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Customization Decisions Regarding Performance Management Systems of Multinational Companies
An Empirical View of Eastern European Firms

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Abstract Performance management (PM) is an important human resource (HR) process for the global organization. There is yet no theoretical framework for identifying the factors that affect customization decisions to standardize or localize PM systems of multinational companies (MNCs). Our purpose is to ascertain the extent of customization of PM systems in MNCs and identify factors that influence customization decisions. We hypothesized that customization of a PM system is a function of global integration, cultural distance and the upstream/downstream nature of PM activities moderated by contextual enterprise variables. A survey was conducted among senior HR practitioners working for the 100 largest companies (by number of employees) in Bulgaria and Romania. Results from a response sample of 97 Bulgarian and Romanian companies indicate that MNCs are already aware of the need for cultural localization of their PM systems and that global integration strategy and specific cultural dimensions – power distance and masculinity – matter more in customization decisions than does overall cultural distance.

Key Words • performance management • multinational companies • global performance management systems • standardization and localization • international HRM

Performance management (PM) is a fundamental human resource (HR) process that supports the alignment of the global organization. Although the PM body of knowledge has been highly US-centric in nature, recently academic researchers have turned their
attention to the application of the concept in an international context. As Western HR practices are being applied across borders, an important concern relates to the robustness of these practices in different contexts. This article is concerned with the application of the Western concept of employee PM in multinational companies (MNCs) operating in two Eastern European countries, Bulgaria and Romania.

One widely recognized problem in the field of PM from an international perspective is largely definitional. Some work in PM is focused on the individual and centers on performance appraisal (PA) at the personal level. Other work is more in line with strategic HR management, adopting a broader view with the organization as the unit of analysis (corporate, subsidiary, business unit, team) rather than the individual. The concept of ‘employee’ PM lies somewhere in between, with individual employee performance linked to the overall strategic goals of the organization. Employee PM is an HR process that comprises a number of activities: setting employee performance expectations that are aligned with organizational objectives; regularly monitoring performance; providing ongoing feedback to employees; conducting periodic (annual or semi-annual) face-to-face performance appraisals (PA); giving employees a chance to provide input; providing developmental and career guidance opportunities based on the results of the PA; and linking the reward system with individual and group appraisal results.

There are four principal questions related to PM of an MNC for which limited empirical evidence has been reported. First, to what extent are the PM systems of MNCs standardized/globalized or customized/localized? Second, what factors influence the customization decisions with regard to PM of MNCs? Third, does the reality of existing PM systems in MNCs (‘as is’) match the aspiration of best practice (‘should be’) in international management? Finally, does customization of the PM system of an MNC really matter in terms of outcomes for the organization? This article deals primarily with the first two questions. According to Evans et al. (2002), ‘Probably the most important question for the transnational is whether it should adopt one single global process, organize the process by business line or region, or allow each local company to develop its own particular process.’ (p. 330). The purpose of this work is twofold: to investigate the extent of customization of PM systems in MNCs and to identify the factors that influence the customization of PM systems.

Review of Relevant Literature

There is relatively limited research-based knowledge on PM from global or international perspectives as compared to Western domestic perspectives. Yet, interest in PM from an international perspective is growing, as evidenced by the publication of a book entitled, *Performance Management Systems: A Global Perspective* (Varma, et al., 2008) and a special issue of the *European Journal of International Management* (Claus and Briscoe, 2008a) dedicated to the topic. A recent literature review (Claus and Briscoe, 2008b) revealed that 64 empirical, research-based and conceptual articles published in English-language, peer-reviewed journals over the period 1985 to 2005 focused on one or another aspect of employee PM or PA across borders. A leitmotiv in these early empirical studies is how performance management is a contextual HR practice that is heavily influenced by cultural and societal influences. In addition, a number of conceptual articles have worked to develop frameworks and models for studying PM and/or PA from an international perspective (Aycan, 2005; Briscoe and Claus, 2008; Cascio, 2006; Claus, 2008; Davis, 1998; Harvey, 1997; Mendonca and Kanungo, 1996; Milliman et al., 1998; Murphy and DeNisi, 2008; Schuler et al., 1991; Sully de Luque and Sommer, 2000;
Table 1  Recent frameworks addressing aspects of performance management in international perspective

<table>
<thead>
<tr>
<th>Authors</th>
<th>Aspects</th>
<th>Hypotheses/Propositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schuler et al. (1991)</td>
<td>Focus on three components of strategic international human resource management (inter unit linkages, internal operations, and competitive requirements) in the area of performance measurements and management.</td>
<td>None</td>
</tr>
<tr>
<td>Mendonca &amp; Kanungo (1996)</td>
<td>Explore the issue of cultural fit of performance management practices by focusing on the following questions: 1) Can an HRM practice designed in developed countries be successfully transferred to the socio-cultural environment of developing countries? 2) Do certain core elements have pan-cultural applications? 3) What critical features of work cultures in developing countries facilitate/constrain the utilization of these practices? 4) What specific strategies can managers utilize?</td>
<td>None</td>
</tr>
<tr>
<td>Harvey (1997)</td>
<td>Develops an international PA process model based on a systematic assessment of both employees and the organization. Suggests that a PA process model for international managers must incorporate the purpose of the appraisal, the position and task characteristics, the environmental context of the performance being appraised, the ratee characteristics beyond performance, the rater characteristics, the quantitative and qualitative assessment criteria established, and the process of appraisal itself.</td>
<td>None</td>
</tr>
<tr>
<td>Davis (1998)</td>
<td>Develops a model of international performance measurement and management practices where social conditions (economy, social and demographic, legal) and cultural values moderate the relationship between internal HRM strategy (exportative, adaptive, and integrative) and performance measurement and management practices.</td>
<td>None</td>
</tr>
<tr>
<td>Milliman et al. (1998)</td>
<td>Develop a framework for the environment context affecting PA and the impact of culture on the three stages of PA process (preparation for the appraisal, how the appraisal is conducted, and the content of the appraisal).</td>
<td>Eleven propositions linking various cultural value dimensions with aspects of PA.</td>
</tr>
</tbody>
</table>
Table 1  Cont.

