

## **An Evaluation of Performance Appraisals in the U.S. and China and Recommendations for Multinational Businesses**

Yi Zhao  
Department of Accounting & Finance  
College of Business and Technology  
University of Nebraska at Kearney  
Kearney, Nebraska 68845 USA

Faculty Advisor: Michelle M. Fleig-Palmer, Ph.D.

### **Abstract**

Research shows that performance appraisal (PA) is a review and evaluation of how well an employee has carried out their responsibilities during their work. The goal is to provide supervisors with the information they need to facilitate the employees' career success. The five main purposes in PA evaluation are documentation, development, administrative pay, administrative promotion and subordinate expression<sup>10</sup>. These five purposes are differently viewed regarding expectation and actual practice in the U.S. and China. But previous research of PA lacks the deep analysis of what led to those differences between the two countries. This research paper concentrates on the similarities and differences that exist in PA between the U.S. and China. More specifically, this research will explore the differences, standards, expectations, and measures of PA in the U.S. and China. A review of PA documents and analysis of the PA process for public sector employees in the two countries identifies the differences in PA. Principal agency theory, stewardship theory and cultural dimensions will help managers understand differences in PA between the U.S. and China. There will be an integration of assumptions of the principal and agent relationship regarding people's economic behavior, as well as some items from Hofstede's cultural dimensions theory. The research results from the public sector document review will provide suitable suggestions for managers in multinational businesses in the U.S. and China. Significance of this research is as follows: first, the number of multinational businesses is dramatically increasing. Managerial effectiveness in a global economy requires an understanding of cultural differences in human resource practices such as PA. It is necessary to know how human resource strategies differ among countries, so that the cultural gap will be eliminated to best motivate employees and to increase the team cooperation spirit. Second, the PA research results will definitely help employees improve self-cognition and consciousness of the future global harmonious working environment requirements. Recommendations for constructing efficient PA standards will help the U.S. and China achieve great progress in development of multinational business cooperation.

**Keywords: Human Resources, Performance Appraisal, Multinational Business**

### **1. Introduction:**

With the world economic development quickly moving toward a more globally integrated direction, the pace of the multinational performance appraisal (PA) in human resources management enforcement and reform should also closely be kept up and aim to provide sufficient power protection for employees. PA is considered an important employee evaluation tool and core measurement in human resource management. The role of PA will be increasingly important as a strategic partner to guarantee the organization's business results could be achieved through effective implementation and monitoring of a robust performance management process.

The purpose of this paper is to help managers and employees who work in the international companies recognize

and realize the diverse PA standards in the cross-cultural working environment under the rapid development of multinational business cooperation. The paper is mainly structured as follows. First, data research and comparisons were based on different categories developed using sample government agencies' PA forms. Then, the content analyses were integrated with cultural dimensions from sociological perspectives and organizational theories. Last, recommendations were presented for multinational businesses in the performance evaluation and they can enhance the practical effectiveness and remove applicable difficulties and barriers in future international business management. Implication for research and practice are discussed.

## **2. Literature Review:**

Managers viewed PA as a critical aspect of performance management practices that would influence the implementation of the business strategy of a firm and organizational performance.<sup>13, 15</sup> In addition, PA is also regarded as an important way to help human resource managers evaluate training needs and select desirable employees. They help employees identify their strengths and weaknesses; they also set plans for future improvement as well as provide motivation as a benchmark for determining career achievements and feedback.<sup>1, 2</sup> To some extent, this strict performance management process provides employees' behavioral information for supervisors in time and can facilitate employees' career success. Also, it is important for multinational enterprises to obtain the full abilities of their diverse workforce as well as manage and coordinate overseas operations.<sup>14</sup>

There are five main purposes of the PA in the previous exploratory assessments in the North America and the Pacific Rim countries, including documentation, development, administrative pay & promotion and subordinate expression.<sup>10</sup> More specifically, documentation provided past records or views of employees' performance which served as a modification for manager's future human resource adjustment as well as employees new recruitment and termination decisions.<sup>4</sup> Then, development purpose was understood as mission statements and institutionally valuable ambitions that were reflected in the employees' future performance plan. Development was used in performance management process as a tool to help operationalize employees' values and behaviors to achieve desired results.<sup>10</sup> Another two functions of PA which are associated with administrative decisions are pay and promotion.<sup>11</sup> The two purposes are based on the logic which closely converts working results to rewards so it can enhance the motivational influences on employees' performance evaluations. Last objective of the PA is subordinate expression, which offers employees a formal way to receive feedback and express their emotional feelings to managers.

