PERFORMANCE APPRAISAL PRACTICES OF U.S. MULTINATIONAL MANUFACTURERS IN TAIWAN: A COMPARATIVE STUDY WITH LOCAL TAIWANESE MANUFACTURERS

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In this study, we compare the performance appraisal practices of U.S. subsidiaries in Taiwan to those of their parent firms and to those of large Taiwanese companies in an effort to understand how foreign subsidiaries adjust to the competing demands for global integration and local responsiveness. The results indicate that performance appraisal is not a uniform function, but consists of practices that differ in their relative resemblance to local practices and to parent practices. This suggests that the competing demands for global integration and local adaptation should not be viewed as opposite ends of a continuum, but as two independent dimensions.

Introduction

The study of comparative management practices has received much attention over the past thirty years. When U.S. Multi-National Corporations (MNCs) invest abroad, they usually introduce their management practices, along with production technology, into less developed countries. Inevitably, they face problems relating to cultural differences. Thus, subsidiaries and joint ventures face conflicting pressures from the parent firm and the local environment (Rosenzweig & Singh, 1991).

Performance appraisal practices are considered important management tools in the U.S. (Gomez-Mejia, Balkin & Cardy, 2007). To understand how the foreign subsidiaries of MNCs adjust to the competing demands for global integration and local responsiveness, in this study we compare the performance appraisal practices of U.S. subsidiaries in Taiwan to those of their parent firms, and to those of large Taiwanese manufacturers.

Theoretical Background

Local Adaptation versus Global Integration

Early research on MNCs focused on the reasons why MNCs exist and what leads to foreign investment decisions. These early investigations neglected to consider how MNCs are best organized. More recently, a central management issue for MNCs is the degree to which they adapt to the foreign host’s environment versus the degree to which operations are integrated across borders (Prahalad & Doz, 1987, Rosenzweig & Singh, 1991). The integration-
adaptation framework has provided a useful model for analyzing MNCs (Doz & Prahalad, 1991). Following this model, the subsidiaries of MNCs face pressures for both local adaptation and global integration when they operate in foreign countries. Regarding the management of human resources, the parent firm either can allow the policies within each overseas subsidiary to develop according to local values and practices, or can attempt to integrate policies between the parent firm and its subsidiaries (Taylor & Beechler, 1993).

The growing trend among MNCs is to leverage organizational practices across their international subsidiaries in order to improve the worldwide use of their organizational skills as an important source of competitive advantage. Consistent behavioral routines through organizational practices enable MNCs to reduce transaction costs, particularly regarding the coordination and integration of their international corporate network. While the globalization of organizational practices in MNCs seems economically rational in order to increase transnational coordination and efficiency, the heterogeneous institutional, cultural and organizational contexts in which the foreign subsidiaries MNCs operate require the local adaptation of organizational practices so that legitimacy and acceptance by local stakeholders can be maintained. This tension between the need for global integration of organizational practices and their local adaptation poses important challenges to today's MNCs.

In this paper, we report the results of a study comparing performance appraisal practices of U.S. subsidiaries operating in Taiwan to those of their parent firms and to those of large Taiwanese companies in an effort to understand how foreign subsidiaries adjust to the competing demands for global integration and local responsiveness.

Research Hypothesis

The global integration/local adaptation framework is useful for assessing the relative strengths of integration and adaptation pressures across various levels including industries, firms competing within industries, nation origin, and even functions or tasks within an organization. Human resources management covers a wide span of activities and decision areas ranging from industrial and labor relations to personnel functions affecting all levels of an organization (Lengnick-Hall & Lengnick-Hall, 1988). However, decisions concerning key affiliate managers, such as selection, compensation and benefits, training and development, and performance appraisal are singled out as being particularly important for multinational corporations (Edstrom & Lorange, 1984). Thus, HR practices that contribute to aligning the MNC toward global integration are more likely to receive a similar level of emphasis in both the parent and subsidiary. Specifically, we hypothesized that performance appraisal practices are more likely to receive a similar level of emphasis in both the parent and subsidiary. The resulting test of this hypothesis will provide insights into how U.S. MNCs with
manufacturing subsidiaries in Taiwan address the competing demands for local responsiveness and global integration within their performance appraisal practices. Specifically, few significant differences between parent and subsidiary practices would indicate global integration, while few significant differences between the practices of subsidiaries and local Taiwanese manufacturers would indicate local adaptation.