<table>
<thead>
<tr>
<th>Authors</th>
<th>Aspects</th>
<th>Hypotheses/Propositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aycan (2005)</td>
<td>Reviews the cultural and institutional/structural contingencies influencing performance appraisal with specific emphasis on performance criteria, method of appraisal, and performance feedback.</td>
<td>Five propositions linking performance criteria, appraisal method, and performance feedback with cultural and institutional/structural contingencies</td>
</tr>
<tr>
<td>Cascio (2006)</td>
<td>Reviews extant literature and identifies future research needs in the area of global PM systems for host country nationals of MNEs and expatriates.</td>
<td>Eight hypotheses about the influence of culture (vertical and horizontal individualism and collectivism) on goal setting, reward systems, and communication of a PM system.</td>
</tr>
<tr>
<td>Vance (2006)</td>
<td>Proposes overarching priorities for guiding global performance management systems in terms of upstream and downstream considerations.</td>
<td>None</td>
</tr>
<tr>
<td>Murphy &amp; DeNisi (2008)</td>
<td>Propose a framework to compare PM across organizations, nations and cultures based on contextual (distal, proximal, judgment), cognitive and motivational factors that influence appraisal decisions at various levels of analysis.</td>
<td>None</td>
</tr>
<tr>
<td>Briscoe &amp; Claus (2008)</td>
<td>Consider employee PM system of an MNC in terms of three phases (design, implementation, and evaluation) and the cultural variables that impact the various components in each phase.</td>
<td>None</td>
</tr>
<tr>
<td>Claus (2008)</td>
<td>Reviews the various elements in the design, implementation and evaluation of a PM system of an MNC in terms of standardization and localization and proposes ways to reconcile the seemingly opposing needs of a global PM system.</td>
<td>None</td>
</tr>
</tbody>
</table>

Vance, 2006). Table 1 identifies the principal conceptual frameworks that have recently been proposed to study performance management from the international perspective. Many of these frameworks use a staged or process approach to PM, consider the impact of contextual (mainly cultural and structural) variables on different aspects of the PM process, or view PM from a strategic perspective. Of the 12 conceptual articles identified, only four suggest research propositions or hypotheses and none of these have yet been tested. Although there are overlapping constructs in these conceptual frameworks, there is cur-
Currently no unifying theoretical framework for identifying the factors that influence customization decisions (i.e. whether to standardize or localize) regarding PM systems of an MNC. How does an organization, operating in multiple locations across borders, design and implement a management process, such as employee performance management, and align it with the overall objectives of the organization? While the need for resolving the standardization–customization dilemma of HR processes has been identified in the international management literature (Doz and Prahalad, 1986; Bartlett and Ghoshal, 1998), the various dimensions that potentially impact customization decisions with regard to performance management systems have not.

**Theoretical Background and Hypothesized Model**

One of the central questions in employee performance management is whether a well-established Western practice can be transferred to another external context and still retain its intended value. When the Western concept of PM is viewed in an international perspective, an added layer of complexity emerges – largely due to the varying cultural and structural contexts in which global HR is implemented. The challenge for MNCs is to design and implement PM systems that fit both the global and local contexts of their operations.

Figure 1 represents our initial conceptual model of PM in an international perspective. We hypothesize that the customization of a PM system of an MNC (i.e. whether to standardize or localize) is a function of the internationalization strategy of the enterprise, the cultural distance between the headquarters and the subsidiary, and the upstream and downstream aspect of the PM processes, possibly moderated by contextual enterprise variables.

![Diagram](image_url)

**Figure 1** A model of customization of the PM system in an MNC

\[
\text{Customization of PM system} = f(\text{internationalization strategy, cultural distance, upstream-downstream PM process, moderator enterprise variables})
\]

Each factor in our model is discussed separately and followed by specific research propositions or hypotheses.
Customization Decisions

The link between structure and strategy and the centralization–decentralization debate is not new to management (Chandler, 1962). Neither is the discussion about whether to adopt standardized ‘universal’ practices or context-dependent ‘best-fit’ practices in the context of HR (Child, 2000). Organizational theory (Weber, [1927] 1997) informs us that natural forces favor the centralization and standardization of processes in organizations. Correspondingly, there are compelling reasons to suggest that a standardized approach to PM systems may be warranted in MNCs for the sake of global integration, organizational culture cohesiveness, fairness, mobility of global employees, and as a control mechanism. Proponents of standardization would argue that a common worldwide PM system is more likely to foster equity (i.e. fairness), comparability, and greater internal coordination and alignment. Such a standardized approach would also make implementation of PM across the MNC more uniform and reduce transaction costs. Yet, for a PM system to be effective across borders it must also take into account the broader context in which it is implemented. Therefore, proponents of localization would argue that local cultural, legal and social systems are likely to conflict with the use of a standardized, headquarter-driven approach to PM and thus operate against the effectiveness of that approach. Hence, an important research question becomes how this Western concept of PM is impacted when used throughout the international operations of MNCs, especially in non-Western cultures and emerging economies that have very different external contexts. According to Farndale and Paauwe (2007), it is likely that such HR practices exhibit both similarities and differences across the globe.

Although the use of a common performance appraisal instrument across all branches of an MNC is not central to our study, it does embody an important part of our overall argument about standardization versus localization of a PM system. After all, the PA instrument is often the only point of intersection between the PM system and the individual employee. Due to the lack of evidenced-based management research on this topic, we can only speculate, using a practitioner’s perspective, on the impact of standardization vs. localization of the PA instrument. MNCs would favor standardization of the PA instrument (i.e. using the same instrument within their organization across borders) to increase fairness, allow comparisons between individuals throughout the organization, evaluate high potential individuals with the same yardstick, standardize data collection, reduce transaction costs in administration and implementation, and implement an overall internationalization strategy of standardization of processes. They would favor localization of the PA instrument to account for cultural differences, different objectives among subsidiaries, and decentralized decision-making practices.

