



*Journal of Economic Development,
Environment and People*

(online) = ISSN 2285 - 3642

ISSN-L = 2285 - 3642
Volume 3, Issue 3

2014

<http://jedep.spiruharet.ro>



(online) = ISSN 2285 – 3642

ISSN-L = 2285 - 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

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Foreword -

The development of ethics in business and the importance of human and intellectual capital

Corporate Social Responsibility (CSR) first appeared as a concept in the advent of globalisation, which connects global corporations with local communities across the globe. While being fundamentally a means for businesses to increase their competitive edge, it is presently said to be the private sector's response to economic and social crises. Due to this, despite it originating from rich countries, it has increasingly found resonance and advocates in the developing world, as corporations had to fill long-standing governance lacunae. In countries where inequality has created enormous gaps between social groups and therefore the interest in communities is ever present for businesses as there is "no healthy business in a sick society".

For the last few decades, corporations have increasingly been attributed or claimed responsibility for sustainable development agenda items and there is a strong ideological association between sustainability and CSR. While it has often been assumed that the corporate mechanisms for social and environmental improvement could provide protection in society, questions are now being asked as to the extent and effectiveness of such protection.

This issue will explore the relationships within corporations and between corporation and society amidst growing concerns regarding the role business ethics play and what happens to the people and societies affected by them. Since voluntarism and Western ideology seem to be at the heart of most CSR programmes, there is a danger of CSR becoming mainly a conversation between managers of the global capital North and South, elites and NGOs. Therefore in order to paint the most comprehensive picture of how CSR works in developing countries and how it affects society this issue shall take an interdisciplinary approach to this topic, combining knowledge from economics, politics and development.

This theme is therefore explored in depth by S. Sadri's research in India: as an economy in the periphery of capitalism, his work brings to the fore the importance of good corporate governance based on business ethics for the development of a value-centred corporate culture in developing countries.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 2, Issue 4, 2013

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

L. G. Avram's paper further expands on this importance of ethics in business through her research on the evolution and impact of the changing Romanian Legal Framework after the 1990 revolution on the development of managerial ethics of firms in Romania, particularly the effects of European Directives and endemic corruption.

The ethics of business and their relationship with company, state and European legislation is also explored in papers by M. Dubravská, who investigates the challenges of Slovak waste management post EU membership, by R. Bucea-Manea-Țoniș and R. . Bucea-Manea-Țoniș who look at innovation in business through open collaboration with a technological network in a case study concerning refactoring in agile data warehousing while Vavrek, Vozárová, Cehlánová and Ondrijová investigate the role of the Municipality as a source of information in the Prešov district following the freedom of information act no. 211/200 Coll. through the survey of 91 municipalities.

Much as the importance of ethics in business is stressed through the papers in this issue, it would not be complete without an examination of the crucial role human and intellectual capital have played in the conduction of modern day-to-day business. This is a topic picked up by I. Manole in her literature review on virtual teams and e-leadership in the context of a competitive environment, a paper which stresses the transformative power of globalization on the development of human capital through e-teams and outlines future directions for leadership competencies within a virtual context. Likewise, S. Kendirli, S. Kilic and H.C. Kendirli also explore this relationship between intellectual capital and business performance through their survey study on Corum SMEs.

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

An Opinion on Strategic Directions for an Economy in the Capitalist Periphery: The Case of India

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Abstract. This paper is based on sixteen years of intensive examination and research into three Industrial Sectors (manufacturing, process and technology) of Western India and all observations contained herein are born out of and relate directly to those sectors. The premise upon which we stand is that if business ethics and corporate governance co-exists then with proper HR interventions a value centred corporate culture will very likely emerges and the journey towards achieving organisational excellence becomes that much easier. In the postgraduate textbook entitled Organisational Excellence through Business Ethics and Corporate Governance the authors had begun by defining ethics and stating that ethics was the precondition for generating value centred corporate cultures? They then delved deep into what ethics entails and how it impacts the organisation as well as the individual within it. Thereafter they went in to the concept of Corporate Governance, defined it, viewed how it developed, examined how it was practiced overseas and then how it came to India. In this paper the authors attempt to show how good governance is based on ethics and how those who head the functions of People Management, Company Secretary, and Accountancy (cost and chartered) can gainfully use it for realising the larger interest of the organisations they belong to. To that extent, this paper is just what the title suggests: an opinion on the subject based on ongoing research.

Keywords: *Industrial Sectors of Western India, business ethics, corporate governance, organisational excellence*

JEL Codes: L22, J24, J53, O15

1. Introduction

Scholars agree that values are a thought based concept while ethics are an activity-based concept. There is a symbiotic relation between the two. Business Ethics gives us a macro picture of how corporate entities must behave within a given socio-political-economic-cultural environment. This ensures that neither the internal customer (employee) nor the external customer (client) is short-changed. (21) Managerial Ethics explains how executives react when faced with an ethical dilemma. To that extent, it is a micro manifestation of values.(44).



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2. Research Methodology

From ethics flows governance and research suggests that good corporate governance practices assist substantially in the journey towards achieving Organisational Excellence (45). The ongoing research studies on governance by Jairus Banaji in Oxford, Sunita Sharma in Baroda, Sanjeev Agarwal in Jaipur and Sharukh Tara in Mumbai distinctly point towards some credibility to this line of thought. (20) The work of J K Oke in Pune is audacious but being in its very nascent stage as such no specific comment on it can justifiably be made. Work done by individual members from the Institute of Company Secretaries and Bindi Mehta of NMIMS Mumbai is restricted to a treatment of regulators and regulations and it appears they are unable to conceptually transcend that limited paradigm. (43)

This conversion of good corporate governance practices into organisational excellence though highly desirable is by no means either automatic or as straight forward as it is made out to be. There are certain pre-conditions, as our studies from 1999 to date have indicated, for this successful conversion to take place. In keeping with this general belief, in Geometry of HR (2002) Sadri, Jayashree and Ajsaonkar (44) had attempted to focus on learning and innovation. The things firms need to do to be successful become the cause and the effect of this innovation. We had looked at innovation and learning as the solution to various problems that organization face and their justification within the framework of a Strategic HR Intervention. Once we had established to the veracity of this claim i.e. innovation and learning as the panacea for a majority of organizational ills, we concentrated on the actions and policies firms have to undertake to implement these credos. We thereafter attempted to debunk the idea of firms resorting to innovation and change as incremental, one-off measures can achieve excellence. The emphasis on learning and innovation cannot and should not be looked upon as short-term solutions, but as a way and means by which organization are run. (52) The culture of creativity and innovation cannot be inculcated in a short time; these are preceded by a painful transition phase, where long serving policies and philosophy have to be set aside in the interest of developmental growth without of course giving up the basic organisational values.(21)

For the above position to be actualised meaningfully, empty words and knee jerk reactions are hardly enough. The top managements had to be consistent, competent, credible and committed, on the one hand and possess the right values and should be prepared to stand by them, on the other. (1) This was unfortunately not always the case.

As the WTO regime unfolds in 2005 there has to be a major change, a paradigm shift, in the way management looks at the organization and the culture it wants to embed in the system. An end of ideology, on the lines of what Daniel Bell had written about, is very noticeable.(9) In fact, a radically different way of looking at the organisation has to evolve, wherein the focus of all management energies is the complete system. A holistic view of the organization, we argue, has to be developed, in which all ingredients synergize to form the complete whole, and concentrate on the achievement of the organizational goal. (20) We have to move away from the feudal-mercantilist-trader mindset and consciously imbibe the creative-innovative-entrepreneurial mindset keeping ethics and governance as the two guideposts. (42)

Apart from leadership and top management, our study examined the role of the various management cadres and how they must adjust to the new philosophy. A culture, we believe, has to be inculcated in which values, creativity, individualism and reward systems, are merit based, and work climates in which a



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person learns from failures, without being penalized are recognized and adopted.(10) Our study identified and isolated all the relevant factors that affect the evolution of such an organization. In reality, most of them were overlapping, and difficult to extricate but it had been our endeavour to attempt such a task. We concluded that an innovative and learning organization has the best chance to manage the violently dynamic environment and prove successful in the future. This sort of organization is best suited to react to upheavals in the market place, changing consumer preferences and the information and technological revolution is one that has a value centred corporate culture. Change in the 2003-13 has been conditioned by greater transparency and accountability thereby taking the wind out of the sails of the lumpen mediocrity.(43)

As Sadri and Ajaonkar (2003) had argued an innovative organization will be best suited to retain the best talent within the organization. (42) The advent of the knowledge worker – sans geographical boundaries, has made it imperative for organization to foster an environment of learning, merit based reward systems and a culture that constantly seeks to better the past. This is the only way one can remain competitive and decision-making can be fair and objective even when the levels of uncertainty are relatively high.(43)

We also discovered that many organizations including some in the academic world had regressed from being entrepreneurial to being mercantilist. Perhaps this was due to knee jerk reactions in the face of unexpected turbulence in the market or in the work environment. Perhaps this was because those who controlled these organizations suffered from what Van Dusen Kennedy (1965) once referred to as tender-mindedness, and which can be defined as high mindedness not sufficiently conditioned by intellect.(23) The question is then raised as to why should even such organizations today be concerned with fostering creativity and innovation. The obvious reason is that creativity and innovation are clichés used as window dressing to facelift the image of the organisation. Clearly those that look at short run actual costs and neglect long run opportunity costs will soon be consigned to the trash can of history irrespective of how fanciful the window dressing is. (3) We can safely discount these organisations from our discourse.

Instead, let us concentrate on those that are aiming of excellence in order to thrive on the cutting edge of market competition. Business research (5) on successful and failed companies, we further discovered, identifies five key reasons viz.

- Superior long-term financial performance is associated with innovation. The companies that is most successful at building shareholder wealth over the long-term stress innovation as a corporate value. (4)

- Customers are increasingly demanding innovation. Because customers experience new ideas and technologies daily, they have come to expect innovation in all the goods and services they use. Adler (2) followed by Deming cites the need for innovation in saying that it is not sufficient anymore to simply have happy, loyal customers.

- Competitors are becoming better at copying past innovations. (8) Last five year's innovations are quickly reverse-engineered and replicated. Patents offer little guarantee of exclusivity especially in the face of an archaic judicial system like that in India. Continuous innovation is needed to stay ahead in the marketplace.

- New technologies enable innovation. Joseph L. Bower and Clayton M. Christensen's research on business success and failure in technology-intensive industries illustrates a simple principle (44): If a



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company doesn't exploit innovative technology its competitors will, and they will take the market with them.

- What used to work doesn't anymore. Increasing complexity and interconnectedness requires taking a fresh look at old problems. And this needs persons who are experts and have the courage and the gumption to do so. (4) In the legal field we in India have the likes of Fali Nariman, in industry we have the likes of Narayana Murthy, and in academia we have Narayan Sheth who speak their mind plainly but always with decorum. (20)

What India needs is a total change in its thought and action processes, which produce a technology enabled and creativity driven revolution so as to become and remain globally competitive. A vital attribute of the technological revolution is the increasing importance of innovation and the diffusion of this innovation into the marketplace a la Peters and Waterman.(35) We are in the age of mass customisation, where according to Stein and Pinchot (53) we can even have highly complex products manufactured to our personal specifications in a short period. Speed now is of critical importance, while dramatic, radical innovations will frequently occur and become difficult to predict.(29) Because of frequent radical innovations, there is an increasing emphasis placed on designing new products and moving them into the marketplace rapidly. Customer Relationship Marketing (CRM) and Direct Marketing (DM) have logically gained dominance therefore. The development cycle of new products is shortened and obsolescence sets in rather quickly since new products and processes enter the market with great rapidity. (30). For example, in the late 1980s and early 1990s, U.S. manufacturers required 5 to 8 years to develop and move a new automobile design to the marketplace, whereas Japanese manufacturers undertook similar actions in approximately 3 years. Today, U.S. manufacturers have shortened their development cycles to between 36 and 45 months. However, the record set by Toyota according to Abraham was still pegged at 15 months in 2002. This forces the industry to develop best practices so that an organisation can stay abreast with the competition.

