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TRANSFER OF PERFORMANCE APPRAISAL PRACTICES FROM MNC PARENT TO SUBSIDIARIES IN SERBIA

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ABSTRACT: *This paper seeks to address one of central issues in the international human resource management literature regarding the extent to which foreign subsidiaries of multinational companies (MNCs) tend to implement performance appraisal practices and policies of the parent company versus those of local companies in the host country. The study conducted in 65 subsidiaries of foreign-owned multinational companies in Serbia found that performance appraisal practices in MNC subsidiaries in this transition country closely resemble parent company practices. The conclusion drawn from the*

study is that the transfer depends mainly on dependence on parent inputs, the degree of parental control, and subsidiary age, implying that MNCs need to take these variables into consideration when deciding whether to transfer their performance appraisal practices to their subsidiaries in this transition country or to accept local practices.

KEY WORDS: *human resource, international human resource management, multinational company, performance management, performance appraisal, expatriate*

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1. INTRODUCTION

The continuous tension between global and local perspectives in MNCs is one of central issues in international human resource management (IHRM) literature (Brewster et al., 2007), referring to the extent to which MNC subsidiaries in the host country behave either like their parent company or like local companies in terms of the human resource management (HRM) policies and practices that they implement. MNC headquarters tend to want to achieve global integration (standardization) of HRM policies and practices, while foreign subsidiaries attempt to become locally responsive to the host country environment (localization). Given that MNC foreign subsidiary units are disseminated throughout the world and need to be integrated or coordinated into a certain form, and to a certain degree (Bartlett and Ghoshal 1991), these companies have to be both local and global at the same time (Schuler et al. 2002).

Because HRM is often considered a critical component of MNC strategy, multinational companies usually wish to transfer their HRM practices to their foreign subsidiaries and create HRM practices in the subsidiaries that more resemble parent than local practices (Pudelko and Harzing 2007). MNCs standardize their HRM policies and practices in order to attain consistency in international operations and to create a global corporate culture (Jain et al. 1998), with the main indicator of standardization being global integration of general HRM principles, guidelines, and goals (Dickmann and Müller-Camen 2006). On the other hand, many studies have shown that national, cultural, and institutional differences limit the possibility and the level of transfer of HRM practices and policies in MNCs (Beechler and Yang 1994, Ferner 1997; Khilji 2003, Myloni Harzing, and Mirza 2004), which results in higher localization, i.e., adapting the subsidiary activities to the host environment.

Bearing in mind that HRM practices are very dependent on the local labour market, they are usually seen as among the most sensitive to cultural differences and under the highest pressure to adapt to the host-country environment, and thus the least likely to travel from one country to another (Schneider 1988, Rosenzweig and Nohria 1994).

2. GLOBAL STANDARDIZATION AND LOCAL ADAPTATION OF PERFORMANCE APPRAISAL PRACTICES

Most of the research on HRM practices and policies in MNC foreign subsidiaries seeks to explore human resource management as a unique function. However, various HRM practices often show different degrees of standardization to host country conditions (Rosenzweig and Nohria 1994, Lu and Björkman 1997). Bearing in mind that certain HRM practices are more sensitive to the local context, each HRM practice needs to be approached individually in order to analyse efficiently the degree of its standardization in MNCs.

HRM practices that have usually been the subject of research in terms of possibilities of transfer in MNCs include staffing (recruiting and selection), training, performance appraisal, compensation, and promotions (Lu and Björkman 1997, Kim and Gray 2005, Björkman et al. 2008). In order to explore the variations that may exist in transferring specific HRM practices and policies from the MNC parent to its foreign subsidiaries, this paper focuses on one crucial HRM practice, performance appraisal (PA).

International performance management represents one of the key IHRM functions. However, literature has not paid sufficient attention to performance management in an international context (Shen 2004). International performance management refers to the strategic HRM process that enables a MNC to assess and continuously improve individual performance, the performance of foreign subsidiaries, and the performance of the whole company, according to clearly predefined goals which are directly related to MNC international strategy (Dowling et al., 1999). Appropriate use of a performance management system is supposed to reduce the inconsistencies in information between MNC headquarters and its foreign subsidiaries and to ensure orientation of corporate goals at all hierarchical levels (Schlegel and Britzelmaier 2011), to sustain competitiveness and control over the various organizational units disseminated throughout the world (Claus et al., 2011), to provide a real image of activities of the particular subsidiary in order to motivate the subsidiaries and their managers to perform better (Schmid and Kretschmer 2010), to encourage desirable behaviour of employees as well as better performance of the MNC (Tahvanainen 2000, Jackson and Schuler 2003), and to control behaviour of expatriates and international operations of the MNC (Janssens 1994).