**Methods**

**Sources of Data**

A stratified random sampling scheme was employed to ensure that performance appraisal practices of manufacturing firms in similar industry sectors were compared. To accomplish this, a complete list of the U.S. manufacturing subsidiaries operating in Taiwan was obtained from the Investment Division of the Ministry of Economy in Taiwan. From this list, every other firm listed within the six most popular sectors for investment – Food & Beverage Processing, Chemicals, Rubber & Plastics Products, Basic Metals & Metal Products, Machinery Equipment, and Electronic & Electric Appliances – was surveyed, a total of 326 firms in all. Furthermore, from the list of Taiwan's 1,000 largest manufacturing enterprises based on annual sales compiled by CommonWealth Magazine (2006) every other firm within the same six sectors – 359 firms in all – were surveyed. One hundred and sixty-six questionnaires were returned, 72 from U.S. subsidiaries and 94 from locally owned Taiwanese companies, yielding response rates of 22.09%, and 26.18% respectively. As the study was limited to subsidiaries in which the parent company had over 50% equity in their Taiwanese operations and to firms with 100 or more employees, the useable sample was composed of 50 U.S. subsidiaries and 85 locally owned manufacturers.

**Data Collection Procedures**

Each subsidiary general manager on the mailing list was sent an envelope containing the following items: a cover letter explaining the nature of the study and requesting the cooperation of the general manager or the head of human resources, a copy of the appropriate questionnaires, and a self-addressed, stamped envelope for returning the questionnaire. The questionnaire was prepared in two languages. The questionnaire was first developed in English and then translated into Chinese, then back translated. The questionnaires were revised to make the questions clearer, and then were mailed out. U.S. subsidiaries were sent the English and the Chinese versions, while Taiwanese firms were sent only the Chinese version.

A mail survey was chosen over other ways of gathering data because of the wide geographical dispersion of companies, the required speed of data collection, and the length of the questionnaire. The general manager or head of
HR was asked to respond on behalf of each subsidiary, as they were the managers in the firm most likely to have work experience in both the parent and subsidiary firm and thus best able to compare parent and subsidiary performance appraisal practices. In the Taiwanese firms, the head of HR was asked to respond on behalf of the company.

Survey Instrument

The respondents from the U.S. subsidiaries were asked to what extent the use of 12 performance appraisal practices were emphasized in their subsidiary and in their parent firm. The respondents from Taiwanese manufacturers were asked to what extent the performance appraisal practices assessed were emphasized in their company only. The executives responded on a Likert scale ranging from 0 (Never emphasized) to 7 (Heavily emphasized). The performance appraisal practices assessed were from a survey instrument originally developed by Robinson (1994; 1995) to study the personnel practices of U.S. subsidiaries operating in Japan.

Statistical Analysis

The methods used to analyze the collected data to achieve a two-way comparison were as follows:

1. Ratios, means and standard deviations were calculated to describe the nature and characteristics of variables.

2. As many of the populations sampled were not normally distributed, traditional statistical methods were not suitable. Instead, the non-parametric two related samples test (Wilcoxon Signed-Rank test) was employed to examine the differences between the U.S. parent company and its manufacturing subsidiary in Taiwan.

3. The non-parametric two independent samples test (Mann-Whitney U test) was also employed to examine the differences between the U.S. manufacturing subsidiary in Taiwan and the local Taiwanese manufacturers.

Results

Table 1 displays the mean responses for the U.S. parent firms, their subsidiaries, and local Taiwanese manufacturers, for each of the performance appraisal practices assessed. Note that the U.S. manufacturing subsidiaries in Taiwan surveyed placed significantly less emphasis than their parent firms on just four of the 12 performance appraisal practices assessed, thus providing strong support for the hypothesis that performance appraisal practices are more likely to receive a similar level of emphasis in both the parent and subsidiary, indicating global integration. It should be noted, however, the mean responses of the U.S. subsidiaries also varied significantly from those obtained from locally owned Taiwanese manufacturers on just four of the 12 performance appraisal practices assessed, thus
indicating local responsiveness. These conflicting results call into the question the conventional view of the demands for local adaptation and global integration as opposite ends on the same continuum.

