).

Development aimed at achieving objectives

The level of competence needed to achieve the objectives to a satisfactory level is another important consideration, and integration of a competency framework in a PMS supports identification of development needs and required resources. The manager plays an important role here not only in motivating, coaching and enabling performance, organising resources and facilitating any development opportunities, but also in monitoring and if necessary revising performance expectations and objectives (Torrington et al, 2005).

Performance review

Notwithstanding the need for ongoing informal review, formal assessment is a key component of any PMS and performance appraisal is one of the most common vehicles for reviewing performance against objectives (Redman, 2001). Country culture impacts on the appraisal process in a number of ways, and Table 3 illustrates the effect of individualism/collectivism and

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power distance on four different aspects of the appraisal process – who conducts the appraisal process, the manner in which it is conducted and the feedback given, the criteria or content, and the purpose of the appraisal.

Table 3 The effect of individualism/collectivism and power distance on the performance appraisal process

<table>
<thead>
<tr>
<th>Cultural dimensions</th>
<th>Performance appraisal process</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Who</td>
<td>How</td>
<td>Content</td>
</tr>
<tr>
<td>Low power distance</td>
<td>Multi-source (eg peer, subordinate)</td>
<td>Participatory two-way communication Employee-initiated Appeals process</td>
<td>Unspecified</td>
</tr>
<tr>
<td>High power distance</td>
<td>Supervisor (someone with relatively more power)</td>
<td>Directive Supervisor-initiated No appeals process</td>
<td>Unspecified</td>
</tr>
<tr>
<td>Collectivist</td>
<td>Supervisor Third party</td>
<td>Subtle/indirect</td>
<td>Group level More positive tone Relationship-focused (criteria include loyalty, seniority, cooperativeness)</td>
</tr>
<tr>
<td>Individualist</td>
<td>Unspecified</td>
<td>Direct/open</td>
<td>Individual level Job-focused</td>
</tr>
</tbody>
</table>

Note: Cells labelled ‘Unspecified’ indicate that there was little empirical or conceptual evidence of how the dimension would influence the performance appraisal process.


Single-country studies have explored what this means in practice. For example, in his study of performance appraisal at Gandhi International Airport, Shaikh (1995) explains the tendency of managers to rate employees similarly in performance appraisal reports and the absence of counselling feedback in terms of the country’s cultural tendency towards high power distance and high masculinity. The importance of the historical and political context is demonstrated in Lindholm et al’s (1999) study of performance management in one western MNC in China. Their study reported perceived difficulties in receiving or giving direct feedback and providing criticism because of the indirect and reserved communication patterns which characterise the Chinese culture.

Functions of review

Performance review (or appraisal) is viewed as serving a number of functions. Milliman et al (2002) studied the aims of performance appraisal in 10 countries across the Pacific Rim, focusing on four specific purposes: documentation, development, administrative purposes...
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(reward and promotion) and subordinate expression. In all countries they found that the purposes of appraisal were not being realised as intended or as was desired, and differences between countries were explained in terms of cultural difference. For instance, the four countries in the American continent together with Australia rated subordinate expression high compared with the other countries’ moderate rating, and the high power distance orientation of Asian countries underplayed the role of subordinate input into the appraisal process. Shen (2004) also reports differences in the aims of performance appraisal in western and Chinese MNCs, suggesting that the major purpose in the latter is pay determination rather than individual and organisational development, thereby reflecting Chinese companies’ current preoccupation with short-term business results rather than long-term strategic goals.

Clearly, there are a number of complexities both to performance management itself and to the consideration of performance management across national cultures. We turn now to consider in more detail the issues surrounding performance management and reward.

**Discussion questions**

1. To what extent do you think that setting specific objectives is both feasible and likely to enhance individual performance?

2. Outline the impact of individualism/collectivism and power distance on performance review and consider the implications for the UK (or a country with which you are familiar).

3. To what extent do you think that it is possible to achieve the various functions of performance review?

3 PERFORMANCE MANAGEMENT AND REWARD

As we noted above, performance management may have a number of aims, the most common, however, being developmental and judgemental (Pullin and Haidar, 2003). In this section, we explore these aims and consider the implications for the relationship between performance management and reward. (See Chapter 9 for a more detailed discussion of the reward issues introduced below.) Here, we draw on Armstrong’s (2002) conceptualisation of ‘total reward’, which comprises both financial and non-financial elements. With reference to performance management, financial (extrinsic) rewards relate usually to merit or contingent pay – that is, where an element of pay is at risk and dependent on performance, adopting performance management as the process by which decisions on the allocation of such reward are made. Non-financial (intrinsic) rewards include recognition, development, access to other assignments, career guidance and the quality of working life, many of which can be delivered by developmental forms of performance management. Debate continues as to the feasibility of a PMS that achieves both goals, Williams (2002) suggesting that in focusing on extrinsic reward there is a danger that the intrinsic is diminished. Indeed, Armstrong and Baron (2005) suggest, such is the tension between these two aims that PMS should be entirely developmentally focused, the allocation of merit pay or pay increases being made through other mechanisms.

