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

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Abstract
Context is a central construct in the study of performance appraisal (PA) systems, but to date studies linking the distal context within which organizations operate to PA have been limited in two ways. First, these studies have focussed predominantly on national culture, and have paid less attention to the legal/political and economic environment within which organizations. Second, few studies reflect the growing international nature of business organizations, which create multiple layers of context (e.g., home and host country context). Drawing on both situational strength and institutional theories, we hypothesize the links between the “big three” facets of distal context (i.e., culture, legal/political, and economic) and the processes and purposes of PA systems. Using data from 472 multinational enterprises (MNEs) in 22 countries, we show that all three facets of the distal context of the host country influence decisions about the conduct of PA systems. In addition, we show that the culture and legal/political systems of the home country from which the MNE originated are also linked to the PA processes and purposes. Finally, we find evidence that MNEs are more likely to develop hybridized PA systems that depart from host country norms.

KEYWORDS
Cranet, culture, distal context, economic, hybridization, multinationals, performance appraisal, political

1 | INTRODUCTION

A substantial body of research in human resource management (HRM) focusses on the role of contextual variables in shaping HR practices (Cooke, 2018; Cooke, Veen, & Wood, 2017; Jackson & Schuler, 1995; Von Glinow, Drost, & Teagarden, 2002). Contextualization is particularly important in international research on HRM systems (Dewentick & Remue, 2011; Jackson & Schuler, 1995; Jackson, Schuler, & Jiang, 2014; Larsen & Brewster, 2000; Martin-Alcazar, Romero-Fernandez, & Sanchez-Gardey, 2005; Murphy, Cleveland, & Hanscom, 2018), in large part because of persistent differences in the way these systems are developed and used across nations and regions of the world (Lazarova, Morley, & Tyson, 2008).

In the domain of performance appraisal (PA), the role of context has been arguably the most important theme in research and practice for over 20 years (Caligiuri, 2006; DeNisi & Murphy, 2017; Ferris, Munyon, Basik, & Buckley, 2008; Grey & Kipnis, 1976; Judge & Ferris, 1993; Levy & Williams, 2004; Murphy et al., 2018; Pichler, 2012; Tziner, Murphy, & Cleveland, 2005). Here, contextual influences on PA are usually classified along a proximal-distal continuum (Murphy et al., 2018; Murphy & Cleveland, 1995) where proximal context includes rater-ratee level characteristics within organizations, such as trust in appraisal systems, rater goals, ratee goals, and race–gender–age composition of rater–ratee dyads. Distal context refers to forces external to the organization; research in this area largely have focused on the
influence of cultural factors on appraisals (see, e.g., Caligiuri & Day, 2000; Cho & Payne, 2016; Farh, Dobbins, & Cheng, 1991; Mishra & Roch, 2013; Ng, Koh, Ang, Kennedy, & Chan, 2011; Peretz & Fried, 2012; Yu & Murphy, 1993).

This unitary focus on cultural factors is an important limitation because distal context encompasses more than national culture alone. Indeed, several researchers (e.g., Ferris et al., 2008; Levy & Williams, 2004; Murphy & Cleveland, 1991, 1995; Rickley, 2019; Senge, 2013; Tziner et al., 2005) have argued that there are three specific facets of distal context that are likely to vary across nations and to influence the design and implementation of HR systems, namely: (a) culture, (b) political/legal systems, and (c) the economic environment in which organizations operate. We use the term “big three” to refer to these three aspects of distal context thought to be most relevant to PA systems in organizations, and we offer an analysis which examines the links between these three major facets of distal context and PA processes and purposes in multinational enterprises (MNEs). In considering PA processes, we examine who provides information on an individual’s performance (rating on performance supplied from supervisor, self, peer, or subordinate), while PA purposes in our analysis refers to what PA ratings are used for (e.g., to determine pay, or development, or career moves).

MNEs pose unique challenges to drawing inferences about contextual influences on PA. International subsidiaries of MNEs are potentially subject to influence from the culture, the legal/political and the economic context of both the home country (the country of origin in which corporate headquarters is located) and the host country (the country in which the subsidiary operates). Home and host countries often differ in cultural, legal and political, and/or the economic contexts, and MNEs face potentially complex choices about whether to impose human resource practices from the home country, adopt human resource systems that are more attuned to the host country or indeed develop hybrid systems that reflect influences from both the home and host country. For example, should we expect that PA systems of a subsidiary of an American MNE operating in Germany to reflect American practices, German practices, or some hybridization of both? Thus, in research here on MNE subsidiaries, the proposition that distal context matters in terms of the processes and purposes of PA systems necessarily leads to the question of whose context matters? Addressing this question requires the taking of a doubly multivariate stance—that is, identifying several facets of context that are likely to matter and exploring the links between both the home and the host context and the processes and purposes of PA systems in MNEs.

Research on PA in MNEs has acknowledged the potential for tension between the home desire to maintain consistent policies and preferences across their subsidiaries and the pressure or need to adapt to local host conditions, norms, and circumstances (Cleveland, Guniggle, Hearty, Morley, & Murphy, 2000; Guniggle, Murphy, Cleveland, Hearty, & Morley, 2002). The home context helps to set broad norms and expectations about how the organization can and should operate. The culture and legal/political systems of the home country help to set some general understandings about how HRM systems (such as PA) should be designed and used, while the economic environment in the home context helps to set expectations about what uses of PA data might be feasible. Thus, while the norms and expectations of the home country will not dictate every decision made by subsidiaries operating in host countries with different cultures, legal and political systems and economic environments (Guniggle et al., 2002), we do expect that HR systems in these subsidiaries will reflect, at least in part, the norms and expectations of the home country. Host country culture, political/legal and economic environments cannot, however, be ignored and in some instances the effects of host country distal context are likely to be more immediate, and arguably stronger than home country ones, and thus exert pressure to conform to locally acceptable processes and purposes (Murphy et al., 2018; Murphy & Cleveland, 1995). In this article, we propose that the “big three” facets of both the home and host distal contexts in which MNEs operate serve to shape decisions about both the processes through which PA data are gathered, and the purposes to which this PA information is then put.

The remainder of our article proceeds as follows. First, we assemble arguments from both situational strength theory and institutional theory to explain how distal context serves to influence the operationalization of aspects of PA systems in MNEs. Second, we elaborate the big three distal contexts of relevance to our arguments here and we advance a series of hypotheses on their likely impact on PA processes and purposes. Third, we outline our measures and our methods. Fourth, based on canonical correlations and hierarchical linear modeling, we present our key findings. Finally, we discuss our results and highlight implications for practice and directions for future inquiry.

2 | THEORETICAL BACKGROUND

We draw on both situational strength theory (Meyer & Dalal, 2009; Meyer, Dalal, & Hermida, 2010) and institutional theory (DiMaggio & Powell, 1983) to better understand the way distal context operates, articulating mechanisms by which broad contextual influences are likely to influence operational aspects of PA in organizations. Though drawn from two very different disciplinary research literatures, situational strength theory and institutional theory converge to identify two particular ways in which contexts are likely to influence organizational policies and practices: (a) by establishing and communicating norms that describe behaviors and actions that are, or are not, viewed favorably (Hofstede, Hofstede, & Minkov, 2010; Meyer & Dalal, 2009); and (b) by providing constraints on, or opportunities for, the pursuit of particular courses of action (Forehand & Von Haller, 1964; Johns, 2006, 2017). We review salient aspects of each of these two perspectives that are of relevance to our arguments here regarding contextual determinants of PA processes and purposes.

2.1 | A situational strength perspective

Situational strength represents a valuable theoretical lens for understanding how situations influence behavior (Hattrup & Jackson, 1996; Hough & Oswald, 2008; Meyer et al., 2010; Snyder & Ickes, 1985). Models of situational strength start with the proposition that
contextual variables provide both implicit and explicit cues about the behaviors that are desired or preferred (Meyer et al., 2010; Meyer & Dalal, 2009). Expected norms develop out of these cues and serve as guidelines for appropriate behavior. The central concern of these models is to determine when situations will lead all or most organizations/individuals to behave similarly, and when individual or organizational variations can and will emerge. In other words, is the influence of such situational or contextual variables likely to be strong or weak?

The strength of a particular situation, and thus its potential to influence behavior, depends substantially on the clarity and consistency of the cues that emanate from the situation, and on the extent to which contexts or situations constrain the behavior of individuals or organizations (Meyer et al., 2010). In strong situations, situational cues provide clear and specific direction about how people or organizations should behave, whereas in weaker situations, the contextual cues are rather indirect or indistinct and consequently have potentially smaller effects on behavior and actions. Thus, variations among people and organizations are most likely to emerge when contexts present as ambiguous or as “weak situations.”

The application of situational strength theory has been extended beyond the level of individual behavioral analysis, to include collective contexts that are guided by norms (e.g., groups, organizations). For example, O’Reilly and Chatman (1996) applied these ideas to describe stronger and weaker organizational cultures, where stronger culture reflects patterns of shared assumptions, norms and values that define a situation, and increase behavioral consistency with the result that organizational members perceive things similarly and are likely to respond to situations and cues in similar and more consistent ways.

