HRM in Transition Economies: The Case of Serbia

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Abstract:

While the convergence vs. divergence debate has gained broad recognition among both HRM scholars and practitioners, it seems that a closer insight into current HRM developments in the South Eastern European transition economies has yet to be achieved. This paper, therefore, aims to highlight current HRM practices in Serbia and address possibilities for implementing the North American HRM model in a highly incompatible cultural setting. Investigation of HRM practices in Serbia is based on the "CRANET survey on Strategic International HRM" (Brewster et al., 2004) and on interviews with the HR managers of 38 randomly selected companies operating in Serbia. The Serbian national culture has been included a priori in the initial research design as an explanatory variable. Research findings suggest that both the incompetence of HR managers and professionals, as well as a slow-moving transition, need to be carefully considered to explain the distinctiveness of HRM in transition economies. On the other hand, national culture seems to be a key obstacle to the achievement of full convergence of performance appraisal and performance-related pay.

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1. Introduction

Transition towards a free-market economy has encouraged Serbian companies to introduce management systems and to apply tools generally recognized and accepted in developed market economies and successful companies world-wide. Among others, there is a broad awareness and acknowledgment of HRM systems and policies, which are becoming an institutionally accepted pattern of behavior among Serbian companies, regardless of size, maturity, industrial sector or ownership structure. Moreover, the HRM function and HR departments have been set up by law for all government bodies and courts as mandatory. These developments are especially peculiar, keeping in mind that not so long ago HRM practices in Serbia were rather underdeveloped and focused primarily on administrative issues and a traditional approach to HR, as in other ex-socialist countries such as Slovenia (Zupan & Kaše, 2005), Bulgaria and the Czech Republic (Koubek & Vatchkova, 2004). In most Serbian companies, as in other former socialist countries, the "Personnel Function" usually meant maintaining personnel records, administering

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the beginning and termination of employment and placements, keeping records on paid leave, maternity leave and other issues required by the Labor Code (Koubek & Brewster, 1995; Tung & Havlovic, 1996). Core HR activities, such as recruitment, selection, training, career planning, compensation, performance appraisal and employee development were rather neglected and underdeveloped. Consequently, most personnel departments in transition economies were not involved in strategy, policy or operational HR decision making (Tung & Havlovic, 1996). Despite the organizational position, size and professional capacity of the "Personnel department," which actually reflect its power within the organization (Truss et al., 2002; Bowen et al., 2002), it was often grouped together with the legal unit and support operations unit within the same department, and employed lawyers (often only one person with a university degree) and many clerical staff lacking appropriate HRM competencies.

Nowadays many Serbian companies introduce the HRM function by looking at the "North American HRM model" (Brewster et al., 2004), irrespective of several critical differences between North American and Serbian institutional contexts, including cultural and social norms, legislation, economic environment, corporate governance, political environment, education system and tradition, any of which may prevent convergence (Holden, 2001). In this context, from the institutional perspective, it would be challenging to investigate whether HRM, widely accepted as a product of the North American setting (Gooderham et al., 2004), is easily transferable to the Serbian context, especially in view of the characteristics of Serbian national culture, such as high collectivism, high power distance, femininity and high uncertainty avoidance, all of which are quite opposite to the characteristics of the national culture of the US (Hofstede, 1980, 2001a, 2001b), and may strongly prevent full convergence. We believe that a better understanding of HRM policies and practices in Serbia will contribute to comparative HRM. While countries such as the USA, UK, Japan, France and Germany (Clark et al., 1999, p. 526) have been studied thoroughly, there is not much evidence on HRM practices in Central and Eastern European transition economies (Zupan & Kaše, 2005, p. 883).

Convergence vs. Divergence in Comparative HRM

Comparative HRM refers to the research of HRM policies and practices in national or regional contexts, and is mainly focused on HR trends and differences in HRM policies across different countries or regions (Holden, 2001). A central theme in the area of comparative HRM is the convergence vs. divergence

perspective, which is closely related to the following questions: does globalization imply convergence and, therefore, application of unified HR policies, or do the cultural and institutional differences between countries (or regions) make HR policies and practices more distinctive?

Convergence perspective dates back to the 1960s, and suggests that technological changes produce similar organizational models and work systems, therefore increasing the number of similar organizational structures (Kerr et al., 1960). Nowadays, convergence of management systems and practices is seen as the main result of the globalization process, which will unify not only institutional contexts in different countries, but will also lead to the convergence of national cultures (Vertinsky et al., 1990; Ralston et al., 1997). It may, therefore, be expected that cultural differences will become less important in the future (Child & Tayeb, 1983), and will result in the formation of a single, that is, optimal management model (Prentice, 1990). Some empirical studies confirm the dominance of the convergence perspective in the area of HRM (Sparrow & Hiltrop, 1994). However, most studies link the convergence perspective with the macro level, whereas on the micro level they allow for divergence through focusing on individual attitudes, behaviors and performances. Moreover, relevant literature reveals two versions of the convergence perspective (Gooderham et al., 2004). First, the traditional one explains the convergence of HRM practices through the pressure of market and technological forces, as well as through strong US influence on the rest of the world. The newer, institutional version, argues that institutionally driven convergence is taking place within the EU (p. 20).