**Non-financial reward**

In considering the non-financial rewards outlined above, it is not difficult to see how these will be delivered by a PMS focused on development. We outlined in the Processes section above
how performance review, providing feedback and support for employees, is a fundamental part of the performance management process. Similarly, a PMS integrated with other HR processes will provide reviewees with an opportunity to access, for example, training to support their identified development needs, or advice on career opportunities open to the reviewee. Recognition for achievements, together with praise, will also flow naturally from a well-conducted performance review. Thus a PMS that has a developmental aim is likely to be successful in delivering non-financial, intrinsic rewards to the employees involved, at least in a western context. Other cultural contexts may, however, experience conflicts with a developmental approach to performance management. For example, in high power distance countries such as China, development through feedback may be less successful because managers are more likely to be reluctant to engage in two-way communication in the appraisal process or to provide counselling (Huo and von Glinow, 1995). Similarly, a collectivist approach in Russia means that direct feedback is perceived as being much less acceptable than in other cultures (Fletcher, 2001). A fundamental aim of performance management, the development of employees, may thus depend for its achievement upon cultural context.

Financial reward
A further complexity is the extent to which a PMS can be used to successfully drive financial reward. We should note at this point that we do not intend to discuss in detail here the mechanics of contingent pay (see Chapter 9), rather to consider the mechanisms through which performance management and financial reward can be linked. Performance management is goal-driven, using objectives and competencies, and reward is often attached to the achievement of such goals. Such links require robust systems of measurement of achievement, which is acknowledged as being highly problematic (Campbell et al., 1998). Measurement is usually expressed in terms of an overall rating, which gives rise to problems in respect of the validity and accuracy of such ratings (London et al., 2004). Further, it is argued that measuring people's performance is a form of control and is therefore likely to undermine, rather than contribute to, performance (Hendry et al., 2000).

Even setting aside difficulties in measurement, complexities of organisational operation render problematic the theoretical foundations upon which contingent pay is based. Lawler (1990) suggests that a clear 'line of sight' between achievement and reward is required. This derives from expectancy theory, whereby motivation only occurs when people expect that they will get worthwhile rewards for their effort and contribution. Hendry et al. (2000), however, identify a number of problems with this requirement, not least the extent to which an individual has control over achieving his or her objectives in a rapidly changing organisation in which employees' efforts are usually interdependent. Despite questions on the effectiveness of the pay/performance link in motivating employees to achieve high levels of performance, many PMS in UK organisations nevertheless link to pay, albeit a declining number (Armstrong and Baron, 2005).

PMS and reward internationally
In considering comparative approaches to performance management and pay, we draw first on Milliman et al.'s (2002) study of performance appraisal in a number of Pacific Rim countries. They suggest that performance/pay links are common in individualistic countries such as the USA, Canada and Australia, and that such links are increasing in the People's Republic of China, but from a low base. The pay/performance link is suggested, however, to be less common in cultures which place a high value on harmony, 'face', teamwork and factors such as off-the-job behaviours and attitudes towards superiors (McEvoy and Cascio, 1990). This means that a particular importance is placed on not disturbing group or interpersonal harmony.
through differentiation of employees in performance review and in merit pay, and Chinese cultures, such as Taiwan, and other collectivist cultures, such as Mexico, are less likely to tie appraisal to pay. In contrast, Snape et al (1998) suggest that Asian cultures are generally considered to be materialistic compared to western counterparts and demonstrate that monetary rewards are emerging as being of prime importance to workers in Hong Kong.

CASE STUDY 23

PERFORMANCE EVALUATION AND REWARD IN AUSTRALIAN LOCAL GOVERNMENT

The Victorian Local Government Act (1989) introduced fixed-term contracts in conjunction with performance evaluation for senior managers, although little detail is specified on the nature of the performance evaluation in the Act. The reported study seeks to explore the extent to which such performance evaluation is a meaningful process, considering the nature of performance evaluation, its strengths and limitations and its contribution, if any, to organisational performance.

The case study suggests that performance evaluation is an integral part of the management processes and systems, but questions the extent to which it has led to improved individual and/or organisational performance. The senior officers usually get their contracts renewed and most are reported to perform excellently in a collaborative and participative performance evaluation process. Continuous performance monitoring alerts those who fall behind on targets, allowing for the modification of targets which means that few managers fail to achieve their targets. However, there is a perceived lack of organisational commitment by some senior managers.