Gelfand et al. (2011) have applied concepts drawn from theories of situational strength to classify cultures in terms of their tightness, based on the strength of their social norms and tolerance of deviant behavior. They propose that tight cultures have a higher degree of situational constraint, which serves to restrict the range of behaviors deemed appropriate across everyday situations, whereas loose cultures have a much weaker situational structure, affording a wider range of permissible behavior across everyday situations. In later sections of our article, we describe, develop and test the hypothesis that the tightness of different national cultures moderated the relationships between cultural norms and PA processes and purposes.

### 2.2 An institutional theory perspective

Analogous to situational theory, the underlying assumption of institutional theory is that organizations are embedded within a wider institutional field or context (DiMaggio & Powell, 1983; DiMaggio & Powell, 1991; Meyer & Rowan, 1977; Najeeb, 2014; Rosenzweig & Singh, 1991; Scott, 2008). This institutional environment (comprising national cultural, political, legal, social, and economic systems) presents both formal and informal influences which serve to provide cues in the form of rewards or incentives, and constraints upon organizational activities (Meyer & Rowan, 1977; Pauwe & Boselie, 2003; Senge, 2013; Suchman, 1995). Organizations that are seen to be acting in a manner that is consistent with broad cultural and political norms, values, and beliefs that characterize the surrounding environment achieve higher levels of institutional legitimacy and sustainability (Oliver, 1997; Suchman, 1995). Put simply, organizations that fit with their environment or national system and are accepted as such, are more likely to be sustainable than those that do not. HRM researchers have increasingly applied institutional theory to HRM systems and practices to more fully account for variations in policies and practices in different organizational, institutional and national environments.

Three distinct mechanisms through which the institutional context influences HRM policies and practices have been identified in the literature: (a) coercive pressure—the extent to which laws and regulations are used to encourage or regulate particular HRM policies and practices; (b) normative pressure—the extent to which HRM policies and practices are perceived to be acceptable or unacceptable, according to how well they correspond to the prevailing or dominant norms, values and expectations of the context; and (c) mimetic pressure—explaining the tendency among organizations to model or imitate the policies and practices of other organizations that are perceived to be successful in times of uncertainty or turbulence (associated with “best practice” models). These contextual forces arise from a combination of the cultural, legal, political, economic, social and educational systems and actors that exist in the broader distal context within which organizations operate. Together, these three sets of forces converge to exert influence and pressure on organizations to develop or utilize practices that are seen to be a good fit with the environment. In a similar way that people have an innate need to fit their environments (Kristof-Brown, Zimmerman, & Johnson, 2005; Morley, 2007; Van Vianen, 2018), institutional theory suggests that organizations face similar pressure to adopt practices that are consistent with their environments to achieve legitimacy and acceptance.

Given the very different origins, concerns and levels of analysis of situational strength theory and institutional theory, it is striking that they converge on two similar mechanisms by which distal contextual variables influence behaviors and actions—that is, through the impact of norms and of constraints. Organizational decisions are influenced via the transmission of strong norms (about what is/will be acceptable or unacceptable) and the instituting of freedoms or the imposition of constraints governing the pursuit of specific courses of action. These two themes of norms and constraints are useful heuristic devices for understanding how the home versus host contexts within which organizations operate are likely to affect decisions about HRM systems. Moreover, the adoption of these perspectives allows scholars to build what many have described as more pluralist insights into organizational actions, and to enhance the contextual relevance of their research (Cooke et al., 2017; Dewentick & Remue, 2011; Jackson & Schuler, 1995; Johns, 2018; Rousseau & Fried, 2001; Shapiro, Von Glinow, & Xiao, 2007; Teagarden, Von Glinow, & Mellahi, 2018; Tsui, 2007; Von Glinow et al., 2002).

As we note in the sections that follow, conceptualizing different facets of distal context as forces that act via norms, constraints, or combination of both, provides a firm basis for making predictions about which facets of the context within which organizations are
embedded are likely to have distinct and incremental effects on the PA systems in use.

3 | DIMENSIONS OF DISTAL CONTEXT AND HYPOTHESIS DEVELOPMENT

We propose that the big three distal context variables of culture, political/legal and economic context, offer particular explanatory power in accounting for variations in the processes and purposes of PA in MNEs.

3.1 | Cultural context

Broad national and regional cultures represent an enduring and important part of the context in which organizations operate (Kopelman, Brief, & Guzzo, 1989) and the relevance of culture for PA has long been recognized (Murphy & Cleveland, 1991, 1995). Culture transmits a set of norms that help to define which behaviors, policies and actions are desirable or undesirable, and which govern to a large extent what an organization should do or should not do. The influence of culture on organizations is well researched and has a long pedigree. Hofstede and his colleagues, for example, have identified that national differences in work-related values and preferences can be understood in terms of a small number of important cultural dimensions: (a) Power Distance—social inequality, or the degree of separation between people at different levels in organizations or groups; (b) Individualism–Collectivism—orientation toward individuals versus groups; (c) Masculinity–Femininity—preference for achievement and assertiveness versus cooperation and caring; (d) Uncertainty Avoidance—tolerance for versus avoidance of ambiguity and lack of control; (e) Long-term versus Short-term normative orientation—focus on immediate versus more distant outcomes; and (f) Indulgence versus Restraint—orientation toward free expression and satisfaction of desires versus suppression of these desires (Hofstede, 1980, 2001; Hofstede et al., 2010; Hofstede, Neuijen, Ohayv, & Sanders, 1990). Other researchers (e.g., House, Hanges, Javidan, Dorfman, & Gupta, 2004; Schwartz, 1999) have proposed similar models for explaining the links between national cultures and organizational policies and practices.

The Hofstede model has been highly influential in shaping research on the links between culture and the way PA systems are operationalized in organizations. For example, Adsit, London, Crom, and Jones (1997) suggested that the acceptability of upward feedback from subordinates varies across countries, and that this variance can be accounted for (at least in part) by national differences in power distance, individualism/collectivism, uncertainty avoidance, and masculinity. There is evidence that the acceptability of appraisal systems that involve upward feedback (subordinate) or even lateral feedback (e.g., peer ratings) differs as a function of culture (Entrekin & Chung, 2001). Snape, Thompson, Yan, and Redman (1998) note that the alignment between cultural values and PA practices in the United Kingdom and Hong Kong increases the success of these systems. Similarly, Chiang and Birch (2010) presented data suggesting that the purpose of appraisal (e.g., for salary, promotion, development, identification of strengths, and weaknesses) and the formality of appraisal systems vary across nations, and that some of this variability can be accounted for by the cultural values identified by Hofstede.

More recently, in a study of the effects of national culture on PA, absenteeism and turnover in 21 countries, Peretz and Fried (2012) chronologically examined the relationships between power distance, individualism/collectivism, uncertainty avoidance, and future orientation and several features and potential outcomes of PA systems. They showed that all four cultural variables were related to the presence of a formal appraisal system and the use of multiple sources of appraisal information. Therefore, based on existing theory and evidence, we first test the hypothesis that:

H1. Home and host national culture differences will be related to variations in both PA processes and purposes.

The research linking culture and PA suggests that two particular dimensions of national culture, power distance and collectivism, have been most frequently shown to correlate with relevant features of PA systems (Murphy et al., 2018, provide the most recent review and discussion of this research). For example, countries with high levels of power distance may be less likely to use multiple sources of performance information and may rely more often upon information solely from the supervisor. In other words, when power distance is high, it is possible that only information or assessments from supervisors or persons in powerful positions will be respected. Within collectivist cultures, where employees and supervisors work along-side each other and harmony is valued, self-ratings or the use of ratings for performance might be more easily accepted, as long as this feedback is not disruptive to group cohesion and cooperation. Arising from these arguments, we further hypothesize that:

H1a. Home and host culture differences in Power Distance and Collectivism will be strongly related to variations in both PA processes and purposes.

Mobilizing arguments from situation strength, we noted that some cultures have stronger norms and less tolerance for deviations from those norms (Gelfand et al., 2011). This suggests that the effects of cultural norms on organizational practices should be stronger in countries with tight cultures than in countries with looser cultures. We expect therefore that cultural tightness will moderate the effects of context on PA processes and purposes, with stronger cultural effects evident in countries with tighter cultures. Therefore, we predict:

H1b. Home and host cultural tightness will moderate the relationship between the three facets of distal context and both PA processes and purposes.
3.2 | Political and legal context

There is a substantial body of research on the effects of organizational level politics on PA (Curtis, Harvey, & Ravden, 2005; Longenecker, Sims, & Gioia, 1987; Treadway et al., 2005; Tziner, 1999), but much less systematic attention has been devoted to the distal legal and political environment within which organizations operate (for a notable exception, see Wang, Zhu, Mayson, & Chen, 2017). Clearly political-legal systems are related to, and reflective of broader cultural values. For example, Minkov et al. (2017) point out that those societies high on Individualism tend to have stronger economies and political systems that emphasize individual freedom and economic opportunity. Nevertheless, there are good reasons for treating political and legal systems as something more than simple expressions of general cultural values. First, these systems arise over time and are influenced by a variety of historical events, transitions and experiences in different nations, and culminate in an institutionalized historical legacy effect. Second, political and legal systems are often more specific than broad national cultures in laying out the behaviors and policies that are considered acceptable or feasible, and which are codified into sets of rules and regulations. Viewed this way, nations that are culturally quite similar (e.g., United States and United Kingdom, whose profiles of Hofstede values are correlated .84) can have political and legal systems that are quite different from each other’s, and that create alternative norms and constraints on organizational governance, policies and practices.