Divergence perspective recognizes two approaches: cultural and institutional (Holden, 2001). Cultural differences cause differences in organizational behavior, including work motivation, communications, conflicts, work-orientation, definition of goals, performance appraisal and rewarding, decision making and management style (Rollinson & Broadfield, 2002), which proves that cultural values do have a prevailing influence on the every-day work-related behavior of employees and managers (Schuler et al., 2001). Since cultural differences are on the increase, globalization will not facilitate the convergence of national cultures, but rather the modification and spread of diversity of managerial technologies. Perhaps it is only in the US that culture is not regarded as the factor which dominantly shapes HRM practices, since all management theories and concepts are deeply rooted in the American national culture (Hofstede, 1980, 1991, 2001a, 2001b; Gomez-Mejia et al., 2001). Other factors that do not allow for the convergence of HR practices are the national R&D system, the historical roots of industrialization, the political system and tradition, corporate governance, the characteristics of the labor and

capital markets, the education system, and the legal system (Holden, 2001).

At this stage, there is a consensus in literature that: (a) both convergence and divergence forces strongly influence global business (Child, 1981), (b) full convergence has not yet been achieved (Brewster et al., 2004), (c) significant differences between different contexts facilitate further divergence (Mayrhofer et al., 2004), and (d) separation of influences of convergence and divergence forces is a priority in further research (Holden, 2001). This study, therefore, aims to identify both convergent and divergent HRM practices in Serbia to separate the influence of the two forces.

Serbian National Culture

Since culture has been most frequently used in the majority of articles as an explanatory variable in discussing differences or similarities between HRM practices in different countries (Clark et al., 1999), we shall include the Serbian national culture in the initial research design a priori as a credible explanatory variable. This is further justified by the fact that the characteristics of the Serbian national culture are completely opposite to those of the US culture (Hofstede, 1980, 2001a, 2001b). From different cultural studies (Hofstede, 1980, 1991, 2001a, 2001b, 2002; Hampden – Turner & Trompenaar, 1994; Schneider & Barsoux, 1997; Schuster & Copeland, 1996; Usunier, 1996; Schneider, 1992; Schwartz, 1992, 1994), we have chosen Hofstede's research, since it included Serbia, or to be more precise, the former Yugoslavia.

The former Yugoslavia is the only Eastern European socialist country included in Hofstede's original research of national cultures. However, civil wars that broke out in Yugoslavia divided it into several independent states: Slovenia, Croatia, Macedonia, Bosnia and Herzegovina, Montenegro and Serbia. The disintegration of Yugoslavia gave rise to the question of whether there ever was a unique model of Yugoslav national culture. The former Yugoslavia was a controversial country with many differences within itself. However, since all nations of the former Yugoslavia are of Slavic origin (including Bosnian Muslims) and share a similar geographical and natural environment, it is reasonable to assume that the cultural assumptions of the nations of the former Yugoslavia are common to each. Hofstede himself confirmed this. After the disintegration of Yugoslavia, the original data he had collected were broken down into data on the national cultures of Slovenia, Croatia and Serbia (Hofstede, 2001b, 2002). All of the three cultures were classified as national cultures that are close to one another. It is likely that during the last ten years some divergent developments were recorded in these three national cultures, but it is too short a period for these cultures to have diverged significantly. Also, it

is reasonable to assume that Serbian national culture has changed the least with regard to the original research, due to the very slow process of transition towards political democracy and a market economy. Thus, we may assume that data on the national culture of Yugoslavia actually reflects the Serbian national culture characterized by high power distance, high uncertainty avoidance, collectivism (low individualism) and femininity. According to Hofstede's research (2001b), there are major differences between Serbian and Anglo-Saxon cultures in terms of all of the above dimensions.

Research methodology

In order to obtain a closer insight into current HRM policies and practices in Serbia, in this exploratory study we have focused on the following research questions: (1) What are the elements of the Serbian HRM model? (What is the role of HRM function and HR strategy in Serbian companies, particularly with regard to its organizational position and scope? What is the role of HR strategy in the overall business strategy? How are HRM responsibilities distributed between HR department and line managers? What is the size of HR departments, etc.?) (2) Which HRM practices are adopted by the Serbian companies? (3) Are there any differences between the Serbian and the North American HRM models? (4) How can these differences be explained, especially in terms of the distinctive cultural milieu? (5) Is it more likely that the Serbian HRM model will converge with or diverge from the North American HRM model in the future?

In order to answer these questions, we conducted a survey in thirty eight randomly selected Serbian companies. The sample included 66,419 employees, of which 819 were employed in HR departments. The sample included medium and large companies from twelve industrial sectors (only companies from two sectors: agriculture, hunting, forestry and fishing, and local government were not included in the sample) in private (57.9%), state (26.3%) or mixed ownership (15.8%). Of the selected companies, 63% were established in Serbia, and the average level of maturity of selected companies was 43.9 years.

The research was carried out during 2006 in the form of face-to-face visits to HR directors, HR managers and specialists working within HR departments. Hence, an important criterion in the selection of companies for this research was easy, direct access to companies. We investigated the HRM model by using the CRANET (Cranfield Network project) survey on Strategic International HRM, which is explained in detail and used in research of HRM in Europe (Brewster et al., 2004, p. 451-463). Although this survey is meant for and used

in international research projects, we applied it within the national context for the following two reasons: (1) it enables comprehensive investigation of current HRM practices in Serbia, and (2) it would enable us to compare our findings with those obtained via the European HRM model (Brewster et al., 2004) and possibly add some new insights into the convergence-divergence debate, especially with regard to South-Eastern European transition economies.