In order to analyze the cause of difference of the two countries' PA, Hofstede's<sup>6, 8</sup> cultural dimensions will be used to understand the different emphasis in PA between the U.S. and China. Hofstede theorized five primary work-related values: power distance, uncertainty avoidance, individualism, masculinity and Confucian dynamism.<sup>6</sup> For this study, only power distance, uncertainty avoidance and individualism are used. Power distance is defined as the degree that people inside the groups or organizations accept more power distribute to managers. Uncertainty avoidance is understood as the risk that the group of people handle to minimize uncertainty. Individualism is described as people who behave independently and focus on the own interest and value.

Another two important organizational theories will help explain how managers make different PA standards based on two countries' value orientations. In the principal-agent theory, goal-conflict emerges between managers and employees and employees act to maximize their individual gains or profits.<sup>3</sup> Compared with this self-serving behavior, stewardship theory emphasizes the core value of common interest behavior, because employees are more willing to sacrifice their personal goal for the benefit of the organization.<sup>3</sup>

Previous research assessed the differences in PA purpose between U.S. and China.<sup>10</sup> However, this research did not examine the differences between specific categories of U.S. and Chinese PA and how the differences could be explained by organizational theories.

## **3. Research Questions:**

In this paper, the implementation and feasibility of PA from two countries faced with cross-cultural workforce are understood as the central issue. The core research questions include what are the different emphases in content of specific skills and abilities in two countries' PA forms? Then, what is the logical relationship and how can the similarities and differences be explained by cultural dimensions and agency theories? And last and most importantly, how can managers build or improve the PA evaluation process to reach the most appropriate PA standards to

contribute to move the multinational PA barriers? Recommendations will be presented at the end of discussion session.

#### 4. Research Design:

First of all, this research is classified as an exploratory analysis of qualitative data. The core research method used here is content analysis to review PA documents and detect the similarities and differences of the PA process through coding new categories and conducting comparative analyses. Data sources come from fifteen PA forms of the government agencies of both the U.S. and China.

The thirty PA forms are separated by designing different code models in different categories. This approach is used to explore the integration of the concepts and properties of the government agencies' PA. Coding methods are used to analyze and categorize data into concepts that implied characteristics from the data itself.<sup>16</sup> For example, the researcher coded four levels of government agencies with the number 1 representing the federal government agency category in the U.S. and national agency category in China; in descending order numbers 2, 3 and 4 stand for states, counties, and cities in the U.S.; provinces, cities and districts in China.

There are mainly ten categories of industries based on the properties of the thirty governmental agency units. In this sample, more government agencies in the U.S. have higher occurrence rates in health care, human services, military, security, and human resource industries, while more Chinese agencies were in finance, tax, utilities, transportation, and education industries. Fewer agencies were construction and natural resource industries in both countries.

To sort the data, calculations were made of the occurrence rate of top and bottom priorities in each category. Here it is assumed that the categories listed first in each PA are considered as more important than those listed last. By using the logical functions in Excel, the numbers of top and bottom priority categories were calculated as the differences between the U.S. and China. At this point of data sorting, the top priority was defined as the top three categories in each PA form and the bottom priority was defined as the seventh to tenth categories of all thirty PA forms. Results were also calculated with a comparison between the government agency categories and industrial categories as well.

#### 5. Research Results:

After two rounds of creating codes and sorting data based on the foregoing exploration of research questions, there are six top and bottom priority categories of PA each in the U.S and China. The six top priority categories appeared to show some relatively different results between the two countries. The numbers showed in Table I and Table II represent the number of times a category appeared in the top three categories on a PA form. As an example, in Table I, 12 U.S. and 16 Chinese PA forms had job knowledge in the top three categories.