Political and legal systems can be characterized in terms of a number of dimensions. For the purposes of understanding PA systems, two dimensions appear to be particularly relevant. First, political and legal systems can be described according to the type and severity of the constraints they place on HR systems (Meyer et al., 2010). From an institutional theory perspective this reflects coercive pressures, or a strong situational context in situation strength theory terms. For example, the United States has a well-developed system of law and legal precedents that apply to a number of HRM systems; these laws are particularly likely to influence HRM practices when there is an accusation of, or the potential for discrimination. Murphy et al. (2018) and Murphy and Cleveland (1995) note that the legal environment in the United States places PA systems under close scrutiny when there is evidence of demographic differences in performance ratings, prompting organizations that develop these systems to insist on high levels of job-relatedness, reliability and validity, and to use these systems with care. In comparison, the European Union in place a variety of policies that are designed to limit workplace discrimination, yet the enforcement of these policies does not often approach the level of rigor and cost encountered by American companies (Council of Europe, 2011; Hanges & Feinberg, 2010; Murphy, 2018).

Second, political and legal systems can be characterized in terms of the degree to which their policies are broadly supportive of management versus labor. For example, many states in the United States have adopted right-to-work laws that can substantially limit the viability and power of unions (Hogler, 2011). In contrast, the European Union provides considerable legal support to unions and to collective bargaining (Block & Berg, 2010).

Viewed from these perspectives, political and legal systems directly reflect a combination of normative and constraining features that are institutionalized in the form of societal norms and values, and codes of practices concerning the rights and responsibilities of management and labor. For example, countries with a strong liberal orientation may have values that support (or that are derived from) cultural norms of collectivism, whereas countries with more conservative orientations might place greater emphasis on valuing self-reliance, and these values could influence perceptions of particular PA purposes (e.g., using appraisals to drive pay). These systems also include a number of laws, regulations and policies (e.g., equal opportunity laws, laws and policies which favor unionization) that constrain the types of PA systems that are likely to pass legal muster. Drawing on these insights, we therefore hypothesize that:

H2. Home and host differences in political and legal contexts will make an incremental contribution in predicting variations in both PA processes and purposes beyond that which can be predicted on the basis of cultural variables alone.

In addition, we expect that in countries with a strong orientation toward support for employees as opposed to managers (e.g., countries with stronger safety nets, more liberal orientations and stronger support for unions), PA systems will be structured differently than in countries with more conservative, management-focused orientations. Thus, we hypothesize that:

H2a. Home and host differences in liberal orientation, in support for strong safety nets and for unionization will be particularly strong predictors of variations in both PA processes and purposes.

3.3 | Economic context

Economic systems and economic environments act by placing constraints on, or by providing opportunities for, the purposes to which PA data are utilized. There have been a number of studies of the effects of broad economic systems (e.g., capitalism vs. mixed economies) on HRM systems with a small few focusing on the structure and function of PA systems (e.g., Locke, 1983). Different types of economic systems (e.g., Liberal Market systems vs. Socialist systems) might create different constraints on, or opportunities for, using PA systems in particular ways. One line of inquiry has seen scholars focusing on the ways in which different types of economies provide incentives and opportunities for developing human capital (Noe, Gerhart, Hollenbeck, & Wright, 2011; Tregaskis & Heraty, 2018), suggesting, for example, that market-oriented economies might demonstrate a greater level of willingness to invest in employee development. Studies on the effects of global economic trends and economic performance have examined relationships between the economic performance of different countries and their levels and types of HR
activities, but much of this work has focused on how changing economic conditions influence the recruitment and selection of employees in MNEs (Schramm, 2014). For example, the use of PA to provide performance-based rewards is likely to be viewed as more sensible in an economic environment where meaningful rewards might be available to top performers than in an environment where there are few rewards to distribute.

In a review of research specifically on PA and merit pay, the U.S. National Research Council suggested that the economic environment could play an important role in determining the way organizations link PA and decisions about pay, by limiting or making available financial resources to support effective merit pay plans (Milovich & Wigdor, 1991). In a recent comparison of performance management across contexts, Boselie, Farndale, and Paauwe (2018) highlight a decrease in some performance management related activities which they suggest may be reflective of the recent global financial crisis, a trend which for them highlights “the impact of external economic factors on the shaping of performance management in organizations” (p. 180).

National economic environments differ in their levels of munificence (Castrogiovanni, 1991; Dess & Beard, 1984), and it is likely therefore that the process and purpose of PA systems is different in environments that have more plentiful resources versus those in which key resources are in short supply. For example, if the economy is unstable and weak, the use of PA for development might be constrained because of the very limited number of opportunities for promotion. Conversely, organizations will be more willing to invest resources in both employee development and in giving employees financial rewards when economic environments are relatively favorable. Additionally, during times of economic uncertainty or scarcity, organizations are likely to place more emphasis on managerial control and predictability. This may lead to greater formalization of performance systems, greater top-down influence or control, and greater competition for rewards (e.g., pay raises, promotions). As power accrues to organizations under conditions of economic uncertainty, there is potential for this power to be used to impose appraisal and reward systems that further their interests. We expect that the economic environment of the host country will have a stronger effect than the economic environment of the home country because of the immediacy or situational strength of the constraints and opportunities that the economic environment of the host country presents. In light of this, we predict that:

H3. Home and host differences in economic contexts will make an incremental contribution in predicting variations in both PA processes and purposes beyond culture alone or the combination of cultural, legal and political variables.

3.4 Joint effects of home and host context: Hybridization of PA systems

Building on the debate relating to the adoption of home or host HR practices, a number of scholars have called attention to the capacity for hybridization that is, where HR practices arise from the joint effects of home and host country influences (e.g., Chung, Sparrow, & Bozkurt, 2014; Frimousse, Swalhi, Alaoui, & Wahidi, 2012; Poutsma, Ligthart, & Veersma, 2006; Yahiaoui, 2015). It is argued that if the home and host contexts of the MNE differ substantially, it will develop hybrid HRM systems that reflect aspects of both home and host practices. Faced with this situation, we would expect that the PA systems of the MNEs in our study should differ from the typical PA systems in their host country. That is, the greater the distance between home and host contexts, the greater the distance we expect between the practices of an MNE and the average profile of practices in the host country. In order to capture this, our final hypothesis therefore predicts that:

H4. Hybrid PA systems that depart from host country norms will be more common in situations where there is greater dissimilarity between the home and host contexts.

4 METHODS

In our study, we used country-level data on culture, political and legal systems, and economic systems and economic performance to predict variations in organizational level PA processes and purposes in a large sample of MNEs. Because our interest is on the effects of both the home and host cultural, legal/political and economic contexts, we restricted our analysis to subsidiaries of multinational organizations: (a) where the home and host country differs, and (b) for which we had measures of all of the cultural, legal/political and economic context variables described later for both home and host countries. The analyses reported in the sections that follow are based on data from 472 subsidiaries of international MNEs located in 22 countries that met these criteria.

4.1 Organizational level data

We used data from the 2015–2016 Cranet survey (Lazarova et al., 2008; Morley & Heraty, 2019; Parry, Farndale, Brewster, & Morley, 2021; Parry, Stavrou-Costea, & Morley, 2011) to measure several attributes of the PA systems in the MNEs included in our study. This survey collects firm-level factual information about company characteristics and HR policies and practices from the highest-ranked HR managers from representative national samples of organizations with more than 100 employees. The median number of employees in these organizations was 560, and approximately 35% of these organizations had more than 1,000 employees.

The frequency distribution of responses by home and host country is shown in Table 1. Corporate headquarters for these 472 organizations are, to some extent, clustered in a small group of countries. Over half of the organizations studied here have corporate
headquarters in the United States (121), Germany (78), or France (60).
The organizations studied here are drawn from 17 home and 22 host
countries, and over 1/3 of all possible home–host pairings were rep-resented in this set of 472 organizations. MNEs in all 17 of the home
countries included in this analysis had international subsidiaries in
multiple host countries.

4.1.1 | Characteristics of performance appraisal systems: PA processes

The Cranet survey includes a number of questions on key process fea-
tures of PA system within organizations, such as (a) whether or not
organizations have formal appraisal systems in place and (b) whether
appraisal rating data were gathered from single or multiple sources for
example, immediate supervisor, self, peers, or subordinate (upward
feedback). All of the organizations included in this study had a formal
PA system, with over 84% having such systems for managers, profes-
sionals and lower-level workers (referred to as Clerical in the Cranet
survey).