We take the position that a mixed strategy, a ‘glocalized’ PM system, will be more effective in getting acceptance and in achieving intended results than systems that represent purely standardized or localized approaches. In social theory, the notion of ‘glocalization’ was initially articulated and developed by Robertson (1992). The term ‘glocal’ embodies the duality of globalization and localization and implies that some elements will be standardized globally and others adapted locally. Inherent in the choices that MNCs need to make is whether the components of the PM system will be standardized globally across the MNC or customized locally to adapt to the specific needs of the subsidiaries. Our position on glocalization notwithstanding, our first proposition is that, consistent with organizational theory, MNCs favor standardization of their PM systems worldwide. Our rationale, as indicated above, is that several factors contribute to using the same stand-
ardized PM system throughout the MNC, especially in terms of equity and agency costs. A standardized PM system is developed by HQ and implemented integrally by the subsidiaries of the MNC. Davis (1998) labels this an ‘exportative’ international HR practice. Such a transfer of HR practice is purely at the implementation or imitation level and not necessarily internalization and integration (Björkman and Lervik, 2007). So far, we found only anecdotal evidence (by talking to HR practitioners working for global organizations) that the use of standardized PM system may be prevalent among MNCs. Hence, with this proposition, we aim to assess the empirical evidence in support of prevailing theories regarding standardization.

**Proposition 1:** MNCs aim to standardize their PM systems worldwide.

**Internationalization Strategy**

Bartlett and Ghoshal (1998) argued that enterprises pursue distinct strategies in their internationalization process and put forth the concepts of ‘global integration’ versus ‘local responsiveness’. A globally integrated enterprise is characterized by centralized management structure, a strong organizational culture, and standardized management practices, while an enterprise that is locally responsive favors decentralization, has a weaker organization culture, and diverse localized management practices. In their view, the internationalization strategy pursued by a transnational enterprise (a combination of global integration, local responsiveness, and knowledge sharing) is the approach of choice. An enterprise’s internationalization strategy may impact the decision to customize its HR practices. We argue that the degree of integration of the enterprise influences management’s customization decisions with regard to PM. An enterprise using a globally integrated strategy would be more likely to use standardized practices while a strategy of local responsiveness would be more likely to result in diverse local adaptations. To develop a measure of degree of global integration, we considered whether an organization is centralized or decentralized, the organizational culture is strong or weak throughout the organization and the extent to which other HR practices, policies and procedures are standardized or localized. The relationship between customization and global integration/local responsiveness is expressed as hypothesis one.

**Hypothesis 1:** The more globally integrated the MNC, the more likely the PM system will be standardized; the more locally responsive the MNC, the less likely the PM system will be standardized.

**Cultural Distance**

It is widely accepted that culture matters in HR practices. Cultural differences and the need for cultural fit have been proposed as the major reasons for customizing PM systems in companies operating across borders. The concept of cultural distance has been studied extensively and proposed as an explanation for differences in management practice (Gomez-Mejia and Palich, 1997; Rosenzweig and Nohria, 1994; Tung, 1998). A lack of geographic and cultural contiguity (or closeness) creates a distance between two locations that impacts the acceptability and familiarity of management practices. As cultural distance increases, the difficulties facing business processes increase (Johnson et al., 2006). While individual cultural value dimensions are prominent in the conceptual models of global PM that have been proposed (and summarized in Figure 1), the overall cultural distance between the HQ (where PM systems often originate) and the subsidiaries (where PM systems are implemented) receives no specific attention in the literature with the exception of Cascio (2007), who proposes a hypothesis relating cultural distance to the use of multiple raters for expatriate PA. Applied to global PM, it seems reasonable to assume that a PM system driven by HQ will require
greater localization when it is implemented in a subsidiary with a very different national culture as measured by greater cultural distance.

**Hypothesis 2**: The greater the cultural distance between HQ and local country subsidiary, the more likely the PM system will be localized.

**Upstream–Downstream PM Processes**

According to Evans et al. (2002), PM system activities can be classified into upstream processes (the planning cycle of objective setting and measurement) and downstream processes (the appraisal itself and the reward system). If MNCs customize their PM systems for optimal use and effectiveness, which components of the system are likely to be standardized and which parts are likely to be localized? Vance (2006) explores this question for performance management by distinguishing between upstream (favoring standardization of PM practices) and downstream (favoring localization of PM practices) considerations for effective global performance management. This follows the rule of thumb identified in earlier strategic management literature (Porter, 1986) that upstream business processes are more likely to be global while downstream processes are more generally localized. According to Vance (2006), upstream considerations focus on strategic design decisions for the enterprise. They include strategic PM integration and coordination, workforce internal alignment, knowledge management, and organizational learning. Downstream considerations focus more on tactical implementation issues. Downstream considerations include responsiveness to local conditions, sensitivity to cultural differences, establishment of PM relationship, and comprehensive training efforts. Which PM components should be considered upstream and downstream? In our view, PM upstream processes include the performance criteria (as they relate to performance that is needed to drive the attainment of strategic and business objectives), system documentation (which is primarily an information technology issue) and succession planning and identification of high potentials (which are strategic talent management processes). The downstream processes include frame-of-reference training, PA instrument, communication and feedback, all of which must be customized to meet the needs of the internal employee customer.

**Hypothesis 3**: Upstream components of the PM systems of MNCs are more likely to be standardized and downstream components are more likely to be localized.

**Enterprise Conditions**

Several authors indicate that additional contextual factors may affect employee performance (Aycan, 2005; Murphy and De Nisi, 2008; Vance and Paik, 2006). Hence, the internal and external environment of the enterprise is likely to influence the PM system. External conditions include local economic circumstances, competition, demographics, supporting infrastructure, unions and national/local culture. Internal conditions include organization size, organization resources, organization structure, cultural and management factors. In our analysis, we considered a number of enterprise conditions (such as size, industry and sector) as potential controlling variables.