Whereas performance evaluation has in other cases been demonstrated to enhance commitment, in this case study the senior managers adjusted to the performance contracts by limiting their organisational commitment and developing contingency plans to maintain personal mobility, often seeking employment elsewhere towards the end of their employment contract. Incentive bonus payments linked to performance achievement were found to contribute little to organisational commitment, the ‘at risk’ bonus levels being a relatively small part of total remuneration. Further, the allocation process was considered to be divisive, such negativity arising from perceptions of unfairness in the rating and bonus distribution.

While the performance evaluation process was generally regarded as successful by the participants, the authors suggest that it demonstrates an emphasis on qualitative measures, adopting vague and at times unwritten criteria. There is also a political element to evaluation, Councillors having a (somewhat ill-defined) role in evaluation in addition to the Chief Executive’s formal role of evaluating senior managers. It may be that these factors are representative of performance evaluation in the public sector, due to the inherent difficulty in establishing measurable objectives, coupled with the political desirability of not doing so, in order to avoid being judged on the ‘success’ or ‘failure’ of achieving those objectives.

The authors conclude that the performance evaluation process has led senior managers to be more results-oriented, yet their employment appears to be no less stable than under previous systems as they participate in the establishment of their goals and targets and are unlikely to agree to targets that are not achievable.

Source: Pullin and Haidar (2003)
Case study tasks

1. What are the key issues raised in the case study that may mean that performance evaluation does not contribute to improved performance?
2. Identify the tensions between performance-based contracts and employee commitment and suggest how these may be managed.
3. To what extent does linking performance to financial reward contribute to enhanced performance in this case study?

Discussion questions

1. Explain the tensions created in attempting to use a PMS to drive both development and reward.
2. Thinking of an organisation with which you are familiar, to what extent are its attempts to link PMS and financial reward successful, and why?
3. Outline the different approaches to the performance/pay link in the countries cited in this section, explaining the differences in terms of cultural variation.

Having considered in this section the tensions inherent in using performance management as a tool for both development and judgement, we turn now to consider another set of tensions – those created in managing individual and team performance.

4 PERFORMANCE MANAGEMENT AND TEAMS

While performance management has typically focused on individual performance, there is increasing recognition of the need to consider team performance. Teamworking has increased in prevalence in the past 20 years because it is argued to provide a source of competitive advantage, enabling cost reduction and improved quality, facilitating the completion of increasingly complex organisational tasks beyond the means of any one individual, and enabling the empowerment of employees as decision-making is decentralised (Torrington et al, 2005). Despite this, there is often a contradiction between a managerial discourse that emphasises the team and collective performance and the use of appraisal and reward tools that are above all individual (Emery, 2004). Further complexities arise when, in introducing teamworking, many western managers seek to emulate what they perceive to be a source of advantage in other cultural contexts – for example, in Japanese firms. Yet teamworking may not be compatible with all national cultural contexts (El-Kot and Leat, 2005), especially those which are predicated upon high levels of individualism.

Developments in managing team performance

Because there is limited empirical data on managing team performance, we draw here largely on Brumback (2003), who presents a detailed analysis of how, in the USA, attempts are being made to integrate both individual and team performance. He argues that performance not only of teams as a whole but of their individual members must be managed if a high standard of performance is to be achieved. He thus suggests the following:

- Individuals should have standards communicated to them in terms of written objectives and competencies and thus maintain accountability for their own performance.
Teams (via representatives) should, however, influence the firm’s annual goals and the
team goals thus agreed must inform individual goals.

Further, the team becomes accountable for monitoring its own and individual members’
performance, providing any mentoring and coaching that may be required.

Performance review should incorporate the evaluation of both team and individual
performance. Each team member should appraise his/her own performance and in so
doing can appraise others’.

The team reviews all individual appraisals and deals with any contentious issues and
decides how to deal with, for example, any training needs identified.

The team then appraises its own performance, with the assistance of at least one
independent outsider to reinforce objectivity.

Brumback (2003) argues that this process meets the challenge of blending individualism with
teamwork.

Suutari and Tahvanainen (2002) suggest that the use of team goals is increasing, up to 40% of
their respondents indicating that they had goals set at the team level. Other studies
demonstrate, however, that such processes are by no means widely applied. Emery’s (2004)
study of teams in the Swiss civil service demonstrates that the team aspect of performance
(and reward) is rarely taken into account. He does suggest that the use of individual goals is
widespread, but he claims that it makes a limited contribution to the performance and
development of the team and that individual appraisal and reward generate competition and
override the spirit of cooperation. Emery joins Brumback (2003) in calling for further
developments in team performance management, arguing that essential elements in this are:

- a clear definition of team mission
- the negotiation of team goals and their understanding by all team members, and
- an assessment of team performance, combining self-assessment by the team mem-
bers and assessment by a competent authority.

As we have noted, there is limited empirical data on managing team performance and the few
studies that exist are derived from a western, individualistic context. In order to consider the
issue from a collectivist perspective, we present below a case study on teamworking in Egypt.

We draw the material from El-Kot and Leat’s (2005) study of teamworking in this country, the
inferences in respect of performance management being made by the authors of this chapter.