It is imperative that in the days to come best practices in every field have to be ascertained and benchmarked against and Strategic HR needs to take the lead in enabling this. In India, experts like Nawshir Mirza formerly of Ernst and Young and Tirpal Raju of SEBI have done some excellent work in developing best practices in the financial field. Sethu of the UTI Institute of Capital Markets has gone deep into audit committee work while Tara has developed a methodology for evaluating Corporate Governance in the financial Sector. Infosys has introduced labour costing (value addition per capita) in its annual report. Tata Steel has introduced several best practices in the production processes thereby giving it the organisation a globally competitive edge. The AICTE-NBA exercise of accreditation could also be seen as a move to benchmark best practices in the field of management education in the years to come. The only thing one must safeguard against in the AICTE-NBA type of exercise is that the purpose of inspection must not be eclipsed by the process of inspection. (45)

2.1. Best Practices for successful product innovation projects

Research has further indicated that Best Practices for successful product innovation projects are now pretty well established, and include the following: (45)

1. Market-technology linking: A product or service is a package that includes everything from the advertising message to the technology buried deeply within it. (52) Product innovation therefore comprises



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the conceptualisation, development, manufacture, launch, and ongoing management of this total package. (53) To create this package, the needs of customers must be both thoroughly assessed and linked with technology, and the major cause for new product failure is either the misunderstanding of or the complete exclusion of customer needs.(28)

2. Multi-functional Problem Solving: People from all departments must be involved in all aspects of the innovation process from working with customers to considering manufacturing options. (27) Product innovation is inherently multi-functional because no single functional expert knows all there is to know about the total package of features and benefits for any new product. Effective innovation also requires lateral working relationships that are extensive and trusting so that innovators can solve complex problems creatively and quickly. (28) However this will degenerate into a Mad Hatter's Tea Party without value centred culture and visionary leadership.

3. Evaluation: New product development projects must be evaluated over a period of time, often extending beyond the formal development phase itself. This evaluation should be objectively done keeping in mind the factors in the immediate environment that impinge upon persons and processes. (25) It must be done by experts whose technical competence and credibility are unquestioned or else it may degenerate into a witch-hunt where the lumped mediocrity calls the shots. (42)

4. Commitment: People must feel committed to innovation since it requires enormous investment in time, psychic energy, and attention. (50) It must fulfil the self-actualisation need to borrow the term from Abraham Maslow. If employees are to be committed, then first of all top management must demonstrate its commitment through positive action.

However, despite all the research and the effort to define practices to enable innovation, at best many organizations have had only experienced occasional successful product innovation. (54) Most companies unfortunately still cannot generate viable new products on a sustained basis in the Indian manufacturing sector. This, we reaffirm, has a lot to do with three factors: the abject paucity of value centred leadership at the top, the lumpen mediocrity that continues to call the shots and influence corporate policy, and the inability of People Management experts to rise to the occasion. The emasculation of the HR profession over the years has contributed to the absence of a countervailing tendency, as Sadri and Jayashree (1998) had lamented, leaving the top management to become totalitarian under the guise of pursuing long term interests fairness and growth. (42)

One obvious reason besides the three factors mentioned above is that product innovation is not simply a matter of managing single projects well. The organisation needs wide ranging policies and support structures (infra and super) (38) to make emulating each of the best practices listed above possible. More importantly and perhaps less obvious is that the very assumptions that traditional organizations have been modelled on has to be changed in order to ensure that the organizations are able to develop a culture of innovation. Missing the wood or the trees and failing to see the larger picture is a common failing of top management who are so smug about their feudal-mercantilist trader mode of operation that the innovator-entrepreneur role eludes them. In fact management in medium and small-scale sectors, we found, often believes that it is progressive but in fact every action of it retards progress and sustains status quo that in turn degenerates into inertia. But let us not be in any haste to paint everyone with the same wide brush. (39)



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Just examining techniques like cross-functional teams and developing creativity in employees through workshops or training, as many organizations have been prone to do is only a superficial attempt at encouraging innovation. (40) Many who talk about implementing ISO certification in academic institutions miss the point that rigid processes tend to stymie creativity. The certification assumes (erroneously) that if the process is perfect the product will also be perfect. The Indian civil service throws a spanner in the wheels of that argument and as we have elsewhere argued, one can perhaps obtain an ISO 9000 type of certification for manufacturing concrete life jackets! Moreover, such attempts do not adequately address underlying organization and behaviour patterns necessary for sustained product innovation. (48) These underlying patterns are termed organizational capacities and include socially shared orientations, as well as the skills and know-how that enable people to work in an innovative way. Much like the behaviour that enables people to live in a more healthy fashion, these organizational capacities may be more difficult to adopt than they are to identify, especially since it involves changes in current practices and ideas as both Senge (49) and Argyris (5) had earlier argued. (54)

Learning theory itself as far as innovation and creativity are concerned needs, in our opinion, to be seriously re-visited. In the recent years, research done by learning organization theorists and proponents of the knowledge-based firm has thrown considerable light on the approach necessary to institutionalise innovation. (43) Learning theorists, most notable among them being Peter Senge have looked at the organization as a whole – using a systems approach to analyse the relationships between components of the system in order to understand how they affect an organization's capacity for innovation and learning. (24)

2.2. The Metastrategic Cycle

Thus, one could argue that the starting point of our understanding could be to critically examine the configurations of the organization. Limerick and Cunnington have attempted to represent processes such as that we allude to in their model of a "Metastrategic Cycle". The Metastrategic cycle is a concept that links together vision, identity, configuration and organizational action. This cycle is depicted in the Figure below and has been extended from their 1993 work. (24) We believe this is relevant for the Indian environment even a decade later.

The Metastrategic cycle essentially has four basic elements or stages within it: Founding vision, Shared mindset, Configuration design, and Systems of action to understand this line of argument we need to make a journey through time and thought, which we attempt below (fig.1).

The Founding Vision:

Edgar Schein (47) had commented at length on the impact of the founder on the culture of the organization and which is only too well known for us to repeat here. This impact has largely to do with the founder's vision for the organization as a whole. Even a hundred years later the lofty vision, concern for mankind and sound ethical principles of Jamshedji Tata and Ardisher Godrej still echo in the corridors of their business empires. Schein argued that to choose a direction, a leader must first have developed a mental image of a possible and desirable future state of the organization. (47) This image, which we call a vision, may be as vague as a dream or as precise as a goal or mission statement. The critical point is that a vision articulates a view of a realistic, credible, attractive future for the organization; a condition that is better in some important ways than that which now exists



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This idea of the founder's vision was ultimately related to both the means or values and the ends or purpose of the organization. In other words, the managers in such an organisation knew what the desired identity must be like in terms of the values and the purposes it must represent rather than merely the products it must create and markets it must secure. (52) Indeed they often explored many different product-market-technology combinations before selecting one that had sufficient promise to justify the building of an organization, and during this period their vision remained unaltered. Locating the Tata Iron and Steel Company in Jamshedpur way back in 1904 instead of at Nagpur where it was first thought of, is a case in point. The vision of the founding fathers of TISCO remained the same in spite of the relocation.

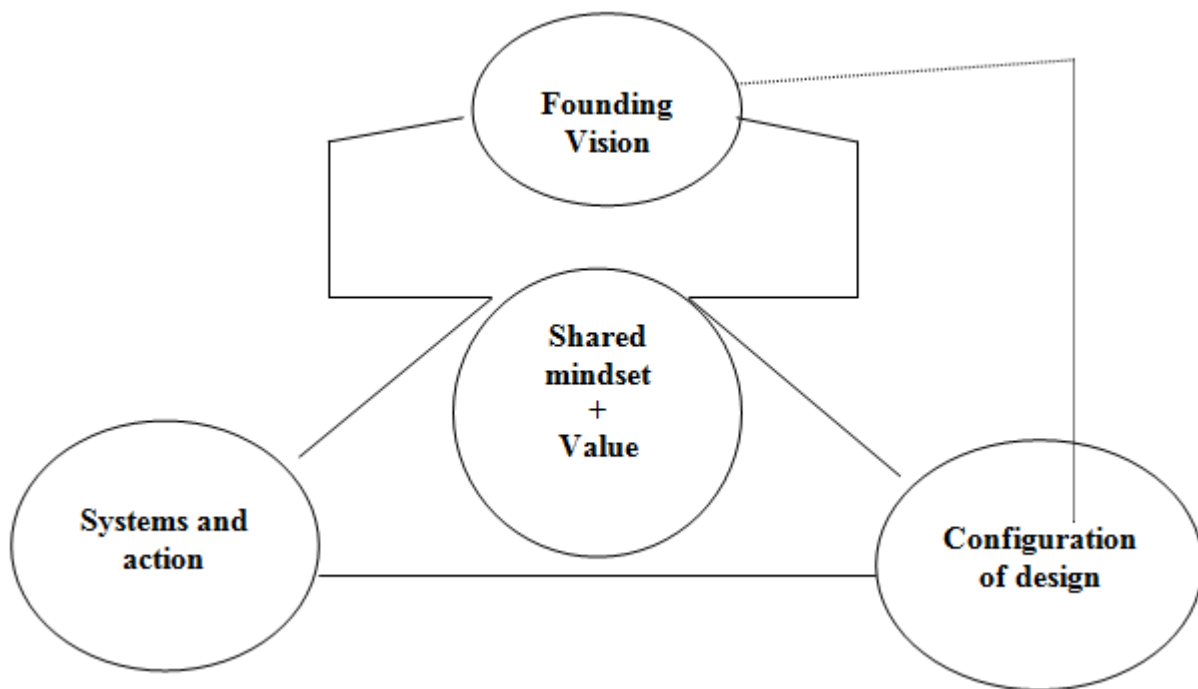


Fig. 1: The Metastrategic cycle.