Insert Table 1 here

In an attempt to make sense of these conflicting results, the degree of difference (significant – not significant) in the emphasis placed on the performance appraisal practices between parent and subsidiary, and subsidiary and local manufacturers, were plotted against each other. The resulting Integration-Adaptation Matrix presented in Figure 1 explicitly recognizes that the competing demands for local adaptation and global integration should not be viewed as opposite ends of a single continuum. Rather, the degree of global integration and local adaptation are placed on opposite axes. The resulting matrix reveals four basic combinations of performance appraisal practices: universal, global, unique and local.

Insert Figure 1 here

Note that U.S. subsidiaries placed a similar emphasis as their parents, but significantly less emphasis than local Taiwanese manufacturers on “Merit pay/bonus allocations” and “Development of abilities.” This indicates global integration of these particular practices, thus they are classified as “Global.”

The U.S. subsidiaries also placed significantly less emphasis than their parents, but a similar level of emphasis as local Taiwanese manufacturers on “Performance standards” and “Clarifying performance expectations.” This indicates responsiveness to the demands for local adaptation in these practices, thus they are classified as “Local.”

It should also be noted that the U.S. parent companies placed significantly more emphasis on “Multiple measures of performance” and “Management by objectives” than their subsidiaries. The U.S. subsidiaries, in turn, placed significantly more emphasis on these practices than the local Taiwanese manufacturers surveyed. This suggests that U.S. subsidiaries sometimes balance the competing demands for global integration versus local responsiveness when performance appraisal practices that are strongly emphasized by their parent firms receive significantly less emphasis in the local environment, therefore these practices are classified as “Unique.”

Finally, all three organizations placed a similar emphasis on “Formal system of appraisal,” “Informal system of appraisal,” “Numerical performance indicators,” “Subjective judgment in performance appraisal,” “Self-assessment
evaluations,” and “Long-term performance indicators.” This suggests that these performance appraisal practices of U.S. multinational corporations and their subsidiaries are more alike than dissimilar to those of local Taiwanese manufacturers, hence they are classified as “Universal.”

**Discussion**

The findings of this study are significant because they add to our understanding of how the competing demands for global integration and local adaptation shape specific HR practices in foreign subsidiaries. Specifically, the demands for global integration and local adaptation were viewed not as opposite ends of a continuum, but as two independent dimensions in this study. The resulting matrix allowed subsidiaries’ practices to be classified as universal, global, unique, or local. Let us consider the strategic implications of each of these categories.

In this study, universal practices were those that received a similar level of emphasis in parent, subsidiary and local firms. Universal practices reflect the internationalization of management. For example, it is not uncommon for Taiwanese managers (particularly the second generation of family owners of business groups) to hold MBA degrees from U.S. universities. As this generation rises in the managerial ranks, we are likely to see a shift in emphasis to U.S.-style management practices. Obviously, such a trend towards the internationalization of management will make it easier for MNCs, particularly U.S.-based multinationals, to maintain consistent HR policies and practices across national borders in the future.

Global practices were defined here as those that received a similar level of emphasis in both the parent and subsidiary, but a different level of emphasis in local firms. Rosenzweig and Nohria (1994) suggest that because employees may move among subsidiaries, MNCs have a desire to maintain a consistent set of HR policies and procedures. Even without an extensive exchange of personnel across borders, MNCs, for reasons of internal equity, still may wish to adopt a consistent set of HR practices across subsidiaries (Rosenzweig & Nohria, 1994). Little evidence of global integration, however, was found in this study. While a MNC may have a strategic or moral imperative to maintain consistent HR practices across its various subsidiaries, the reality is that this is very difficult to do. HR practices are often mandated by local regulations or shaped by local customs. Moreover, since subsidiaries typically hire most of their employees from the local labor market, it is difficult for them to diverge much from local norms.

Unique practices were defined as those that received a different level of emphasis in the subsidiary than in either their parent or local firms. At times, this may be the result of the subsidiary balancing the competing demands for global integration versus local responsiveness when HR practices that are strongly emphasized in their parent company
receive significantly less emphasis in the local environment (and vice versa). At other times, the subsidiary may place significantly more (or less) emphasis on practices that receive a similar level of emphasis in both their parent and local firms. Strict adherence to parent or local practices may not always be the best practice from a strategic standpoint.

Finally, local practices were defined as those that received a different level of emphasis between parent and subsidiary, but a similar level of emphasis between subsidiary and local firms. From a strategic standpoint, the localization of HR practices may be the best way for the subsidiary of a MNC to attract, motivate, and retain competent employees in highly competitive local labor markets.