CASE STUDY 24

PERFORMANCE MANAGEMENT AND TEAMWORKING IN EGYPT

Changes to the Egyptian economy have led to human resources and their management
becoming critical issues. In line with developments internationally, improving and
measuring effectiveness has become a major concern for many Egyptian organisations
as they seek to increase productivity, reduce costs and compete globally. Applying
Hofstede’s cultural analysis, Egypt – along with other Arabic-speaking countries – is
classified as high power distance, moderately strong uncertainty avoidance, low indi
vidualism and moderate masculinity. The implications of this are that Egyptian workers
are likely to accept an unequal distribution of power and expect to be directed by their supervisors whose authority they respect and with whom they may be afraid to disagree; they are unlikely to value or expect individual autonomy or to be consulted; decision-making is likely to be centralised; and the management style is likely to be autocratic or paternalistic. Job security is likely to be valued because employees see themselves as belonging to the organisation and work group. Employees are likely to use risk avoidance rather than risk-taking approaches at work, and to expect advancement to be based on seniority rather than individual performance.

El-Kot and Leat’s (2005) study investigates teamwork, which is argued to be congruent with a collectivist culture based upon cooperative rather than competitive relationships. The above analysis, however, raises questions about the feasibility of autonomous self-managed teams, given the anticipated reliance on centralised decision-making and an autocratic management style. The study evidences an increased use of teams from the 1980s on, similar to that seen in the USA and the UK, the most commonly used team being the work team, but there are also examples of project teams, self-managed teams and cross-functional teams. El-Kot and Leat (2005) demonstrate that quite high levels of team autonomy exist, even if teams cannot be described as fully self-managing, and that there is decentralisation of task-oriented decision-making. As may be expected in a collectivist culture, the most common form of reward is team-based reward. Although some competitive elements exist, arrangements in the main required harmony and were congruent with low individualism. This study suggests that the key elements for successful teams are a suitable organisational culture, team member satisfaction, clear team goals and vision, and team responsibility in making decisions. Interestingly, while some of the study’s results are consistent with Hofstede’s cultural analysis, others are not. The authors suggest that cultural changes that have taken place over the past 20 years may make Hofstede’s analysis increasingly problematic to apply. They provide evidence of a change in Egyptian values and expectations and suggest that there has been a shift to adoption of western values in certain instances.

While the cultural analysis provided above may be problematic for PMS with an individual focus – an autocratic management style affording little individual responsibility being likely to prevail, for example – it seems more promising in terms of team-oriented PMS. It may be supported by the collectivist elements of cooperation in working towards team goals, a value on harmony that emphasises team member satisfaction and a ready acceptance of team-based reward. Perhaps many of the challenges faced by those managing team-based PMS in individualistic cultures will not be relevant to those operating in more collectivist cultures.

Source: El-Kot and Leat (2005)

Case study tasks

1. Outline in detail the implications of the Egyptian culture for typical PMS.
2. To what extent is the analysis of teamwork in Egypt congruent with its suggested culture?
3. Identify the advantages and disadvantages of Egypt’s culture and approach to teamwork for a team-oriented PMS.

In this section, we have demonstrated the complexities of managing at an individual and team level and the impact of national culture upon this. Thus far we have considered cultural
Managing performance influences within a given country, but we turn now to consider the implications for MNCs of managing across cultures, discussing issues relevant to the performance management of expatriate employees.

Discussion questions

1. Thinking of an organisation with which you are familiar, to what extent is its PMS team-based?
2. Outline a number of steps that could be taken to establish a team-based PMS.
3. What impact do you believe a country’s culture will have on the likelihood of one of its organisations successfully operating a team-based PMS?

5 EXPATRIATE PERFORMANCE MANAGEMENT

In this section we consider the issue of expatriate performance management, given that effective performance management is particularly critical to MNCs which wish to make best use of expatriate employees, who play a central role in the global success of the company and whose use is typically expensive (Tahvanainen, 2000). The focus on expatriate performance management results from increasing levels of internationalisation and a greater number of companies operating globally and thus sending employees to work in a foreign country for an extended period of time. As noted above, performance management is essentially a western development and most performance data focuses on national, not international, settings (Suutari and Tahvanainen, 2002). This raises the question in the international context of how performance management works in MNCs and to what extent practices are standardised or localised.