Table 1. Top Priority Results

Categories	U.S.	China
Job Knowledge, Quality & Quantity of work, Productivity	12	16
Work habit (attendance, time management)	0	5
Safety & Customer focus and service	1	4
Creativity & Initiative	4	1
Adaptability & Leadership	5	1
Work results, contribution & Accomplishments	5	0

From the table above, it can be seen that categories of job knowledge, quality & quantity of work and productivity showed both countries' government agencies pay much attention to employees' job-related professional knowledge

capacity and their ability to control quality and the efficiency of finishing work. Other interesting results found in Table I are as follows: it seems that sample Chinese government agencies emphasize employees' working habits, such as attendance and time management, while this result tends to be opposite of the U.S. Likewise, this trend is the same in the safety and customer focus and service categories between the two countries. Chinese managers display more concentration on employees' life issues. However, as it is shown in Table I, three big categories including creativity & initiative, adaptability & leadership and work results showed an opposite comparison result. U.S. managers built a more favorable and robust PA system that evaluates employees' innovation capacities and self-team influences, such as creativity, initiative, leadership and accomplishments, more than Chinese managers.

Table 2. Bottom Priority Results

Categories	U.S.	China
Management & Leadership skills	2	6
Teamwork	0	3
Attendance & Punctuality	2	0
Safety	4	1
Initiative	0	2
Compliance	2	0

As shown in Table II above, U.S. managers arrange employees' attendance, time awareness, employees' safety and compliance to the standard categories more in the bottom ranking in their PA forms than Chinese managers. But in the Chinese government agencies, teamwork and initiative categories frequently appeared in the bottom priority of the PA forms.

Table 3. Comparison Results of Government Agency Categories

Government Categories	Top Priority		Bottom Priority	
	U.S.	China	U.S.	China
Federal/ National	Leadership, management		Attendance, compliance	
States/ Provinces	Work results, communication	Quality of work, reasonability	Safety awareness, stress	Teamwork, initiative
Counties/ Cities	Quality and quantity of work	Job knowledge	Engage, planning & Organization	Supervisor ability, planning
Cities/ District	Job knowledge, quality of work	Attendance, relationship with others	Equal employment opportunity	Delegation skills, productivity

After sorting by the government agency categories in both countries, the researcher found some valuable results from the observation. At the federal and state level, U.S. managers evaluated employees' leadership and work results more, while at the national and province level, Chinese managers pay more attention to responsibility and accountability. In the categories of cities and counties, Chinese government agencies focus on supervisor ability and delegation skills more than the U.S.

Table 4. Comparison Results of Industries Categories

Industry Categories	Top Priority		Bottom Priority	
	U.S.	China	U.S.	China
Military/ Security	Teamwork, interpersonal skills	Attendance, appearance, safety	Productivity, compliance with safety standards	
Education	Job knowledge, communication	Job knowledge, quality of work	Attendance, safety, productivity	Teamwork
Health care/Human service	Job knowledge, customer service	Safety, punctuality, initiative & Energy	Leadership, compliance	Diversity, commercial approach
Utilities & Transportation	Judgment, cooperation	Taking responsibility, work quality	Support of diversity	Initiative
Sate/ Province government	Job knowledge, work result		Opportunities for development	
County/ City government	Developing self, quality of work		Work habits	
Construction		Accountable/ Dependable, integrity		Social skills, curious
Finance & Tax		Job knowledge, responsibility		Planning & Organization
Human Resource	Leadership, adaptability		Safety awareness, stress tolerance	
Natural Resource	Accomplishments	Planning & Organizing	Position specific	Organizational skills

Results conducted in top and bottom priority in ten industry levels between two countries are variable (Table IV). It is noteworthy that teamwork and working relationships are emphasized in the U.S. military and security industries, while in China more attention is paid to evaluating employees' appearance and attendance, which pertains to more individual criteria. It can also be observed that criteria such as attendance and work habits appeared in the bottom ranking in the U.S. In Chinese finance and tax industries, managers view employees' job knowledge more importantly than planning and organizational skills. Overall, results show easily measureable criteria such as attendance and responsibility is more emphasized in PA from sampled Chinese government agencies, while the U.S. focus is on developmental criteria such as leadership and creative skills.