After collecting completed questionnaires, we interviewed Senior HR /personnel managers, which made it possible for us to obtain accurate and more detailed data on the current HRM policies and practices in selected companies.

The HRM areas included in the research are: the role of the Personnel/HRM function (15 questions), staffing (8 questions) and flexible working practices (3 questions), employee development (10 questions) and appraisal (3 questions), compensation and benefits (4 questions), employee relations and communications (6 questions). We also collected some general data about selected organizations regarding their size, industry sector, employee structure by age, education and vocation, number of expatriates if any, main HR problems, etc. (21 questions). The data were processed by using descriptive statistics and the results are presented in the following section.

The Evidence

The role of Personnel/HRM function

Research findings about the role of HRM function in Serbia are as follows:

- The majority of the selected companies have a separate HR/Personnel department (86.8%).
- The average size of a Personnel/HR department, measured by the number of employees, is nearly 22

employees (21.6), whereas the size of HR departments ranges from 2 to a maximum of 200 employees.

- The ratio of the number of HR department staff members to the overall number of employees in a company varies from 0.3 to 9.4, with an average of 1.8 (employees in HR department per 100 employees). Keeping in mind that the average size of a company in the selected sample, measured by the number of employees, is 1,748 employees, the ratio of HR employment indicates that HR departments in Serbia are over-staffed compared, for instance, with the US, where the ratio for large companies is approximately 0.8.1 Furthermore, the majority of HR staff do not perform core HR activities, but engage in administrative tasks.

- In the majority of companies (75.7%), the Head of the Personnel/HR function does not sit on the main Board of Directors. In 60% of such companies, the general manager (GM) has the greatest responsibility on the Board for resolving personnel-related issues.

- The HR department is involved in strategy implementation in only 36.4% of the selected companies.

- One third of the companies surveyed (34%) do not systematically evaluate the performance of the personnel/HR function/department.

- Only 50% of selected companies have a written personnel/HRM strategy. The majority of companies do not have a written policy on employee communication (76.3%), equal opportunity/diversity (78.9%), flexible working practices (76.3%), or management development (57.9%).

- Regarding the responsibility for major policy decision making on HR issues, the research findings reveal mixed results (see Table 1).

	Line management	Line management in consultation with HR department	HR department in consultation with management	HR department
Pay and benefits	45.16	22.58	25.8	6.45
Recruitment and selection	33.33	23.33	30	13.33
Training and development	36.67	13.33	33.33	16.67
Industrial Relations	53.85	15.38	19.23	11.54
Workforce expansion/reduction	36.67	36.67	20	6.66

Table 1. Responsibilities for major HR issues (% of companies)

At first glance, data in Table 1 suggest that the line management has the primary responsibility for HR issues (either solely or in consultation with the HR department). These data also indicate that the responsibility of the line management over the HR issues has increased over the last three years in 20% of the companies. However, the interviews with the HR managers reveal that the primary responsibility for HR issues is not with the line managers, but rather with the GMs.

Staffing practices

Regarding the current staffing practices, the research findings reveal the following:

- The number of companies that increased the total number of their employees by more than 5% in the last three years is equal to the number of companies that decreased the total number by as much (42%). The average increase came to 134.6%, and the average decrease to 29.6%.

- The following methods were used for downsizing purposes: recruitment freeze (31.25%), early retirement (56.25%), voluntary redundancies (81.25%), compulsory redundancies (18.75%), outplacement (6.25%), no renewal of fixed-term/temporary contracts (31.25%) and outsourcing (50%).

- The majority of companies experience difficulties in recruiting/retaining two staff categories: managers (55.3%) and professionals. When recruiting senior and middle managers, the majority of companies use internal recruitment rather than external, whereas for filling junior management positions they mostly go for external recruitment through advertising available positions in newspapers (60.6%). When recruiting candidates from the labor market, most companies specifically target university graduates (62%).

- In selecting the best candidates, the Serbian companies extensively rely on one-to-one interviews, data from application forms and letters of reference (see Table 2).

- The dominant working arrangements in Serbia are fixed-term contracts and shift working (see Table 3), although the use of some flexible arrangements, such as overtime (41.6% of companies), subcontracting/outsourcing (27.8%), and temporary/casual arrangements (26.6%) has increased over the last three years.