The challenges of expatriate performance management

Shih et al (2005) suggest that contextual influences operate at the organisational, national and international levels and national culture is an important contextual variable that influences the implementation of performance management. Divergent practices are attributed to the culture of the nation in which head office is situated (Suutari and Tahvanainen, 2002). For example, Japanese companies in general possess a culture that emphasises collectivism and a desire to maintain harmony (Morishima, 1995), which leads to joint decision-making in appraisal rating, one-way feedback interview and compensation decided on tenure (Shih et al, 2005). Much of the literature on performance management of international staff, and particularly expatriate staff, is derived from western MNCs (Suutari and Tahvanainen, 2002; Fenwick, 2004; Dowling et al, 1999) although studies of international performance in MNCs from developing countries are beginning to emerge (Shen, 2004). These studies support the view that MNCs’ performance management practices frequently represent a mix of home and local systems and concepts, which in turn are affected by various host-contextual factors such as country culture, economic, political and legal systems and organisation-specific factors such as strategy, structure and culture and country of origin (Entrekin and Chung, 2001; Shen, 2004; Mendonca and Kanungo, 1996).

There is also general agreement that performance management becomes more complicated with a move from a domestic to an international context. For instance, the location of an expatriate’s boss in another country raises a range of communication issues about how the
individual gets to know what is expected of him or her, what goals are appropriate to the particular context, and who will evaluate performance (Suutari and Tahvanainen, 2002). The situation relating to expatriates may be further complicated by the fact that both home- and host-country managers may be involved in the goal-setting process while the primary responsible manager is located not just locally but at a distance in a home- or even a third-country unit in the host country (Suutari and Tahvanainen, 2002). Once again, the matter of geographical distance and/or cultural difference increases the challenges in the provision of ongoing support and review of expatriates (Dowling et al, 1999).

Suutari and Tahvanainen (2002) demonstrate that managing performance at the team level is particularly appropriate given the complexity of cross-cultural assessment, close on half of the expatriates in their study operating with team goals. They also suggest that peer and self-assessment are likely to be useful, given the nature of expatriate assignments which often are reliant upon geographically dispersed reporting lines and involve as key elements team work and participation. We discuss peer assessment in more detail in a later section of this chapter.

**Developments in expatriate performance management**

Studies to date suggest that standardised performance management processes are typically adopted in expatriate performance management, relying on, for example, standardised forms (Shih et al, 2005). Also, that levels of formality are greater in the (usually) larger organisations dealing with expatriate performance management, more formal practices being required in matrix organisations with dual reporting relationships (Suutari and Tahvanainen, 2002). Tahvanainen (2000) argues, however, that regardless of the effectiveness or availability of performance management tools, expatriate success depends largely on the manager and expatriate in question: how well they both understand, internalise and accept performance management and how skilful they are in its implementation. To this end, appropriate training should be available for all expatriates, including their managers. Despite the tensions referred to in an earlier section of this chapter, it appears that the most common form of reward provided by MNCs to expatriate employees is contingent pay (Shih et al, 2005; see also Chapter 9 of this book).

We turn now to consider a case study on the performance management of expatriates, a study that focuses on the feasibility and desirability of attempts at standardisation of performance management processes.

**CASE STUDY 25**

**EXPATRIATE PERFORMANCE MANAGEMENT AT NOKIA, FINLAND**

Tahvanainen (2000) presents a case study of Nokia Telecommunications (NTC), a Finnish-based MNC. NTC operates a global, standardised PMS, meaning that all employees’ performance should be managed on a similar basis. Her study in fact suggests that five expatriate groups emerged:

- top managers
- middle managers
- business establishers
customer project employees
research and development project personnel.

For each of these groups it was common performance management practice that all expatriates knew what was expected of them, that they knew how well they were performing, and that they received the opportunity to develop new competencies in order to meet the requirements of present and future job assignments. Differences in these processes also, however, emerged which centred mainly on the location of the manager who agrees to expatriate performance goals and then evaluates their performance; the type of goals set; the possibility of taking training courses while on assignment; and the type and clarity of linkage between performance and pay.

The case study demonstrates the key role of contingency factors when managing expatriate performance, differences in processes arising despite a standardised PMS. One implication of this is that in designing a PMS a firm must consider its specific circumstances, and that off-the-shelf solutions may not produce the desired improvements in expatriate and company performance. Further, a firm may have to supply several tools for the use of its various employee groups. While standardising the objectives of a PM process seems attractive, allowing diversity in the means and tools to achieve these objectives may be quite useful. In fact, the development of alternative PM tools, modified from a standardised global set, may result in more effective implementation of PM worldwide because it would be likely to formalise prevailing PMS, unify the different existing PM practices and provide appropriate tools for managing the differing expatriate experiences. Tahvanainen suggests at least two types of PM approaches: one for managing managerial and professional expatriate performance, and the other for customer and R&D expatriate performance.

Source: Tahvanainen (2000)

Case study tasks

1. Identify the key influences on the implementation of expatriate performance management processes, and outline their implications.
2. Why is it important that MNCs design their own PMS?
3. To what extent are PMS customised to specific groups likely to help in managing expatriate performance?

We turn now to the penultimate section of this chapter to discuss what we consider to be one of the fundamental issues to performance management in contemporary organisations: multi-rater feedback.