The Shared Mindset and Value

The vision of the founder becomes established as a shared overall image, in the minds of those at the strategic apex of the organization, of the identity of the organization. This identity image consists of a number of elements, including:

- Its overarching values (11); and
- A continuing vision of the potential of the organization as it moves through the environment and through time. (13)



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Identity has no reality outside the meanings attributed to the organization and shared by its members as Sartre, (45) Aron ((6) and Popper (36) have severally pointed out. Linguistic scholars like Adorno (3) and Chomsky (10) have postulated that identity is, in effect, a socially constructed reality. It is a holistic, but somewhat inarticulate image, which often defies logic, represented subtly in the symbols, language, myth, labels, allegories and metaphors of the organization. But, for all its vagueness, it gives legitimacy and continuity to action. Effective strategic managers do attempt to make this image more concrete and accessible, often by writing it down in the credo, philosophy or mission statement of the organization that will spell out the purpose of its existence. (52)

The Configuration and Design

The shared mindset of the organization members, then, is a holistic image, often vague and implicit, of the continuing nature of the organization as it moves through social space and time. (53) Those at the strategic apex of the organization who hold this image must translate it into something more practical, into an integrated, operational model – a design that brings together a desired strategy, structure and culture of the organization into a coherent whole. (14) Like shared mindset, the configuration design of the organization may exist at different levels of explicitness and conscious articulation in different organizations. The clearer the overall configuration design, the more it allows role clarity to the organization members. However, the autonomy allowed to the individuals in the organizations depends upon the design of the organization structure. Rigid role descriptions and very high degree of formalization actually limit or in certain cases, kill autonomy. High degree of autonomy enables members to experiment constantly with the operational objectives, with structures and control processes, with strategic and operational values, and with the rituals, symbols and day-to-day routines without compromising on values. (16)

The Systems and Action

The configuration design of an organization provides a template for the development of the ongoing systems of action, which together form the organization. The entire grand design, which links together configuration and shared mindset, can become actuality only when various practical systems are developed to meet the needs of different product-market segments specified in the design. (17) People come together to create these systems of action. They negotiate them, and give them substance. Any single individual may move between many such systems, particularly in network organizations. While people create these systems of action on their own or as guided by the people at the apex, according to the shared mindset and the values, they may eventually swim with the established systems as the time passes. In this process, they may lose sight of original values or / and shared mindset. They become part of the comfortable routines, and over time these routines may be slowly modified and changed for more ease or betterment or to accommodate some highly visible business situations or the interests of the internal groups without damaging the comfort zones extensively. (16) Imperceptibly, these modified systems of action become meaningless rituals and may lead to a slower change in the very original shared mindset of the organization that has been shared by those within it. The cycle becomes closed: it moves from shared mindset to configuration to systems of action to the new-shared mindset. So the process of movement from vision to



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shared mindset to configuration to systems of action is ideal. In periods of stability, the actuality of the ongoing systems of action feeds back to influence the shared mindset of the organization held by its members, often including those at the strategic apex. However, the conditions controlling the business environment may be changing without creating ripples so that people may fail to take notice. What the organization does develops a momentum of its own, and becomes what the organization is. All within it become prisoners of its own implacable systems of action, imperceptible cogs in the wheel.(15)

Gould (1989) for example saw change as consisting of long periods of stable structure (equilibrium), punctuated by short periods of intense change and reconfiguration when a radical idea and innovation happen. (17) The deep structure of things tends to persist until apparently events like a new technology act to trigger a complete restructuring of the system. This, Gould argued, is essentially what chaos theory was attempting to capture i.e. emergence of order through fluctuation and chaos. Nonaka (1988) on the other hand expanded on the dynamics of this process. He argued that in a system condition, an element fluctuates. (30) It acts on the neighbouring elements one after another or competes with them, and the fluctuation begins to be amplified. When a macroscopic pattern begins to emerge from such a dynamic co-operative phenomenon, a feedback to each element takes place, reinforcing the dynamic co-operation. Thus a definite order is fixed spontaneously and a definite function is performed forming a stable order. When the order becomes fixed, the organic system again carries on a similar process irreversibly. As the order of a system becomes fixed, it is possible to discern a level of deep structure, a macroscopic pattern. But, if the processes of the organization were to be examined in detail, microscopically, it would be possible to discern even then a constant state of fluctuation and change which will eventually lead to a new pattern, which has within it constant fluctuation and change. (19)

The implications for organizations moving towards the rainbow of excellence under the above conditions are profound. The model argues for processes that allow elements to engage in collaborative self-organization out of chaos. The elements must be free to import energy, to fluctuate. At a microscopic level Chaos widens the spectrum of options and forces the organization to seek new points of view. (32)

For an organization to renew itself, according to us, it must keep itself in a non-equilibrium state at all times by maintaining a healthy level of stress. Pestonjee, (34) Pearce, (32) Nonaka (30) and Pankow (31) writing separately have reinforced this view. Yet at the same time elements within the organization must be able to recognize and manage levels of deep structure, and transcend and change these into new structures, which are more consonant with chaotic changes in the environment. This, in effect, is what Shell found among long-surviving organizations: de Geus (1988) on the one hand reported that they had one thing in common i.e., a tolerance for experimentation and differences among their elements. (13) They had highly autonomous units, which were permitted to move into new businesses and new industries. They allowed their own processes to be chaotic enough to match the chaotic nature of the environment. (14)

In sum, continuous learning and experimentation allows reconfiguration.(26) Those organizations that learn and adapt fastest are those that empower their elements to experiment. But they also have to act and think at a system-design level: they have to think about their co-operative identity, and move past it to a new identity and new configuration during periods of punctuation. (22)



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

Powell argued that it is not sufficient to characterize these systems as open, adaptive, non- equilibrium, or learning systems; they are all that and more; they are self-transcendent, which means that they are capable of representing themselves and therefore also of transforming themselves (37). They have to be able continuously to challenge and transform their own concepts of identity. This can be an extremely subtle process. As Pankow has so aptly put it: For Pankow self transcendence means the capability to change one's own point of view, and therefore the capability to view a situation in a new light, (31) or, one might say, the ability to jump over one's shadow and this implies two things viz.

1. To be truly self-transcendent, the organization must be able to overcome what Argyris call its own "defensive routines" which enable managers and others to stay within the relative comfort zone of the current deep structure, whatever is happening in the environment? (5) It may well take the skills learned in a learning community, combined with the feedback from such a community, to overcome defensive routines, and to be able to redefine identity.

2. The organization must involve every member of the organization in the process, which moves from incremental to transformational change. Bass, for example, observes: But when the firm is faced with a turbulent marketplace; when its products are born, live and die within the span of a few years; and/or when its current technology can become obsolete before it is fully depreciated; then transformational leadership needs to be fostered at all levels in the firm.((8)

During periods of apparent stability, too, widespread involvement is also required in both continuous improvement processes and in experimenting with new ideas. From these could a new configuration not emerge? This is the million-dollar question that stares corporate leaders in the face as India prepares to enter the WTO regime in 2005. What we also need is a metastrategic cycle in every sphere of business activity.

In sum, the innovative organization needs to be able to engage in changing and developing the entire metastrategic cycle, from change in shared mindset to constant change, experimentation and improvement in systems of action. (25) It must thrive in conditions of both stability and discontinuity. It must recognize that these two states are essentially part of the same process. The processes required for continuous improvement are also those that enable transformation and self-redefinition. And this is the much-needed lesson that our corporate leaders and management gurus must learn before it is too late (26).

Learning, to Revans implies both self-development and organizational development. (41) It proceeds particularly by questioning taken for granted assumptions. Innovation contributes to continuous improvement and transformational change because it involves collaborative questioning by organizational members of their own actions. Its immediate focus of attention might be systems of action, meta-strategic design and/or shared mindset - but, even when focusing on the more apparently superficial level of systems of action it remains alert to identity assumptions.

The essence of an innovative organization lies in a widely distributed capacity to question and redefine both individual and organizational identity. (24) This unique autonomy of individuals is the fundamental hallmark of an innovative enterprise. (25) Underlying this distributed questioning capacity in an innovative organization is a set of fundamental shared beliefs and values:



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

1. Current knowledge and skill are born of lived experiences occurring in a previous time and space and, in that sense, are environmentally relative.
2. Past experience can generate misconceptions, not only because our perceptual capacity is limited, but also because the past is different from the present and the future.
3. Learning can be defined as our ability to adapt and change with such readiness that we are seen to change.
4. People learn with and from, one another when they acknowledge their common ignorance and vulnerability.
5. Learning is a social process involving collaborative reflection on action.

The innovative organization contributes to continuous improvement and transformational change through a range of interdependent systems of action focused on individual and organizational development. Such an organization has the following characteristics that are further borne out by the works of Pedler (33) and Fletcher: (15)

- A bias for reflection-in-action
- Formation of learning alliances.
- Development of external networks.
- Multiple reward systems.
- Creation of meaningful information.
- Individual empowerment.
- Leadership and vision.
- A Bias for Reflection-in-Action

To this list we add four more based on our research. (47) (a) Adequate protection should be accorded to whistle-blowers if their bona fide intent is not proven. (b) Harsh legal action against corporate offenders such as those who indulge in insider trading and hacking into other businesses databases. (c) An end to political patronage of industry and business that usually operates on a quid pro quo basis. (d) Marginalizing the lumped mediocrity to prevent fixers and manipulators from hijacking the corporate agenda for personal gain albeit with the help of people in powerful places.

We argue along the lines of Peddler, (33) Kanter (22), Hamel et al, (18) Bass,(8) Adler (2), Hurley (19), Senge (49), Revans (41) and the rest that a bias for action is one of the characteristics of excellent organizations, and this is often contrasted with reflection, or with analysis paralysis. But in an action-learning organization, it is the capacity of action to generate information, which is critically important to the organization. We emphasize the information-generating capacity of action when suggesting only after a concrete action has been taken will a concrete response (move) come back. Similarly, learning must be inextricably related to action since Learning cannot exist apart from action. Learning is the process for enhancing our capacity for effective action. Action learning has a similar bias but adds the reverse: action enhances learning because it provides a basis for the critical dimension of reflection. At the heart of action learning is the process of reflection which is designed to develop questioning insight - the capacity to ask fresh questions in conditions of ignorance, risk and confusion, when nobody knows what to do next.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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Not so recent research (53) points to the role of learning alliances in helping organizations to achieve continuous improvement and develop the capacity to cope with discontinuous change. The growing awareness of worldwide interdependence in the legal, economic, social, political and technological spheres have resulted in a burgeoning of alliances built on collaboration rather than aggressive self-reliance as Nonaka (30) and Bass (8) had separately suggested more than a decade ago. At the heart of this movement is the fundamental acknowledgement that no organization has all the skills and knowledge necessary to survive in the global market. Even the Honda Motor Company, founded on an ethos of total self-reliance, is confronted with the need to establish strategic alliances if it is to survive the current global shakeout in the industry. In India, there is an emerging trend of collaboration between elite engineering institutes and the premier I.T. companies to come together for software development (39)

Competition must be converted into collaboration for common good and this must be based on ethics and governance if the society itself has to excel. (12) The ability of individuals, groups, organizations, sectors, and nations to build strategic alliances is growing as a critical success factor for survival. Partnerships and joint ventures between corporate archrivals are already common, and simultaneous co-operation and competition between groups are growing. (1) Non-adversarial co-operative relationships between corporate management and suppliers, customers and Government are now essential. For this reason the view of Hamel et al. that "learning from partners is paramount" (18) for success is not only tenable but must be pursued with a passion.

In sum, alliances are networks that exist at an inter-organizational level. But in addition, an innovative and learning organization recognizes the social dimension of learning and the value of collaborative interdependence. These values are reflected in active support of external networks to support individuals and groups within the organization. Individuals are encouraged to form external networks and contribute to network development through the exchange of ideas, information and resources. There is recognition within the organization that enrichment of individuals through network activity is enrichment of the organization. (18) Networks are seen as fertile breeding grounds for the development of alliances that depend on the existence of prior relationships and mutual trust.

On the other hand, external network activity extends the scanning capacity of the organization. In innovative organization, leaders recognize that organizational culture is both help and a hindrance to strategic adaptation. Besides providing power for action, culture acts as a perceptual filter, a constraining frame for decision-making and a restraint on action options. Networking activity exposes the organization to alternative perceptions, decision processes and actions. The test of an innovative organization is whether management has the robustness to assimilate and act on information that is derived from premises that differ from those that are prevalent in the organization, particularly those held by the dominant coalition. Thus, external networks bring to the individuals and units within the organization the same kind of benefits reaped by broader organizational alliances.

The development of the innovative enterprise as an autonomous learning system creates a wider employment contract with employees than the basic agreement about wages for allocated work. Empowerment encourages levels of personal autonomy, which allow individuals to challenge current organizational concepts of identity. It is part of the development of collaborative individualism as any HR expert worth his salt knows. There is, within innovative organizations, the explicit recognition that



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

management's role is to provide continuous opportunities for employees' self-development. Revans had elaborated on this broadened perception of the contract of employment:

This wider bargain, even if not explicit, has deep implications for personal development and personal autonomy: outstanding persons should be encouraged to develop themselves to the limits of their capacities and ought not to be restricted entirely by ingenious mechanistic programs devised by quick-witted experts trained not to ask questions outside their own fields. Revan goes on to say that it is the responsibility of the expert to devise systems to cope with whatever problems this generates for the organization. In the final analysis, the organization values innovation above conformity and reflects this priority in its reward systems.