4.1.2 | Characteristics of performance appraisal systems: PA purposes

In recognition of the multiple potential uses for which PA data can be
deployed in organizations, the survey asked respondents to indicate
whether or not PA data are used in their organization to inform
(a) pay decisions, (b) training and development decisions, or (c) career
moves. Numerous authors (Cleveland, Murphy, & Williams, 1989;
Meyer, Kay, & French, 1965; Murphy & Cleveland, 1995) have
suggested that using the same PA system for both pay administration
and for training and development (or feedback) creates conflicting
demands and expectations, and that this particular combination of
uses has the potential to undermine the effectiveness of PA systems.
We coded the purposes of appraisal as conflicting if PA was used in
the same organization for both pay administration and training and
development.

4.2 | Country-level data

For each country included in the Cranet survey, we gathered country
level data relating to culture, political and legal systems, and economic
systems and economic performance.

4.2.1 | Culture

There are a number of studies that have assessed cultural values at a
country level. We used measures from Hofstede (Hofstede, 1980,
2001; Hofstede et al., 1990; Hofstede et al., 2010) to assess the
home and host cultural context for each organization included in our
study. In particular, we obtained country-level assessments of
(a) Power Distance, (b) Individualism–Collectivism, (c) Masculinity-
Femininity, (d) Uncertainty Avoidance, (e) Long-term versus Short-
term normative orientation, and (f) Indulgence versus Restraint. A
recent paper (Minkov et al., 2017) has described a significant revi-
sion of Hofstede’s measure of Individualism–Collectivism that
appears to show better evidence of construct validity; we used
scores for this revised measure of collectivism3 for all of the coun-
tries included in our analysis.

4.2.2 | Political and legal systems

We drew on Botero, Djankov, La Porta, and Lopez-de-Silanes’s (2004)
quantitative measures of several political and legal features of the
22 countries studied here, such as: (a) Regulatory Strength—high
values indicate higher levels of legal regulation of employment prac-
tices; (b) Support for Unionization—high values indicate higher levels
of support for more unionization; (c) Social Security Orientation—high
values indicate stronger legal support for social safety nets; and
(d) Left of Center—high scores indicate more liberal, less conservative
legal systems.
4.2.3 | Economy

We used data from the World Bank to estimate the 2015 economic growth rate in each of these 22 countries. We also calculated the stability in growth rates over time, measured in terms of the reciprocal of the variance in annual growth rates calculated per year for the period 2000–2015. Finally, we included the log of GNP per capita as an index of economic conditions in each country.

4.2.4 | Country dissimilarity

We used Witt et al.’s (2017) index of institutional distance, a measure that reflects a range of constructs capturing the institutional environments within which organizations operate, as an overall measure of the dissimilarity of home and host contexts. This index represents a pairwise comparison of home and host contexts in terms of education (e.g., literacy rates, mean years of schooling), employment relations (union type—company, party, industrial, craft; union rights), finance (e.g., funding sources—banks, markets; foreign direct investment rates), mergers and acquisitions, internal dynamics (e.g., decision-making structure—top-down, participatory, criteria for pay raises and promotions (e.g., seniority, performance), ownership and governance, rule of law, characteristics of the State (e.g., type—welfare, regulatory, predatory; government effectiveness, voice and accountability). The Witt et al. (2017) index includes variables such as education and internal organizational governance in addition to measures of cultural, legal/political and economic distance.

5 | ANALYTIC APPROACH

Our primary interest in this study is in the contribution of each of the three sets of home and host distal contextual variables (cultural, legal and political and economic) within which organizations operate to explaining variations in PA processes and purposes. The relatively large number of predictors (six culture measures, four measures of legal and political context and three measures of economic context) and dependent variables (four measures each of PA processes and purposes) used here raises the risk of capitalization on chance in statistical significance testing. To address this risk, we started with omnibus tests of the relationships between variables representing each of the big three facets of distal context and measures of PA processes and purposes, as described later.

5.1 | Canonical correlation analyses

Our initial omnibus analysis sought to determine whether there was any relationship between each of the three facets of distal context of the home and host country and PA processes and purposes. We conducted 12 separate canonical correlation analyses (N = 472 for all analyses) to determine whether there were relationships between: (a) our three groups of distal context measures (b) at home and host levels, and (c) our two sets of PA measures. We used the results of these analyses to make choices about which sets of dependent variables to examine in more detail in our subsequent hierarchical linear modeling (HLM).

5.2 | Hierarchical linear model analyses

We followed our canonical analysis with HLM to evaluate the relationship between home and host culture and each of the dependent variables that our canonical correlation analysis showed to be plausibly related to culture. We then sought to assess whether home and host political and legal and economic context measures made an incremental contribution, above and beyond cultural context, to predicting the choices organizations made about each of the PA processes and purposes of interest.

5.2.1 | Control variables

In our HLM analysis we used country characteristics as level-2 variables and two organizational (level-1) characteristics that have been found to be relevant to HRM practices in previous studies as predictors/control variables (e.g., Brown & Heywood, 2005; Chen-Ming & Chen, 2007; Cristiani & Peiró, 2018; Purcell, Nicholas, Merrett, & Whitwell, 1999) namely the degree of unionization and whether the organizations were involved in manufacturing or services.

Unionization was included as a level-1 control on the basis of the potential for unions to place constraints on HRM practices. Unionization is measured in the Cranet survey using a 5-point scale that reflects the percentage of the workforce that is unionized. Sector was included as a level-1 control on the basis of differences in how the work is performed and on the type of supervision typically found in manufacturing versus service industries. Fifty-one percent of the organizations included in this study were involved in manufacturing, the remaining organizations were in the service and transportation sectors.

Our HLM analyses followed an incremental approach. For each dependent variable, we first estimated a null baseline model, then a model with organization-level (level-1) controls, then a model that added cultural characteristics (Hofstede measures of Power Distance, Masculinity, Long-Term Orientation and Indulgence, and Minkov et al. measures of Collectivism), followed by a model containing controls, culture and political/legal variables (Employment law type, Collective relations, Social security laws, Left of Center orientation), and finally a model containing controls, culture, legal and political variables and economic variables (economy type, growth rate, variability in growth rate). We fitted models for both home country contexts and host country contexts and we evaluated improvements in fit as we added each of the facets of distal context.

In order to test the moderating effect of home and host cultural tightness on PA processes and purposes, we used Gelfand
et al.'s (2011) measures of cultural tightness for 15 of the 22 nations included in our study (we had cultural tightness for 390 of the 472 companies in this study) as a moderator. We used data from these 15 countries to test the hypothesis that cultural tightness moderates the relationship between cultural context variables and PA processes and purposes. We used moderated regression, first entering the six dimensions of culture and a measure of cultural tightness, then examining the change in $R^2$ as the cross-product between these two sets of measures was added to a regression equation.

We discuss our results in detail in the sections that follow. First, we discuss overall patterns of result according to the manner in which each analysis proceeded. Several hypotheses regarding which context measures would be particularly strong predictors of PA processes and purposes are then discussed before moving on to specific findings from the various models of fit.

6 | RESULTS

Table 2 provides descriptive data for our key dependent variables. Key descriptive data are described later.

6.1 | PA processes

Turning first to PA processes and specifically to address who provides rater information (supervisor, self, peer, subordinate) our analysis reveals that while supervisor rating is common, none of the organizations studied relied exclusively on ratings from a single supervisor for all employees. Self-rating is relatively common with nearly two thirds of the organizations in our analysis using self-ratings for all Clerical, Professional and Managerial employees. In contrast, ratings from peers or subordinates are far less common with just about 30% of organizations using feedback from these sources for any of their employee groups. Managers were most likely and lower-level employees least likely to receive ratings from multiple sources.

6.2 | PA purposes

Turning next to the purpose for which PA data are used, our analysis shows that more than 80% of the organizations studied here use the results of PAs for multiple purposes—for example, to help in determining pay, in addition to identifying training and development needs, and informing career moves. Nearly three quarters of the organizations studied (i.e., 73.9%) used the same performance appraisal system for pay and development, uses that have been widely recognized as conflicting in the literature.

Table 3 presents the univariate correlations between the 14 distal context measures and the eight measures of PA processes and purposes used in this study. These correlations are relatively low, in part because measures of PA processes and purposes reflect both within-country and between-country variability in organizational practices, whereas the predictor variables reflect only between-country variance. Nevertheless, they do provide some indication that variation in cultural, legal/political and economic context measures for both home and host countries are related to PA processes and purposes.