Discussion questions

1. Explain why globalisation has rendered expatriate performance management more important.
2. What do you consider to be the key challenge in delivering successful expatriate performance management?
### 360-DEGREE FEEDBACK

360-degree feedback – also referred to as multi-rater or multi-source feedback – is the process whereby individuals receive feedback from a variety of stakeholders about the way they carry out their jobs. Performance feedback is typically collected from colleagues, direct reports, line managers, internal and external customers, as well as the individual. The rationale behind such multiple evaluations is that an individual obtains a breadth of information which would not normally be available, and that other people, beyond the immediate line manager, who observe or experience an individual’s behaviour are in a strong position, and in some aspects uniquely qualified, to evaluate it (van der Heijden and Nijhof, 2004). It is argued that the result is greater validity in the assessment of individual performance (De Nisi and Kluger, 2000; Mabey, 2001).

### Purpose

360-degree feedback was introduced initially for development purposes, and in this context the aim was to provide constructive feedback, greater awareness and, consequently, individual growth and performance enhancement, leading ultimately to organisational development and change. Although this is still one of its main functions, more recently it has been used to improve decision-making in performance appraisal, pay determination, succession planning, job placement and downsizing (Bracken et al., 2001). Originating in the United States, today the process is widely adopted, particularly in large organisations in developed countries (Luthans and Peterson, 2003) and also used with expatriates (Luthans and Farner, 2002; Woods, 2003). However, its use in geographically dispersed situations and cross-culturally presents certain challenges, not just in terms of rater knowledge about an individual’s performance but also in terms of cultural difference and unfamiliarity with the concept or lack of understanding about what is expected of a person either as a rater or a ratee (Rowson, 1998). Moreover, despite its popularity, empirical evidence for the impact of this particular HR intervention on individual and organisational performance and development is limited (Mabey, 2001).

### Process

The central feature of the process is a feedback instrument, typically a questionnaire, a common model being one in which the 360-degree instrument examines a number of skill areas or specific competencies or behavioural dimensions (Ghoparde, 2000). Many systems today are provided through sophisticated computer packages which enable all aspects of the process from questionnaire completion to feedback reports to be generated and delivered electronically. Notwithstanding the electronic possibilities for 360-degree feedback, it is suggested that individuals should be provided with social support in terms of interpreting feedback and development planning (Maurer and Tarulli, 1996).

Cultural differences affect not only how the process is viewed and whether it is accepted, but also the rating and feedback processes as well. Any system which delivers assessments across hierarchical boundaries may be problematic or even offensive in countries with high power distance and low levels of openness such as China, Japan, Korea, Mexico and India. For example, the respect for authority generally in high power distance cultures, together with more specific cultural values such as the importance of saving face in certain Far Eastern cultures.
countries, might create concern for both the relevance and appropriateness of subordinate feedback (Entrekin and Chung, 2001), and result in overrating from subordinates (Rowson, 1998).

A critique of 360-degree feedback

360-degree feedback systems have been reported to have a number of benefits for both the individual, in terms of greater insight into how he or she is perceived by others, and for the organisation, in terms of increased organisational effectiveness and receptiveness to change. Many of the benefits are associated with improved rating reliability and validity using multiple sources over more traditional single-rater assessments, although the assumption that multiple evaluation perspectives result in greater objectivity and incremental validity when used for decision-making has been challenged. One particular problem is the mismatch between a line manager’s rating and an individual’s self-report – the individual generally having a higher self-image. Atwater et al (2005) found that in the United States, self-other ratings relative to other ratings were important in performance, and the authors attributed this to extreme individualism.

Notwithstanding the cultural issues associated with feedback discussed above, concerns have also been raised about the impact of feedback more generally. It has been argued that attention should be directed at the level of task performance and performance goals, rather than at the level of self, and that feedback should include specific recommendations for improvement and be accompanied by goal-setting interventions in order to be effective (De Nisi and Kluger, 2000).

Issues to address

The perceived benefits and the potential shortcomings have led writers to identify ways to maximise the effectiveness of 360-degree feedback. These fall into a number of categories:

- the system
- the people involved
- the implementation of the process.

There is a strong feeling that 360-degree feedback should be used for development purposes and not decision-making, and that it should be used regularly rather than be a one-off event (De Nisi and Kluger, 2000). Good design of all aspects, including the questionnaire, is critical, and Fletcher et al (1998) argue that a 360-degree feedback system should be developed and evaluated in the same rigorous way as psychometric tests, whether the purpose is development or appraisal.