Kanter described 3M's reward system for product champions who include the opportunity to set up and manage their own divisions. (22) Many of 3M's innovations would not have made it to market if the organization had not developed the flexibility to establish a different form of reward system for the innovator. The challenge confronting organizations is to develop the capacity to reward both those who engage in continuous improvement within the existing identity frame and those who challenge organizational identity. The need to have multiple, and conflicting, exemplars heighten this dilemma. Organizations too have to find ways to reward their "network champions" that are rich sources of information and alliances. Nonaka had maintained that leaders need to play the role of a "strategic sponsor" to protect, nurture and sponsor creators of information.(30)

Innovative organizations are information-rich. External and internal networks, learning alliances and managerial reflections enhance information flows. Internal networks, developed through cross-functional action learning programs, heighten awareness of organizational resources, facilitate exchange and sharing of resources and generate information about interdependencies. (24) The group begins to experiment with the trial-and-error method for both thought and action. Action then clarifies and generates meaning allowing them to approach excellence. (25)

The writings of Revans (40), Senge (48) and Jayashree (21) continuously reinforce the need for autonomy of the individual and their empowerment to take action. They suggest that empowerment of individual workers will offer management their own opportunities to learn. But one thing that Sadri has pointed out earlier and it still remains valid. To give a manager empowerment without accountability is to create tyrants. To give a manager accountability without empowerment is to create slaves. Neither condition is either tenable or acceptable in the modern day. Top notch executives like Prakash Lal Tandon in PNB, Varghese Kurien in GCMF (Amul), H T Parikh in HDFC, Sarosh J. Ghandy in Tata Motors (then TELCO), Tehmuras Doongajee in Tata-SSL now in Tata Services and E J Kalvachia in Godrej and Boyce had demonstrated years ago. (45) They showed that there is an enormous difference between an organization that is able to institutionalise innovation and one that is only capable of isolated episodes of learning and innovation through special task forces. In the latter, cycles are atomic and unrelated. In the former, they are all carried out within the context of reflection on the vision and identity of the organization. The basic insights of the transformational theorists, who focus on the vision provided by organizational leadership, are relevant to the innovative organization - and they are compatible with the views of the learning organization theorists. The responsibility of leaders, argues Senge, is to ensure that a shared vision does



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

exist. (49) That vision can come from anywhere in the organization and good leaders are those who can disseminate the wheat from the chaff. We could sum up thus: top leadership is then concerned with:

- Building shared vision;
- Empowering people and inspiring commitment;
- Enabling good decisions to be made through designing-learning processes.

To us this view sounds remarkably like the picture of the envisaging, inspiring, enabling charismatic leader propounded by the transformational theorists. There are at least two reasons as scholars like Baldev Raj Sharma (50), Dinyar M Pestonjee (34) and T V Rao (39) have argued that a shared (and therefore commonly accepted) vision is so important to the creation of the action learning organization. First, an organization is directed by a vision is more likely to create discontinuities for its competitors than experience its own action as discontinuous. Second, it translates the individual learning event into an organizational action. By jointly reflecting on the meaningfulness of any event for the organizational mission as a whole, the amplification of the event and its communication throughout the organization are accelerated and organizational renewal is more likely. What emerges is a learning system, an innovative organization.

Without for a moment giving up the aim to approximate organisational excellence, we maintain that the ideas and innovation theory discussed above forms the framework from which the practices and structure of an innovative firm must flow, corporate governance must enable and top management must realise. Understanding the theory is important because only then does it become possible to put the ideas into practice. Understanding how the system components interact with each other provides an insight into what must be changed in order to create a constant orientation towards learning and align all in the organization towards innovation. The works of Amar, Miles and Meriden support this prognosis.

Perhaps the most important aspect of vision that underlies the innovative and learning organization, thus, is a new worldwide understanding of organizational and social effectiveness, which underlies the new organization. (51) Senge (48) has identified this overarching vision in Japan by stating that a new overarching vision seems to be emerging in Japan to characterize and guide this continuing evolution. The vision centres on creating the knowledge-creating company, an organization whose ability continually to improve its processes and systems comes from continually enhancing its underlying knowledge base. (52) Thus, the knowledge-generating organization is that which is most likely to be able to survive both equilibrium and chaos. Perhaps the final word should be given to Revans who said that the most precious asset of any organization is the one most readily overlooked: its capacity to build on lived experience, to learn from its challenges and to turn in a better performance by inviting all and sundry to work out for themselves what that performance might be.

Rejecting the futile dependence on regulations and regulators to attain excellence and forgetting for moment that Company Secretaries and Professional Accountants (unfortunately) continue to be in charge in corporate governance practices, we argue that if organisational excellence is to be approximated then top management involvement is imperative. Furthermore, a multi-disciplinary team facilitated by an expert in strategic HR intervention must manage corporate governance to lead this process of organisational transition towards excellence.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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3. Conclusion

To conclude we posit that as India Inc. became an indubitable part of the post 2005 WTO Regime, industries will be increasingly forced to thrive on the cutting edge of competition. Competition will be so severe that they will have to keep running only to remain on the same spot. At such a point in time what will make a positive difference is reliability, consistency and marketability. This means that not only would management have to promote ethics through its policy but also ensure that it is maintained through practice. Ethics provides the foundation for corporate reliability, consistency and marketability. It is therefore the de facto basis for competition. Governance provides the parameters within which policies and practices will be followed thereby providing the de jure basis for competition. In addition, when ethics and governance combine movement towards excellence is facilitated. This is not something that is a one-time affair. It has to be zealously followed i.e. passionately and single-mindedly if corporate excellence is to be approximated. That is where India Inc. should be headed towards and make all out efforts to improve its global image and standing especially under the dynamic leadership of our new Prime Minister.

4. Acknowledgement

Gratitude with the usual disclaimers is extended to Prof. Jayashree Sadri, Maj Gen Balwinder Singh, Col. Anil Kumar Sharma, Dr S N Tara and Dr Abha Mohan for their comments on an earlier draft of this paper.

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(online) = ISSN 2285 – 3642

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ISSN-L = 2285 – 3642

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Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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Intellectual Capital in Enterprises and a Model Study in an Industrial Zone

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Abstract. The study mainly consists of two parts. The first part includes theoretical knowledge; the second part includes application-oriented information.

In the theoretical part of the study, intellectual capital and SMEs are emphasized in general. In the application-oriented part of the study, a field research will be done for Corum SME. In this study, the demographic structure of Corum SMEs, intellectual capital structure and financial performance of this structure will be evaluated. The resulting data will be analyzed in this context. The businesses operating in the Organized Industrial Zone of Corum and those matching the definition of SME will be considered within the research scope. Surveys will be applied by interviewers face to face and each survey will be evaluated individually. After the evaluation, a model will be proposed.

The aim of our study is to investigate the relationship between components of intellectual capital in SMEs and business performance. For this reason, a survey will be conducted for SMEs. Since the results of the study will be shared with scientific circles and the public, they will prove to be guiding for Çorum SMEs.

Keywords: SME, Intellectual Capital, Human Capital, Structural Capital, Relational Capital, Çorum SMEs

JEL Codes: M20, M21

1. Introduction

In today's commercial environment where global competition is experienced intensely, the success rates of SMEs have been started to be increasingly linked with intellectual capital assets. Accordingly, to develop their intellectual capital SMEs should achieve to activate the basic capabilities and features which are expanding the mind, encouraging innovation and ensuring the integrity. Therefore, it can be expressed that, intellectual assets such as productivity, human resources, behavior, education, technological skills, managerial skills, innovation and creativity in marketing activities, cooperation and coordination have effect on SME's performance.

Intellectual capital includes legally applicable intellectual asset rights (patents, trademarks, copyright, etc.) and both tangible and intangible aspects of intellectual knowledge which a business has accumulated

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

and developed over the years (Yu, 2001). The value of the business's intellectual capital assets is the difference between the book value of the businesses and the market value.

Until the 1980s, management theory, as a basis for understanding of competitive advantage has focused on business environment (Roos and Roos, 1997). According to Porter (1980), five structural variables affect the company's competitive edge and profitability: supplier power, threat of new market entrants, the threat of substitutes, industry competition and the power of the recipient. According to this model; a business's profit potential is determined out by entrepreneurs' business industry characteristics. However, most of the company's resources are heterogeneous and cannot be easily imitated. These resources serve as potential sources of competitive advantage. This resource-based perspective on competitive advantage has a significant impact on environmental factors (Moon and Kym, 2006).

Basic skills are usually considered as information which is about the intangible values of the organization and forms the basis of the competitive advantage (is accepted). This basic skill contains information technology (Mata, Fuerst and Barney, 1995; Powell, 1997), human resources management (Lado and Wilson, 1994) and organizational culture (Fiol, 1991) contains nudes.

While many researchers accept the intellectual capital as a basic element and source of competition; managers and administrators (authorized holder) have difficulty in defining and evaluating it. According to Handy (1990), most of the managers use only 20% of the organizations information. However they do not benefit from the remaining 80% part with which they can provide better evaluation, management and communication. Since the 1980s, as a result of the increasing importance of the intellectual capital evaluation, researchers have proposed some intellectual capital assessment tools (Moon and Kym, 2006).

The process called knowledge economy and created by development waves in information and communication technology, has made information the most important economic power in enterprises. Which have the vision and mission of intellectual capital (Pirtini, 2004:13). Especially for SMEs; to develop products and services, strengthen and make valuable the intellectual property, adapt to better rapid changes in the market and continue innovation knowledge management carries great importance. Today with the development of knowledge-based global economy, finding, improving, maintaining and sharing intellectual capital has become one of the most important economic functions of SMEs. (Stewart, 1997:13).

2. Intellectual Capital

Concept of "intellectual" has been used for the first time in the late 1960s. In 1969 economist John Kenneth Galbraith wrote in a letter to Polish economist Michal Kalecki, "I wonder if you realize how much those of us in the world around have owed to the intellectual capital you have provided over these past decades." He introduced the concepts into the literature by using this expression (Erkal, 2006:42).

Galbraith has been associating individual intellectual unit with the individual performance. But in previous years, Peter Drucker coined the term "knowledge worker" (1995). According to Drucker knowledge takes place across geographic boundaries and in the center of key resources and intellectual capital it is a resource that adds value by creating competitive advantage for enterprises in the marketing. (Drucker, 59-60)

The concept of intellectual capital didn't come to the agenda for many years after the 1960s, and didn't capture attention among the other organizational topics. As a result of the appearance of new intangible



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

elements which were related to the development of technologies that took place in 1980's, new economic structure so-called "knowledge economy" came on the agenda. (Erkal, 2006:41).

In search of new values for organizational creativity and to provide answers to questions of how to use resources more efficiently and more effectively and how to achieve better results with existing resources, the subject was re-opened for discussion in Japan during the 1980s, (Kanbir, 2004: 78).

Japanese Hiroyuki Itami's book "Invisible Assets" written in 1980 which was about the impact of virtual assets on Japanese companies and their management didn't draw much interest initially, but by 1987 his book was translated into English, and has been used in studies on intellectual capital (Itami, 1987).

Sveiby, pioneered on the development of appropriate accounting methods for intangible assets, expressing the necessity of assessing the human capital. All the work done in 1989 was collected in his book "Invisible Balance Sheet" and it suggested a theory for the measurement of knowledge capital. In 1993, Swedish Service Sector Council decided to standardize Sveiby's theory on Annual Reporting and it had been the first standard that was made applicable. Sveiby, has been analyzing intellectual capital within the scope of intangible assets under three sets of external structure, internal structure and individual competence;

External structure includes brands, customers, supplier relationships; internal structure includes management of an organization, legal structure, functioning systems, approach attitude and R & D activities; the individual competence includes education and experience of study. (Edvinsson, 1998). Leif Edvinsson affected by the ideas of Sveiby renamed, intangible assets as intellectual capital (Yıldız ve Tenekecioğlu, 2004: 580-581).

