SCIENTIFIC PAPERS

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CULTURAL DIVERGENCE AND PERFORMANCE EVALUATION SYSTEMS: A COMPARATIVE STUDY OF THREE SERBIAN COMPANIES

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ABSTRACT: *Many authors have argued that human resource systems are the business practices most likely to be affected by the cultural context within which they are applied. Among other HRM practices cultural differences significantly affect performance evaluation, causing various difficulties and inefficiencies in the implementation of performance evaluation systems (PES). In order to provide for a deeper understanding of difficulties in the implementation of PES*

within specific cultural contexts, this paper therefore intends to explore the design and implementation of performance evaluation systems in three Serbian companies. The research findings point out the importance of building more culturally sensitive PES, calling attention to some possible directions, particularly in Serbia.

KEY WORDS: *performance evaluation system, national culture, cultural divergence*

JEL CLASSIFICATION: M12, M14

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1. INTRODUCTION

Many authors have argued that human resource systems are the business practices most likely to be affected by the cultural context within which they are applied (Laurent, 1986; Li, Karakowsky, 2001; Schneider, 1992). Fombrun et al`s model (the so-called Michigan approach) and Beer et al`s model (the so-called Harvard model) have described the influence of political, economic and cultural contexts on HRM practices (Fombrun et al, 1984; Beer et al, 1984). The influence of national culture on HRM practices and policies is particularly convincingly claimed by the proponents of the cultural divergence perspective (Holden, 2001), who suggest that cultural differences cause differences in organisational behaviour including work motivation, communications, conflicts, work-orientation, definition of goals, performance appraisal and rewarding, decision making and management style (Rollinson & Broadfield, 2002). Therefore, cultural values do have a prevailing influence on the everyday work-related behaviours of employees and managers (Schuler et al., 2001). On the other hand, the convergence perspective proposes that convergence of management systems and practices is 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 future (Child & Tayeb, 1983), and will result in the formation of one, that is, the best, management model (Prentice, 1990).

Some studies argue that much of our knowledge of HRM practices in organisations is based upon research conducted in single cultures or about diversity within a given culture (e.g., United States, United Kingdom, or China), while what is needed is more discussion and research about the influence of multiple cultures on HRM practices (Triandis, Wasti, 2008; Hofstede, 1980, 1991, 2001a, 2001b; Gomez-Mejia et al., 2001). It has been suggested that cultural differences significantly affect, among other HRM practices, performance evaluation (Li, Karakowsky, 2001; Ferris, Treadway, 2008), causing various difficulties and inefficiencies in the implementation of performance evaluation systems (PES).

This study, therefore, intends to address the challenges of implementing PES within a specific cultural context, by investigating the design and implementation of PES in three Serbian companies. We believe that this kind of research will deepen our understanding of the more efficient application of PES within specific, often incompatible cultural settings. Based on the literature overview, we firstly define the PE and PES, as well as the interdependencies between the characteristics of national culture and PES offered by the relevant literature. Then we describe the

context for the research and research methodology, present the research findings, discuss them, and draw some conclusions and implications for primarily Serbian management, but also for the management of companies operating in cultures with similar characteristics. Finally, we address the contributions in this paper and indicate some possible directions for further research.

2. THEORETICAL BACKGROUND

Relevant literature offers various definitions of performance evaluation (or performance appraisal) suggested by different authors (Bernardin, Beatty, 1984; Latham, Wexley, 1981; Anderson, 1996). Nevertheless, all definitions contain the underlying thesis that PE is the process by which an employee's contribution to the organisational goals during a specified period of time is evaluated, thus tying it to "the creation of value for the organisation" (Lawler et al., 1995:630). It may also be defined as a formal, structured system for measuring, evaluating and influencing an employee's job-related attributes, behaviours and outcomes (Schuler, Jackson, 1996:344), referred to as the PES. Performance in this context may be regarded either as the measurable outcomes that are produced or as behaviours exhibited in order to perform certain job activities over a specific period of time (Bernardin, Beatty, 1984:12). To be effective, a PES in any organisation has to provide clarification and communication of all the objectives which the system intends to achieve (Anderson, 1996:99): it is often seen as the tool for providing strategy-consistent behaviour and for reinforcing the desired organisational values. As such, it is considered to meet the following needs: (1) provide adequate feedback to an individual on his or her performance; (2) serve as a basis for modifying or changing behaviour into the desired working habits; (3) provide data for managers to judge future job assignments, compensation, promotions, transfers, or termination; (4) present a basis for the coaching and counselling of the individual by his superior (Fisher et al, 1993). Since performance information influences decisions about salary, promotions, termination, and other key decisions that affect the well-being of employees, PES are affected by legal acts and are expected to result from identifiable job-related criteria. To be effective, a PES should not be regarded individually, as an independent system, but rather as providing an adequate link and fit with other organisational features (Mohrman et al, 1989). As the most important organisational factors many authors suggested the following: strategy (Butler *et al*, 1991), organisational culture (Resnick-West, Von Glinov, 1990), organisational politics (Ferris, Judge, 1991), and national culture (Ferris, Treadway, 2008; Schuler et al., 2001; Weinstein, 2001; Schuler, Rogovsky, 1998; Ralston et al., 1995; Kim et al., 1990; Li,