Suggestions for Future Research

International human resource management (HRM) involves the worldwide management of people (Tung, 1984; Miller, Beechler, Bhatt & Nath, 1988). Traditionally, it has focused on the recruitment and selection, training and development, performance appraisal, and rewarding of international personnel. The effectiveness of particular HRM approaches and practices depends directly on the firm’s environment and strategy (Adler & Ghadar, 1989). The research agenda is clear – management scholars must study international HRM within the context of changing economic and business conditions. Similarly, future research by management scholars should use multiple levels of analysis when studying international HRM such as the external social, cultural, historical, political and economic environment, and the industry setting. Specific recommendations for further research in these areas are presented below.

First, this study restricted its focus to U.S. multinational firms that generally fall under Bartlett and Ghoshal’s (1989) headings of “international” firms. It would be interesting to see how “global” Japanese and “multinational” (European) firms adapt their HR practices given the competing demands for local responsiveness and global integration that they face.

Second, the encouraging nature of these findings could lead to the same method being used to replicate this study in other cultures in Southeast Asia, Latin America, and India. The results obtained would provide more information about the effects of cultural differences on the operation of multinational companies.

Third, this study was limited to the manufacturing industry, and therefore the findings of this research provide only a partial understanding of the real dynamic of HR practices. The relevance of such a study would be greater if the data could be collected from a more comprehensive range of industries.

Finally, the extent to which the Integration-Adaptation Matrix developed in this study can be applied to functions other than HRM needs to be investigated. For example, could this matrix be used to develop a better
understanding of the marketing, financial control, and manufacturing practices of foreign subsidiaries? While HR practices are the most likely to be strongly influenced by the demands for local adaptation, marketing and manufacturing practices may also tend to resemble local practices, although perhaps to a lesser degree. One would expect, however, that financial control practices would be shaped mainly by a need for internal consistency in the MNC and thus closely adhere to parent practices.

Limitations

Although the study sample was drawn from a large pool of U.S. manufacturing subsidiaries in Taiwan, and the local Taiwanese manufacturers were randomly selected from an established list, selection bias may remain as a threat to the validity of the study. This procedural difficulty inhibits the external validity of generalizing the results of a study to a larger population. Haire, Ghiselli, and Porter (1996) identified this factor as a threat to the validity of comparative studies dealing with business organizations. According to these authors, no truly complete lists of all the companies of a country from which a researcher might draw a genuinely random sample exist. An accompanying problem is that if such a random sample were drawn, there is no guarantee that all the selected companies would cooperate.

An additional limitation to this study is that the variables in HR practices are difficult to quantify in numerical terms. To minimize the effect of this limitation, a scale of measurement was applied in the questionnaire design to define the variables in operational terms and this scale and definitions were used throughout the study.

Another limitation involves the biases that can come into play as a result of survey respondents who attempt to convey a favorable impression of their firm. Possible distortions of the data were reduced by checking responses against supporting documents and through other crosschecking techniques.

Finally, while a business organization is a highly dynamic organism and the environmental factors affecting it change over time, a researcher can only perceive and document a snapshot image of the organization at an instant in time. In spite of the care taken in the collection and later in processing and interpretation of the data, this limitation to the study remains.

Conclusion

This study sought to determine how manufacturing subsidiaries of U.S.-based MNCs operating in Taiwan balance the competing demands of local adaptation and global integration in their HR practices. Our research findings indicated that the HR practices of U.S. subsidiaries generally tend to resemble local practices. Further analysis of the 52
HR practices assessed in this study, however, indicated that HRM is not a uniform function; it consists of practices that differ in their relative resemblance to local practices and to parent practices.

The primary contribution of the present study to international HRM is the recognition that the competing demands for local adaptation and global integration should not be viewed as opposite ends of a continuum. Rather, the relationship between parent and subsidiary (i.e., demands for global integration), and subsidiary and local practices (i.e., demands for local adaptation) should be viewed as two independent dimensions. This allows the demands for global integration and local adaptation to be placed on opposite axes. The resulting matrix reveals four basic combinations of HR practices: universal, global, unique and local. This conceptualization better fits the realities of a global economy where success may require the balancing of the competing demands for global integration and local adaptation resulting in HR practices in subsidiaries that are unique to both the parent firm and the local environment. It also recognizes the internationalization of managerial practices resulting in some universal HR practices. In an increasingly competitive global environment, companies are adopting strategic human resource management practices in order to enhance organizational adaptability and capability (Lengnick-Hall & Lengnick-Hall, 1988). More cross-cultural studies of this nature should enable organizations to develop better HRM policies for employees in international operations.