Edvinsson (1997), determines intellectual capital as a "knowledge, that ensures advantage in market, in enterprises, experience, organizational technology, customer relationships and professional skills", and divides it into two main groups as human capital and structural capital. In his article "Your Company's Most Valuable Asset: Intellectual Capital", written in 1994, Stewart describes Intellectual Capital as "knowledge and know-how unit of individual which is the source of invention and innovation" and "talent, skill and expertise that embedded in human brain" (Stewart, 1994; 30).

In addition, according to Stewart (1997), the intellectual capital includes the processes of organization, technologies, patents, ability of employees and the information about customers, suppliers and other related parties (Stewart, 1997:7).

Barney who studied Intellectual Capital in 1991, 1996 and 2002, classified business resources under four groups: financial capital, physical capital, human capital and organizational capital. According to Barney (1991, 1996), financial capital includes all financial resources. Physical capital is the existing technology of the enterprise. Human capital, is related to levels of training, experience, justice, knowledge, communication and understanding of enterprise employees. Organizational capital includes formal and informal structures of an enterprise.

In addition, organizational capital also includes: the business culture, business reputation, factors such as relationship of the operating with other businesses and between their own groups. (Barney, 1996, 2002).

Intellectual capital in the pyramid in Figure 1, include the rights of tangible assets, intangible assets and intellectual assets. This pyramid is very important. Namely, the knowledge that enterprises possess, includes business relationships involving the use of outsourcing, telecommunication, the rapid



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

development in technology, application like attitude towards common risks involved in the global market. (Rose, 2000).

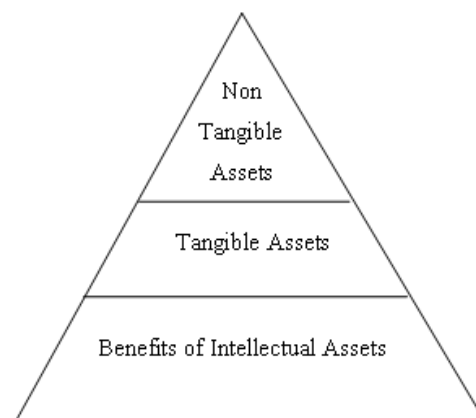


Fig. 1: Pyramid of Intellectual Capital.

Source: Adapted from Brown Jr. and others, 2005:35.

Analyzing the pyramid of intellectual capital we can see the intangible assets at the top of it. These assets include employee's knowledge and skills, innovative ideas about products and marketing strategies, relationship with customers and suppliers. The success of intangible assets, may be affected by some activities and instruments such as marketing, purchasing, human resources, engineering and manufacturing, commercial cooperation and earnings of enterprise. It can ensure the financial capacity and human capital of the business. Though they were not having a physical form, intangible assets are as valuable as tangible assets and are legally enforceable intellectual property. Protection of intangible assets is very difficult and depends largely on human beings of the business.

For success in today's business world, to manage intangible assets as strategic instruments has become an important requirement. Tangible assets are located in the middle of the pyramid. Tangible assets can be carried into or out of business, either physically or in an electronic way. These assets contain all the sources of information as well as databases and operating records, at the same time they contain past information and documented procedures that include the structure of current employment experience and capability. The success of these assets may be affected by purchasing, trade cooperation and earnings and engineering and by activities and tools such as manufacturing and information technology of the enterprise. At the bottom of the pyramid is replaced legally enforceable intellectual property. These contain such rights as patents, trademarks, copyrights, trade secrets and licenses.

Activities and instruments, such as commercial co-operation and benefits, engineering and manufacturing, information technology, legal staff, has an impact on success of the rights of intellectual assets. Legally enforceable intellectual property and enterprises appertaining to tangible and intangible assets can be faced with such difficulties as intellectual capital theft, trademark piracy, identity theft and false claims, inadequate law and global inconsistency (Brown Jr., 2005).



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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3. Conceptual Framework Of Intellectual Capital And A Model Study In An Industrial Zone –Çorum Industrial Zone

According to resource-based perspective non-operating, according to resources of industry internal resources are considered as the basic assets for sustainable competitive advantage. These internally generated resources cover intangible assets and core competencies. (Barney,1986, Wernerfelt, 1984). The concept of core competency is often used instead of the concepts like absorptive capacity (Cohen and Levinthal, 1990), strategic assets (Amit and Schoemaker, 1993), the core capability (Zander and Kogut, 1995) and intangible assets (Hall, 1992). Core competencies are considered as knowledge about intangible value of organization which usually forms the bases of competitive advantage (is accepted). These core competencies include information technology (Mata, Fuerst and Barney, 1995; Powell, 1997), human resources management (Lado and Wilson, 1994) and organizational culture (Fiol, 1991).

Andriessen (2004) made the necessary explanation about three basic questions (What, Why and How?) which should be taken into account for evaluation of intellectual capital. The “What” question, is related to the classification scheme content of intellectual capital. The “Why” question is related to causes of assessment or measurement of intellectual capital. Finally, the “How” question is related with evaluation of variety of intellectual capital and measuring approaches.

Intellectual capital is defined according two approaches. The first approach is thought to occur in three dimensions of intellectual capital: human capital, structural capital and relational capital. There is several proposed assessment for each measure (Moon and Kym, 2006). Sveiby (1997:10), defined human capital, as “an ability which has operations in wide variety of positions in order to create tangible and intangible assets”, structural capital as “patents, concepts, models, computer and management systems” and relational capital as “relationship with customers and suppliers”. Edvinsson and Malone (1997), Brooking (1996), Sveiby (1997), Bontis and others (2000) adopt this approach. The second approach, Saint-Onge (1996) and Knight (1999) explain with examples. The authors define the bases of intellectual capital dimensions, but didn’t find any proposal to measure them (Moon and Kym, 2006).

In this study, intellectual capital dimension evaluation in the sphere of suggestions of the researchers which take the first approach as a base and the impact of this dimension on achievement level and business performance of intellectual capital is being analyzed.

The researchers conducted in the scope of the first approach, define each basis of intellectual capital dimension and an index is obtained from each dimension. Together with this approach, intellectual capital is defined perfectly well and the best measure of value is modified for intellectual capital. Different measures of value were used for human capital in many research works. (Moon and Kym,2006).

These measures can be expressed as annual staff turnover rate, leading indicators, education levels of managers (Edvinsson and Malone, 1997), technical information, education, cultural differences, work-related knowledge, professional assessments, psychometric evaluation (Brooking, 1996) consecutive training programs, competency level of ideas, program planning skills, do without thinking, to reduce underemployment, employees give it their all (Bontis et al., 2000), the ability turnover, change in the value added per employee, change in the rate of working, growth in average of professional experience (Sveiby, 1997). In this study the relationship between intellectual capital level of success that is affected by intellectual capital dimension and business performance are evaluated.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

In this sense, an indirect relationship between business performance and human capital can be tested with hypothesis developed below:

H1: The more business performance increases the more success level of Intellectual capital affected by human capital increases.

Lost customers, the number of consumer visits, satisfied customer index, days spent visiting customers, per employee education, employee satisfaction index, administrative error rate, R & D expenditures for administrative expenses, IT expenses per employee (Edvinsson and Malone, 1997), management philosophy, corporation culture, leadership style, knowledge base, expert networks and teams, managing process, patents, design rights, trademarks, service marks, copyrights, trade dress (Brooking , 1996), the lowest cost per transaction, the development of the best ideas in the industry, improving the costs per revenue (Bontis et al., 2000) takes place among measures of value which can be used in structural capital assessment that took place among the intellectual capital dimensions can be helpful in assessing the performance of businesses.

In this sense, an indirect relationship between business performance and structural capital can be tested with the following developed hypothesis:

H2: The more business performance increases the more success level of Intellectual capital affected by structural capital increases.

Relational capital which is another dimension of intellectual capital, also affects directly the level of success of intellectual capital, and thus business performance. Brands, consumer loyalty, distribution channels, licensing agreements, appropriate contracts, commercial cooperation, customer depth and width (Brooking, 1996), in general, satisfied customers, reduce time to resolve the problem, improving market share, the highest market share, long-lasting relationships (Bontis et al., 2000). In this sense, an indirect relationship between business performance and relational capital can be tested with the following developed hypothesis:

H3: The more business performance increases the more success level of Intellectual Capital affected by relational capital increases

H4: The more success level of Intellectual capital, affected by customer capital, increases, the more business performance increases.

In this context, a model that can be created about the impact of intellectual capital on business performance can be shown as follows.

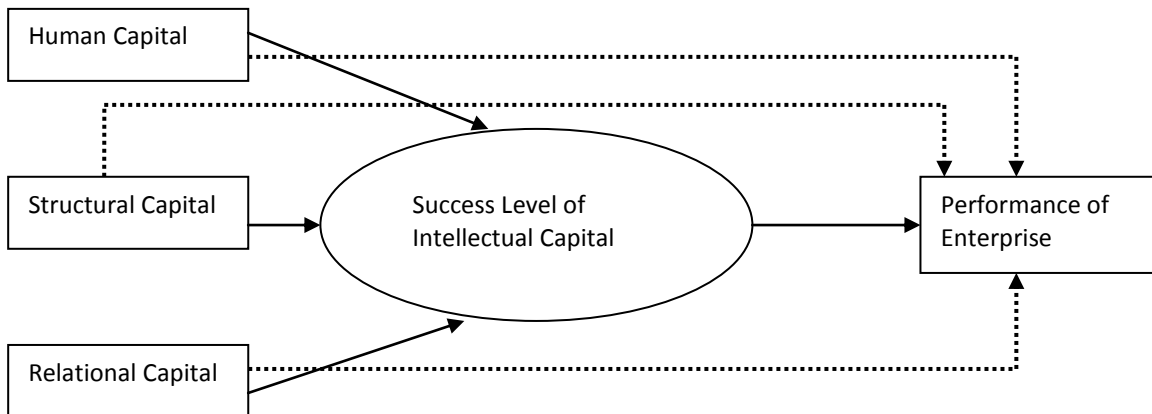


Fig. 2: Model of Research: A Study in Corum Industrial Zone

Purpose

The purpose of the survey is to investigate the intellectual capital in SMEs operating in the Corum Organized Industrial Zone and the impacts of the intellectual capital on the business performance.

Assumptions

The assumptions of the study are followings;

- The information given by the enterprises reflects the reality.
- It is assumed that in the enterprises taken in to the working scope, the survey questions were correctly detected and they were answered according to that.
- The business performance increases as the success level of the intellectual capital affected by human capital increases.
- Business performance increases as the success level of the intellectual capital affected by structural capital increases.
- Business performance increases as the success level of the intellectual capital affected by relational capital increases.

Analysis of Data and Findings

The raw data obtained as a result of the survey technique was evaluated statistically. In analyzing the data, percentage, frequency, mean, median and mode were used for descriptive statistics.

Descriptive Statistics for Research Model.