Working arrangements	Not used	Less than 1%	1-5%	6-10%	11-20%	More than 20%
Part-time	51.8	27.6	13.8	3.4	0	3.4
Temporary/casual	23.3	20	26.7	13.3	3.3	13.4
Fixed-term	18.7	6.2	3.2	3.2	3.1	65.6
Home-based work	91.2	5.9	2.9	0	0	0
Tele-working	82.4	5.9	2.9	0	5.9	2.9
Shift working	16.1	3.2	12.9	6.5	0	61.3
Annual hours contract	45.2	12.9	0	12.9	0	29

Table 3. The app. proportion of the workforce on the selected working arrangements (in % of companies)

Selection method	For every appointment	For most appointments	For some appointments	For few appointments	Not used
Interview panel	18.9	18.9	13.6	10.8	37.8
One-to-one interview	55.3	23.7	13.2	5.2	2.6
Application forms	76.3	5.3	7.9	2.6	7.9
Psychometric test	16.2	16.2	8.1	5.4	54.1
Assessment centre	2.8	11.1	2.8	5.6	77.7
Graphology	0	8.1	2.7	0	89.2
References	22.2	22.2	30.6	2.8	22.2

Table 2. The most frequently used selection methods (in % of companies)

Employee development and appraisal

Regarding employee training and development practices, the research findings reveal the following:

- HR managers in the majority of companies (73.7%) could not tell what proportion of the company's annual salaries and wages bill was spent on employee training.
- In companies where this data was available, the average spending on employee training accounted for 4.85% of the salaries bill, and if we exclude one company with extremely extensive training activities, the average spending on such activities accounted for 2.94% of the annual wages and salaries bill. Our findings show that 47.3% of total employment in the selected companies is involved in training activities, and in only 2 companies is the proportion of employees involved in training activities lower than 5%. These data suggest that Serbian companies consider training activities an important HRM area.
- HR managers did not know the average number of training days per year for each employee in 63.2% of the companies selected. The results for the remaining companies are presented in Table 4.

Staff category	The average number of training days per year
Management	19.8
Professional/technical	12.2
Clerical	8.7
Manual	11.6

Table 4. The average number of training days per year in different staff categories

- 40.5% of the selected companies do not engage in systematic analysis of their training needs. The rest identify their needs, but only a small proportion does on a regular basis (see Table 5).

Methods for identifying training needs	Always	Often	Sometimes	Never
Analysis of projected business plans	33.33	12.5	20.83	33.33
Training audits	25	12.5	29.25	29.25
Line management requests	41.7	29.2	16.6	12.5
Performance appraisals	41.7	20.8	12.5	25
Employee requests	20.8	37.5	29.2	12.5

Table 5. The use of different methods for identification of training needs (in % of companies)

- Of the selected companies, 44.4% do not monitor the effectiveness of training activities. Of those which do, 57.8% do so on a regular basis - 36.8% immediately after the training, and 21% some months after the training is completed. The monitoring of the effectiveness of training is performed through an assessment of the response/evaluation expressed by the participants (78.3%), examination of the results defined as changes in organizational performance (82.6%), and evaluation of the behaviors defined as changes in job performance (69.6%).

Regarding employee development, our data indicate that this HR area has been almost neglected in Serbian companies, since between 70% and 85% of companies do not implement any development schemes, such as formal career plans, assessment centers, succession plans, planned job rotation, international experience schemes for managers, etc.

- Half of the selected companies have not yet established an appraisal system. In those which have, all staff categories are included in the appraisal process. The appraiser is most frequently the immediate superior (in 66% of companies) or next level superior and other employees (in 34% of companies). The main purposes of the appraisal system are as follows: setting individual performance-related pay (in 60.6% of companies) and identification of individual training needs (51.5%).

Compensation and Benefits

Regarding compensation and benefits, research findings in the selected Serbian companies reveal the following:

- In the majority of companies the individual's base pay across different staff categories is determined at the level of the company (see Table 6).

Level	Management	Professional/Technical	Clerical/administrative	Manual
National/industry-wide collective bargaining	21	28.9	34.2	31.6
Regional collective bargaining	2.6	7.9	5.3	5.3
Company/division	39.5	50	47.4	50
Establishment/site	5.3	5.3	2.6	2.6
Individual	50	36.6	21	21

Note: The sum in columns is not 100, since participants could choose more options.

Table 6. Level(s) of determining basic pay (in % of companies)

- Regarding key elements of the total reward package, half of the companies increased the share of variable pay over the past three years through different incentives (see Table 7), but no clear distinction in offered incentive schemes is made across different staff categories such as management, professionals, clerical and manual staff.

- In more than 90% of companies only management is acquainted with the business strategy, whereas professional/technical staff, clerical (41.7%) and manual workers (27.8%) are mainly informed about work organization. Some changes in communications occurred during the last 3 years; namely, there was an increase of communication through immediate superior and team briefings (in 38.9% of companies).

Selected incentive schemes	Management	Professional/ Technical	Clerical/ Administrative	Manual
Employee share options	2.6	2.6	2.6	2.6
Profit sharing	10.5	7.9	13.2	13.2
Group bonus	13.2	10.5	13.2	10.5
Merit/performance-related pay	15.8	28.9	26.3	21
Profit sharing and group bonus	5.3	5.3	2.6	2.6
Group bonus and Merit/performance-related pay	18.4	10.5	13.2	13.2
Profit sharing and merit/performance-related pay	7.9	5.3	0	0
Profit sharing, group bonus and merit/performance-related pay	2.6	0	0	0
Not used	23.7	28.9	28.9	36.8

Table 7. Incentive schemes in selected Serbian companies (in % of companies)

- Regarding benefits above statutory requirements, apart from the education/training break (in 39.5% of companies) no other benefits are exercised in selected Serbian companies.