Academic literature and management practice present opposing attitudes regarding the degree of standardization of performance appraisal practices

in MNCs. Some researchers claim that standardization can be useful, while others support its differentiation depending on the context or strategy at MNC or subsidiary level (Schmid and Kretschmer 2010). Performance appraisal represents an area in which expectations of home and host country are interlaced and in which tension or conflict of interest may appear between MNC and employees in the foreign subsidiary (Vo and Stanton 2011). Many studies have found that cultural distance between home and host country affects the process of performance appraisal, while, on the other hand, worldwide use of similar procedures, tools, and criteria for performance appraisal enables MNC headquarters to influence the goal-setting process in its subsidiaries, to monitor accomplishment of these goals, and to more easily assess, compare, and control the performance of employees in its subsidiaries.

According to Lu and Björkman (1997) and Dowling et al. (1999), MNCs usually adopt standardized PA policies and practices in the parent company and their foreign subsidiaries. The same conclusion was drawn from the research conducted by Björkman et al. (2008), who analysed the degree of global integration of HRM practices in Western MNCs in China and India and found the PA practices to be the most standardized of all analysed HRM practices. Similarly, Kim and Gray (2005) also found performance appraisal to have the highest level of transfer in Australian MNCs of all HRM practices analysed. In their analysis of HRM practices in Chinese–Western joint ventures, Lu and Björkman (1997) concluded that MNCs were more likely to apply standardized performance appraisal practices compared to other HRM practices.

The following hypothesis was set in order to analyse the level of transfer of performance appraisal practices and policies from MNC parent to its foreign subsidiaries:

Hypothesis 1: MNCs standardize their performance appraisal policies and practices and transfer them from the parent to their foreign subsidiaries.

However, it cannot be assumed that all subsidiaries implement PA practices from their parent companies in the same way and to the same degree: some subsidiaries face higher pressure to adapt to local practices in the host country, while others are affected by higher pressure to imitate the practices implemented in their parent company. These differences result from the impact of specific variables that will be the subject of this study's research. IHRM literature identifies a number of variables that may affect the possibility of transfer of HRM policies and practices within MNCs, such as industry, market, strategic role of the subsidiary,

country of origin of MNC, characteristics of MNC, its business strategy, mode of establishment of the subsidiary, host environment, presence of expatriates in the subsidiary, subsidiary size and age, ownership structure, management style, and organizational culture (Ferner 1997, Tayeb 1998, Hetrick 2002, Evans et al. 2002, McGraw 2004, Shen et al. 2005). This study attempts to explore whether certain variables influence the possibility and degree of transfer of PA policies and practices from MNC parent to its Serbian subsidiaries.

Method of founding the MNC subsidiary

MNC subsidiaries may be founded in one of the following ways: through Greenfield operations, through acquisition (buying an existing company in the host country with the aim of continuing the ongoing operations of the local company), or in the form of a joint venture with a local partner. MNCs often establish their foreign subsidiaries in the form of a Greenfield in order to imitate key characteristics of the parent (Bartlett and Ghoshal 1991), while subsidiaries established as independent companies and later acquired by a MNC usually remain relatively similar to local companies in the host country (Rosenzweig and Nohria 1994). Based on the fact that the literature often suggests that the mode of founding of the subsidiary may influence the possibility of transfer of HRM practices and policies from MNC parent to its foreign subsidiaries (Taylor et al. 1996, Hetrick 2002, Kim and Gray 2005, Dowling and Welch 2006), our study will attempt to verify this claim for one key HRM practice, performance appraisal. Therefore:

Hypothesis 2: The degree of transfer of PA policies and practices from MNC parent to its foreign subsidiaries depends on the method of the founding of the subsidiaries.

Ownership type

Previous research on HRM policies and practices in foreign subsidiaries of MNCs has shown that ownership structure affects the level of standardization of HRM policies and practices and that MNCs tend to decrease the influence of the host environment by increasing the ownership percentage of a subsidiary (Hannon et al. 1995). Subsidiaries predominantly owned by a MNC tend to be more likely to show a higher degree of transfer of HRM policies and practices, thereby also protecting the subsidiary from the pressure to adapt its practices to the host country requirements (Hannon et al. 1995, Lu and Björkman 1997, Björkman and Lu 2001). In order to verify this claim for a specific HRM practice – performance appraisal - we set the following hypothesis:

Hypothesis 3: The degree of transfer of PA policies and practices from MNC parent to its foreign subsidiaries depends on the type of ownership.