**Methods**

**Sample and Data Collection**

We selected two emerging markets (Bulgaria and Romania) for empirical data collection as there is limited empirical research on HR practices in these countries. We combined the data of Bulgaria and Romania in the testing of the proposition and hypotheses based on the sociological perspective that strategy should be influenced more by social structure than by language. In spite of existing cultural and language differences between Romania and Bulgaria, there are great structural com-
munalities in the evolution of their economic, social and political institutions since World War II (WWII). In particular,

1. Since WWII, Bulgaria and Romania have shared a strong history of economic, social and political development as a result of structuring their social, economic and political institutions alike in the mid 1940s;
2. Between 1949 and 1989, Bulgaria and Romania’s economies were based on state-owned enterprises and both countries operated under single-party rule;
3. Bulgaria and Romania adopted a free market economic system and democratic rule at the end of the ‘Velvet Revolution’ in Eastern and Central Europe, and consequently;
4. Bulgaria and Romania faced similar challenges and hardships in the process of transforming their institutions to a free market and opening their markets for direct foreign investment (between 1989 to the present);
5. Bulgaria and Romania, the most recent entrants to the European Union (EU) as of January 2007, were also the last two countries from the former Soviet economic and political alliance to be accepted as EU members (excluding the former Yugoslavia). As the EU mandates certain practices it creates room for similar approaches to business strategy;
6. Bulgaria and Romania represent the newest Eastern European markets for foreign direct investment and expansion of MNCs;
7. Bulgaria and Romania have similar levels of development, shared history in political and organization development, relatively recent emergence of modern HR practices;
8. Bulgaria and Romania have cultural similarity as measured by the Hofstede (1980) cultural dimensions with the exception of power distance.

The above structural factors support the combined analysis of data for the two countries. These two Eastern European countries represent interesting cases because of their emerging modern HR management practices. They are also informative to the research question because they reveal information about the hypotheses in terms of customization decisions.

Our research data were collected from HR practitioners working for the largest organizations in these two countries. Using the most recent Book of Lists developed by the local Chambers of Commerce in these countries, we selected the 100 largest organizations in each country, using the number of employees as an indicator of size. We then identified the most senior HR practitioner working for these companies in Romania and Bulgaria. With the help of the national HR associations in Bulgaria (the Bulgarian Human Resources Management and Development Association or BHRMDA) and Romania (the Romanian HR Management Club), we invited these HR practitioners to complete a questionnaire on behalf of their company. The questionnaire was originally developed in English, translated and back-translated in the local languages. The final questionnaires were subsequently deployed to our web server in English, Romanian and Bulgarian for e-data collection via the Internet. In case of duplicate company responses in both countries, we used only the response of the most senior person (in terms of position).

The research database is comprised of the responses from 97 completed and usable questionnaires representing 97 different organizations, 53 from Bulgaria and 44 from Romania. We attribute the relatively high response rate (48.5 %) to the partnership with the HR associations in both countries and the eagerness of HR professionals in these emerging markets to participate in HR research contributing data from their countries. The respondent organizations are headquartered in 13 different countries, though
many are domestic multinationals headquartered in the host countries (Bulgaria 36, Romania 31). Respondents predominantly represent private-sector enterprises (87 of 97) arrayed across 14 different industry classes. Respondent organizations span a broad spectrum of size as measured by worldwide employment and are fairly evenly distributed on a logarithmic scale: 1–100 (21%), 101–10,000 (44%), over 10,001 (35%).

Dependent Variables

Degree of customization The dependent variable in our model is a measure of the degree of customization of the PM system. To quantify the degree of customization of an enterprise’s PM system, we developed a composite index based on 16 different activities related to the design and implementation of PM systems as described in the literature: PM criteria, frame-of-reference training, PA instrument, PA interview, feedback, documentation, and PM system uses. A complete list of the 16 selected PM system activities is displayed in Table 2.

Guided by literature discussions of upstream and downstream processes in PM systems (Evans et al., 2002; Vance, 2006), the PM activities in Table 2 are further classified as either upstream or downstream. Upstream activities include PA criteria, documentation of PM, succession planning, and identification of high potentials; while frame of reference training, PA instrument, PA interview and feedback are classified as downstream PM activities.

Research participants were asked to characterize the degree of customization for each of the selected PM activities for the PM system in their respective organizations by locating each activity along a three-point customization scale from standardized to localized. A PM system activity developed by the HQ and adopted integrally by the subsidiaries was labeled ‘globalized’ as it emanates from HQ and is standardized across all

<table>
<thead>
<tr>
<th>Upstream PM activities</th>
<th>Downstream PM activities</th>
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<tbody>
<tr>
<td>Performance criteria used for executives</td>
<td>Training for supervisors/managers to conducting performance appraisal</td>
</tr>
<tr>
<td>Performance criteria used for managers</td>
<td>Frame of reference training for supervisors/managers to rate performance</td>
</tr>
<tr>
<td>Performance criteria used for professional/technical employees</td>
<td>Training for supervisors/managers to provide feedback</td>
</tr>
<tr>
<td>Performance criteria used for administrative personnel</td>
<td>Training for supervisors/managers to coach and assist employees with writing development/performance improvement action plans</td>
</tr>
<tr>
<td>Identification of employees with high potential</td>
<td>Training for employees receiving performance reviews</td>
</tr>
<tr>
<td>Succession planning process</td>
<td>Performance appraisal instrument</td>
</tr>
<tr>
<td>The documentation (paper or electronic) ofPA results</td>
<td>Performance appraisal interview</td>
</tr>
<tr>
<td>The type of feedback managers provide to employees being reviewed</td>
<td>The type of raters being used</td>
</tr>
</tbody>
</table>
offices worldwide. A PM system activity that is developed autonomously by each unit (i.e., each office is allowed to conduct this activity independently), was labeled ‘localized’. Finally, when the PM activity is originated by HQ but developed with input of subsidiary and regional representation, we label the activity as ‘glocalized’. Alternatively, Davis (1998) labels these levels of customization as international HRM strategies: exportative, adaptive and integrative, respectively.

For purposes of characterizing the degree of customization for each participant organization’s PM system, we assigned point values for each of the PM activities based on the activity’s location along the customization scale: zero for globalized (no customization), one for localized (fully customized), and one half for glocalized (somewhere in between.) Averaging these point values across all 16 PM activities within each participant organization yields a PM system degree of customization index for each organization. The resulting index takes values from zero to one; zero if all PM activities are standardized, one if all PM activities are customized, with values in between representing intermediate levels of customization.