Discussion

The Role of HRM Function and HRM strategy

The evidence clearly indicates that Serbian companies do have autonomous HR departments. However, the individual details of the majority of senior HR managers suggest that the selected Serbian companies have only recently established HR departments. In 43% of companies, the most senior HR managers have less than 5 years of experience in HRM. Compared to the North-American HRM model, our data suggest that HR departments in Serbia are too big and over-staffed (the ratio for large organizations is 1.8 compared to 0.8 in the US). This over-employment is even greater given that the majority of Serbian HR departments do not perform all HR functions, neither themselves nor through external providers. In fact, the majority of HR staff within HR departments still performs mostly administrative tasks required under the Serbian Labor Code. Besides, HR departments still do not exercise a considerable influence within companies, as they are not included in strategy design and implementation. It is still the General Manager who, independently or in consultation with HR

Employee relations and communication

Regarding employee relations and communication, research findings in Serbian companies point to the minor role of trade unions and very poor communication between managers and employees:

- 18.4% of HR managers are not aware what proportion of employees are members of trade unions, whereas in 39.5% of companies, employees are not members of any trade union;
- In 57.9% of companies, trade unions do not exercise any influence within the organization;
- Only 10.5% of companies feel that the influence of trade unions on the organization has increased over the course of the last three years;
- In 84.2% of companies there are neither joint consultative committees nor workers' councils;
- Managers use an electronic mail system as the main channel of communication with their employees (in 89.2% of companies).

departments, has a primary responsibility for making decisions regarding HR issues.

Overall, the research evidence indicates that the role of the HRM function and HR strategy in Serbia, as in other transition economies, is still relatively weak (Zupan & Kaše, 2005). This divergence from the North-American HRM model cannot be fully explained by the distinctive cultural context, but rather, as Sparrow & Hiltrop (1997) suggested, by factors related to the roles and competences of HRM professionals – a long tradition of performing rather traditional personnel instead of HRM function, lack of appropriate education programs and suitable choices for HR professionals within the university education system, employing lawyers and clerical staff within HR departments and an attitude of managers that the main role of HR department is to ensure observance of the legal terms of employment. However, the fact that a growing number of Serbian companies are introducing the HRM function and, consequently, launching HR departments, may be seen as a promising sign of convergence toward the North American HRM model. Further changes in managerial mind-sets may be expected with the improvement in the professional competence and capacities of HR departments in Serbia. Nevertheless, a longitudinal study in upcoming years is needed to explore whether additional convergence will occur.

On the other hand, regarding Brewster & Larsen's model of European HRM (1992) which includes two dimensions, the integration and devolution of HRM, the research evidence indicates that the integration of HRM with business strategy in Serbian companies is very low, whereas the devolvement of HRM responsibilities to managers is pretty high. However, keeping in mind that in real organizational life Serbian line managers actually do not have the authority and responsibility for the main HR decisions, but rather the general managers (high power distance), contrary to evidence, we believe that actual devolvement of HRM in Serbian companies is extremely low. At the same time, contrary to Brewster & Larsen's model, this does not automatically imply that the HR managers in Serbia hold the main responsibility for HR issues. Actually, the Brewster & Larsen's model cannot be applied in the Serbian HRM model, since devolvement of HRM as they define it can neither be applied nor understood, which prevents us from comparing the Serbian HRM model to the European one.

Staffing practices

A large share of Serbian companies uses traditional staff selection methods, such as one-to-one interviews, filling in application forms and reviewing letters of reference. This is one example of convergence toward the European HRM practice (Brewster et al., 2004).

Use of psychometric tests, assessment centers and other methods for collecting data about personal characteristics, widespread in both US companies and American HRM literature, is almost negligible in Serbia.

We believe that the dominant staffing practice in Serbia may be explained by cultural factors and those related to the role and competence of HRM professionals. The interview is well-matched with certain characteristics of the Serbian national culture i.e. collectivism and femininity, where the personal interaction and direct conversation with a candidate are always preferred and more trusted than objective data about him or her obtained by other, more "objective" selection methods (Hofstede, 2001b). On the other hand, the fact that HR professionals are still not fully competent facilitates the HRM practices that do not require great professional knowledge and expertise. The first interview with candidates in Serbian companies is frequently done by the prospective immediate supervisor, and not by HR specialists. HR specialists are usually involved in checking application forms and letters of reference for the candidates. Psychometric tests and assessment centers require more professional expertise within HR departments, which Serbian companies still lack.

Compensation and Benefits

Though still quite low, the share of employees in Serbian companies whose compensation packages include employee share options, profit sharing, group bonus or merit/performance related pay, is increasing. This is a clear sign of divergence from the North American HRM model and the dominant European HRM practices.

This area of divergence is primarily caused by the characteristics of the Serbian national culture, but may also be explained, at least partially, by the fact that the Serbian financial market is still underdeveloped. High collectivism, femininity, high power distance, and high uncertainty avoidance in Serbian culture create a context where people prefer security rather than high earnings, and good social relationships rather than achievement (Hofstede, 2001b). Therefore, they appreciate reward in the form of social status and security as well as praise. The attitude of an individual toward her or his company is more emotional and ethical, so that equality, not equity, is the preferred principle of distributive justice. Accordingly, incentives are not based on individual, but rather on group achievement, seniority, skills and knowledge (Hofstede, 2001a). Risk-related forms of reward, like bonus and commission or right to purchase company shares, are not preferred primarily because of high uncertainty avoidance. Consequently, the proportion of compensation that is under a risk is usually not higher than 10-20% in Serbian companies. This confirms what Sparrow & Hiltrop (1997) suggest, i.e. that cultural factor

such as the national understanding of distributive justice needs to be appreciated in comparative HRM.