Karakowsky, 2001; Trompenaars, Hampden-Turner, 2004). According to some studies, in the majority of articles national culture has been most frequently used as an explanatory variable in discussing differences or similarities between HRM practices in different countries (Clark et al., 1999).

There is abundant evidence that the level of individualism/collectivism in national culture significantly influences some choices in the design of the PES. Individualism (IDV) is compatible with the developed and formalised PES based on evaluation of individual performance. Therefore management by objectives (MBO) is most widely adopted in Anglo-Saxon and Scandinavian cultures (Schuler, Rogovsky, 1998). On the other hand, collectivistic cultures strongly resent evaluation of individual performance, and in practice obstruct the use of elaborated, detailed and formalised PES and, consequently, MBO. The ''face'' concept which is built into all collectivistic cultures is the principal reason for this (Hofstede, 2001a; Schuler et al, 2001; Schneider, 1992). It is believed that explicit and public evaluation of individual achievement could harm a group's harmony, and therefore it is not well accepted.

Whereas individualistic cultures favour pay for performance based on individual performance, such as bonus and commission, the collectivistic cultures more commonly prefer group or team incentives (Schuler, Rogovsky, 1998), which is the reason why seniority and skills are preferred as the starting point for determining individual incentives.

On the other hand, the Uncertainty Avoidance (Hofstede, 1980) primarily influences the level of uncertainty and risk incorporated in the PES design. Consequently the highly structured and formalised PES is seen as more compatible with low Uncertainty Avoidance (UA), since PES is an uncertain and open process associated with high risk for both managers effectuating evaluation and the evaluated staff. For this reason, the MBO is much more present in cultures characterised with low UA (Hofstede, 2001a).

Regarding the Masculinity (MAS) dimension, Hofstede (2001a) suggests that masculinity cultures, owing to their result-oriented concept, are compatible with implementation of the system where compensation is related to individual performance. However in femininity (low MAS) cultures the individual performance as a criterion for evaluation of individual performance is less important and is inseparable from individual personality, so that the possibilities for implementation of the PES are limited. Femininity cultures are related to the external control locus that releases an individual from responsibility for the

individual achievement, i.e. result, which is one of key reasons for difficulties encountered in implementation of the PES within femininity cultures (Hofstede, 2001a).

Regarding the Power Distance (PD) dimension (Hofstede, 1980), the MBO is more probable in cultures with low PD, since they imply open and two way discussion of the objectives and achieved outcome between the employees and managers (Hofstede, 2001a).

A more careful analysis of the impact of certain dimensions of national culture on the PES suggests that there is a correlation between the impacts of some dimensions of national culture on the PES. For example, a high degree of UA affects the PES in a similar way as collectivism, femininity and even high PD. On the other hand, individualism, low UA, masculinity and low PD have a similar effect on the PES. Further simplification may lead us to the conclusion that two "ideal" cultural patterns are differentiated, A and B, implying suitability for two opposing models of PE (see Table 1).

Table 1. Impact of cultural patterns on performance evaluation

CULTURAL PATTERN	A LOW PD and UA, HIGH IDV and MAS	B HIGH PD and UA, LOW IDV and MAS
Design of the PES	Objective Individual Formalised Developed Positive for MBO	Subjective Group Informal Undeveloped Negative for MBO

3. CONTEXT FOR THE RESEARCH

The transition of the ex-socialist countries towards a market economy assumes changes in the institutional and economic settings, and consequently changes in how firms operate and how managers and employees behave (Bogićević Milikić, 2007). This process has led Serbian companies to introduce management technologies and systems generally recognized and applied in developed market economies and successful companies world-wide (Bogićević Milikić et al, 2008). Among others, the PES is one which in recent years has gained broad awareness and recognition, becoming the institutionally accepted pattern of behaviour

among Serbian companies, regardless of their size, maturity, industry sector, or ownership structure: furthermore, the PES has been introduced within all governmental bodies and courts as obligatory, required by positive legislation.