Subsidiary size

Previous research has not managed to completely explain the nature and direction of the relationship between subsidiary size and the possibility of transfer of HRM practices in MNCs. In their research, Björkman et al. (2008) found a positive correlation between subsidiary size and the extent to which the HR department has a strategic role in the subsidiary. According to Gupta and Govindarajan (2000), large subsidiaries may invest more resources in creating new knowledge, implying that the size of the subsidiary may have a positive impact on the development of HRM competences in the subsidiary. However, the influence of subsidiary size on similarity of subsidiary HRM practices either with parent or with local practices remains relatively unspecific and unclear (Rosenzweig and Nohria 1994). On the one hand, larger subsidiaries are expected to have higher demand for local resources and local employees, which could result in greater adaptation to the host environment and less need for transfer of practices from the MNC parent; while on the other hand, owing to these resources large subsidiaries may successfully defend themselves from the pressure to adapt to local practices, which could result in higher standardization of HRM practices. Therefore:

Hypothesis 4: The degree of transfer of PA policies and practices from MNC parent to its foreign subsidiaries depends on the size of the subsidiary.

Subsidiary age

Analysis of issues related to standardization of HRM practices in MNCs has to consider an additional important determinant, the age of the foreign subsidiary. Subsidiaries usually do not have fully developed HRM practices when they are established in the host country, but apply formalized and standardized practices from the MNC headquarters. Over time their HRM practices tend to become more like local practices. This study will attempt to verify whether there is a relationship between subsidiary age and level of transfer of PA practices in MNCs. Therefore:

Hypothesis 5: The degree of transfer of PA policies and practices from MNC parent to its foreign subsidiaries depends on the age of the subsidiary.

Parental control over subsidiary

HRM policies and practices are of crucial importance for the success of a MNC because they can act as mechanisms of control and coordination for its international operations (Bartlett and Ghoshal 1991). Given that foreign subsidiaries play a crucial role in creating value in MNCs, the performance management system is often perceived as a key instrument for MNC headquarters' control over its subsidiaries. MNC headquarters may attempt to control and coordinate its distant units in different ways: it may participate in the decision-making process regarding general operations of the subsidiary, or monitor and supervise subsidiary operations, or formulate plans that have to be accomplished by the subsidiary. Subsidiaries with a lower degree of decision-making autonomy are often forced to implement HRM practices and policies imposed by the parent. A higher need for control results in a stronger demand for integration and coordination of MNC policies and practices, the consequence of which is that subsidiary HRM practices are more likely resemble those in the MNC parent than the practices of local companies in the host country (Rosenzweig and Nohria 1994, Myloni et al. 2007). In order to analyse whether this claim may be applied to performance appraisal we set the following hypothesis:

Hypothesis 6: The degree of transfer of PA policies and practices from MNC parent to its foreign subsidiaries is positively correlated with the degree of parental control over the subsidiary.

Subsidiary dependence upon parent inputs

Lu and Björkman (1997) view subsidiary dependence on the parent for critical resources as a crucial determinant of standardization of the performance management system in a MNC. The parent company often bases its control over its subsidiaries on rare or crucial resources such as capital, technology, management (Hannon et al. 1995), information, and raw materials. When a subsidiary is highly dependent on the parent for key resources, the MNC exercises control over its subsidiary through formal mechanisms and HRM strategies which enable standardization of HRM policies and practices and facilitate control over the subsidiary (Martinez and Ricks 1989, Beechler and Yang 1994, Hannon et al. 1995). However, subsidiaries highly dependent on local resources usually adjust their HRM practices to local practices in the host country (Rosenzweig and Nohria 1994). We will attempt to verify this claim for one crucial HRM practice. Performance appraisal. Therefore:

Hypothesis 7: The degree of transfer of PA policies and practices from MNC parent to its foreign subsidiaries is positively correlated with the degree of subsidiary dependence upon parent resources.

Presence of expatriates in the subsidiary

Many studies have suggested the existence of interdependence between the presence of expatriates (from the MNC parent country) in the foreign subsidiary and the level of transfer of HRM policies and practices from the parent to subsidiaries, usually so that subsidiaries with a higher number of expatriates are more likely to implement HRM practices from their parent (Rosenzweig and Nohria, 1994; Lu and Björkman, 1997; Björkman et al., 2008). On the other hand, subsidiaries that employ mainly locals are expected to be less likely to adopt the practices defined and proposed by the MNC parent. In our research we will verify whether this may be applied for an individual HRM practice, performance appraisal. Therefore:

Hypothesis 8: The degree of transfer of PA policies and practices from MNC parent to its foreign subsidiaries is positively correlated with the presence of expatriates in subsidiaries.