Besides, there is no significant difference in offered incentive schemes for different staff categories such as management, professionals, clerical and manual staff in Serbia. In our opinion, this could be explained by strong collectivism in the Serbian culture. In collectivistic and egalitarian culture, no individual or group can be treated differently than others, as it would destroy the collective spirit. The same incentive packages for all employees represent an additional sign of divergence of Serbian HRM practices.

Options and other long-term incentives, which represent regular North-American managerial incentives, are missing from the "Serbian HRM model" mainly because the Serbian financial market is still underdeveloped. However, since current legislation promotes ending the privatization process by end-2009, as well as the free trade of shares on the Belgrade Stock Exchange, it may be expected that with further development of the financial market, long-term incentives will be more frequently used in rewarding Serbian top managers. This fact actually suggests that besides labor legislation, social security provisions and trade unions, suggested by Sparrow & Hiltrop (1997), and other institutional factors, such as the degree of capital market development, also have to be taken into account in comparative HRM, at least in transition economies, as indicated by Holden (2001).

It would, however, be fair to note a change that may be understood as a sign of convergence of the Serbian HRM model toward the North American HRM model. The fact that half of the selected Serbian companies increased the share of variable pay in the total reward package in the course of the past three years actually indicates that the Serbian HRM model is changing toward the North American HRM model, although this change is quite incongruent with the Serbian national culture.

Employee development and Appraisal

Data on Serbian companies that calculate training costs (24%) show that the proportion of training costs to annual salary and wage bill (4.85%) is similar to the EU average (Brewster et al., 2004), and lower than in the U.S. where, including the indirect costs of training, the average US employer spends over 10% of payroll on education and training (Noe, 2002, p. 179). However, when drawing conclusions, one has to take into account the following facts: (1) the average salaries and wage bill in Serbia is several times lower than in the EU or the US, so the proportion of the same training costs (in absolute terms) to annual salaries bill is higher; (2) use of in-house trainers in Serbia is very rare, which increases the overall training costs; (3) it is probable that employees and

managers in Serbian companies will need much more training as we are in the initial phase of the transition and restructuring process, which is usually accompanied with large layoffs and obsolete competencies of employees, and will result in increased overall training costs in the forthcoming years.

In terms of performance appraisal, the research evidence indicates that only half of the selected Serbian companies introduced performance appraisal, whereas among those applying it, the majority of companies expressed problems in implementation. This is also one area of divergence from the North American HRM model that can be fully explained by a distinctive cultural context. High uncertainty avoidance, power distance, collectivism and femininity create a context where objective and formalized evaluation of performance is often not feasible. Open dialog between the employee and the appraiser, which is mandatory in the performance appraisal process, is not acceptable for either managers or for employees because it introduces a high level of uncertainty in their relationship, as well as a kind of equality between them. In the Serbian national culture, characterized by high collectivism and high power distance, the usual metaphor of a company is a patriarchal family, with a "father" at the top, and where children are not allowed to discuss with their father his comments on their behavior. Individual and public evaluation of group members' performances may destroy the group spirit that is so important in collectivist cultures. Furthermore, in feminist cultures, individual performances are not the most important factor in employee evaluation, but personal qualities such as loyalty, honesty and friendship. For all these reasons, performance appraisal in Serbian companies remains informal, implicit and group-based rather than formal, explicit and individually based.

Employee communications and the Role of trade unions

The proportion of employees in Serbian companies who are informed about the company strategy and financial performance is very low. Poor communication between management and employees in Serbia has been confirmed in numerous researches, which indicates that the majority of employees feel uninformed about important facts concerning the company, and which is consistent with findings in other transition economies (Zupan & Kaše, 2005; Koubek & Vackova, 2004). In addition, the level of participation of employees in decision making in Serbian companies is very low. This is a striking point because, only 16 years ago, self-management was an official management system in Serbia in all companies as required by the Company law, whereas all employees were members of trade unions. Nowadays, less than 20% of total employment in Serbia

is organized through trade unions, which underlies the very weak role of trade unions in Serbia. This is actually an area of convergence toward the North American HRM model and at the same time, an area of divergence from European HR practices (Gooderham et al., 2004).

The weak role of trade unions, as well as the low level of influence of employees on company policy in Serbia, can be explained by both institutional and cultural factors. The institutional setting in Serbia is very much framed by the fact that Serbia has not concluded negotiations over EU accession, and consequently, has not accepted the framework of EU employment relations institutions and procedures, so that Serbian companies, like companies in other SEE countries, are quite free to manage employment relations according to their own interests (Martin & Cristescu-Martin, 2003). In addition, the high level of unemployment in Serbia makes the position of trade unions and employees in Serbian companies very weak. On the other hand, the privatization process (which has not yet ended) makes the position of every employee in Serbian companies very uncertain, and decreases his or her motivation to participate in the union's activities.

On the other hand, the high power distance in the Serbian national culture creates a context in which employees regard unequal distribution of power as a "natural state of affairs." Hence, it is expected that only managers should make decisions, while employees should obey them ("Managers are here to make decisions and solve problems, we are here to implement solutions").