However most Serbian organisations expressed considerable dissatisfaction with the evaluation process (Bogićević Milikić et al, 2008), as in other organizations world-wide (Ferris, Treadway, 2008; Laud, 1984; Carson et al, 1991; Meyer, 1980). Still there is evidence that the increasing number of Serbian companies necessitates the introduction of the PES (Bogićević Milikić et al, 2008), in spite of the fact that Serbian national culture, characterised by high collectivism (Low IDV), uncertainty avoidance, power distance and femininity (Hofstede, 2001b), presents a rather unsuitable environment for the effective implementation of the objective, formalised, individual, well-developed PES (See Table 1). The PES, as such, was designed and applied within the Anglo-Saxon cultures, and according to Hofstede`s research (2001b), there are major differences between Serbian and Anglo-Saxon cultures in terms of all of Hofstede`s cultural dimensions.

4. RESEARCH METHODOLOGY

The research method was selected to suit the research aim. We used a qualitative research method: a multiple case study method of three selected Serbian companies, which is suitable for exploring relatively unknown phenomenon. In selecting companies we followed three criteria: (1) access to companies, (2) companies have introduced the PES and have some experience with its implementation, and (3) selected companies are from both public and private sectors, in order to see whether some lessons can be learned and transferred from one sector to the other.

We selected three organisations: *Tarket*, *National Bank of Serbia* and *Telekom Serbia*. All the selected organisations have a few years experience with implementation of the PES, presenting suitable ground for this research. *Tarket* was established in 2002 as a joint venture of the European leading manufacturer of floor coverings, a French-German MNC "*Tarkett Sommer*" and the leading Serbian manufacturer of floor coverings, "*Sintelon*". The company employs about 360 employees, with a very simple, functional structure and relatively few organisational units and hierarchy levels, but with many teams. The annual output is 20.6 millions m^2 of floor coverings, while the sales amount to 55 million euros. *National Bank of Serbia (NBS)* is the Serbian central bank, which employs 2,651 employees. It has a very tall functional structure with many organisational

units on different hierarchical levels, and extremely high centralisation. *Telekom Serbia* is the national telecommunication public company, which provides fixed and mobile telephony services in Serbia. The Greek partner owns nearly 20% of the total capital. It employs nearly 11,000 workers and is characterised by a very complex matrix structure, many organisational units and hierarchical levels. Currently employees' salaries are under the tight control of the IMF and the Ministry of Finance of the Republic of Serbia.

Research design. The research took place during 2006. Data was collected through interviews with raters and ratees, managers and specialists from the HR Department, top management, performance evaluation forms and internal company documents (Internal Act on PES). The design of the PES introduced in the selected companies has been analysed through the following characteristics: measurement content and instruments, measurement process, measurement frequency, who are the raters and ratees, indicators of PE ineffectiveness (existence of rating errors, what types of rating errors are dominant, level and areas of ratees' and raters' dissatisfaction with PES), and probable sources of that ineffectiveness.

Data analysis. To see whether PE in selected companies suffers from rating errors we perform descriptive statistics (Mean and Frequencies of ratings per rater) to investigate the presence of Leniency and Central Tendency and compare average ratings with the midpoint of the rating scale. Since the data on all employees` ratings was not available we could not investigate the eventual presence of a halo error. Additionally we used the results of questionnaires about the employees' satisfaction with the PE in selected companies, which revealed the main sources of employees` dissatisfaction with PES in each company. Interviews with raters indicate the level of their satisfaction with the PES and possible sources of their dissatisfaction.

5. RESEARCH FINDINGS AND DISCUSSION

Characteristics of PES design in three selected Serbian companies are presented in Table 2.

Table 2. Design of the PES in selected companies

Criteria	TARKET	TELEKOM SERBIA	NBS
Positive legislation	Not obligatory	Not obligatory	Obligatory
Design	Elitist	Egalitarian	Egalitarian
Level of control	Comprehensive, detailed, objective, formalised, low level of freedom for supervisors	Comprehensive, detailed, objective, formalised, low level of freedom for supervisors	Comprehensive, detailed, objective, formalised, low level of freedom for supervisors
Raters	Immediate supervisors	Immediate supervisors	Immediate supervisors
Ratees	All employees	Management and key resources / all employees with university degree (total of 1,732)	All employees
Evaluation cycle	Quarterly for employees, and yearly for managers	Once a year	Quarterly
Feedback interview	Obligatory	Obligatory	Obligatory
Type of performance	Results and Behaviour-based appraisal	Results and trait-based appraisal	Trait-based appraisal
Instrument	Mixture of Objective and Subjective measures: Graphic Rating Scale and BARS	Mixture of Objective and Subjective measures: MBO and 5-point Graphic Rating Scale	4-point Graphic Rating Scale
Level of measuring	Individual	Individual	Individual
Link with reward	Direct	Direct	Direct

Research findings regarding rating errors and level of satisfaction with the PES in all selected companies are presented in Table 3.