Nationality of the HR manager in the subsidiary

The background of the HR manager may significantly influence the manager's attitudes towards the human resource management function: managers recruited from local companies in the host country usually take local practices as an example when creating HRM policies and practices in the subsidiary and mainly tend to implement the practices they became familiar with during their previous work experience. This is one of the reasons why selection and employment of a HR manager previously employed in a local company would probably determine the type and characteristics of HRM practices to be implemented in the subsidiary (Björkman and Lu 2001). Thus, it is expected that HRM practices (including performance appraisal practices) in such subsidiaries are more likely to resemble local practices from the host country than practices from the parent. Therefore:

Hypothesis 9: The degree of transfer of PA policies and practices from MNC parent to its foreign subsidiaries depends on the nationality of the HR manager in the subsidiary.

3. METHODOLOGY

3.1. Data collection and sampling

Data for this research was collected using a survey method. The research was conducted during 2013 in Serbia. The hypotheses established in the study were tested in the specific environment of this country, which is undergoing a transition process and the EU accession process as a candidate country. In general, IHRM literature lacks research dealing with the transfer of HRM policies and practices from MNCs originating in developed countries to their subsidiaries in developing countries and especially transition countries such as Serbia. Human resource management in companies operating in Serbia has been underexplored. Serbia is still behind the rest of Europe regarding performance management as a crucial element of effective HRM, particularly in respect of performance assessment of managers, while changes in the field of performance management that were expected to result from the transition process did not happen at all, or happened in a direction different to that in the developed western countries (Bogicevic Milikic et al. 2012).

Data for this research was collected through a questionnaire that was distributed by e-mail or submitted directly either to the HR manager or the CEO of MNC subsidiaries, and completed without the presence of the authors. The questionnaire was developed after a comprehensive review of relevant IHRM literature related to standardization of HRM practices and policies in MNCs, mainly focusing on the performance management function. The questions focused on the transfer of performance appraisal policies and practices from foreign-owned MNCs to their subsidiaries in Serbia. In order to provide a sample that could give reliable results, and bearing in mind the relatively moderate number of foreign-owned MNCs in Serbia, companies for the research were selected regardless of industry, mode of founding, ownership type, number of employees, and subsidiary age. The questionnaire was submitted to 108 companies, 65 of which responded.

MNCs whose Serbian subsidiaries were included in the sample originate in 18 countries. More than half of the subsidiaries questioned are headquartered in the USA, Austria, France, and Germany, and 70% have their headquarters in EU countries. The sampled companies belong to different industries: 44 companies operate in the service sector and 21 in the production sector. Most of the MNCs operate in industry, banking, trade, chemistry and pharmacy, and energy and mining.

3.2. Measures

In the research the dependent variable refers to the possibility and level of transfer of performance appraisal policies and practices from MNC parent company to its foreign subsidiaries. In order to examine various aspects of the performance management function the research focused on the following dimensions: methods and criteria used for performance appraisal process, frequency of performance appraisal, and the manner in which the performance appraisal process is carried out. Independent variables examined in our study included the following: mode of establishment of foreign subsidiary, type of ownership, subsidiary size and age, extent to which the parent company exercises control over the subsidiary, dependence of subsidiary upon parent inputs, and number of expatriates in the subsidiary.

Our questionnaire included 4–point Likert-type questions which required HR managers or CEOs of MNC subsidiaries included in the survey to indicate the extent to which performance appraisal policies and practices resemble those of the parent company, as opposed to those of local companies in the host country. This was measured by the extent to which subsidiaries had to comply with policies, procedures, and practices established by the MNC parent company, assuming that the transfer level would be higher if the parent company developed specific PA policies and practices to be implemented by subsidiaries. Point 1 on the Likert scale refers to complete transfer of performance appraisal practices and policies, while point 4 refers to absence of transfer of PA policies and practices from MNC parent to foreign subsidiaries.

4. ANALYSIS AND RESULTS

Empirical research was conducted using a quantitative analysis based on survey responses of managers. It included bivariate statistical analysis with specific techniques: correlation analysis, chi–square analysis, and cross-tabulation. The correlation matrix is presented in Table 1 and Table 2. The mean value for the dependent variable – the level of transfer of performance appraisal policies and practices - is 2.45 on a 1-4 scale. The respondents' answers show equal distribution, i.e., 33 out of 65 subsidiaries apply standardized PA policies and practices from the parent company, while 32 subsidiaries do not implement practices set by MNC headquarters.