In addition to developing a degree of customization index for each participant organization, we also developed two sub-indices to separately capture the degree of customization for upstream and downstream activities as classified in Table 2. The upstream degree of customization is the average per activity customization computed for upstream activities only. Similarly, the downstream customization index represents the degree of customization for downstream PM system activities.

**Independent Variables**

The independent variables in our model include those related to the central propositions and hypotheses – global integration and cultural distance (as measured by a composite cultural distance index and the several dimensions thereof) – as well as a variety of enterprise variables to control for possible moderating effects of factors such as sector, industry, and size.

**Global integration** Following a process analogous to the construction of the degree of customization indices for PM systems, we constructed a global integration index based on the responses to three survey items: organizational culture, the extent of centralization, and the standardization of HR policies and procedures in general. An index of one represents a globally integrated organization while an index of zero suggests the opposite, an organization that is locally responsive.

**Cultural distance** As our principal measure of cultural distance, we employed the composite cultural distance index (CDI) developed by Kogut and Singh (1988). For each of the participant organizations, we computed the Kogut-Singh composite cultural distance index between the host subsidiary country, Romania or Bulgaria and the HQ country.

\[
CD_y = \left(\frac{1}{4}\sum_{k=1}^{4} \frac{(I_{ik} - I_{jk})^2}{V_k}\right)
\]

Where:
- \(I_{ik}\) = Index for 4th Hofstede dimension for country i (HQ country)
- \(I_{jk}\) = Index for 4th Hofstede dimension for country j (subsidiary country)
- \(V_k\) = Cross countries variance of the 4th Hofstede dimension index

This version of the Kogut-Singh CDI employs only the four original Hofstede cultural dimensions – PDI or power distance, IDV or individualism, MAS or masculinity, UAI or uncertainty avoidance – as the fifth dimension, LTO or long-term orientation, is available only for a limited subset of countries that does not include all of the countries represented in the present study. Note that in either the simpler form or in the variance-corrected form employed here, the Kogut-Singh CDI is a variance-type measure that,
unlike traditional mathematical measures of distance, captures the magnitude of the cultural variation between two countries in units corresponding to the square of the underlying component dimensions. For purposes of analysis, we employed instead the square root of the traditional Kogut-Singh CDI to transform the index units back into the same units as the underlying component dimensions, yielding an index that is both more readily interpretable and potentially exhibiting a more linear relationship to cultural differences.

Consistent with the concerns raised in Shenkar (2001), the Kogut-Singh CDI, whether or not root-transformed, is a distance measure that captures only the composite magnitude of differences in the cultural dimensions and not the directions. This type of measure potentially fails to allow for the possibility that PM system customization may be responsive to differences in selected individual dimensions or that the direction of difference may be significant; for example, if the Power Distance (PDI) is higher in the subsidiary country than in the HQ country. As alternative measures of cultural distance, we also considered directed country differences in each of the four original Hofstede cultural dimensions (Dow and Karunaratna, 2006). For these individual component measures we employed the difference between the subsidiary country (Romania or Bulgaria) and the HQ country. For example, for the power distance dimension, the component cultural distance is computed as:

\[
PDI_{ij} = PDI_i - PDI_j
\]

\[
PDI_i = \text{Hofstede PDI dimension for subsidiary country } i
\]

\[
PDI_j = \text{Hofstede PDI dimension for HQ country } j
\]

**Enterprise conditions** In order to control for the potential influence of enterprise characteristics on PM system customization, our models include several different types of enterprise variables to adjust for the effect of enterprise size, industry, and sector. As the measure of enterprise size we selected worldwide employment. Because of the marked disparity in worldwide employment among participant organizations (enterprises range in size from fewer than 10 employees worldwide to more than 100,000), enterprise size is more appropriately measured on a logarithmic scale. Thus, categorical data on worldwide employment were for convenience recoded as the common logarithm of the upper category limit. For example, enterprises with 1–10 employees were coded as 1, 11–100 were coded as 2 and so on. Potential industry effects are accounted for by the inclusion of indicator variables for 14 different industry classifications. Some of the most commonly occurring industry classifications include: business products and services, financial services, and retail/distribution. Finally, on the basis of their survey responses, participating enterprises were classified by sector: private, public, or not-for-profit. Though the research sample included organizations from each of the three sectors, as previously noted, respondents primarily represented private sector enterprises. Since statistical tests for sector differences were not significant, we included data from the public and not-for-profit sectors in our analysis to improve the precision of the results.

**Findings**

The first proposition is concerned with the extent to which PM systems are standardized in MNCs and the three hypotheses center around the roles of the internationalization strategy of the enterprise (Hypothesis 1), cultural distance between the HQ and the subsidiary (Hypothesis 2), and upstream versus downstream nature of PM processes (Hypothesis 3) as determinants in customization decisions of the PM system when rolled out globally throughout the MNC.
Proposition 1

The proposition that MNCs aim to standardize their PM systems and favor the use of systems developed by headquarters and adopted integrally by the subsidiaries can be assessed by interpreting the evidence embodied in the distribution of the degree of customization index, as shown in Figure 2. Several interesting features emerge from these data, the first being that the participant organizations tend heavily toward pure strategies in their PM system customization decisions. The degree of customization distribution exhibits three clearly identifiable spikes occurring at the values 0, 0.5 and 1; corresponding to enterprises that choose to globalize, glocalize, and localize across all of the 16 PM activities itemized in the research instrument. Further, the degree of customization is distributed uniformly across the continuum from standardized to customized. Indeed, partitioning the distribution into three equal-width intervals yields near equal frequencies within each division: 35.4% standardized/globalized, 29.2% glocalized, and 35.4% customized/localized as shown in Table 3. Finally, the mean value of the degree of customization index is perfectly centered at 0.4995. Taken together, these observations suggest that MNCs are no more likely to standardize PM systems than they are to customize. Instead, these organizations appear to opt in equal numbers for PM systems that are dictated by headquarters (standardized/globalized), facilitated by headquarters with input from the subsidiaries (glocalized), or developed autonomously by the subsidiaries (standardized/localized.) In summary, we find no empirical support for the proposition that organizations seek to standardize their PM systems, thus setting the stage for a closer examination of the previously stated hypotheses relating to potential determinants of PM system customization.
Hypothesis 1: Internationalization Strategy

The first hypothesis relates to the internationalization strategy of the enterprise and states that the more globally integrated the MNC, the more likely the PM system would be standardized; the more locally responsive the MNC, the less likely the PM system would be standardized. To investigate the role of global integration matters in determining the customization (i.e. localization or standardization) of PM activities, we conducted a statistical regression analysis of the degree of customization on global integration, adjusting as necessary for the potential influence of enterprise variables. The results indicate that there is a significant relationship between the degree of customization of PM activities and the global integration index (see Table 4a). The statistically significant negative coefficient for global integration ($\beta = 0.000$) suggests that more highly integrated enterprises are less likely to customize or, conversely, globally integrated enterprises are more likely to standardize their PM systems. Thus, the first hypothesis is indeed supported by the data.