From descriptive statistics of variables related to the characteristics of the surveyed enterprises, the following distributions are used: percentage, frequency, mean, median and mode.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

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e-mail: office_jedep@spiruharet.ro

Table 1: Characteristics of enterprises

The number of employees employed in the enterprise	n	%	Mean	Median	Mod
1-9	15	24.2	1.95	2.00	2.00
10-49	36	58.1	1.95	2.00	2.00
50-250	10	16.1	1.95	2.00	2.00
250 +	1	1.6	1.95	2.00	2.00
Total	62	100.0			
The age of enterprise	n	%	Mean	Median	Mod
less than a year	-	-	-	-	-
2-7 year	15	24.2	4.11	4.00	4.00
8-13 year	8	12.9	4.11	4.00	4.00
14-19 year	11	17.7	4.11	4.00	4.00
20-25 year	11	17.7	4.11	4.00	4.00
25 +	17	27.4	4.11	4.00	4.00
Total	62	100.0			
The number of patents the enterprise possesses	n	%	Mean	Median	Mod
not any	25	40.3	1.74	2.00	2.00
1-3	30	48.4	1.74	2.00	2.00
4-6	5	8.1	1.74	2.00	2.00
7-9	2	3.2	1.74	2.00	2.00
10 +	-	-	-	-	-
Total	62	100.0			
The amount of R & D investments	n	%	Mean	Median	Mod
less than 5 000.00	58	93.5	1.18	1.00	1.00
5.000.00 - 20.000.00 TL	1	1.6	1.18	1.00	1.00
21.000.00 - 50.000.00 TL	-	-	-	-	-
51.000.00 - 100.000.00 TL	2	3.2	1.18	1.00	1.00
100.000.00 TL +	1	1.6	1.18	1.00	1.00
Total	62	100.0			
How often is business market research performed	n	%	Mean	Median	Mod
Never	5	8.1	2.45	3.00	3.00
Once a year	24	38.7	2.45	3.00	3.00
Once in 6 years	33	53.2	2.45	3.00	3.00
Total	62	100.0			

Examining Table 1, variables related to operational characteristics of the mean, median and mode values, the values were found close to each other. In this case, it can be said that the distribution of data is normal. We found that 58% of surveyed enterprises employed 50 people and over, 27% operated in the same sector for more than 25 years, 48% had patents between 1 and 3, 95% of R & D investment amount was less than 5.000.-TL, 53% of enterprises said they conducted a market research once in six months. In the following table, values of performance indicators of the surveyed enterprises for the last 5 years are given.



Table 2: Performance Values of enterprises participating in the survey

Please indicate the level of satisfaction in the last 5 years for the following attributes of your business.	Exactly satisfactory	Satisfactory	Varies	Not Satisfactory	Never Satisfactory	Total
	n/%	n/%	n/%	n/%	n/%	n/%
Profit growth in shares	10/16.1	25/40.3	10/16.1	11/17.7	6/9.7	62/100.0
Revenue growth	10/16.1	25/40.3	10/16.1	11/17.7	6/9.7	62/100.0
Market leadership	9/14.5	31/50.0	7/11.3	9/14.5	6/9.7	62/100.0
Profitability per Consumer	8/12.9	29/46.8	15/24.2	7/11.3	3/4.8	62/100.0
Success rate of new products and services	10/16.1	24/38.7	17/27.4	10/16.1	1/1.6	62/100.0
Revenue from new products and services	11/17.7	33/53.2	11/17.7	4/6.5	3/4.8	62/100.0
Investment surplus	4/6.5	29/46.8	17/27.4	8/12.9	4/6.5	62/100.0
Sales growth	9/14.5	23/37.1	16/25.8	11/17.7	3/4.8	62/100.0
Corporate reputation (image)	16/25.8	17/27.4	18/29.0	8/12.9	3/4.8	62/100.0
Growth of social assets	24/38.7	27/43.5	6/9.7	4/6.5	1/1.6	62/100.0
Sales revenues	12/19.4	26/41.9	15/24.2	1/11.3	2/3.2	62/100.0
Consumer products and services to meet the needs of	16/25.8	26/41.9	11/17.7	8/12.9	1/1.6	62/100.0
Ability to meet new market demands	15/24.2	33/53.2	7/11.3	5/8.1	2/3.2	62/100.0
Ability to predict potential emerging market opportunities for new products and services	19/30.6	26/41.9	10/16.1	5/8.1	2/3.2	62/100.0
Please describe the status of the last 5-year market share	16/25.8	32/51.6	6/9.7	6/9.7	2/3.2	62/100.0
Increased		n			%	
Unchanged		43			69.4	
Low		10			16.1	
Total		9			14.5	
Profit growth in share		62			100.0	

When Table 2 was examined for the last 5 years, it was found that 69% of the surveyed enterprises' market shares was constantly increasing. The evaluations of the operating statuses of enterprises in the last 5 years were questioned. The evaluation revealed that 82.2% of the enterprises stated satisfaction about corporation image, 77.4% about the needs of consumer products and services, and still 77.4% about activities of potential market opportunities, activities dealing with ability to predict new products and services. The aim of the study is to determine factors related to intellectual capital variables that are effective on business performance. For this purpose, factor analysis was used. The basic criteria for business performance in the factor analyses determined the market share assessments of businesses in the past 5-year. The dependent variable in the factor analysis is market share. Intellectual capital variables are independent variables in the analysis. The analysis results are provided in detail in the following section.

Descriptive Statistics for Determination of Factors Related to Intellectual Capital Variables That Affect Business Performance



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

In this sector, reliability in order to determine the factors formed of intellectual capital variables that influence business performance of surveyed enterprises and assessment on factor analysis was carried out. During the analysis, in determination of variables that do not represent the value required to be measured, Cronbach alpha and Item-Total Correlation (Chief, 2006:193) was used.

Intellectual capital variables which affect business performance consist of 38 sub-components relating to human capital, innovation and development, structural capital and customer capital. Cronbach alpha of these variables was determined as 83.9%. 5 variables that do not represent the common value of these variables were excluded from the analysis and the new alpha was determined as Cronbach alpha 93.3%.

Internal reliability of the factors formed of the remaining 33 variables of intellectual capital was determined by testing their reliability respectively. The reliability of factor 1, that consists of Innovation and Development variables found to be 88.0%; the reliability of factor 2 that consists of Human capital variables is 79.0%; the reliability of factor 3 that consists of structural capital variables is 83.0%; and the reliability of factor 4 that consists of customer capital variables is 84.4%. Also the total reliability represented by these 4-factor was calculated as 93.3%.

Therefore, factors that consist of intellectual capital, effective on business performance were found to be reliable. After the reliability test, factor analysis was used to verify quantitatively the structure of factor that affects business performance.

Appropriateness of factor analysis is determined by KMO (Kaiser-Meyer-Olkin) measure of sampling adequacy. KMO is a ratio and it is desirable to be over 60% (Nakip, 2006:429). KMO value in our study was 74.5%. KMO measure of sampling adequacy was over 60%. This shows that the scale of the variables is appropriate to factor analysis. The results of factor analysis are shown in Table 3.

Factor analysis was carried out using principal component analysis and the technique of varimax vertical rotation. With the help of Principal component analysis, on the bases of the factors reduction, variables are eliminated for which factor loadings are less than 33.9%. In addition, values of skewness and lowness are revised in order to examine the appropriateness of normal distribution of variables which will be subjected to the factor analyses. Values were found to be approximately between -1 and +1 and the data were appropriate for normal distribution. As a result of the analysis, we found that eigen values were over 1 for four factors of which internal reliability was tested, and factor structure was quantitatively verified. Innovation and development variables describe 64.45% of the total variance in Factor 1; human capital variables describe 3.96% of the total variance in Factor 2; structural capital variables describe 3.33% of total variance in Factor 3 and customer capital variables describe 3.14% of the total variance in Factor 4.

The model developed in light of the four main hypotheses was tasted. Hypothesis validity was tested using the Chi-square method. The results of the analysis are provided in the table below4.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

Table 3: Arising factors in the Context of Description of Variables as a result of Factor Analysis

Intellectual Capital Variables	FACTÖR 1	FACTÖR 2	FACTÖR 3	FACTÖR 4
	Innovation & Development	Human Resources	Structural Capital	Customer Capital
s3.1.21. Intellectual assets have a useful function.	0.710			
s3.1.18. Intellectual assets increases our capacity to work.	0.701			
s3.1.23. Intellectual assets are strong supporters in ensuring our competitive conversion.	0.646			
s3.1.16. Intellectual assets can help the realization of functional activities.	0.643			
s3.1.17. <i>Our institution acquires, quickly adapts to technological developments</i>	0.629			
s3.1.22. Intellectual assets can be used by companians .	0.612			
s3.1.14. Our institute has been increasingly investing in information infrastructure (computer, internet and intranet networks, data bases)	0.572			
s3.1.19. There are commercial opportunities we can offer to our business partners.	0.554			
s3.1.20. Intellectual assets provide financial gains to our organization.	0.547			
s3.1.24. We can provide resources we need from non-business sources quickly	0.527			
s3.1.15. IT infrastructure (computers, internet and intranet) facilitate information sharing within the organization.	0.498			
s3.1.13. <i>Intellectual assets are difficult to imitate by competitors.</i>	0.358			
s3.1.10. We give importance to new ideas of our work-related employees.		0.709		
s3.1.5. Differences in status and the status of each of our employees are defined		0.650		
s3.1.4. Our staff has the capability to do the best jobs		0.618		
s3.1.8. Employees are trained and their skills are developed through programs and activities such as in-house training, job rotation, delegation of authority, etc.		0.525		
s3.1.6. Supply qualified workers out of enterprises or other units of it, provided gaining employees with new capabilities.		0.566		
s3.1.9 In our company, a large part of our staff consists of qualified labor.		0.519		
s3.1.2. Training expenses per employee is increasing on a regular basis.		0.472		
s3.1.11. In order to find new ideas we look up other sources rather than business		0.374		
s3.1.1. Our employees have the authority to control decisions about their work.		0.339		
S3.1.28. Company information is different from the knowledge of each department.			0.725	
S3.1.27. Our employees are assigned to tasks that they have the appropriate knowledge and qualifications.			0.716	
S3.1.30. Our company has a system that allows easy access to enterprise information.			0.670	
S3.1.31. Procedures are available to support innovation in our plants.			0.643	
S3.1.29. Our company is an efficient company.			0.525	
S3.1.26. In-house resources (competition, environment, market, consumer demands and technological change) can be adapted to changes easily.			0.459	
s3.2.4. Loyal customer ratio is high.				0.690
s3.2.5. Effectiveness of communication with customers is high.				0.689



s3.2.2. Suppliers are visited frequently.				0.633
s3.2.3. We are a known and recognized company in the market compared to our competitors, which is an advantage for us.				0.481
3.2.6. The number of customers is high.				0.424
s3.2.7. Brand name recognition is high.				0.375
Kaiser-Meyer-Olkin Measure of Sampling Adequacy	0.745			
Bartlett's Test	$\chi^2 = 1.388E3$ sd= 528 p= 0.000			

Table 4: The Relationship Between Business Performance and Intellectual Capital Variables

HYPOTHESIS		Value	df	P	RESULT
H ₁ : As the success level of Intellectual capital effected by Innovation and development increases, business performance increases	Chi-square test	10.344	8	0.026	+
	Chi-square Relation Coefficient	9.876	8	0.001	
H ₂ : As the success level of Intellectual capital effected by Human capital increases, business performance increases.	Chi-square test	24.204	8	0.002	+
	Chi-square Coefficient	19,503	8	0.000	
H ₃ : As the success level of Intellectual capital effected by structural capital increases, business performance increases.	Chi-square	21.894	8	0.005	+
	Chi-square Relation Coefficient	17.827	8	0.023	
H ₄ : As the success level of Intellectual capital effected by customer capital increases, business performance increases.	Chi-square test	20.666	8	0.008	+
	Chi-square Relation Coefficient	16.622	8	0.021	

Examining Table 4, business performance positively correlated with the intellectual capital variable at 0,05 significance level. The research hypotheses is considered at $p < 0,05$. The basic assumption of the study is that, the four factors formed of intellectual capital variables which effects business performance is effective on the classification according to enterprises performance levels. Which of the factors affecting business performance that have a role in discrimination has been tested with discriminant analysis? The analysis results are provided in detail in the following section.