6.3 | Canonical correlation results

We found statistically significant canonical (at the .05 level) correlations between our six culture measures and the four measures of PA practices (squared canonical correlations of .093 and .061 for home and host cultures, respectively) and between the six culture measures and our four measures of PA purposes (squared canonical correlations of .047 and .029 for home and host cultures, respectively). On the basis of this analysis, we can be confident that both home and host cultures are related to both PA processes and PA purposes.
TABLE 3  Organization-level correlations between context measures and performance appraisal system characteristics

|                | Supervisor rating only | Subordinate rating | Self rating | Peer rating | Purpose: Pay | Purpose: Development | Purpose: Career moves | Purpose conflicting |
|----------------|------------------------|--------------------|-------------|-------------|--------------|----------------------|-----------------------|---------------------|
| Culture        |                        |                    |             |             |              |                      |                       |                     |
| Power distance | .037/.052              | −.232/−.055        | −.12/−.152  | −.035/.067  | .076/.071    | .118/.058            | .066/.068             | .087/.126            |
| Masculinity    | −.016/.004             | .024/−.058         | −.064/.033  | .123/−.007  | −.071/−.059  | .006/−.084           | .022/−.012            | −.007/−.020          |
| Uncertainty    | .151/.015              | −.080/−.003        | −.142/−.026 | −.072/−.005 | .031/.019    | .055/005             | .032/−.069            | .030/.026            |
| Long-term      | .203/.192              | −.090/−.043        | −.227/−.175 | −.096/−.100 | −.050/−.094  | −.017/−.009          | −.085/053             | −.060/083            |
| Indulgence     | −.170/−.104            | .071/003           | .178/.164   | .065/.004   | .037/−.137   | −.067/050            | .015/−.058            | .037/−.087            |
| Collectivism   | .155/−.013             | −.090/−.065        | −.112/.161  | −.154/−.116 | −.026/.017   | −.076/−.063          | −.108/−.016           | −.057/−.051          |
| Political/legal|                        |                    |             |             |              |                      |                       |                     |
| Regulatory strength | .187/.064  | −.094/−.001        | −.155/−.075 | −.146/−.025 | −.005/.028   | .016/087             | −.062/006             | −.038/079            |
| Support for unionization | .162/.113 | −.081/−.084   | −.158/−.074 | −.097/−.083 | .025/.158    | .070/−.103           | −.016/−.004           | .003/053             |
| Social security orientation | .074/−.011 | −.081/−.004   | −.047/057   | −.074/−.014 | −.011/054   | .025/−.055           | −.045/−.001           | .011/−.016           |
| Left of center | −.079/.001             | .013/.116          | .110/−.079  | .019/.048   | .146/.027    | .094/−.219           | .111/−.052            | .144/−.102           |
| Economic       |                        |                    |             |             |              |                      |                       |                     |
| GNP stability  | −.066/−.108            | .054/−.034         | .088/.167   | .009/009    | −.007/.027   | .026/027             | .104/−.019            | .025/−.001           |
| Growth rate    | −.111/.092             | .096/−.043         | .122/.074   | .008/.072   | −.015/.178   | .005/−.047           | .059/−.014            | −.022/078            |
| GNP per capital | .014/−.045            | −.044/−.056        | .000/.191   | −.004/−.080 | .067/−.037   | −.003/055            | −.002/−.040           | .049/037             |

Notes: Statistically significant (p < .05) correlations are shown in boldface. Dependent variables are ratings by supervisor only, self and peer ratings, use of PA for pay development, career moves and conflicting uses. Correlations between home and host context measures (home is presented first, followed by host) and PA practices and uses are shown.

Similarly, we found statistically significant canonical correlations between our four measures of legal and political context and the measures of PA processes (squared canonical correlations of .041 and .042 for home and host cultures, respectively) and between four measures of legal and political context and the measures of PA purposes (squared canonical correlations of .060 and .066 for home and host cultures, respectively). On the basis of this analysis, we can be confident that both home and host legal and political contexts are related to both PA processes and PA purposes.

Finally, we found statistically significant canonical correlations between our three measures of the host country economic context and the measures of PA processes and PA purposes (squared canonical correlations of .064 and .035 for processes and purposes, respectively). The canonical correlations between home country economic context measures and PA processes and purposes were smaller and were not statistically significant (squared canonical correlations of .013 and .034 for Processes and Purposes, respectively). This analysis leads us to conclude that the economic context of the host country is related to both PA processes and purposes, but the home country economic context is not relevant to PA processes or purposes.

6.4  HLM analysis of the big three distal context effects

Having established that there are significant relationships between home and host country cultures and legal and political systems and the host country economic environment and PA processes and purposes, we proceeded to use HLM to examine the first hypothesis that cultural variables predict PA processes and purposes and subsequent hypotheses that both legal and economic context measures make an incremental contribution to predicting these PA processes and purposes. On the basis of the nonsignificant canonical correlations between home country economic environments and PA processes and purposes, we did not include home country economic environments in this HLM analysis.

6.4.1  Host country context

Table 4 displays the results of our HLM analysis of the contributions of host country cultural context and the incremental contributions of host country political/legal and economic context variables in understanding variation in PA processes. It also shows pseudo $R^2$ estimates for these models (Snijders & Bosker, 1994, 1999). There is no direct multilevel analog to the $R^2$ values commonly reported in regression, but these pseudo $R^2$ values do provide a rough estimate of the explanatory power of culture, legal/political context and economic context to explaining national differences in PA processes and purposes.

Table 4 demonstrates that variations in host country context are significantly related to six of the eight dependent measures studied here (PA processes of sourcing ratings from supervisors, peers and subordinate, PA purposes of using ratings to make decisions about pay, development, the use of PA for conflicting purposes—i.e., both...
### Table 4: Relationship between context variables and PA processes and purposes—Host country

|                     | Supervisor | Subordinate | Self-rating | Peer rating |
|---------------------|------------|-------------|-------------|-------------|
| **Controls**        |            |             |             |             |
| 1. Manufacturing    | −.015 (.201) | −.005 (.050) | −.045 (.149) | .032 (.103) |
| 2. Unionization     | .137 (.073) | −.049 (.017)* | .011 (.037) | −.106 (.035)** |
| **Cultural**        |            |             |             |             |
| 1. Power distance   | −.007 (.013) | −.002 (.002) | −.005 (.005) |
| 2. Collectivism     | −.004 (.004) | −.000 (.000) | −.002 (.001) |
| 3. Masculinity/femininity | −.030 (.014)* | −.000 (.003) | .003 (.006) |
| 4. Long-term orient. | .038 (.011)** | −.002 (.020) | −.010 (.005) * |
| 5. Indulgence       | .004 (.018) | −.004 (.003) | −.006 (.007) |
| 6. Uncertainty avoidance | −.005 (.006) | .003 (.001)* | .003 (.003) |
| **Political/legal** |            |             |             |             |
| 7. Regulatory strength | −5.87 (1.89)** | .598 (.419) | 1.91 (.846)* |
| 8. Support for unionization | 5.86 (1.86)** | −1.426 (.396)** | −2.50 (.806)** |
| 9. Social security  | 2.50 (1.50) | −.216 (.331) | −.109 (.667) |
| 10. Left of center | −1.91 (.739)* | .557 (.161)** | .761 (.330)** |
| **Economic**        |            |             |             |             |
| 11. GNP per capita (log) |              |             |             |             |
| 12. Growth rate     |              |             |             |             |
| 13. GDP stability   |              |             |             |             |

**Notes:** Political/legal and/or economic context coefficients are shown only if that block of variables makes a significant \( p < .05 \) incremental contribution over cultural context or over the other two context factors. Pseudo \( R^2 \) values are provided for models in which cultural, legal/political or economic context measures make an incremental contribution in predicting choices organizations make regarding PA processes and practices. Unstandardized coefficients are shown, with standard errors in parentheses. \( N = * p < .05; ** p < .01. \)

* Cultural is significant.

*Political/legal contributes over and above cultural.

*Economic contributes over and above cultural and political/legal.
pay and development) and that legal and political and/or economic context measures make incremental contributions over and above cultural context in explaining all six of these dependent measures. The pseudo $R^2$ values for these models suggest that there are small to moderate relationships between context and PA processes and purposes. The results shown in Table 4 are discussed in more detail in our review of support for our hypotheses, presented later.

These results of our canonical correlation analyses and the HLM results presented in Table 4 confirm the prediction that multiple facets of distal context are indeed relevant in explaining variations in PA processes and purposes and that legal and political and economic context measures make a unique contribution in explaining variations in PA processes and purposes, even when cultural context variables are entered first into a model. Specifically, as is shown in Table 4, the political and legal context of the host country makes an incremental contribution over cultural context in predicting three of four PA process measures (supervisor, self, and peer rating) and three of four PA purpose measures (pay, development, conflicting uses).

6.4.2 | Home country context

Table 5 presents the results of our HLM analyses of the contributions of home country cultural context and the incremental contributions of host country political/legal context variables in understanding variation in PA processes and purposes. This table shows that variations in host country cultural context are significantly related to five of the eight dependent measures studied here (use of supervisory ratings only, self-ratings and peer ratings, use of PA results to make decisions about pay and career moves) and that legal and political context measures make incremental contributions over and above cultural context in explaining two of these dependent measures (use of PA for pay and career moves). On the basis of the nonsignificant canonical correlations mentioned earlier, we did not conduct HLM analyses of the incremental contribution of home country economic context measures.