However, it seems contradictory that these same cultural values were shared during the long period of socialism and self-management in Serbia. The high power distance and collectivism prove that the proclaimed self-management system and the leading role of Serbian workers and trade unions were actually faked. At that time, every company had a trade union and a workers' council with very powerful roles in corporate governance. That, however, was only a cover-up for the real power of the Communist Party and state bureaucrats. During the transition, the legal obligation to organize themselves within trade unions ceased, so employees could freely remove this façade. From the employees' point of view, the only change during transition is who wields the power ("fathers") – instead of the state and the communist bureaucrats, it is the tycoons who are the bosses now.

Organization of Work: Flexible Working Practices

Even though traditional fixed work schedules still prevail, the proportion of Serbian companies using flexible working practices, like annual hour contracts and outsourcing, has increased over the past three years. This is an example of convergence with the North American

model as well as with European HR practices (Brewster et al., 2004), but at the same time a sign of divergence from the Serbian national culture. High uncertainty avoidance represents a built-in barrier for implementation of flexible working practices, and is probably the reason for their not being more widely used in Serbian companies, though current legislation even facilitates them. Increased use of flexible working practices in Serbian companies can be explained primarily through changes in institutional factors, such as changes to labor legislation and labor market surpluses, which came about as a result of privatization and restructuring processes and produced large layoffs. Private ownership in Serbian companies was significantly augmented by the privatization process and increased the use of cheaper and less risky (for the employer) flexible working arrangements.

Conclusions and Implications for Management

In this study the authors aim to highlight the emergent HRM practices in Serbia in order to investigate possibilities for implementation of the North American HRM model in a specific and highly incongruent cultural milieu. The research evidence indicates that the formal HRM function in Serbia would be better considered as a personnel department than a HR department, as it is primarily concerned with bureaucratic tracking of HR and maintaining personnel records, rather than being involved in strategy and policy HR decision making, which is consistent with the findings in some other transition economies (Tung & Havlovic, 1996).

In terms of the convergence vs. divergence debate, our research reveals mixed findings. It appears that some HRM practices in Serbia, as for instance the role of trade unions, do converge with the North American HRM model, in spite of the highly incompatible Serbian cultural context. This, in fact, implies that, in some HRM areas institutional factors and the transition process, in spite of a large cultural incongruence, may effectively facilitate the convergence of HRM practices.

On the other hand, the research evidence indicates that the majority of HRM practices in Serbia (the role and scope of HRM function and HR strategy, performance appraisal and performance related pay, staffing practices, employee development and employee communication) largely diverge from those of the US. This is congruent with the thesis that the organizational autonomy on which the HRM concept is advocated in the US is neither espoused nor practiced elsewhere in Europe (Brewster, 1993) and with the findings of some other studies on HRM in transition economies (Tung & Havlovic, 1996; Zupan & Kaše, 2005; Koubek & Brewster, 1995; Alas & Svetlik, 2004; Koubek & Vatchkova, 2004). As already discussed in the previous section, the explanation for the identified differences can be found in three groups of factors, as

suggested by Sparrow & Hiltrop (1997): (1) cultural factors, such as national understanding of distributive justice and manager-subordinate relationships, (2) institutional factors, such as the scope of labor legislation and social security provisions, role of trade unions, and (3) factors relating to the roles and competences of HR professionals (p.202). Our evidence also confirms, as many authors suggested and Holden summarized (2001), that among institutional factors, the differences in capital market development need to be carefully considered when explaining divergence in comparative HRM, especially in transition economies where financial markets are still underdeveloped. This conclusion is congruent with the assumption of institutional theory that organizations are structured in terms of templates that are institutionally derived (Meyer & Rowan, 1977). The speed and success of adopting the new institutional template, as for instance the North American HRM model, depends on its availability and clarity, as well as on the ability and willingness of powerful actors in organizations to implement them. The more elaborated and transparent an institutionally imposed template becomes, the stronger the pressure would be for companies to adopt it, and more companies would obey (Dacin et al., 2002; Greenwood & Hinings, 1996). Hence, the convergence of HRM practice in Serbia towards the North American HRM model will depend on its elaboration as a part of the development of the free-market economic model in Serbia as an institutional context for companies operating in Serbia. The institutional environment beyond the organization's boundaries skews corporate behavior in particular ways (Hoffman, 1999). Once a field becomes well established, there is an inexorable push towards homogenization, whereas the process of "structuration," apart from other elements, depends on the emergence of sharply defined interorganizational structures of domination and patterns of coalition (DiMaggio & Powell, 1983). Thus, the transition in Serbia may be interpreted as a process of building a new institutional context as the free-market economic model becomes increasingly dominant. For that reason, the scope and speed of the transition process seem to be the key for changing the institutional or the "external HR context" (Zupan & Kaše, 2005) in Serbia towards a free-market economy, so that further, rather evolutionary convergence of HRM practices may be expected, but not in the short term due to the slow-moving transition.