## 6. Discussion:

### 6.1 Integration of results with five purposes of Performance Appraisals & Cultural Consequences:

Based on previous research<sup>10</sup> the categories of job knowledge, quality, quantity of work, and productivity can be classified into documentation purpose as they record employees' past behaviors and performance. As it is shown in Table I, there are twelve in the U.S. versus sixteen in China. Compared with previous research results<sup>10</sup>, these criteria have become more important in China than the U.S. Uncertainty avoidance from the cultural consequences dimensions is defined as being uncomfortable with uncertainty and ambiguity.<sup>6</sup> It can be explained that there is higher uncertainty avoidance in Chinese PA system, since in its work environment, more written rules maintain consistency and conformity between employees and managers in organizations.

Then for the development purpose in the PA that focuses on employees' potential for growth, the research results

show a similar trend to previous research.<sup>10</sup> Individualism values personal interest and collectivism pursues group welfare in the cultural dimensions theory.<sup>6, 8</sup> There is more emphasis in the U.S. on leadership, adaptability, initiative, and creativity versus China (Table I). These results can be interpreted as higher individualism in the U.S. than in China since U.S. national spirit has more emphasis on individual materialistic achievements.

Lastly, for the subordinate expression purpose in the PA, there was a higher emphasis in the U.S. In this research sample, data showed 67% of U.S. PA forms asked for feedback and comments while only 27% of Chinese PA forms did. In Hofstede's cultural dimensions, power distance means the degree that people accept unequal power and privileges.<sup>7</sup> Chinese people tolerate more class distinctions in society and have fewer preferences for the participation in social activities, so it leads to people not liking to express their feelings or emotions actively.<sup>9, 12</sup> That is consistent with fewer Chinese managers implementing feedback on PA. From the discussion above, Hofstede's cultural dimensions theory helps to explain the PA differences.

## 6.2 Integration with Principal-Agent and Stewardship Theories:

In addition to the cultural dimensions theory, principal-agent and stewardship theories can explain how managers in different countries create different PA standards based on the extent of the goal conflict between employees and managers.

It was observed that principal-agent theory tended to match the U.S. managers-employees relationship while the relationship matches the stewardship theory in China. In the U.S., since the principal-agent theory assumes employees are focused on personal interest, then managers focus on the individual in PA in order to minimize goal conflict.<sup>5</sup> So managers create PA categories that are focused on personal benefit, such as working skills, developing oneself, work results, and employee feedback. This is consistent with individualism in the cultural dimensions theory, which reflects employees' concerns with personal goals and outcomes.

Stewardship theory assumes less conflict of interest between employees and managers, so managers can create PA to include a focus on group benefits.<sup>3</sup> Because stewardship theory assumes employees are highly socialized and clan-oriented, it explains why Chinese managers pay more attention to employees' pro-organizational behavior in work results, such as relationships with others, contribution, teamwork, and employees' safety. This can be further explained as human resource managers assess employees' work-related behavior with a long-term orientation. Chinese PA forms tend to evaluate employees for conformity, obedience, and honoring managers, so PA include categories such as safety that require employees to sacrifice personal goals. Overall, principal-agent and stewardship theories help to understand the different categories in PA across countries as managers deal with goal conflict.

## 6.3 Recommendations:

Given the PA differences between the U.S. and China, the following are some recommendations for the future international PA improvement in human resource practice.

For U.S. managers working in Chinese companies, try to enable stewardship relationships as a core value in the performance management strategy based on different levels of employees. Consider group interests as a priority and stress that the group's benefit always comes first, so conduct more work-related discussions in groups. Adopt politeness and obedience values, but prevent employees from being embarrassed by recognizing "veiled sorrow", i.e., that employees are not willing to speak out frankly especially if the information is negative.

For Chinese managers working in U.S. companies, recognize and adapt to individualistic PA system in these organizations. Recognize goal conflict as a threat, so respect and implement employees' ideas as a motivator for future business improvement. Last but not least, avoid special privileges and hierarchical structure during the performance management process since the U.S. managers tend to treat people equally in the working environment.

As for the future PA practice in both countries, human resource managers can try to link performance evaluations to other purposes, such as pay and promotion. Finally, continuous training and development opportunities in performance management process are needed for both managers and employees to enhance work effectiveness and to remove cultural barriers.