Earlier, we noted that cultural and legal/political contexts work by signaling what is valued and what is tolerated in a particular country, whereas economic contexts influence organizational choices mainly by imposing constraints or providing opportunities to act. We predicted that home country effects would be manifest mainly in terms of the norms that are part of the cultural and legal/political context of the home country, and the results are consistent with this prediction. On the other hand, the economic context of the host country seems less important, because it does not directly constrain the behavior of subsidiaries operating in other countries. For example, in MNEs where the economic conditions in the host country are favorable, there may be more opportunities to use PA to provide concrete rewards, such as pay raises and promotions. More pinched economic conditions in the home country might however limit the freedom of action, or discretion of subsidiaries operating in different economic environments.

6.5 | Support for hypotheses

We examined the links between the big three facets of home and host country context (culture, political/legal, economic) and eight dependent variables representing PA processes and purposes.

6.5.1 | Hypothesis 1

We predicted that variation in home and host culture would be related to organization decisions regarding PA processes and purposes; this prediction was supported in both canonical correlation and HLM analyses. Our canonical correlation analysis provides support for this hypothesis. Table 4 suggests that variations in host country culture are significantly related to six of the eight DVs studied here. Table 5 suggests that variations in home country culture are also clearly relevant and contribute significantly to the prediction of six of the eight DVs.

We predicted (H1a) that Power Distance and Collectivism would be particularly strong predictors of differences in PA processes and purposes. The coefficients shown in Tables 4 and 5 and the correlations shown in the Table 3 are not consistent with this hypothesis. We see little clear evidence that levels of Power Distance or Collectivism in home or host countries are particularly strong predictors of PA processes and purposes.

We predicted (H1b) that cultural tightness would moderate the relationship between measures of national culture and measures of PA processes and purposes. We found moderating effects for both home and host countries. We found (Table 6) that the cultural tightness of the host country moderated ($p < .05$) the relationships between our cultural context measures and three of the four PA process measures (i.e., rating input from supervisors, self and subordinates), as well as the relationship between culture and using PA for development purposes. To illustrate the nature of this moderator effect, we calculated the squared multiple correlation between the six culture measures and each DV in two subsamples; countries with a lower level of cultural tightness (i.e., below the median), and countries with a higher level of cultural tightness (i.e., above the median). In all cases where there was a significant moderator effect associated with cultural tightness, the relationships between context measures and dependent variables were stronger in countries with the tightest cultures.

Table 7 shows that cultural tightness moderated the relationship between the legal/political context of the host country and PA processes linked with sourcing ratings from supervisors and self, and using PA for career purposes, and once again stronger relationships are visible in tighter as opposed to weaker cultures. We did not find any moderator effects for the legal/political context of the home country. Finally, cultural tightness moderated the relationship between the economic context of the host country and particular PA processes (i.e., supervisor and self-ratings) and specific purposes (i.e., use of PA for development). The cultural tightness of the home
### Table 5: Relationship between context variables and PA processes—Home country

|                          | Supervisor | Subordinate | Self-rating | Peer rating |
|--------------------------|------------|-------------|-------------|-------------|
| **Controls**             |            |             |             |             |
| 1. Manufacturing         | .188 (.194)| −.017 (.049)| −.114 (.121)| −.052 (.099)|
| 2. Unionization          | .109 (.194)| −.020 (.015)| −.051 (.032)| −.042 (.029)|
| **Cultural**             |            |             |             |             |
| 1. Power distance        | .003 (.012)| −.003 (.007)| .002 (.006) |             |
| 2. Collectivism          | .006 (.005)| .000 (.003) | −.006 (.002)*|             |
| 3. Masculinity/femininity| .002 (.008)| −.003 (.004)| .000 (.004) |             |
| 4. Long-term orient.     | −.000 (.111)| −.010 (.006)| .009 (.005) |             |
| 5. Indulgence            | −.027 (.015)| .012 (.009) | .010 (.008) |             |
| 6. Uncertainty avoidance | −.002 (.001)| .006 (.006) | −.004 (.005) |             |
| **Political/legal**      |            |             |             |             |
| 7. Support for unionization |         |             |             |             |
| 9. Social security       |            |             |             |             |
| 10. Left of center       |            |             |             |             |
| Pseudo R²                | .03        | .10         | .00         |             |
| Incremental contribution | a          | a           | a           |             |
| N                        | 424        | 439         | 456         | 429         |

### Table 5: Relationship between context variables and PA processes—Pay Development Career moves Conflicting

|                          | Pay       | Development | Career moves | Conflicting |
|--------------------------|-----------|-------------|--------------|-------------|
| **Controls**             |           |             |              |             |
| 1. Manufacturing         | .020 (.224)| .036 (.035) | .038 (.032)  | .079 (.042) |
| 2. Unionization          | .134 (.074)| −.031 (.014)| −.002 (.009)| −.035 (.162)|
| **Culture**              |           |             |              |             |
| 1. Power distance        | −.000 (.002)| .005 (.002)*|             |             |
| 2. Collectivism          | −.004 (.004)| .002 (.001) |             |             |
| 3. Uncertainty avoidance | .001 (.002)| .005 (.003) |             |             |
| 4. Long-term orient.     | .003 (.003)| −.001 (.002)|             |             |
| 5. Indulgence            | −.000 (.005)| .004 (.005) |             |             |
| 6. Collectivism          | .000 (.001)| −.006 (.002)**|             |             |
| **Political/legal**      |           |             |              |             |
| 7. Support for unionization |         |             |              |             |
| 9. Social security       | −.696 (.458)| −.909 (.400)*|             |             |
| 10. Left of center       | .322 (.145)*| .321 (.137)*|             |             |
| Pseudo R²                | .03       | .05         |             |             |
| Incremental contribution | b         | b           |             |             |
| N                        | 468       | 458         | 469         | 461         |

**Notes:** Because the canonical correlations between home economic context measures and measures of PA processes and purposes were nonsignificant, we did not include measures of home country economic context in these models. Political/legal and/or economic context coefficients are shown only if that block of variables makes a significant \( p < .05 \) incremental contribution over cultural context or over the other two context factors. Pseudo \( R^2 \) values are provides for models in which cultural or legal/political context measures make an incremental contribution in predicting choices organizations make regarding PA processes and practices. Unstandardized coefficients are shown, with standard errors in parentheses. \* \( p < .05 \); ** \( p < .01 \).

\( a \)Cultural is significant.

\( b \)Political/legal contributes over and above cultural.
country also moderated the relationship between that county's economic context and the process of self-rating of performance. On the whole, support for Hypothesis 1 is generally positive but in some specific cases mixed. There are significant canonical correlations between home and host culture and most of our measures of PA processes and purposes, but predictions about which aspects of culture should have the most predictive power do not hold up in any clear way. On the other hand, our predictions about the effects of cultural tightness hold up for several DVs, and consistently in the direction predicted by theory—that is, stronger relationships between measures of cultural context and PA processes and purposes in tight rather than in loose cultures.

6.5.2 | Hypothesis 2

Hypothesis 2 received support, with some exceptions. The addition of host country political/legal context measures led to significant increases in model fit for six of eight dependent variables (supervisor, peer and subordinate rating, the uses of PA for pay, development and conflicting purposes). The effects were not as strong for home country; the addition of home country political/legal context measures led to significant increases in model fit for two of eight dependent variables (PA for pay purposes and career moves). Consistent with arguments made earlier in this article about the relative roles of norms versus constraints, we found that both home and host legal/political contexts appear to play a role in shaping who is involved in determining ratings, and what purposes PA data are used for.

We hypothesized (H2a) that national differences in liberal orientation, support for strong safety nets and support for unionization would be especially strong predictors of PA processes and purposes. The correlations shown in Table 3 are generally consistent with this hypothesis, and this hypothesis received partial support from the coefficients for the various models presented in Tables 4 and 5. Host country left of center orientation is related to the use of supervisory, peer and subordinate ratings and the use of PA for development and for conflicting purposes. Support for strong safety nets (labeled Social Security in Tables 4 and 5) does not stand out as a significant predictor in these models, although home country support for safety nets is related to the use of PA for career moves.

6.5.3 | Hypothesis 3

Hypothesis 3 received mixed support in our analysis of host country context effects. The addition of economic context measures led to significant increases in fit as compared to models that only contained either cultural context or cultural plus political/legal context measures for two of the PA purposes (i.e., pay and conflicting uses). This suggests that variation from country to country in economic systems and economic performance provides information for understanding at least some aspects of PA systems that is not accounted for by variation in cultural or political/legal context measures.

We found that the effects of the economic context of the host country were stronger and more consistent than were the effects of the economic context of the home country, and this was borne out in our canonical correlation analyses, which suggest that host but not
home country economic conditions are related to PA processes and purposes.