Table 1 Correlation matrix- Part 1

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|--|--------|---------|---------|--------|--------|--------|-------|--------|---------|--------|
| 1 Total transfer of PA | 1,000 | | | | | | | | | |
| 2 Transfer of PA methods | ,568** | 1,000 | | | | | | | | |
| 3 Transfer of PA criteria | ,579** | ,872** | 1,000 | | | | | | | |
| 4 Transfer of frequency of PA | ,534** | ,864** | ,903** | 1,000 | | | | | | |
| 5 Transfer of manner of conducting PA | ,636** | ,816** | ,912** | ,925** | 1,000 | | | | | |
| 6 Method of founding | ,051 | ,032 | ,171 | ,083 | ,056 | 1,000 | | | | |
| 7 Ownership structure | ,098 | ,186 | ,168 | ,163 | ,149 | ,178 | 1,000 | | | |
| 8 Subsidiary size | -,046 | ,076 | ,194 | ,182 | ,147 | ,418** | ,171 | 1,000 | | |
| 9 Subsidiary age | -,205 | -,326** | -,344** | -,306* | -,262* | -,232 | -,159 | -,185 | 1,000 | |
| 10 Parental control | ,340** | ,298* | ,316* | ,351** | ,333** | -,069 | ,187 | -,054 | ,018 | 1,000 |
| 11 Parental control (decision-making) | ,246* | ,275* | ,238 | ,265* | ,236 | -,078 | ,183 | ,056 | ,037 | ,838** |
| 12 Parental control (supervision) | ,292* | ,188 | ,181 | ,208 | ,214 | -,092 | ,077 | -,179 | ,005 | ,806** |
| 13 Parental control (formulation of plans) | ,343** | ,290* | ,393** | ,421** | ,413** | -,030 | ,164 | -,047 | ,042 | ,713** |
| 14 Dependence on parent resources | ,169 | ,408** | ,362** | ,391** | ,339** | ,015 | ,064 | ,218 | -,087 | ,314* |
| 15 Dependence on parent capital | -,065 | ,132 | ,050 | ,169 | ,082 | -,022 | -,006 | ,159 | ,225 | ,367** |
| 16 Dependence on information from parent | ,148 | ,424** | ,376** | ,359** | ,343** | ,020 | ,125 | ,203 | -,375** | ,029 |
| 17 Dependence on parent technology | ,315* | ,301* | ,392** | ,325** | ,323** | ,205 | ,196 | ,304* | -,191 | ,092 |
| 18 Dependence on parent management | ,172 | ,348** | ,287* | ,269* | ,274* | -,110 | -,121 | -,015 | -,117 | ,172 |
| 19 Presence of expatriates | ,033 | ,081 | ,170 | ,187 | ,173 | ,150 | -,044 | ,375** | -,190 | -,124 |
| 20 Nationality of HR manager | -,090 | -,296* | -,244 | -,212 | -,254* | ,194 | ,033 | ,212 | ,072 | -,102 |

Notes: ** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed)

Table 2 Correlation matrix- Part 2

| | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
|--|--------|--------|-------|--------|-------|--------|--------|-------|-------|-------|
| 11 Parental control (decision-making) | 1,000 | | | | | | | | | |
| 12 Parental control (supervision) | ,530** | 1,000 | | | | | | | | |
| 13 Parental control (formulation of plans) | ,434** | ,375** | 1,000 | | | | | | | |
| 14 Dependence on parent resources | ,385** | ,134 | ,225 | 1,000 | | | | | | |
| 15 Dependence on parent capital | ,359** | ,289* | ,217 | ,652** | 1,000 | | | | | |
| 16 Dependence on information from parent | ,094 | -,112 | ,092 | ,629** | ,032 | 1,000 | | | | |
| 17 Dependence on parent technology | ,252* | -,070 | ,103 | ,638** | ,154 | ,509** | 1,000 | | | |
| 18 Dependence on parent management | ,251* | ,062 | ,073 | ,719** | ,236 | ,417** | ,350** | 1,000 | | |
| 19 Presence of expatriates | -,174 | -,058 | -,093 | -,133 | -,036 | -,070 | ,071 | -,172 | 1,000 | |
| 20 Nationality of HR manager | -,113 | -,043 | -,103 | -,022 | -,021 | -,127 | ,185 | -,166 | ,235 | 1,000 |

Notes: ** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed)

Given such a distribution of responses it is difficult to conclude whether Hypothesis 1 is supported or not. However, a more detailed analysis of particular dimensions of performance appraisal practices leads to distinctive results. The analysis shows that MNCs are likely to standardize all individual aspects of the performance appraisal process – methods and criteria, frequency and manner of conducting this process - thus providing support for this hypothesis. The highest level of transfer was found in the methods of the performance appraisal process, while the lowest transfer was found in the way this process is conducted.