Contrary to our assumptions about the credibility of the national culture as an explanatory variable in understanding the specific HRM model, the research evidence suggests that the national culture does not seem to be the most important variable of identified divergences in transition economies. It is only the HRM divergence relating to performance appraisal and performance-related pay that can be fully explained by

cultural differences (Schuler et al., 2001; Weinstein, 2001; Schuler & Rogovsky, 1998; Ralston et al., 1995; Kim et al., 1990) and this finding is congruent with the cultural divergence hypothesis (Hofstede, 1991; Trompenaars, 1993; Hampden-Turner & Trompenaars, 1994). In the case of Serbia, the role and incompetence of HR professionals and institutional factors proved to be of much greater importance in explaining the divergence observed.

In addition to the abovementioned three groups of factors causing HRM divergence, it seems that in Serbia, as in other transition economies (Zupan & Kaše, 2005), the managerial mind-set also presents an important determinant of divergence in HRM practices, especially in terms of the absence of a more profound strategic involvement of the HRM function. The Serbian top managers are still very rarely aware of the fact that human resources are an important source of organizational competitive advantage in the marketplace. They are still mainly occupied with, in their opinion, more complex and important problems, such as acute financial crisis, replacement of obsolete technology, or the response to competition from foreign newcomers. Human resources are not viewed as a critical factor of the company's success, especially in a situation where there are plenty of qualified people waiting for a job, as on the Serbian labor market. In such a context, HRM is still considered a Personnel function that does not regard employee development as an important HR issue nor a section that needs to be consulted in the process of strategy formulation and implementation (Tung & Havlovic, 1996). More strategic orientation of HRM in Serbia will certainly require that, beside managers, the HR staff also acquires new competences such as business competence, professional-technical knowledge of state-of-the-art HRM practices, competence to successfully manage the process of change and the competence to integrate the three other competences in order to increase the company's value (Noe et al., 2006). As Zupan and Kaše (2005) suggested, the HR facilitators of the development of strategic HRM in transition economies will include the following: creation of a HR knowledge base, availability of information resources (e.g. HR research and education, transfer of HR knowledge to organizations, professional associations and networking, access to HR literature), and the availability of HR services (p. 895). The strategic role of the HRM department has also been viewed as an upgrading of its organizational status (Bowen et al., 2002).

Overall, it seems that our findings have in fact confirmed the findings of Sparrow and Hiltrop (1994), who suggested that there is a convergence in the use of HRM for competitive advantage, although some cultural and institutional differences do exert influence on some divergent practices. It seems that in the case of Serbia, further convergence of HRM practices will require the

following: (1) fostering a new generation of highly competent HR managers and professionals, (2) changing a managerial mind-set to become more aware of the role of HRM function in gaining the competitive advantage, (3) integration of the HRM function in strategic management, and (4) placing a stronger emphasis on employee development. In order to smooth the progress of further convergence, Serbia needs faster transition process dominated by a free market economic model

In terms of culturally influenced divergences, our findings are quite congruent with the so-called "cross-vergence" hypothesis (Ralston et al., 1997; Vertinski et al., 1990), assuming that management system and practices in transition economies, like Serbia, will change in some aspects and in some areas because of a strong need to adjust to standard managerial technology consistent with a market economy. On the other hand, in some areas and in some aspects, management systems and practices in transition countries will remain the same because of the pressure of existing values and assumptions coming from a national culture. Researchers and managers in transition economies should find out in which areas standard managerial models and practices can be implemented regardless of the national culture's values, and in which areas standard Western managerial models and practices should be modified and adjusted to the local conditions, both in cultural terms and in terms of the availability of human skills (Tayeb, 1995, p. 602). Our research has shown that, in the area of HRM, performance appraisal and pay for performance schemes diverge from the Western models and have to take into account assumptions and values of Serbian national culture. On the other hand, all other HRM areas seem to be changeable toward the North American HRM model, in spite of huge cultural differences, whereas the scope and speed of convergence will depend on the speed and success of the transition process (Alas, Svetlik, 2004).

However, there are several limitations to this study that should be recognized. First, the narrowness of our approach in focusing only on surveying 38 randomly selected Serbian companies prevented us from broader generalizations of our results. In addition, we could not observe the possible influence of business structure on HR practices, suggested by Sparrow and Hiltrop (1997) as an important factor that needs to be appreciated in comparative HRM. Second, our initial research design adopted the national culture as the most probable explanatory variable for possible differences from the North American HRM model. As our research evidence indicated, other factors, such as institutional and factors related to the competence of HR professionals should have also been introduced in our research design a priori in order to provide for deeper understanding of local circumstances. Third, we used Hofstede's research on national culture in spite of the many constraints to

this work summarized by Sondergaard (1994, p. 419) and Tayeb (1994, p. 435). However, Hofstede's research is the only available research that provides precise indications of cultural values of the population in this region. Finally, our research design, including one survey of selected companies, prevented us from addressing possible changes in the development of Serbian HR practices and policies.

Nevertheless, this paper represents a first step to understanding some of the unique challenges and responses of companies from specific cultural contexts in coping with their problems with the implementation of Western management policies and systems. Future research should expand on the present investigation through exploration of a much larger sample and the longitudinal study of HRM developments in Serbia in the coming years. □

Endnotes

1. See Human Resource Compensation Survey (1993), Dearfield, Ill: Wiliam M. Mercer Inc; also Bulletin to Management (1993) 'Human Resource Compensation Survey'. 22 July, 228-229.

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