Overall therefore the Big Three facets of distal context are relevant to the decisions organizations make regarding how PA systems are operationalized and specifically in terms of who is involved in the process of rating performance, and what purposes those ratings are put to. Host country culture is related to both PA processes and PA purposes, and legal and political and/or economic context measures make incremental contributions, above and beyond culture in predicting the majority of the PA features measured here. Both home country culture and home country legal and political contexts are relevant to understanding the choices organizations make regarding PA processes and purposes, and legal and political context measures make an incremental contribution to explaining two measures of PA purpose. Our highest-level prediction was that these Big Three facets of both home and host context would be important and that legal and political and economic context measures would make incremental contributions in explaining organizational decisions about how to design and how to use PA systems was supported, albeit with relatively small effect sizes and with some inconsistency across specific dependent variables.

6.5.4 Hypothesis 4

Our final hypothesis relates to the hybridization thesis which suggests that the higher the degree of dissimilarity between the home and host contexts, the more likely it is that PA systems in the MNE will deviate from the host country norms. In order to test this hypothesis, we focused our analysis on a subset of the 144 distinct home-host pairs contained in the data set. In particular, there were 30 home–host pairs that were represented by five or more organizations. We used this set of home-host pairs, which contained 248 of the 472 organizations included in our study, to test the hypothesis that the dissimilarity between home and host would have a bearing on choices organizations made regarding PA processes and purposes.

To assess the dissimilarity between the of profiles of PA processes and purposes in each MNE and the average profile for the host country, we calculated the modified Mahalanobis distance (Kandogan, 2012; Kogut & Singh, 1988) between these profiles using the matrix formulas presented in Kandogan (2012). We found a substantial and significant correlation between the overall dissimilarity between home and host contexts (as measured by the Witt et al. (2017) index) and the extent to which MNEs developed PA process that deviated from the norm in that host country ($r = .472, p = .008$). On the other hand, dissimilarity between the institutional contexts of home and host countries was not related to the extent to which organizations’ profiles of PA purposes deviated from the profile most typical of the host country ($r = -.098, p = .630$).

We emphasize that these analyses were based on a subset of the 472 organizations included in our study ($N = 248$) and that these conclusions must be drawn with more caution than analyses involving the entire data set. Nevertheless, the analyses at least tentatively support that differences in the cultural, legal/political and economic contexts of the home and host country do appear to have an effect on whether organizations conform to host country patterns and practices or whether they adapt to some extent to the home country contexts.

7 DISCUSSION

Our fundamental point of departure in this article lies in the longstanding observation that organizations, particularly MNEs, exist within a web of contextual norms and constraints which influence what they should do and what they can do. Context has long been recognized as a central concept in PA research, but to date, empirical research on the effects of different domain aspects of distal context on the way PA systems are developed, designed and implemented has often concentrated on cultural aspects, with other facets of distal context featuring much less commonly. Our analysis here provides empirical evidence to support the longstanding (e.g., Murphy et al., 2018; Murphy & Cleveland, 1991, 1995; Senge, 2013; Tziner et al., 2005) contention that, in addition to culture, political/legal, and economic contexts are also important for understanding why the PA processes and purposes are different in different countries. By casting a wider net on the study of distal contextual influences on PA, our study provides considerable support for this proposition that the big three distinct facets of context studied here are all relevant to understanding PA systems in organizations. Our analysis also points to the importance of taking into account the increasingly cross-national nature of organizations (e.g., Kang & Shen, 2016; Meyer, Li, & Schotter, 2020). In MNEs, both the home country and the host country represent potentially distinct contexts, and studies of the effects of distal context on organizational decisions cannot ignore the likelihood that multiple contexts are in play when an organization makes decisions about the design and use of PA systems.

7.1 Contributions to theory

We drew on two distinct theoretical perspectives, situational strength theory and institutional theory, to explicate how context effects are the result of both the norms that the broad culture and the legal/political system convey (describing what behaviors are appropriate and valued) and the constraints that legal, political and economic systems place on the behavior of organizations. These mechanisms provide a ready explanation for the particular pattern of results reported here that is, that all three facets of the distal context of the host country are related to measures of PA processes and purposes, but that only two of these facets of the distal context within which the home country operates (i.e., cultural context and legal/political context) are linked to them. Culture and legal/political systems convey values and norms that describe what behaviors and practices are appropriate and desired, and it is reasonable to expect that the values of corporate headquarters will have a pervasive influence that cuts across national borders. Economic constraints and opportunities, on the other hand, may be more local or proximal as termed in the PA literature (Murphy
For example, if the economic situation in the host country is constrained, organizations in that country might not have the freedom to use PA systems to deliver rewards (e.g., pay raises, promotions), regardless of the economic situation in the home country. A further approach, consistent with these theories, could incorporate a longitudinal or developmental dimension. That is, a country may need to reflect certain economic states (e.g., Growth rate or GDP stability) or political/legal characterization (e.g., support for unionization or left of center) in order to be able to either move companies to other countries (home) or allow MNEs to enter one’s own country (host).

In this study, we relied on large-scale surveys and cross-national studies of cultural values, legal and political systems and economic environments. Because we rely on archival data, we are not able to directly test specific predictions from situational strength or institutional theories. Nevertheless, we believe that our study contributes to theory in two ways. First, we identify converging themes from theories that have not been previously compared or combined. Theories are often developed within disciplinary silos, and we believe that there are real advantages to drawing attention to their conceptual overlap, even where such theories deal with phenomena at different levels of analysis. Second, we provide evidence from a large-scale multinational study of the utility of the converging themes of these two theories (i.e., that contextual variables work by establishing norms and by imposing constraints and providing opportunities for action).

We predicted that the culture and legal political systems of both home and host countries would predict our measures of PA processes and purposes, in large part because these context factors define organizational norms. We also predicted that the effects of economic context (which do not have normative implications, but which often provide both opportunities and constraints) would be limited to the host country. Both sets of predictions were confirmed, suggesting the value of distinguishing between these two mechanisms.

Given the widespread prediction that facets of distal context which are distinct from national culture matter when making sense of decisions organizations make regarding PA, it would have been surprising if we had not found at least some incremental effects for legal/political and economic context measures. What is more important, and potentially unique to this study, is our demonstration that the distal context of the home country matters as well. The national culture of the home country matters for multiple dependent variables, and the legal/political context of the home country has an incremental effect for multiple variables. On the other hand, the economic context of the home country does not seem to add unique information when trying to explain variation in the processes through which PA data are gathered, and the purposes for which these data are utilized.

How do organizations deal with home–host differences?

Our data suggest that both home and host contexts are relevant to choices organizations make regarding PA processes and purposes. If the home and host contexts are highly similar, we expect that these contextual forces are likely to be mutually reinforcing, but when home and host contexts differ in significant ways, host country organizations might be pushed in the direction of adapting to some extent to the home country practices and creating a hybrid HRM system that represents a combination of HR practices that fit the home country and HR practices that are more consistent with the host country. Based only on a small subsample of the total set of home-host pairs, the analyses here suggest that larger differences between home and host countries push international subsidiaries of MNEs to adopt HRM systems that in at least some cases reflect a hybrid of home and host systems.

We speculate that host countries are more constrained in choices they make regarding the purpose for which they use PA data, than in who they involve in the process. Using PA to make decisions about pay or career moves, for example, may be more strongly constrained by host country laws and by the preferences of host country managers and employees because of their impact on high-stakes outcomes (income levels, social class), and this might restrict the influence of home country contexts to some extent. We emphasize that these analyses and the inferences we are making about their meaning are speculative at this point and we suggest that the role of home-host similarity in choices organizations make regarding HR systems is a useful target for additional research.

7.3 | Strengths and limitations

Our study has several strengths. First, it includes a large and diverse sample of organizations, in particular, 472 subsidiaries of MNEs in which home and host contexts differ. This sample included 17 home countries and 22 host countries, and a significant proportion of all possible home-host combinations was represented. We included a range of measures of cultural, legal/political and economic variables, virtually all of which were related to multiple measures of PA processes and purposes. Our data demonstrate the incremental relevance of legal/political and economic contexts in understanding cross-national similarities and differences in PA systems, beyond cultural context. More importantly, they provide evidence that both home and host contexts matter.

There are, nonetheless, several potential limitations to the conclusions that should be drawn from our study. First, while our analysis draws on a large sample of MNEs in multiple country contexts, it is not a fully representative sample. The Cranet survey is limited to medium to large organizations (i.e., organizations with 100 or more employees); about half of the organizations studied fall within the European Union’s definition of a Small and Medium Enterprise (SME—100–500 employees). Thus, our sample does not include smaller MNEs that may vary in how they design and use PA systems.

Second, while our results show that all three dimensions of distal context are important in shaping PA systems, it is important to note that distal context does not completely determine them. The great majority of the variability in all 12 dependent variables is due to
differences within countries rather than differences between countries. Country level context is important, but it is not the only factor that determines who is involved in assessing performance in MNEs, or for what purposes that data are then used. As suggested by much of the PA research literature proximal context factors are likely to predict such outcomes of PA as individual effectiveness of the system, employee satisfaction of the system, and so forth (Murphy et al., 2018).