## 7. Conclusion:

From this exploratory research, it can be seen that PA from the sample of government agencies of the U.S. and China had similarities and differences. Using cultural dimensions, principal-agent and stewardship theories,

multinational business managers can better create appropriate PA standards to minimize the embarrassment caused by cultural differences in job relationships as well as maximize the profits in the international partnerships. Human resource managers should strengthen PA system alignment, employee's satisfaction, and PA effectiveness to accommodate the needs and demands of international human resources.

## 8. Acknowledgements:

The author wishes to express her appreciation to Dr. Michelle M. Fleig-Palmer, associate professor and Dr. David K. Palmer, professor from the Department of Management in College of Business and Technology at the University of Nebraska-Kearney (UNK) for devoting themselves to author's research mentoring all the time as well as the effort they put into giving the author research direction and giving encouragement when she presented research at NCUR 2014. Then, she wants to express appreciation to Heather J. Breight from UNK Learning Commons for the time helping the author revise and fit the paper into academic writing format. At last, she thanks the Office of Undergraduate Research & Creative Activity at UNK for the research opportunities. Their time and dedication makes this research possible.

## 9. References:

1. Cardy, R., & Dobbins, G. 1994. Performance appraisal: Alternative perspectives. Cincinnati, OH: South-Western.
2. Cascio, W. (1992). Managing human resources (3<sup>rd</sup> Ed.). New York: McGraw-Hill.
3. Davis, Schoorman, & Donaldson. (1997). Toward a stewardship theory of management. *Academy of Management Review*, 1, 20-47.
4. D. E. Bowen, G. E. Ledford, Jr., and B. R. Nathan, "Hiring for the Organization and Not the Job," *Academy of Management Executive*, 1991, 5(4), pp. 35-38; T. A. Judge and R. D. Bretz, Jr., "Effects of Work Values on Job Choice Decisions," *Journal of Applied Psychology*, 1992, 77, pp. 1-11; C. A. O'Reilly III, J. Chatman, and D. F. Caldwell, "People and Organizational Culture: A Profile Comparison Approach to Assessing Person-Organization Fit," *Academy of Management Journal*, 1991, 34, pp. 487-502.
5. Donaldson, L., & Davis, J.H. 1989. *CEO governance and shareholder returns: Agency theory or stewardship theory*. Presented at the annual meeting of the Academy of Management, Washington, DC.
6. Hofstede, G. 2001. *Culture's consequences: Comparing values, behaviors, institutions, and organizations across nations*. Beverly Hills, CA: Sage.
7. Hodgetts, R.M., & Luthaus, F. 1993. *U.S. multinationals' compensation strategies for local management: Cross-cultural implications*. *Compensation and Benefits Review*, 25: 42-48.
8. Hofstede, G. 1980. *Culture's consequences: International differences in work-related values*. Beverly Hills, CA: Sage.
9. Liao C.W. (1991) Human resource management. Shanghai Tungchi University Press (in Chinese)
10. Milliman, J., Nason, S., Zhu, C. and De Cieri, H. (2002). An exploratory assessment of the purposes of performance appraisals in north and central America and the Pacific Rim. *Hum. Resour. Manage.* 41: 87-102. doi: 10.1002/hrm.10021
11. Milliman, J.F., Nason, S., Gallagher, E., Huo, P., Von Glinow, M.A., & Lowe, K. (1998). The impact of national culture on human resource management practices: The case of performance appraisal. In J. Cheng & R.B. Peterson (Eds). *Advances in international comparative management* (pp. 157-184).
12. Nyaw M.K. (1995). *Human resource management in the People's Republic of China*. In L.F. Moore & P.D. Jennings (Eds.), *Human resource management on the Pacific Rim: Institutions, practices, and attitudes*. Berlin: Walter de Gruyter.
13. Schuler, R., & Jackson, S. (1987). Linking competitive strategies with human resource management practices. *Academy of Management Executive*, 1, 207-219.
14. Schuler, R., Fulkerson, J.R., & Dowling, P. (1991). Strategic performance measurement and management in multinational corporations. *Human Resource Management*, 30, 365-392.
15. Snell, S.A. (1992). Control theory in strategic human resource management: The mediating effect of administrative information. *Academy of Management Journal*, 35, 292-327.
16. Strauss, A., and Corbin, J. *Basics of Qualitative Research: Grounded Theory, Procedures, and Techniques*, Sage Publications, Newbury Park, CA, 1990.