There are a number of issues relating to the participants, including the general point that participants should be accountable and committed to the process (Bracken et al, 2001). Furthermore, it is argued that raters must be credible, be cooperative and be guaranteed anonymity (Bracken et al, 2001), commenting purely on the things they are qualified to comment on (De Nisi and Kluger, 2000). As far as the individual being rated is concerned, it is argued that the feedback should focus on the task, not the individual, that it should be developmental in nature and that help should be given in interpreting and reacting to the feedback through the incorporation of a goal-setting component (De Nisi and Kluger, 2000). 360-degree feedback is an inherently sensitive process, and research into practice in the United Kingdom suggests that inadequate attention is often given to this post-feedback stage.
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(Silverman et al, 2005). Good communication is paramount when implementing a system, together with guidance and training for all concerned and appropriate evaluation and review (van der Heijden and Nijhof, 2004). We illustrate some of the issues raised above in our final case study at the end of this chapter, which presents an overview of the introduction of a 360-degree feedback system in a New Zealand organisation.

Having considered in some detail the last of our specific performance management topics, we turn now to the final section of the chapter, its summary and an evaluation of performance management.

**Discussion questions**

1. To what extent do you think that 360-degree feedback is likely to achieve its aim of rendering feedback more valid?
2. Outline cultural variations that could render 360-degree feedback problematic in certain countries.
3. Outline the elements that are important to address in maximising the effectiveness of 360-degree and explain how these should be addressed.

**CONCLUSIONS AND FUTURE ISSUES**

In this chapter we have discussed performance management and its associated processes, adding a cross-cultural dimension which is under-explored (Fletcher and Perry, 2001). Here we present a critical review and a consideration of issues for the future.

Williams (2002) argues that there is limited evaluation of performance management, but many organisations are dissatisfied with their schemes as a means for developing and motivating people (Fletcher, 1997). Indeed, there is no conclusive evidence that performance management works (Winstanley and Stuart-Smith, 1996). The international dimension adds further complexity. For example, Milliman et al’s (2002) study in the Pacific Rim presents a mixed picture on whether PMS accomplish their intended objectives, and this is echoed in other studies (Pullin and Haidar, 2003; Winstanley and Stuart-Smith 1996).

Such managerialist critiques, focusing on problems of operationalisation, have been accompanied by radical critiques. These propose that performance management constitutes a new form of ‘Taylorism’ which seeks to control the labour process via performance evaluation and evidence-gathering (Newton and Finlay, 1996). In addressing managerialist critiques, it is argued that the purposes of PMS must be realistic and that organisations need to focus more on implementation (Milliman et al, 2002). Radical critiques have been addressed by authors such as Winstanley and Stuart-Smith (1996), who argue that PMS must have as a basis respect for the individual, procedural fairness and transparency of decision-making.

A further issue is the extent to which PMS devised largely for a western – specifically US – culture can be extended to other cultures (Fletcher and Perry, 2001). As noted, cultural variations impact significantly on performance management, there being limited evidence of cultural convergence. In their comparative study of Hong Kong and the UK, Snape et al (1998) suggest that PMS are adapted to suit the cultural characteristics of a society and that western practices need not necessarily operate under the same assumptions when translated to a
different culture. While this does not mean that PMS will be any less effective in different cultures, it does make its evaluation more problematic given that objectives and processes may differ between locations.

There is much work still to be done to demonstrate the effectiveness of PMS and to ensure their effective implementation. One of the primary foci will be research in cross-cultural issues. Fletcher and Perry (2001) suggest that this is an area of limited understanding and one which, given the increasing internationalisation of business, is key to ensuring the success of PMS. Organisations must consider whether a ‘one model fits all’ approach is appropriate, and we may see a move away from a western model to one that reflects broader cultural concerns.

Technology is likely to play an increasing role (Sulsky and Keown, 1998), particularly in the electronic monitoring of performance, in providing feedback on performance to individuals (Kruger and Adler, 1993; Fletcher, 2001), and in supporting implementation. Call centres are a classic example of technology that provides monitoring data on employee performance (Stanton, 2000). Information is available faster, in greater quantity and in respect of jobs that have not typically been subject to formal performance management, raising a whole new set of concerns about the implementation and adaptation of PMS.

We argue throughout this chapter that in theory, performance management can make a vital contribution to enhancing individual and organisational performance in a highly competitive business environment. We recognise, however, the complexities of operationalising performance management, especially in a cross-cultural context, in order to achieve this potential. Clearly, there remains much to be done to ensure that performance management delivers on its promises.

CASE STUDY 26

INTRODUCING 360-DEGREE FEEDBACK TO ELECTRICITY GENERATION IN NEW ZEALAND

This case study focuses on the introduction of 360-degree feedback to the Electricity Corporation of New Zealand Ltd (ECNZ). Until the late 1990s ECNZ was responsible for the country’s electricity generation. [In 1999 ECNZ’s assets were transferred to three new generating companies: Genesis Power, Meridian Energy and Mighty River Ltd. The 360-degree programme is still in operation in the three new generating companies, and has continued to develop and evolve.]