In order to control for the potential controlling influence of enterprise contextual variables on PM system customization, our model includes several available enterprise variables: organization size (as measured by the common logarithms of worldwide and in-country employment,) industry (14 different classifications,) and sector (public, private, not-for-profit). None of these factors were found to exhibit any statistically significant influence on PM system customization. This suggests that these contextual enterprise variables have minimal impact on PM customization decisions.

Hypothesis 2: Cultural Distance

The second hypothesis relates to the influence of cultural distance and the degree of customization. We hypothesize that the greater the cultural distance between HQ and local country subsidiary, the more likely the PM system would be localized. To ascertain whether cultural distance is a significant determinant in the customization (i.e. localization or standardization) of PM activities, we constructed a regression model to assess the degree of customization as a function of cultural distance, once again controlling for the potential effect of selected enterprise variables (Table 4b.) While our model hypothesizes that the degree of customization is a function of cultural distance, the results in this sample do not support that hypothesis. Rather, the results suggest that there is no apparent relationship ($\beta = 0.692$) between the degree of customization of PM activities cultural distance as measured by Kogut and Singh’s CDI (1988). Thus, if there is any cultural effect, it is not captured by the traditional composite measure.

As noted in earlier critiques of Kogut and Singh’s CDI (Shenkar, 2001; Dow and Karunaratna, 2006), CDI is an aggregate distance measure that does not capture the individual cultural value dimensions (Hofstede, 1980) of which it is composed, nor does it reflect direction of the distance in these dimensions. We thus refined our analysis to consider the relationship of PM system customization to the four individual com-

| Table 3 | Percentages of companies using standardized, glocalized or localized PM systems |
|---------|-------------------------------|-------------------|-------------------|
|         | Standardized | Glocalized | Localized |
| Number  | 29           | 24         | 29         |
| Percentage | 35.4       | 29.2       | 35.4       |
ponents of cultural distance, the Hofstede dimensions: power distance (PDI), individuality (IND), masculinity (MAS), and uncertainty avoidance (UAI.) Using differences between these measures, subsidiary host country minus headquarters, we found that on this form culture does indeed appear to exert influence on the customization of PM systems. In the third column of Table 4b, the significant positive regression coefficients for PDI ($p = 0.037$) and MAS ($p = 0.040$) suggest that enterprises are more likely to customize PM systems when subsidiary power distance and masculinity indices are higher than those of the headquarter country. Once again, the enterprise variables were found to have no statistically significant moderating influence, at least not in combination with the measures of cultural influences employed.

To further investigate potential joint influences of global integration and culture, we constructed revised statistical models including only statistically significant variables relating to our hypotheses and, likewise, including only significant components of the enterprise variables. The results of this analysis are presented in Table 4c. Here we found that global integration continues to be

Table 4a  Regression for tests for internationalization strategy

<table>
<thead>
<tr>
<th></th>
<th>Hypothesis Variables</th>
<th>Enterprise Internationalization Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coef</td>
<td>Sig</td>
</tr>
<tr>
<td>Global Integration</td>
<td>Coef</td>
<td></td>
</tr>
<tr>
<td>Cultural Distance</td>
<td>Coef</td>
<td></td>
</tr>
<tr>
<td>Kogut-Singh</td>
<td>Coef</td>
<td></td>
</tr>
<tr>
<td>PDI Diff</td>
<td>Coef</td>
<td></td>
</tr>
<tr>
<td>IDV Diff</td>
<td>Coef</td>
<td></td>
</tr>
<tr>
<td>MAS Diff</td>
<td>Coef</td>
<td></td>
</tr>
<tr>
<td>UAI Diff</td>
<td>Coef</td>
<td></td>
</tr>
<tr>
<td>log WWEmp</td>
<td>Coef</td>
<td>(0.575)</td>
</tr>
<tr>
<td>log CountryEmp</td>
<td>Coef</td>
<td>(0.818)</td>
</tr>
<tr>
<td>Industry (14 classifications)</td>
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<td>(0.423)</td>
</tr>
<tr>
<td>Financial Services</td>
<td>Coef</td>
<td></td>
</tr>
<tr>
<td>Sector (Pub, Private, NFP)</td>
<td>F</td>
<td>(0.832)</td>
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<tr>
<td>Model Summary Statistics</td>
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<td></td>
</tr>
<tr>
<td>F</td>
<td>0.827</td>
<td>(0.656)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.193</td>
<td></td>
</tr>
</tbody>
</table>

*p < 0.10, * * p < 0.05, ** * p < 0.01, *** p < 0.001.
highly significant \((p = 0.000)\) with globally integrated enterprises exhibiting lower levels of PM system customization. Masculinity index difference continues to be significant \((p = 0.033)\), with higher levels of customization among enterprises whose subsidiary countries exhibit higher masculinity indices than in the headquarter countries. Finally, in these reduced models, we were able to observe selected significant mediating enterprise effects, with higher degree of PM system customization among financial services enterprises \((p = 0.012)\) and lower levels of customization among enterprises with higher in-country employment \((p = 0.047)\).