Hypothesis 2 tested the influence of the foundation method of the MNC subsidiary on the transfer of PA policies and practices. The data collected show that Greenfields and acquisitions represent 90.8% of the sample, of which 49.2% are Greenfield investments and 41.5% acquisitions, while the remainder are joint ventures. However, contrary to our expectations, Hypothesis 2 was not supported, since the establishment mode was not found to have any impact on the degree of transfer of MNC performance appraisal practices from the parent company to the Serbian subsidiaries. As far as Hypothesis 3 is concerned, data collected show that all subsidiaries in the sample are majority owned by a MNC, with ownership between 51% and 100%. Bearing in mind a specific distribution of data on ownership, showing that more than 90% of Serbian subsidiaries are entirely owned by foreign-owned MNCs, Hypothesis 3 must be rejected, as the data analysis would be meaningless. Hypothesis 4 was not supported either, as subsidiary size (measured by the number of employees in the subsidiary) was not found to have any influence on level of transfer of performance appraisal practices in MNCs. Regarding subsidiary age (considered as the number of years since the subsidiary's founding), which was tested under Hypothesis 5, the sample shows that almost half of the surveyed subsidiaries had been operating in Serbia for between six and ten years. Confirming Hypothesis 5, subsidiary age was found to be an important determinant of level of transfer of PA practices from MNC parent to subsidiaries in Serbia. The analysis found a negative correlation between subsidiary age and degree of transfer of PA practices in MNCs, although this relationship was not statistically significant. The analysis of performance appraisal process through its four specific practices suggests that there is a statistically meaningful negative correlation between each PA practice and subsidiary age (relationship between degree of transfer of PA and performance appraisal methods and criteria was found significant at $p < 0.01$, while relationship between degree of transfer of PA and frequency and way of conducting performance appraisal was significant at $p < 0.05$). The majority of Serbian subsidiaries founded more than 5 years ago implemented standardized PA practices from the MNC parent. However, unlike older subsidiaries, 75% of subsidiaries established during the last 5 years mainly

do not apply (or apply to a lesser extent) performance appraisal policies and practices from the parent company. It may be concluded that the analysis found a higher level of transfer of standardized PA practices from parent to subsidiaries that have operated in Serbia for a longer period of time.

The analysis of parental control over MNC subsidiaries elaborated the following aspects: the extent to which the parent company participates in the decision-making process regarding general operations of the subsidiary, the extent to which the parent supervises the operations of the subsidiary, and the extent to which the parent formulates the plans to be applied by subsidiaries. For the purpose of the analysis it was assumed that all of these criteria have equal impact on the degree of parental control over foreign subsidiaries. Hypothesis 6 found strong support ($p < 0.01$). The relationship found between parental control over subsidiaries in Serbia and the level of transfer of PA practices and policies was positive: subsidiaries with a higher level of parental control were more likely to accept parent PA practices and policies. Analysis of the performance appraisal process through its individual practices showed that the degree of parental control over the subsidiary affected all four PA practices, with the strongest influence on the frequency of conducting performance appraisal. The correlation between parental control over subsidiary and level of transfer of PA methods and criteria was found to be statistically meaningful at $p < 0.05$, while the relationship between the level of the transfer and the frequency or the way of conducting the PA process was significant at $p < 0.01$. When each dimension of control was approached individually, even though all the dimensions were found to influence the transfer, imposing plans on subsidiaries by the parent was found to be the strongest predictor of this transfer (significant at $p < 0.01$), both when analysing performance appraisal as a whole or its particular practices. Regarding individual performance appraisal practices, the relationships were found between each practice and each individual dimension of parental control over subsidiary, except for parent supervision of subsidiary operations.

Hypothesis 7 refers to subsidiary dependence upon MNC parent concerning critical resources (capital/financial assets, information, know-how, and management). Analysis of the responses referring to performance appraisal process as a whole did not find support for the hypothesis. However, when performance appraisal process was analysed through its individual practices the results seem to be different, since a statistically meaningful positive relationship was found between subsidiary dependence on the parent regarding critical resources and level of transfer of each particular performance appraisal practice. Bearing this in mind, it may be concluded that subsidiary dependence on the

MNC parent for critical resources is significantly associated with a higher level of standardization of PA practices in MNCs (at $p < 0.01$), thus providing support for Hypothesis 7. Through analysis of each particular kind of resource, a statistically meaningful relationship was found only between subsidiary dependence on parent technology (know-how) and level of transfer of performance appraisal policies and practices in MNCs. If we look at individual practices, the results show a positive correlation between transfer of each practice and subsidiary dependence upon the parent in respect to information, management, and technology (know-how).