Performance Level Discriminant Analysis

Discriminant analysis is one of multivariate statistical techniques, aiming to estimate the relationship between categorical dependent variables and metric independent variables. One of the aims of the discriminant analysis is to be able to determine effective and non- effective variables in distinguishing groups. For the implementation of the analysis, some assumptions must be valid. These can be expressed as: (1) variables have multiple normal distributions, (2) for all groups their covariance matrices are equal and (3) there is no direct multicollinearity problem among independent variables (Eroglu (a), 2006:335). Looking at skewness and lowness values, variables are decided to be appropriate for multiple normal



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

distributions. Assumptions of equality of covariance matrices for all groups were examined by using Box's M test (Eroglu (a), 2006: 341). Table 4 shows the result of the test.

Table 5: Box's M Test Results

Box's M		15.581
F	Approx.	4.805
	df1	3
	df2	9.726E3
	Sig.	0.002

Tests null hypothesis of equal population covariance matrices.

According to table 5, at significance level $p=0,05$, Sig. was determined as 0,033 and covariance matrices were seen equal among groups. Correlation results between variables were analyzed for assumption confirmation of lack of powerful correlation among independent variables and found out that there doesn't exist a high correlation. Thus, the condition is provided for independence of factors and thanks to this, a high correlation among variables does not to exist. In order to determine the effectiveness of classification of the factors according business performance levels, enterprises are divided into binary classification such as high levels of business performance (A1) and lower performance level (A2). This classification is based on assessments of market shares of enterprises during the last 5 years. The groups' equality test, structural matrix and Fisher's discriminant function are illustrated in Table 6.

F values in Table 6 at $p = 0,05$ significance level indicates whether significant differences exist between enterprise groups classified according to their business performance. Accordingly, the innovation and development factors s3.1.18, intellectual assets increase our capacity to work, s3.1.14 (institute has been increasingly investing in information infrastructure (computer, internet and intranet networks, data bases)), 3.1.17 (institution acquires, quickly adapts to technological developments), s3.1.13 (intellectual assets are difficult to imitate by competitors), s3 .1.15 (IT infrastructure facilitates (computers, internet and intranet networks, data bases), information sharing within the organization); s3.1.1 from human capital factors (employees have the authority to control decisions about their work), 3.1.11 (In order to find new ideas we look up other sources rather than business), s3.1.5 (status and status of each of the differences of our employees are defined), s3.1.9 (in our company the majority of the qualified labor force consists of employees), s3.1.2 (education expense per employee is increasing on a regular basis), of structural capital factors s3.1.29 (our enterprise is an efficient enterprise), s3.1.30 (easy access to enterprise information system that allows easy access to features), s3.1.31 (There are procedures that support our business innovation), s3.1.26 (In-house resources (competition, environment, market, consumer demands and technological change) can be adapted to changes easily.), s3.1.28 (company information is different from the knowledge of each department), customer capital s3.2.4 factors (high percentage of loyal customers), s3.2.2 (Suppliers are visited often), s3.2.6 (higher number of customers) from the businesses participating in the survey, significant differences in terms of performance levels were found ($p < 0,05$).



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

Table 6: The Groups' Equality Test, Structural Matrix and Fisher's Discriminant Function

Variable	Wilks λ	F	Sd1	Sd2	p	Structural Matrix	Y1 (High)	Y2 (Low)
Factor 1								
s3.1.18	0.844	6.095	1	51	0.019	0.576	1.574	0.258
s3.1.14	0.738	6.924	1	51	0.003	0.412	2.294	0.700
s3.1.17	0.705	12.981	1	51	0.001	0.530	2.269	1.006
s3.1.13	0.547	8.061	1	51	0.000	0.236	5.622	2.086
s3.1.15	0.334	13.948	1	51	0.001	0.359	4.467	2.791
Factor 2								
s3.1.1	0.913	4.663	1	51	0.036	0.696	2.319	1.537
s3.1.11	0.863	4.771	1	51	0.037	0.276	2.544	1.681
s3.1.5	0.809	5.322	1	51	0.008	0.533	2.661	1.908
s3.1.9	0.725	6.192	1	51	0.005	0.110	3.617	2.536
s3.1.2	0.483	10.351	1	51	0.000	0.303	5.397	3.671
Factor 3								
s3.1.29	0.854	8.696	1	51	0.003	0.671	6.336	3.555
s3.1.30	0.836	4.710	1	51	0.014	0.562	2.887	3.772
s3.1.31	0.788	6.732	1	51	0.001	0.116	1.279	1.033
s3.1.26	0.780	10.385	1	51	0.005	0.649	2.878	1.276
s3.1.28	0.763	11.828	1	51	0.001	0.774	5.083	2.327
Factor 4								
s3.2.4	0.898	3.971	1	51	0.054	0.528	2.226	0.243
s3.2.2	0.643	5.749	1	51	0.003	0.303	2.069	0.961
s3.2.6	0.396	10.673	1	51	0.000	0.282	12.521	8.512
(Constant)							-36.022	-16.851

Building matrix expresses correlation between discriminant function and discriminant variables (Akgül and Çevik, 2003:414).

Factor 3 composed of discriminant function, was generated according to performance level in structural matrix, and intellectual capital variables. Variables related to Factor 3, (s3.1.28 (0,774)) are seen to have the highest correlation coefficient among them.

In addition, the coefficients relating to Factor 1 composed of variables of innovation and development, Factor 2 composed of human capital variables, and Factor 3 composed of customer variables, are the other significant coefficients in the structure matrix. In discrimination of business groups according to their performance levels, among the variables related to Factor1, Factor2, Factor 3, and Factor4, those that take place in Table 5 appear to be decisive.

Columns Y1 and Y2 in Table 5, show Fisher's discriminant function coefficients. Fisher linear discriminant function coefficients enable the evaluation of the importance of the independent variables (Eroglu (b), 2006:342). The Y1 column shows the high level of performance, the Y2 column shows the coefficients of the enterprises with low levels of performance. These coefficients describe how independent variables contribute to separate the groups (Morales and Fernandez, 2004). The large coefficients indicate high contribution; small coefficients indicate a low contribution in the columns Y1 and



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

Y2. Coefficients related to variables of the 4 factors in columns Y1 and Y2 are positive and statistically significant.

According to this, for the business groups with high level of performance, variables relating to the 4 factors in Table 5 contribute highly. For businesses with low levels of performance, these factors contribute lowly.

Functions	Eigen values	canonical correlation	Wilks λ	χ^2	sd	p
1	1.407	0.538	0.771	11.607	2	0.003

According to Eigen values and Wilks λ Values (Level Of Performance Of Enterprises), property of eigen values is greater than 1 which indicates that the differential feature of the discriminant function is "good". However, canonical correlation explains 100% of the total variance of coefficient and 53.8% of intergroup difference. Canonical correlation is 0,538. It may imply that the function is a good discriminator of intergroup separation. Also Wilks λ (0,771) analysis by the value of χ^2 2 degrees of latitude, was statistically significant ($\chi^2 = 11.607$, $p < 0,001$). In Table 7 the results of the classification are made according to the level of performance.

Table 7: Classification Results (business performance levels)

Real Group Membership	Estimated Group Membership		Total
	Y1(high)	Y2(low)	
G1	36	7	43
%	83.7	16.3	100.0
G2	8	11	19
%	42.1	57.8	100.0

Correct Classification Rate of 81.1%

In Table 7 according to the level of performance classification, 83.7% of the 43 enterprises with high level of performance and 57.8% of the 19 enterprises with low levels of performance are correctly assigned. High correct classification rate is considered as an indicator of success of the analysis (Akgül and Çevik, 2003:415). The Discriminant function's weighted average rate of correct classification was found to be 81.1%. These results are sufficient for distinctive features of discriminant function.

4. Results and Evaluations

Today global markets demonstrate rapid development and intense competition. For this reason enterprises especially SMEs which comprise 99.89% of all business in our country, will be able to increase business performance by creating value through relationship with intellectual assets already existing among non-tangible values such as human resources, brands, customers, and marketing channels. Consumers and customers are placed at the focal point of basic activities of businesses. That is why it is necessary to evaluate intellectual capital expressed as common brain power and knowledge, with regard to business performance intellectual capital components and business performance in small and medium-sized enterprises.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

A survey questionnaire prepared within the scope of this aim was applied in 130 enterprises operating in Çorum and 62 valid ones were analyzed statistically. The analysis revealed that, in consideration of the number of employees of businesses participating in our investigation, 73% of them employed under 250 staff, which is in line with the nature of SMEs.

As a result of the research, we found that 98.4% of enterprises are under 25 years old, 40% of them have no patents and 48% of them have between 1-3 patents. It can be said that amounts of R&D expenditure of enterprises is not sufficient. 94% of enterprises who invest on R & D, have been spending under 5,000.-TL (Nearly 2,500.-€) in this area. This expenditure is quite inadequate.

Analyzing within the framework of factors, four factors appear in studying the activities of enterprises on intellectual capital. These factors express 75% level of impact of intellectual capital of business on business performance. Factor 1 which is formed of innovation and development variables explains 64.45% of the total variance; factor 2 which is formed of human capital variables 3.96%, factor 3 which is formed of structural capital variables 3.33%, and factor 4 which is formed of customer capital variables indicates 3.14% of the total variance.

As a result of the tests of the hypotheses developed within the scope of research models, we found out the existence of a positive relation among the activity level and innovation concepts of the intellectual capital components and business performance, at $p < 0,005$ level.

In short, the synergy which is formed by intellectual capital components of small and medium-sized enterprises has a direct impact on enterprises' performance. In very aggravate and hard competitive conditions, SMEs need to invest on intellectual capital elements in order to sustain their existence effectively. Enterprises that do not invest on components of intellectual capital will lose their current status day by day, even if they manage to continue their existence.

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Volume 3, Issue 3, 2014

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

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Volume 3, Issue 3, 2014

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

The Municipality as a Source of Information?

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Abstract. The municipality as an entity of the local government and disposes defined rights and obligations, which are governed by the special regulations. In accordance with Act no. 211/2000 Coll. on free access to information, the municipality is mandatory publish and make available information that this Act also more specify. This paper focuses on availability of information from websites or other available sources. The basic set was represented by 91 municipalities of Prešov district, in which were surveyed a total of 75 data (6 identification and 69 financial). Within the implemented questioning, we can conclude especially the availability of identification data, for which there are multiple sources (eg. number of inhabitants). Overall, however, the municipalities did not provide the requested information, when up to 27 municipalities did not provide more than 5 data (including 3 identification). One of the outcomes is also a proving of small correlation between the volume of data obtained from the municipality and the number of its inhabitants, respectively the distance from the district town.

Keywords: municipality, Act no. 211/2000 Coll., data, availability

JEL Codes: H70, H71

1. Introduction

The information and access to them are essential elements of democracy. They represent a way of control by the citizens. The information are not only the need for citizens - they are an essential part of a well-functioning community of people. To have information, to dispose of them at its own discretion and to control their disclosure, thus actually means to have the power. One of the entities to whom the law imposes a duty to disclose certain information is municipality. The communication with municipalities studied e.g. Dubéci (2013), who obtained the information regarding the number of received information requests and the number of rejected applications for the period 2010-2013 on a sample of 615 public and state administration entities (of which were 599 municipalities). He notes a small occupancy of the entities by duties required by law no. 2011/2000 Coll. on free access to information. He also recommended as one of the solutions to disclosure of frequently questioned information that would eliminate part of the administrative burden, which the municipalities and the entities of public and state administration face.

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

The present contribution, after basic definition of municipality (including its scope and responsibilities) is dedicated to the results of our own survey. The aim of survey was to obtain a total of 75 data relating to economy of municipalities in the Prešov district.