**Hypothesis 3: Upstream–Downstream Processes**

The conjecture of the third hypothesis is that, among enterprises that elect at least some degree of customization, upstream components of the PM systems of MNCs are more likely to be standardized and downstream components are more likely to be local-
ized. In order to address this hypothesis, we developed separate degree of customization indices for both upstream and downstream PM system activities, where upstream and downstream activities are as classified in Table 2 and indices are computed following the methodology described in the construction of the overall customization index, the dependent variable employed in the preceding regression tests. Restricting the analysis to those enterprises that exhibited at least a modest degree of customization, 0.25 or greater on a zero to one scale, we conducted a matched two-sample t-test, upstream customization index versus downstream customization index for corresponding enterprises. The results of this test support the upstream–downstream hypothesis ($p = 0.037$). The downstream average of the degree of customization of PM activities, 0.772, is higher than the upstream average, 0.723 confirming the notion that PM activities that flow to the internal customer tend to be more localized than the upstream processes farther away from the employee.

Further examination of the customization of individual PM activities suggests that there are natural breaks in the average cus-

Table 4c  Regression for tests for internationalization strategy and cultural distance hypotheses

<table>
<thead>
<tr>
<th>Hypothesis Variables</th>
<th>Coef</th>
<th>Sig</th>
<th>Coef</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internationalization Strategy</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Integration</td>
<td>–1.221 *** (0.000)</td>
<td></td>
<td>–0.885 *** (0.000)</td>
<td></td>
</tr>
<tr>
<td><strong>Cultural Distance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kogut-Singh</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PDI Diff</td>
<td>0.003 (0.350)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDV Diff</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MAS Diff</td>
<td>0.011 * (0.026)</td>
<td></td>
<td>0.007 * (0.033)</td>
<td></td>
</tr>
<tr>
<td>UAI Diff</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Enterpise Variables</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>log WWEmp</td>
<td>0.006 (0.872)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>log CountryEmp</td>
<td>–0.102 (0.140)</td>
<td>–0.081 * (0.047)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry (14 classifications)</td>
<td>F 1.2765 (0.258)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Services</td>
<td>Coef</td>
<td></td>
<td>0.275 * (0.012)</td>
<td></td>
</tr>
<tr>
<td>Sector (Pub, Private, NFP)</td>
<td>F 0.3585 (0.783)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Model Summary Statistics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>2.848 *** (0.001)</td>
<td>8.545 *** (0.000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.504</td>
<td>0.319</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*$p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001.$
tomization levels for these activities (see Table 5). The most customized PM activities are: (1) the type of feedback managers provide to employees being reviewed; (2) the training for employees receiving performance reviews; and (3) the performance appraisal interview. The most standardized PM activities are: (1) performance criteria used for executives; and (2) the way high potential employees are identified. Note that the top three individual PM activities that are customized are all downstream and two of the top three PM activities that are standardized are upstream. It is interesting to see that the top activities where companies favor standardization are related to succession planning (top 2) and using a similar PA instrument (top 3). Although we classified the PA instrument as a downstream (rather than an upstream) activity, the overall results by individual PM activity give support to our hypothesis that upstream PM activities tend to be standardized and downstream activities tend to be localized.

**Discussion and Conclusions**

The central purpose of this article was to ascertain the extent of customization of PM systems in organizations operating across borders and to identify the factors that influence the customization of PM systems of these MNCs. By doing so, we were interested in illustrating the tension between standardization and localization of this important HR practice. Our findings indicate that the proposition that MNCs aim to standardize their PM system was not supported. The companies in our sample either standardize, glocalize or localize their PM systems. By doing so they either dictate the corporate HQ PM system to their subsidiaries, allow subsidiaries to use an autonomous PM system that fits their local needs, or facilitate the development of a hybrid or glocalized system. Our findings suggest the notion that the organization’s strategic intent matters as well. If organizations pursue different internationalization strategies (global integration, local responsiveness and glocalization in between), their managerial actions tend be aligned with these strategies. Hence, the strategy should be reflected in the customization of the PM system. The conditions under which they make these customization choices are still unclear but, as the three hypotheses suggest, we cannot ignore the influence of cultural factors on the type of PM activity, and the (global versus local) strategy of the company.

The strongest relationship with PM customization was found with the global integration of the enterprise. When a company has a strategy of global integration (versus local

<table>
<thead>
<tr>
<th>Top three standardized PM activities</th>
<th>Upstream or downstream</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance criteria used for executives</td>
<td>Upstream</td>
<td>0.3618</td>
</tr>
<tr>
<td>The way high potential employees are identified</td>
<td>Upstream</td>
<td>0.4357</td>
</tr>
<tr>
<td>Performance appraisal instrument</td>
<td>Downstream</td>
<td>0.4276</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top three localized PM activities</th>
<th>Downstream</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance appraisal interview</td>
<td>Downstream</td>
<td>0.5403</td>
</tr>
<tr>
<td>Training for employees receiving performance reviews</td>
<td>Downstream</td>
<td>0.5410</td>
</tr>
<tr>
<td>The type of feedback managers provide to employees</td>
<td>Downstream</td>
<td>0.6197</td>
</tr>
</tbody>
</table>
responsiveness) there is a greater tendency to use a standardized PM system. It follows conventional wisdom that, because of the strong organizational culture, the centralization of decision-making, and the standardization of other practices in the HR portfolio, MNCs are more likely to standardize and individual employees in the subsidiaries of these companies are more likely to be socialized in, and conform to, the organizational culture.

To a large degree, most previous research in international PM has emphasized the role of culture. Though culture is significant, culture alone does not explain why some enterprises are more standardized or localized in their PM systems than others with similar national cultures. While the traditional Kogut-Singh (1998) composite CDI measure of cultural distance did not prove to be a significant determinant factor in the customization of a PM system, we found that culture does matter. Instead cultural influences seem to be better encapsulated in the separate Hofstede dimensions. The most significant individual cultural dimensions are the differences in masculinity and, to some degree, power distance, between the national cultures of the subsidiary and the HQ countries. For example, when the masculinity index for the subsidiary country exceeds that of the HQ country, organizations have a greater tendency to customize their PM systems. Surprisingly, the other Hofstede dimensions (individualism and uncertainty avoidance) do not seem to play a significant role in PM customization decisions. It is possible that the organizational culture of the MNC trumps the national culture of the HQ and their subsidiaries. Following this line of thought, it is possible that managers and employees in subsidiaries with collectivistic-oriented cultures who adopt practices from individualistic-oriented HQs of MNCs may be more likely to yield to the Western practice of employee accountability through individual employee performance management. However, our findings support what has been reported in the cultural literature, that the transferability of a Western PM system (operating in a context of relatively low power distance and masculinity) is problematic and that the PM system may need to be customized for cultures that accept difference in power, and where gender roles are very specific.