Table 3. Identified problems with the PES implementation in selected companies

	TARKET	*TELEKOM SERBIA*	*NBS*
Rating errors	YES	YES	YES
Type of rating errors	Positive leniency (Average rating 0.68 on the five point scale from -2 to +2, 52% of ratings in the range from 0 to 1, standard deviation of ratings 0.19.)	Positive leniency (Average rating 3.97 on the 5-point rating scale: average rating per rater is ranging from 2.82 to 4.89)	Positive leniency (Average rating 2.85 on the 4-point rating scale: average rating per rater is ranging from 1.75 to 3.73)
Unintentional/ intentional	Intentional	Intentional	Intentional
Reasons for inflating ratings	To maximise the incentive an employee is eligible to receive and to avoid confrontation with an employee	To maximise the incentive an employee is eligible to receive and to avoid confrontation with an employee	To maximise the incentive an employee is eligible to receive and to avoid confrontation with an employee
Feedback interview	In practice almost never held by middle managers	In practice often avoided by middle managers	In practice often avoided by middle managers
Employees` satisfaction	70% dissatisfied	80% dissatisfied	Nearly 100% dissatisfied
Reasons for employees dissatisfaction	The PES does not make the difference between high and low performers; Receive subjective evaluation; Immediate supervisors - middle managers have no authority to evaluate;	Receive subjective evaluation; Little attention put on the PES by middle managers	Performance criteria are not relevant for many jobs Performance criteria has not been explained well allowing for high subjectivity in evaluation
Managers` satisfaction	Generally dissatisfied	Generally dissatisfied	Generally dissatisfied
Reasons for managers dissatisfaction	PES is "a waste of time", Dissatisfied with the evaluation criteria, Do not see the PES as a part of their job	PES is "a waste of time", PES makes differences between employees PES creates ground for their confrontation with employees	Performance criteria are not relevant for many jobs PES creates ground for their confrontation with employees PES makes differences between employees Some blue-collar workers should not be evaluated

Data in Table 3 clearly indicates the following: (a) ratings are biased in all selected companies, intentionally in all cases; (b) in all selected companies both employees and managers expressed their dissatisfaction with PES. Research findings actually reveal that middle managers represent the most important source of PES violation in Serbian companies, primarily during its implementation either through intentional biasing the ratings or avoiding the feedback interview (see Table 3). Research findings suggest that the design of PES implemented in selected companies (see Table 2) is highly incompatible with the Serbian national culture. High collectivism and external locus of control, deeply rooted in Serbian national culture, are inconsistent with evaluation of individual performance. Moreover, these cultural dimensions can explain why raters inflate their ratings and avoid feedback interviews: to avoid confrontation with their subordinates.

However, high collectivism and external locus of control cannot fully explain the ineffectiveness of the PES in Serbian companies, especially employees' dissatisfaction with the system. Other cultural characteristics, such as high UA, high PD and femininity (Low MAS) are also important and may contribute to a deeper understanding of the problems in the implementation of the PES in Serbian companies. For example high PD is not only negatively correlated with the feedback interviews but also with employees` acceptance of the formal authority of their supervisors - middle managers - to evaluate them. In accordance with the family metaphor of the organisation, employees consider only a leader of an organisation to be entitled, as "head of the family", to evaluate everyone's performance. Furthermore, since the individual performance is inseparable from an individual personality in femininity cultures, employees reject evaluations based primarily on objective results, without provision for the individual characteristics of employees: educational level, personal traits, working experience and so on.

Such findings imply that corrective action regarding the design and implementation of PES in Serbian companies should be done in the short term and should be led by strategically deciding between three possible alternatives, offered by the Convergence – Divergence debate (Ralston et al., 1997; Vertinsky et al., 1990): (1) to reject the PES as definitely unsuitable to the Serbian cultural context until the culture becomes more Western, congruently with the hypothesis of cultural convergence; (2) to search for a PES that will be fully adjusted to the specific Serbian cultural context, which is congruent with the hypothesis of cultural divergence; and (3) to make an attempt to develop a PES that is sufficiently suited to the Serbian national culture to be acceptable in Serbian companies, while maintaining its main functions and roles. Such a PES would be an efficient drive

for pushing Serbian national culture in a direction that is more consistent with contemporary management theory and practice. We believe that the latter is the appropriate choice for transition economies, which are searching for a quick transition towards a market economy.