Third, our hypotheses focus on broad constructs such as the cultural, legal and political and economic contexts of the home and host organizations. Our analyses include multiple measures of each of these broad constructs (e.g., we have five political/legal measures), and while we show significant contributions for particular blocks of variables in predicting particular PA processes or purposes (e.g., Table 3 shows that host country cultural and political/legal contexts are related to the use of Peer Ratings), this does not mean that every measure within each of these sets is significantly related to these measures of dependent variables. Thus, if you focus on specific measures rather than groups of related measures, you might draw different conclusions about the level of support for key hypotheses.

### 7.4 Implications for organizational practice in PA

Our results suggest that distal contextual influences in the form of culture, the political/legal system, and the economic environment all need to be considered when accounting for how PA systems are operationalized in MNEs; a blanket approach to the transposition of systems from one context to another is imprudent. Since these effects span the domains of culture, political/legal systems and economic environment, the achievement of an organizationally designed PA system that fits the distal context in which it is embedded is multifaceted and complex. This design challenge is likely to be particularly complex in MNEs, where the culture, legal and political systems and economic environments of home and host countries vary substantially. It is thus critical that both home and host management teams regularly share explicit information throughout the organization regarding respective cultural, political/legal and economic developments that have the potential to impact a range of organizational policies and practices, in terms of the situational strength and institutionalization of the prevailing norms and constraints. This type of information, as our study demonstrates, offers insights both into the kinds of constraints posed by distal context, but also the opportunities for action, and should therefore inform organizational strategic and operational planning and decisions in MNEs at both home and host levels.

Managers in MNEs have long recognized the normative and constraining features of host cultures that can impact the design and use of PA systems. Based on our findings, we recommend a renewed focus among management teams on the cultural and the political-legal environments of both host and home countries as having the potential to impose norms and constraints on PA systems. As we have seen, where political-legal environments differ between home and host countries, and where the home environment shapes what is considered acceptable practice with respect to who assesses performance, and what purpose that assessment will then be used for, then this home country rationale needs to be clearly communicated during the onboarding process of new employees in the host country. This type of transparent communication that is cognizant of contextual differences may improve the acceptability and implementation of PA in subsidiaries (e.g., Bowen & Ostroff, 2004; Sumelius, Björkman, Ehrnrooth, Mäkelä, & Smale, 2014) and can ensure that employee expectations (including those of supervisors and managers) regarding PA are established at the outset; employee assumptions based on the host country environment could impact on work experiences and the overall performance of the subsidiary, and indeed, on the employer branding of the organization as a whole (Dowling, Festing, & Engle, 2013; Festing, Knappert, Dowling, & Engle, 2012). Alignment between political-legal contexts and PA system choices, on the other hand, is absolutely necessary where national employment legislation provides for certain procedural rules in the PA process.

Moreover, just as changing economic conditions influence the recruitment and selection of employees in MNEs (e.g., Schramm, 2014), our study demonstrates that changing economic conditions in host countries significantly influence the system of PA in MNEs. Regular economic outlook reports prepared by those charged with managing PA systems in host countries may be useful. Cross-national co-decision making (Yahiaoui, 2015) regarding host approaches to sensitive situations regarding constraints on pay or promotion in PA as a result of austerity is recommended, given the critical nature of strategic decisions regarding international PA practices in MNEs (e.g., Kang & Shen, 2016). Further, management and leadership development in MNEs should incorporate not only cultural awareness training, but also training with respect to the political-legal and economic environments across worksites and the complexity of their impact on the process of PA across the organization. Additional training for host management teams may be required in times of economic uncertainty.

At a broader level, the analysis we offer here reaffirms the influence of contextual determinism and the limits to convergence in the management of human resources. It is well established that differences exist in the ways that HRM has been conceptualized, institutionalized and practiced in different parts of the world (Brewster, Mayrhofer, & Morley, 2004; Doucouliagos, Freeman, & Laroche, 2017; Minbaeva, 2016; Morley, Brewster, Gunnigle, & Mayrhofer, 1996; Peretz & Fried, 2012). Tregaskis, Heraty, and Morley (2001) argued that differences in HRM practices arise when differing institutional environments influence the development of formal structures and practices in MNEs. This influence was also noted by Farndale and Sanders (2017), who found that practices relating to compensation and wage bargaining demonstrated little convergence across countries, largely as a result of being institutionally constrained at the national level. In reflecting on the divergent practices in evidence in their research, Doellgast and Marsden (2018) cautioned that models seeking to specify “best practice” or “best fit” HRM strategies are incomplete when they fail to account for the manner in which institutional context constrains or enables different bundles of
practices. Their words of caution reflect more longstanding arguments from Benner and Tushman (2002); Benner and Tushman (2015) who noted how sets of institutional pressures can play a role in the decision to adopt particular sets of process management practices. They cautioned that the growing need to demonstrate adoption of practices and activities may represent what Adler and Borys (1996) earlier described as a form of “coercive bureaucracy.”

Consistent with the above practice implications for MNEs, the results of the present study link specifically with PA processes and PA purposes. The incremental contributions of political/legal and economic factors may act in different ways for other HR systems (e.g., pay, selection, talent management). Additionally, home and host versions of these factors could play out in alternate ways for the various HR systems. For example, host country legal/political may have a more significant influence on selection issues than perhaps on training systems, in part because of the heavier regulation of personnel selection systems worldwide.

7.5 | Implications and direction for further research

In our introduction, we noted that in PA research, “context” is often classified in terms of proximal and distal dimensions. The research strategy followed here, which combines large-scale surveys with multiple sources of information about national cultural, legal/political and economic context is appropriate for studying the effects of distal context, but a very different research strategy will of course be needed to incorporate proximal context measures. For example, Murphy et al. (2018) list organizational climate and culture, organizational strategy, workgroup and team characteristics, and supervisor-subordinate relationships as important aspects of the proximal context within which PA systems operate. Some of these variables might be amenable to measurement via Cranet or other organization-level surveys (e.g., strategy), but many of the key features of proximal context can only be measured by assessing the perceptions and experiences of the individuals involved in PA. We believe that this research will be challenging to execute but clearly worthwhile. First, as we noted earlier, there is a substantial amount of variance on PA processes and purposes that is not explained by distal context, and it is likely that some of this variance in a function of variation in more proximal contexts from organization to organization. Second, it has been suggested (e.g., Murphy et al., 2018) that the proximal context for PA is itself influenced by the distal context within which organizations operate, but there have been few empirical studies of this relationship to date.

In addition, we do recognize that there is likely hybridization of home and host contexts upon PA practices with an emergence of ostensibly unique forms of HR in these MNEs. In our analyses comparing differences in home-host countries with the average of host country practices, there are indications of unique forms emerging—specifically that the distance between home and host context is a predictor of whether PA processes will diverge from the host country norms. This finding suggests that a host’s effects on PA processes and purposes varies with the degree to which the home–host differs with each other on the context dimensions. It is also supportiveness of emerging and multiple hybrid PA systems within MNEs.

Finally, context effects have been widely discussed and studied in research on PA, but these effects are clearly relevant to a wider range of HRM policies and practices (DeWentick & Remue, 2011; Lazarova et al., 2008). It is likely that the relative importance of different facets of distal context will vary depending on the particular HRM practice being considered. For example, economic contexts might loom large when organizations make choices among compensation strategies, whereas legal/political contexts might prove more important when making decisions about personnel selection or layoffs and terminations. We chose to focus on PA in this study because of the widespread acknowledgement of the importance of context for understanding the ways organizations develop and use PA systems (DeNisi & Murphy, 2017; Judge & Ferris, 1993; Levy & Williams, 2004; Murphy & Cleveland, 1995). There are increasing calls for contextualizing research and theory on HRM. Our results provide an indication of the potential relevance of three key aspects of distal context to one HRM practice (PA). We hope to see further attention to legal/political and economic context in research on a wider array of HRM policies and practices.

DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

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ENDNOTES

1 These authors also discuss technological dimensions of distal context as a likely influence on performance appraisal, but there are fewer broad national differences in technological context than in cultural, social/political and economic environments.

2 Meyer et al. (2010) also cite the consequences of actions as a facet of situational strength.

3 The GLOBE study of culture, leadership and organizations (House et al., 2004) provides measures of similar cultural values, and also provides measures of practice. We considered the use of these measures in the place of or in conjunction with the Hofstede measures, but several analyses that used the GLOBE measures failed to converge.

4 World Bank http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG

5 Cultural tightness scores were provided for both East Germany and West Germany; we used the West Germany score to reflect the cultural tightness of Germany.

6 Because our measure of Conflicting Purposes is a linear composite of the measures of Use for Pay and Use for Development, only three of the four purpose measures can be included in the same canonical correlation analysis.

7 Murphy, Myers, and Wolach (2014) review standards for small, moderate and large effects in the social sciences and suggest that $R^2 = .10$ represents a moderately large effect.
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