Our data support the notion that downstream PM activities are more likely to be localized and upstream PM activities more likely to be standardized. This result is statistically significant among enterprises exhibiting at least a moderate degree of PM system customization. Further, when individual PM activities are considered there is a clear trend that, when it comes to PM activities related to succession planning (e.g. performance criteria used for executives), feeding the talent pipeline (e.g. the way high potential employees are identified), or striving for equity (e.g. fairness achieved through the use of a similar/equal PA instrument), standardization is favored, while localization is preferred for downstream PM activities that are close to the employee (e.g. the performance appraisal interview, training for employees receiving performance reviews, and the type of feedback managers provide to employees being reviewed). This indicates that, when MNCs implement PM activities, they tend to favor localization of the performance appraisal component itself, especially in terms of the PA interview, training and feedback, but prefer a standardized PA form. However, when it comes to the performance evaluation of executives and high potentials in their enterprises, they prefer to adopt a more standardized approach. This observation seems to indicate that, when it comes to evaluating talent that is likely to cross borders, a standardized treatment is needed. In addition, there is still a strong perception in HR that using the same PA instrument (something we labeled downstream rather than upstream in our operationalization) is preferable for equity and comparability purposes.

In conclusion, MNCs are already aware
of the need for cultural localization of their PM systems. Internationalization strategy (especially the pursuit of global integration) and power distance and masculinity differentials matter more in customization than an overall composite cultural distance measure. Finally, the enterprise’s decision to customize a PM system component process is generally aligned with the upstream/downstream rule of thumb, with the exception of the use of a standardized PA instrument. This may reflect a prevailing perception among HR practitioners that using a similar instrument is consistent with fairness. Since the PA instrument is often the only point of intersection between the PM system and the individual employee, future international HR research should focus on the implications of using a standardized PA instrument in an MNC.

This study is subject to a number of potential shortcomings as a result of the state of our understanding of PM in international perspective, and limitations of the empirical data available for our study. The academic attention to the international aspect of PM for MNCs is only very recent and our understanding is still rudimentary. In addition, our data were collected in Eastern Europe, used the input of HR practitioners as proxies for their companies, and included only a relatively small number of companies. In addition, among the 97 companies included, 10 were from the public and non-profit sectors. Bulgaria and Romania have only recently received an influx of MNCs operating locally and have only a limited experience with professional HR practices. Thus the results of our analysis and the associated statistical tests are best classified as exploratory rather than fully confirmatory. Further research in other emerging markets, with larger samples and more refined measurements, is essential for a more complete understanding of the dynamics of customization in PM practices.

Note

The authors gratefully acknowledge the feedback received from the editors and reviewers of the IJCCM, Professor Polly Rizova and our colleagues participating in the Faculty Research Colloquium at the Atkinson Graduate School of Management, Willamette University.

1 Though it is common to use the term ‘globally integrated’ PM system as a combination of a standardized and localized, this article uses the term ‘glocalized’ PM system to avoid confusion with Bartlett and Ghoshal’s (1998) and Evans et al.’s (2002) definition of ‘global integration’ (i.e. standardized) and Palmisano’s (2006) use of the term ‘globally integrated’ company when referring to IBM (which is more in line with Bartlett and Ghoshal’s concept of transnational company).

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References


Claus, L. (2008). ‘Employee Performance


Résumé

Les décisions de customisation eu égard aux systèmes de gestion de la performance des sociétés multinationales : une vue empirique d’entreprises d’Europe de l’Est (Lisbeth Claus et Michael L. Hand)

La gestion de la performance (GP) est un processus important de RH dans l’organisation mondiale. Il n’y a à ce jour pas encore de cadre théorique permettant d’identifier les facteurs qui affectent les décisions de customisation visant à standardiser ou à localiser les systèmes de GP des entreprises multinationales. Notre objectif est de vérifier l’étendue de la customisation des systèmes de GP au sein des entreprises multinationales et d’identifier les facteurs qui influencent les décisions de customisation. Nous sommes partis de l’hypothèse que la customisation des systèmes de GP est une fonction de l’intégration mondiale, de la distance culturelle et de la nature – en amont et en aval – des activités de GP modérées par des variables d’entreprise contextuelles. Une enquête a été menée auprès de cadres supérieurs de RH des 100 plus grosses sociétés (par nombre d’employés) de Bulgarie et de Roumanie. Les résultats d’un échantillon de réponses obtenues auprès de 97 entreprises bulgares et roumaines suggèrent que les multinationales sont déjà sensibles au besoin de localisation culturelle de leurs systèmes de GP et que les stratégies d’intégration mondiale et les dimensions culturelles spécifiques – distance de pouvoir et masculinité – ont plus d’importance dans le cas des décisions de customisation que la distance culturelle totale.

概要

跨国公司绩效管理系统的定制决策：对于东欧企业的一项实证研究

Lisbeth Claus and Michael L. Hand

对于全球性组织而言，绩效管理是一项重要的人力资源过程。然而，尚未有任何理论架构来识别影响定制决策的因素，即跨国公司的绩效管理系统是应该标准化还是本地化。本文的目的是确定跨国公司中绩效管理系统定制化的程度以及识别影响定制决策的因素。我们提出的假设是：绩效管理的定制是全球整合、文化距离以及绩效管理活动上下游性质的函数，并受到情境化的企业变量的调节。我们对于在保加利亚和罗马尼亚的100家大型企业工作的高级人力资源实践者进行了调查。从97家企业的回收样本的结果表明，跨国公司已经意识到对其绩效管理系统进行文化本地化的需要，以及全球整合战略和具体文化维度——包括权利距离和刚性文化——在定制决策时比总体的文化距离更重要。