Therefore, based on research findings, we make an attempt to develop a PES which will be culturally more sensitive and, thus, more efficient within the Serbian cultural context (see Table 4). We propose a PES which will have two conflicting but equally important roles: (1) to help HR managers in Serbian companies cope with the evaluation process in the culturally incongruent context, and (2) to facilitate changes of work-related values deeply rooted in Serbian national culture. The contradictory roles of the proposed PES implies its paradoxical nature: on one hand it has to be consistent with the prevailing cultural values to the extent that it gains acceptance from managers and employees, and on the other hand it has to be sufficiently inconsistent with the dominant cultural values to be able to initiate change towards the Western cultural pattern.

Table 4. Proposed PES for Serbian companies

CRITERIA	DESIGN
Design	Elitist – targeted to different groups of employees
Level of control	Semi-comprehensive, subjective, general, less formalised, high level of freedom for supervisors
Raters	Higher managers with explicit role from company's general manager
Ratees	All employees or selected group of employees
Evaluation cycle	Once a year
Feedback interview	Obligatory, group interviews with possibility for individual interviews
Types of performance	A combination of results-based appraisal, behaviour-based appraisal and trait based appraisal
Instrument	Mixture of Objective and Subjective measures: Graphic Rating Scale and Behaviourally Anchored Rating Scale (BARS)
Level of measuring performance	Primarily group and where necessary individual
Link with reward	Indirect with corrective role of higher management

So, an "ideal" PES for Serbian companies would be one which is in its nature elitist in the way that it targets different groups of employees. PES in Serbian companies has to be less comprehensive, developed and detailed than is the case in Western cultures. In addition PES in Serbian companies has to guarantee more discretion for the supervisors who evaluate and more room for the exertion of their "subjective feelings" about the individual contribution of employees. Only higher managers, such as department heads, should be evaluators, with a very visible role for the leader of the company in the evaluation process. The GM could check, verify and even sign all evaluations done by raters, or in small companies should be the only rater. Performance should be primarily measured on the group level whenever possible and reasonable. Evaluation of individual contributions should be left to the group itself under the leadership of a group leader. Consequently feedback should be primarily a group interview, not individual, and should be led by higher managers, and once a year by the leader of the organization. Further feedback interviews or discussions of group results and individual contributions should be done afterwards under the control of a higher level manager. PES in Serbian organisations should be based on measuring a combination of objective results and the behaviours and traits of employees. Results-based evaluation should be facilitated through measurement of performance on the group level.

The rating instrument also has to be adjusted to this mix of measuring criteria . Finally, ratings should not be directly linked to bonuses and rewards, at least not in the short run. Group and individual ratings should be the base for individual and group bonuses only on a yearly basis. Individual bonuses should be based on a mixture of group, organisational and individual performances. There should be reasonable room left for the general manager's discretion to influence the final allocation of bonuses through the evaluation of organisational units.

However the application of the proposed PES requires fulfilling some preconditions. Measuring results on the group level requires a developed planning system which unfortunately cannot be found in most Serbian companies. Furthermore the majority of companies have no information system developed to a level that would allow them to measure the objective results of individuals or groups. Finally, the vast majority of managers at all levels do not see performance evaluation as a part of their job. Bearing in mind that until recently any kind of formalised PES was almost unknown in Serbian companies, it is clear that extensive training about management instruments and technologies is necessary for Serbian managers.

6. CONCLUSION

We believe that these findings contribute to the existing knowledge in at least two important ways. Firstly, they will help to design more efficient PES within a specific Serbian cultural context, and they show how to adjust other managerial tools and systems to specific cultural contexts in order to improve their efficiency. Secondly, the findings contribute to our understanding of national cultural changes and the current cultural convergence-divergence debate. The paper suggests that the "middle road" in this debate should be possible and would allow for adjusting managerial systems to a specific cultural context, with a simultaneous change of cultural values, in order to be more congruent with assumptions on which managerial systems are based. However, this paper has several limitations and only represents a first step in understanding some of the unique challenges and responses of companies from specific cultural contexts in coping with their problems with the implementation of PES. Future research should expand on the present investigation, primarily by testing our findings through cross-cultural longitudinal studies.

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