References


Table 1

Differences between the Performance Appraisal Practices of US Parent Companies, their Manufacturing Subsidiaries in Taiwan and Local Taiwanese Manufacturers

<table>
<thead>
<tr>
<th>#</th>
<th>Performance Appraisal Practice</th>
<th>US Parent Mean</th>
<th>Significant difference</th>
<th>US Subsidiary Mean</th>
<th>Significant difference</th>
<th>Taiwanese Firm Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Formal systems of appraisal</td>
<td>5.42</td>
<td>n. s.</td>
<td>5.54</td>
<td>n. s.</td>
<td>5.67</td>
</tr>
<tr>
<td>2</td>
<td>Informal systems of appraisal</td>
<td>5.12</td>
<td>n. s.</td>
<td>5.28</td>
<td>n. s.</td>
<td>5.12</td>
</tr>
<tr>
<td>3</td>
<td>Numerical performance indicators</td>
<td>5.50</td>
<td>n. s.</td>
<td>5.30</td>
<td>n. s.</td>
<td>5.52</td>
</tr>
<tr>
<td>4</td>
<td>Subjective judgment in performance appraisal</td>
<td>4.52</td>
<td>n. s.</td>
<td>4.40</td>
<td>n. s.</td>
<td>4.48</td>
</tr>
<tr>
<td>5</td>
<td>Self-assessment evaluations</td>
<td>4.70</td>
<td>n. s.</td>
<td>4.70</td>
<td>n. s.</td>
<td>4.59</td>
</tr>
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<td>6</td>
<td>Long-term performance indicators</td>
<td>5.38</td>
<td>n. s.</td>
<td>5.52</td>
<td>n. s.</td>
<td>5.16</td>
</tr>
<tr>
<td>7</td>
<td>Multiple measures of performance</td>
<td>4.90</td>
<td>p&lt;.05</td>
<td>4.72</td>
<td>p&lt;.05</td>
<td>4.60</td>
</tr>
<tr>
<td>8</td>
<td>Management by objectives system</td>
<td>6.04</td>
<td>p&lt;.05</td>
<td>5.82</td>
<td>p&lt;.05</td>
<td>5.26</td>
</tr>
<tr>
<td>9</td>
<td>Performance standards</td>
<td>6.14</td>
<td>p&lt;.05</td>
<td>5.64</td>
<td>n. s.</td>
<td>5.87</td>
</tr>
<tr>
<td>10</td>
<td>Merit/pay bonus allocations</td>
<td>4.56</td>
<td>n. s.</td>
<td>4.48</td>
<td>p&lt;.05</td>
<td>5.45</td>
</tr>
<tr>
<td>11</td>
<td>Clarifying performance expectations</td>
<td>5.12</td>
<td>p&lt;.05</td>
<td>4.76</td>
<td>n. s.</td>
<td>5.14</td>
</tr>
<tr>
<td>12</td>
<td>Development of abilities</td>
<td>4.74</td>
<td>n. s.</td>
<td>4.68</td>
<td>p&lt;.05</td>
<td>5.46</td>
</tr>
</tbody>
</table>
**Figure 1**  
Integration and Adaptation Matrix

<table>
<thead>
<tr>
<th>Parent – Subsidiary Difference</th>
<th>Global Integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant</td>
<td>Local</td>
</tr>
<tr>
<td></td>
<td>Unique</td>
</tr>
<tr>
<td>11. Clarifying performance expectations</td>
<td>8. Management by objectives system</td>
</tr>
<tr>
<td>Not Significant</td>
<td>Universal</td>
</tr>
<tr>
<td></td>
<td>Global</td>
</tr>
<tr>
<td>1. Formal systems of appraisal</td>
<td>10. Merit/pay bonus allocations</td>
</tr>
<tr>
<td>2. Informal systems of appraisal</td>
<td></td>
</tr>
<tr>
<td>4. Subjective judgment in performance appraisal</td>
<td></td>
</tr>
<tr>
<td>Subsidiary – Local Difference</td>
<td>LOCAL ADAPTION</td>
</tr>
</tbody>
</table>