Hypothesis 8 tested the relationship between the presence of expatriates in MNC subsidiaries in Serbia and the degree of transfer of performance appraisal policies and practices within these companies. It was found that the number of subsidiaries with expatriates is approximately equal to the number of subsidiaries without expatriates. Contrary to our expectations, the analysis found no support for Hypothesis 8, as data did not confirm that MNCs were more likely to transfer PA practices to subsidiaries with a higher number of expatriates. Hypothesis 9 tested the relationship between the nationality of HR managers in subsidiaries and the level of transfer of PA policies and practices from MNC parent to subsidiaries in Serbia. A negative correlation was found between background of subsidiary HR manager and degree of transfer of each individual performance appraisal practice from MNC parent to subsidiary (although this relationship was statistically significant only for performance appraisal methods and the manner of conducting the performance appraisal process). However, this hypothesis could not be supported, as the results showed an unexpected distribution of data: in more than 90% of the surveyed subsidiaries the HR manager was from Serbia.

5. DISCUSSION

The results of our research indicate the existence of a substantial transfer of performance appraisal policies and practices from the MNC parent to its subsidiary in Serbia, thus leading to a high level of standardization of these policies and practices among the surveyed MNCs. The high degree of transfer is consistent with results of previous research conducted by Lu and Björkman (1997), Kim and Gray (2005) and Björkman et al. (2008), and Svetlik et al. (2010) in the context of Serbia.

The analysis shows that half of the surveyed MNCs implement PA practices from the parent company, while 20% of MNCs fully transfer their PA policies

and practices from headquarters to the Serbian subsidiary. However, when analysing individually each particular performance appraisal practice, we found that a considerable transfer of standardized PA policies and practices happens within the surveyed MNCs (mostly in terms of standardized methods and criteria). Reasons for the failure of this transfer in some MNCs may be found in the characteristics of the environment in this host country, primarily in terms of cultural differences between Serbia and MNC country of origin, which may affect the performance appraisal process to a high degree and thus potentially create difficulties for or limitations on successful implementation of a universal performance management system within MNCs.

The results of the study have supported the assumption that transfer of performance appraisal practices is affected by various variables. Analysis of the whole performance appraisal process showed statistically meaningful difference only between degree of transfer of PA practices and MNC parental control over subsidiary. However, analysis of each individual PA practice found that transfer of PA policies and practices from MNC parent to its foreign subsidiary depends on the degree of control of parent over subsidiary (Hypothesis 6), age of subsidiary (Hypothesis 5), and subsidiary dependence upon parent resources (Hypothesis 7), with the last one being by far the strongest predictor of this transfer for each individual practice. Hypotheses 2, 3, 4, and 8 must be rejected, as neither method of establishment, ownership type and subsidiary size, or presence of expatriates in the subsidiary seemed to have any impact on the level of transfer of performance appraisal practices in MNCs.

Interestingly, the analysis found no evidence to suggest that establishment mode has a significant impact on transfer of PA practices. Such finding is in line with results of earlier research on transfer of HRM practices in MNCs (Kim and Gray 2005, Björkman et al. 2008); but is not consistent with the finding of Rosenzweig and Nohria (1994) that subsidiaries established through acquisitions are more likely to adopt local HRM practices than subsidiaries established as Greenfield investments. A possible explanation of the results gained in our study may lie in the distribution of data collected, which, with an almost equal number of acquisitions and Greenfields, was inadequate for an appropriate analysis.

Contrary to the findings of previous research (Hannon et al. 1995, Lu and Björkman 1997, Björkman and Lu 2001), type of ownership of the subsidiary was not found to be a relevant predictor of level of transfer of performance appraisal practices and policies in MNCs. The study showed that subsidiaries majority-owned by MNCs tend to adopt PA practices from the parent. However, given that

almost all surveyed subsidiaries are majority-owned by MNCs, testing of this hypothesis would not be reasonable and the results would be unreliable.

The outcome regarding the size of subsidiary was not surprising, as much of the previous research did not find this variable to have a clear effect on standardization of HRM practices within MNCs. However, Tahvanainen (1998) found support for the correlation between subsidiary size and degree of transfer of performance appraisal practices, claiming that smaller subsidiaries are less likely to conduct performance appraisal processes systematically, even when a subsidiary is part of a large company that has a standardized performance management system.