Background

At the time that 360-degree feedback was introduced in 1996, the Corporation had a turnover of $3 billion and employed around 3,000 people. In addition to a corporate head office, there were five geographic regions. The HR function had 45 employees, of which six were based at head office undertaking a strategic corporate HR function; the balance of HR staff, undertaking an operational role, were located in the regions. The HR function was headed up by an HR director who was a member of the ECNZ management team. The HR director had responsibility for leading organisational change and for capability and culture development, and the corporate HR staff focused on policies and systems, particularly performance management, development, and remuneration.
A number of regionally developed PMS were in existence at the time of the implementation of 360-degree feedback, and annual conventional appraisal schemes were part of these. However, none of them incorporated 360-degree feedback.

The initiative was introduced as part of a broader strategy to build overall capability and embed wider culture change. The aim was to ensure that the organisation had the managers it needed to operate successfully in a complex and changing environment. The organisation's strategy to assess and deliver the structure and type of organisation it needed to be for the future was driven through a major organisational capability project led by a team which included McKinsey Consultants and the most upwardly mobile young managers in ECNZ. Key stages in this project were to assess alternative potential futures for ECNZ, to identify the critical organisational capabilities required for each potential scenario, to identify the common capabilities across all options, to assess managers' capability to move the organisation forward, and to implement an effective performance management process to link people closely with forward business and organisational development plans.

360-degree feedback was the means by which managers' capability was identified and developed within this broader strategy. The drive came from the HR director and the Chief Executive who both understood the critical importance to organisational success of managerial capability. Their aim was to use 360-degree feedback to build effective behaviours into the organisation and impact on the culture. The underlying assumption was that as managers exhibited appropriate behaviours, the rest of the workforce would follow.

The scheme
The scheme had both an assessment and a developmental focus. The purpose was to assess managers' effectiveness both in terms of achievement of goals and their behaviour in the eyes of others and to provide the managers with feedback which would inform their self-development. Its underlying aims were to help managers develop, or to remove those who were not appropriate for the future of the organisation. Although ECNZ made use of competencies for key roles, this 360-degree system was based on the core values (critical organisational competencies) of the organisation and it measured people's behaviour against those values. The core values were a definition of the critical organisational behaviours that the company believed were strategically essential for its future and its culture.

HR managed the whole project. Corporate HR designed both the system and the tools, which were electronic, and intranet-based, and regional HR staff implemented and managed the process. A number of features informed the design. Above all the aim was to provide something that was easy to understand and operate from each of the stakeholders' perspectives. The organisation was particularly keen to ensure that the people giving feedback were not overloaded in terms of the information they had to provide through the questionnaire. It also wanted to ensure not only that the managers had support in the early stages in understanding their 360-degree feedback, but that the process led to some positive outcomes which fed into those managers' personal development plans.

The first stage was to develop a pilot system which was tested with a small group of people, and their feedback was used to tweak the design. The 360-degree programme itself was introduced over a three-month period. Managers were briefed on its introduction as part of the overall major strategic capability project, and the view was that they
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would implement and use it effectively if they easily understood why it was needed. Consequently, there was a lot of up-front communication via newsletters (for the main capability project) and team briefings about what it was for and why it was needed. At the same time, it could be implemented with no specific training, which made it very effective from the user’s point of view.

The way the 360-degree system operated was by sending short questionnaires to respondents via the organisation’s intranet. These respondents were chosen jointly by the person receiving the feedback and his or her manager to ensure as much objectivity as possible. The results were collected in an Access database and analysed, and simple reports produced automatically, summarising the information. Actions were then incorporated into an individual’s personal development plan. Although training in the system’s operation was minimal, when people received the results for the first time, a person skilled in the interpretation of the results was closely involved to provide support and guidance. The cycle of operation was annual, and on a rolling basis, to ensure that people responding were not constantly being asked to fill in questionnaires. Results were reviewed locally and nationally.

Initially, the scheme was introduced to the first three levels of management in the organisation, and subsequently it was rolled out through to supervisor level. Although participation was not voluntary, both the scheme’s objectives and the fact that feedback was a measure of other people’s perceptions and not necessarily reality were made clear to participants. The aim was to get them to acknowledge that if people had a view, then it was relevant to take it on board and aim to understand it. The scheme was introduced without too many problems. One issue that did surface was the question of skewing results to personally benefit an individual manager – and this presented challenges for ECNZ’s senior team. For instance, there was a situation where a manager threatened his staff with low 360 scores or himself if his were low. The commitment of the Chief Executive was critical in this kind of situation and he worked closely with the HR director to ensure that this type of manager was handled individually on a performance basis.

The impact and success of the initiative more generally was measured in the results of the annual culture survey, which was run for the three years up to the time that ECNZ was split up. The results of that survey demonstrated a significant change in the way the culture performed.

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Case study tasks

1. What factors do you think contributed to the success of this initiative?
2. Evaluate the roles of the different stakeholders in the process.
3. In what way might country or organisational cultural factors impact on the introduction and operation of 360-degree feedback?

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