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Home and host distal context and performance appraisal in multinational enterprises: A 22 country study

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Synopsis

Context is a central construct in the study of performance appraisal (PA) systems, but extant studies linking the distal context within which organizations operate to such systems are limited in two ways. First, they have focused predominantly on national culture, and have paid less attention to the legal/political and economic environment of organizations. Second, few studies reflect the growing international nature of business organizations, a development which necessitates the requirement to handle multiple layers of context simultaneously. Drawing on both situational strength and institutional arguments, we theorise the links between the 'big three' facets of distal context (i.e., culture, legal/political, and economic) and the processes and purposes of PA systems. We then test these links using data from 472 multinationals (MNEs) in 22 countries collected as part of the Cranet survey (Morley & Heraty, 2021).

Introduction and Background

The role of context in PA has been an important theme in research for over 20 years (Murphy et al., 2018). Contextual influences are usually classified along a proximal-distal continuum where proximal context includes within organization ratee-level characteristics, and distal context comprises contingencies external to the organization. Distal scholarship has largely focused on the influence of cultural factors on PA (Peretz & Fried, 2012). This unitary focus on culture is an important limitation because distal context encompasses several other influences. Three distal influences, namely, culture, political/

legal systems, and the economic environment have been postulated. Referred to as the 'big three', we offer both a theoretical account and an empirical test of their combined effects on PA processes and purposes in MNEs.

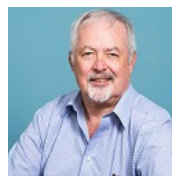
Issues and Questions Considered

Theoretically we draw on both situational strength (Meyer & Dalal, 2009) and institutional (DiMaggio & Powell, 1983) arguments to articulate mechanisms by which broad contextual exigencies are likely to influence operational aspects of PA in MNEs. The strength of a particular situation, and thus its influence on behaviour, depends on the clarity and consistency of the cues that emanate from that situation, and on the extent to which the situation enables or constrains the behaviour of the entity in question (Meyer et al., 2010). In strong situations, cues provide clear and specific direction about how organizations should behave, whereas in weaker situations, the contextual cues are indistinct and show smaller effects on behaviour and actions. Thus, variations among organizations are most likely to emerge when contexts present as 'weak situations'. Analogous to situational theory, the underlying assumption in institutional theory is that organizations are embedded within a wider institutional field (DiMaggio & Powell, 1983). This field, comprising cognitive, normative, and regulative elements, provides cues which serve to reward and constraint organizational activities. Drawing on insights from these two theoretical lenses, we develop a series of hypotheses to test the extent to which home and host differences in national cultures, in political and legal contexts,

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and in economic conditions make incremental contributions in predicting variations in PA processes and purposes beyond culture alone, or via the combination of cultural, legal, and political influences. In addition, we hypothesise that hybrid PA systems that depart from host country norms will be more common in situations where there is greater dissimilarity between the home and host contexts.

Methodology

We use country-level data on culture, political and legal systems, and economic circumstances to predict variations in organizational level PA processes and purposes in a large sample of geographically dispersed MNEs. Our cultural measures of the countries are derived from Hofstede (1980; 2001). We draw on Botero et al., (2004) to measure relevant political and legal features. Data from the World Bank are used to estimate economic growth rates, while Witt et al.'s (2017) index of institutional distance is used as a measure of home and host contextual dissimilarity. Our organizational level PA data is derived from the Cranet survey. Here we measure the key process features of PA systems within organizations, in terms of: (a) whether organizations have formal appraisal systems in place; and (b) whether appraisal rating data are gathered from single or multiple sources (immediate supervisor, self, peers, or subordinate). We restrict our analysis to MNC subsidiaries: (a) where the home and host country differs, and (b) for which we have measures of all the cultural, legal/political, and economic contingencies. Our final sample comprises 472 MNEs located in 22 countries. We conduct separate multilevel analyses to determine whether there are relationships between: (a) our three groups of distal context measures; (b) at home and host levels; and (c) our two sets of PA measures. We then use the results of these analyses to inform our choice of dependent variables included in our subsequent HLM modelling.

Outcomes and Findings

We predicted that variation in home and host cultures would be related to organization decisions regarding PA processes and purposes; this prediction is supported in our analyses. While we find little clear evidence that levels of Power Distance or Collectivism in home or host

countries are particularly strong predictors of PA processes and purposes, we do find that the cultural tightness of the host country moderates the relationships between our cultural context measures and three of the four PA process measures, as well as the relationship between culture and using PA for development purposes. We reveal that both home and host legal/political contexts appear to play a role in shaping who is involved in determining ratings, and what purposes PA data are put to. We also find that between country variation in economic systems and economic performance provides additional information for understanding certain aspects of PA systems not accounted for by variation in cultural or political/legal contexts. In addition, we examine whether the hybridization thesis whereby higher dissimilarity between the home and host contexts, results in a greater likelihood that MNE PA systems will deviate from the host country norms. Our analyses tentatively support the notion that differences here do influence whether organizations conform to host country patterns and practices or whether they adapt to some extent to the home country contexts.

Overall, our results suggest that the 'big three' distal contextual influences all need to be considered when accounting for how PA systems are operationalized in MNEs; a blanket approach to the transposition of systems from one context to another appears imprudent. Since these effects span the domains of culture, political/legal systems and economic environment, the achievement of an organizationally designed PA system that fits the distal context in which it is embedded is multifaceted, with the design challenge in MNEs settings being especially complex given the range of contextual contingencies in play.

Our contributions to the scholarly literature are twofold. First, we identify converging themes from theories that have not been previously compared or combined and show that there are real heuristic advantages to drawing attention to their conceptual overlap. Second, we provide empirical evidence from a large-scale MNE study of the utility of the converging themes of these two theories. In so doing, we explicate how different contextual variables combine to establish norms or impose constraints and yield a particular bandwidth for MNEs in the implementation and operation of PA systems in different host locations.

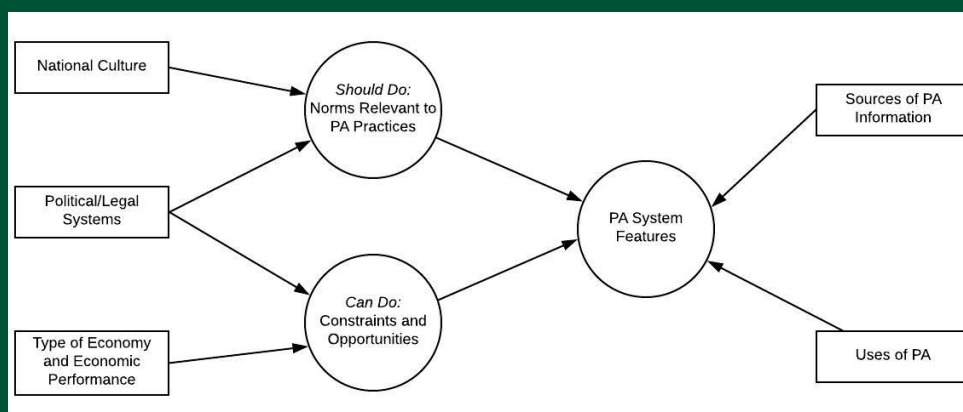


Figure 1: Relationships Between Distal Contextual Factors and Performance Appraisal

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