The presence of expatriates in foreign subsidiaries was also found to be insignificant in our study, which was surprising as it contradicted general observations in IHRM literature regarding the crucial role of expatriates in transfer of HRM practices within MNCs. However, it is consistent with the findings of Kim and Gray (2005), whose research failed to confirm the existence of a relationship between presence of expatriates in the subsidiary and HRM standardization in the MNC, as well as with the findings of Myloni et al. (2007), who found expatriate presence in MNC foreign subsidiaries to be a weak predictor of degree of transfer of HRM practices.

The findings regarding the nationality of the HR manager in the subsidiary are consistent with those of Björkman et al. (2008), who found that subsidiaries whose HR manager was recruited from the local labour market were more likely to implement standardized HRM practices from the MNC parent. However, due to the data distribution, where locals represent 90% of HR managers, our finding cannot be taken as relevant.

In line with the findings of Lu and Björkman (1997), our study found subsidiary dependence on parental inputs to be a significant predictor of level of transfer of performance appraisal practices in MNCs. The research has shown that the subsidiaries that depend substantially on the MNC parent in terms of critical resources are more likely to implement standardized PA policies and practices formulated by the parent. Our study found that transfer of all analysed performance appraisal practices is strongly related to the dependence of the subsidiary on technology (know-how), management, and information from the parent, with the last one being the strongest predictor of performance appraisal standardization within MNCs. Schuler et al. (1993) suggest that expansion of geographical diffusion of foreign subsidiaries requires MNCs to invest more resources in development of their HRM policies and procedures in order to be

able to effectively control subsidiaries. Bearing that in mind and given the fact that subsidiaries which rely on their parent for resources become dependent on the parent over time, the findings of our study imply that most of the surveyed MNCs provide their Serbian subsidiaries with various inputs that enable them to exercise a higher degree of control over the subsidiaries. Even though IHRM literature usually assumes that formal and informal control over MNC foreign subsidiaries may also be carried out by sending expatriates to host country subsidiaries, in the case of Serbia this was not found to be the case.

Parental control over subsidiary was one of the most significant variables in terms of impact on the transfer, and the only one with a positive impact on the transfer of both total and individual performance appraisal practices. The study has emphasized the importance of control and coordination mechanisms for efficient transfer of these policies and practices from the MNC parent to its subsidiaries in Serbia. Based on the results of the research, it may be claimed that a higher level of parental control over the subsidiary leads to a higher degree of transfer. All three individual dimensions of control (extent to which parent participates in decision-making process regarding general operations of subsidiary, extent to which parent supervises operations of subsidiary, and extent to which parent imposes plans to be applied by subsidiary) affect the level of transfer of PA practices, but performance appraisal seems to be predominantly influenced by the last-mentioned dimension of control.

Subsidiary age was also significantly associated with a higher level of standardization of PA practices and policies within MNCs. The analysis showed that older subsidiaries tend to have a higher level of transfer of PA policies and practices from their parent company. This finding is consistent with the findings of Rosenzweig and Nohria (1994), who claim that subsidiaries which exist for a long time in the host country are more likely to fit into the local environment, resulting in a higher resemblance of their HRM practices to local rather than to parent practices.

6. CONCLUDING REMARKS

Our study of 65 foreign-owned subsidiaries located in Serbia analysed the extent to which one crucial HRM practice – performance appraisal – resembles the practices of the MNC parent company, in order to identify the level of transfer of these practices from MNC parent to its foreign subsidiary.

We found that particular independent variables influence the degree to which subsidiary PA practices resemble practices from the MNC parent. Subsidiaries that are dependent upon the MNC parent for critical resources, then those which are highly controlled by their parent companies, as well as older subsidiaries, show a greater tendency to implement PA practices similar to those of their parents.

However, as the level of standardization of PA practices in MNCs is always influenced by the local environment in the host country, when deciding whether they wish to transfer their PA practices and policies from the parent to foreign subsidiaries MNCs need to take into account the local requirements, standards, legislation, customs, and culture that may limit the possibility of full standardization of performance appraisal practices and policies.

Our research sheds light on performance appraisal practices in MNC subsidiaries located in Serbia, which has rarely been the subject of empirical research. An interesting topic for future research would be analysis of the degree of transfer of other HRM practices to MNC subsidiaries in Serbia or another transition country in the same region, which is similar to Serbia in terms of cultural and institutional characteristics and labour market, and which is currently undergoing transition and the EU accession process.

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