2. The municipality and its position in the system of public administration

For public administration can be considered according Peková and Pilný (2002) a set of authorities and institutions of the state, whose performance is in the public interest. Public administration includes:

- a) state administration, which has a dominant position,
- b) self-administration, which is responsible for the performance of public administration

by applicable law, in particular:

- at the level of local self-government, which is responsible for representing the interests of citizens living in a certain area smaller than the state;
- at the level of self-interest administration.

Local self-government as one of the components of public administration was formed either naturally or artificially. Naturally as municipalities with a larger or smaller number of residents who lived on the same land. Artificially as a higher degree of local self-government at regional level. It includes the communities of the residents of more towns and villages in the given area that are associated with common interests in the locality (Provazníková 2009).

Provazníková (2009) and Peková (2011) for the functioning of local self-government consider the need to create these assumptions:

- a) legislative (status, scope, competence, responsibility, functions, internal breakdown, relationships at the vertical level, etc..)
- b) economic (ownership of property and the right to manage it, own resources, own budget, etc..).

The general definition the municipality as the basic unit of local self-government is based on the Constitution of the Slovak Republic (Act no. 460/1992 Coll.), which refers to other specific regulations. The Slovak constitution understands the municipality as an independent, territorial autonomous and administrative unit of the Slovak Republic associating persons who have a permanent residence in its territory. The Act on municipal establishment no. 369/1990 Coll. (§ 1) defines the municipality as "an independent, territorial autonomous and administrative unit of the Slovak Republic". It associates people who have residence in its territory. It is a legal entity that manages itself with its own property and its own income.

Mates and Wokoun (2001) regard the municipality as well as Wildmannová et al. (2001) for basic territorial self-governing community of citizens. They equally with Koudelka (2000) determined the territory and population for fundamental features of the municipality. As the last third characteristic of the municipality identified self-government respectively right to independence, which is implemented through a local referendum and municipal authorities.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

For the characteristics of the municipality in addition to the above mentioned can be considered according to Mládková et al. (2011) the performance of self-government (independent scope of the municipality) and the performance of state administration (transferred scope of the municipality).

A slightly different view on the characteristics of the municipality offer Kadeřábková and Peková (2012), who state in addition to characters according Koudelka (2000) also the management of its own affairs (the so-called separate scope) and care about versatile development of the area.

The municipality can be seen also as a social organism which is defined geographically and is relatively stable. It is characterized by a set of dynamic features, which distinguish it from other forms of settlement (Toth 1998).

2.1. The scope of the municipality and its duties

When we define the scope, it is necessary to identify the difference between scope and competence. The scope is usually characterized as a kind of delegated tasks, respectively the circle of social relationships that the municipality may regulate. Inside this circle then the entity of the scope implements its competence, which we understand a set of instruments for fulfilling delegated tasks (Kadečka, 2009).

The scope according to Šebestová et al. (2008) represents a range of issues that an organization is competent to handle. The scope of the municipality is divided according to Wildmannová et al. (2001) into two levels:

- a) separate scope,
- b) transferred scope.

In accordance with Act no. 369/1990 Coll. on municipal establishment (unless a special act regulating performance of activities of municipalities do not provide that it is a transferred competence), it applies that it is a performance of separate (self-governinig) scope of the municipality.

The separate scope of the municipality includes administration of affairs, which are of the interest of the municipality and its citizens, unless they are conferred by statute of higher territorial units or unless it is transferred scope. Císařová and Pavel (2008) characterized a separate scope as a circle of activities carried out by municipalities under its own name and for the quality of these services are also responsible.

The transferred scope under Kadečka (2009) represents the deconcentrated state administration conferred to municipalities. In the transferred scope such municipality under the current legislation helps to state with the performance of his duties and competences. Wildmannová et al. (2001) add that performance of state administration in the transferred scope is not a law of the municipality, but its duty. View of the fact that the municipality pursues an activity in the transferred scope for the State, it receives the subsidy for its performance from the state budget. According to the Císařová and Pavel (2008), the transferred scope represents a range of activities carried out by municipality on behalf of the State. The State is also responsible for their quality.

According to Law no. 369/1990 Coll. the municipality conduct all actions related to the administration of the municipality and property. This law also describes the duties of the municipality, eg. the municipality prepares and approves the municipal budget and final account, directs an economic activity or provides public services. Union of towns of Slovakia (2013) considers as a national legislative framework of local self-government (i.e. range of laws governing the activities of the municipality) 20 laws and 1 regulation, such



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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as Act no. 369/1990 Coll. on municipal establishment, Act no. 583/2004 Coll. on budgetary rules of local self-government, Act no. 564/1991 Coll. on the municipal police, Act no. 552/2003 Coll. on performance of work in public interest, Act. 564/2004 Coll. on budgetary determination of income tax revenue from local government, etc.

Act no. 211/2000 Coll. on free access to information identifies the municipality as a person, who is obliged to disclose information under this law (§ 5, § 5a) and make available information on the management of public funds, the management of municipal property, environment, tasks or professional services related to the environment and information on content, performance and activities carried out under the concluded contract. The observance of provisions of this Act, i.e. obligatory disclosure and making available information by municipalities in practice is devoted the practical part of this present contribution.

3. Methodology

The absence of a central system (e.g. in the Czech Republic is a system UFIS/ARIS) creates a need to contact the municipality individually in the event of data. This process while maintaining the required conditions for further processing (in terms of statistical processing to achieve the desired confidence interval and significance level) is time-consuming and costly. In practice, there is a personal contacting of municipalities, contacting by email, telephone or questionnaire or using the existing websites. One option is also to use the Act no. 211/2000 Coll. on free access to information.

This paper is devoted to the case study, which aim was to obtain a total of 6 identification and 69 financial data relating to the financial management of municipalities in the Prešov district, namely local taxes and fees for the year 2013. Between the required data were:

- a) identification data (e.g. number of inhabitants, the age of the mayor, the mayor's education);
- b) financial data (e.g. expected real yields and local tax rates).

We contacted 91 municipalities, while the primary source were the websites of individual municipalities. Some municipalities were also contacted by email, in case of unavailability of data on its websites.

At the characteristics of the basic file were used selected torque characteristics that Markechová, Stehlíková, Tirpáková (2011) divided into 3 groups:

- a) degree position (mode, median, average)
- b) the degree of variability (standard deviation),
- c) the degree of asymmetry (skewness coefficient, kurtosis coefficient).



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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In the next step was verified correlation between the selected data through Kendall-Stuart tau-c coefficient according to the formula:

$$T_c = \frac{n_c - n_d}{n(n-1)/2}$$

where: n_c – number of concordant pairs,

n_d – number of discordant pairs.

The difference of mean values of the groups has been studied by means of Mann-Whitney U test. The identified data were collected over a period from May to July 2014. The environment for processing of results as well as other intermediate calculations were provided by MS Office 2007 and the program Statistica 12.

4. Results and discussion

In all municipalities were available 3 identification indicators from the total number of 75 monitored indicators (population, distance from the town and gender of the mayor). These 3 variables represents a minimum of obtained data of two municipalities and thus in these two municipalities in the Prešov district, the data have not been detected by chosen methods. 29.67 % of municipalities have provided maximum 5 data (including 3 identification). The most numerous group were group of municipalities, which provided a maximum of 5 to 20 data. This group consisted of 27 municipalities. The maximum number of detected data was 27 (36 % of the total), while such number of data was provided by the 3 municipalities.

In this described file were measured median 19 data, average 15.89 data and modus 5 data. The skewness coefficient at the level -0.532 indicates that more remote values occur on the left from the average (creation the so-called left tail). The distribution is flatter than a normal distribution (kurtosis coefficient is at the level -1.29).

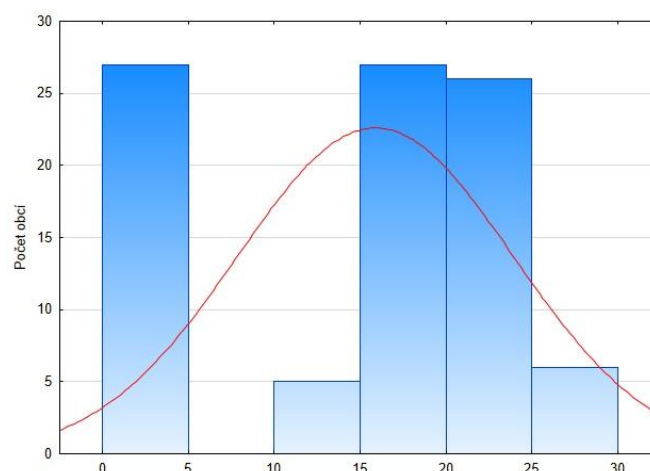


Fig.1: The frequency of municipalities in the individual groups according to the number of detected data

Source: Own calculations



From the perspective of the availability of selected data can be reported unavailability especially financial data. 5 identification data (6 searched) were detected in at least 82.41% of municipalities of the basic file. The age of mayor was possible to find only in 30% of municipalities.

From the financial indicators, the rate of individual items of the land tax was available in 63 (respectively 62) municipalities. These were divided into 6 subgroups in accordance with Act no. 582/2004 Coll. on local taxes and local fees for municipal waste and minor construction waste.

A total of 48 from the 75 searched data were "de facto" undetectable. This group included e.g. total revenue from land tax or tax on buildings, expected and actual revenue of the different kinds of local taxes.

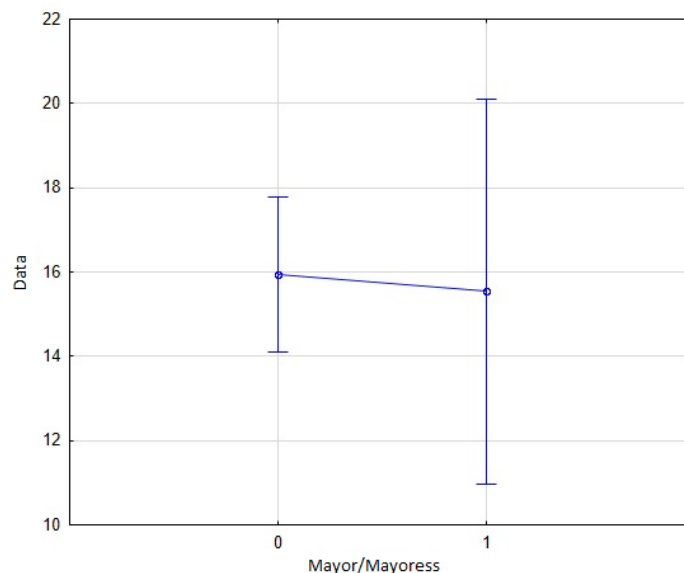


Fig. 2: Availability of data related to gender of mayors

Source: Own processing

While watching of results (number of obtained data from municipalities) in relation to the fact whether is at the head of the municipality man or woman, we can follow the following differences:

- 15 respectively 16 data were available in average in both groups of municipalities;
- marginal values were almost identical (min. 3, max. 26/27);
- significant difference can be observed at the lower quantile (males - 5 females - 14), at the upper kvantile was the difference in one data;
- 78 municipalities in the Prešov district has a man as the mayor, 13 municipalities has a woman as the mayor.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

On the surface $p \leq 0.05$ was not confirmed the significant difference between the measured mean values by Mann-Whitney U test. The correlation between the selected cardinal variables was monitored by Kendall-Stuart tau-c coefficient, which identified at the significance level $p \leq 0,05$:

- a) small correlation (TC = 0.214) between the number of inhabitants and the number of available data;
- b) small negative correlation (TC = -0.147) between the number of available data and the distance of the municipality from the district town (in this case of Prešov).

5. Conclusion

The data availability constitutes an essential factor that determines the possible results of each survey and research. In our research, we contacted 91 municipalities of the Prešov district, in which we examined a total of 75 data, including 6 identification and 69 financial. On the basis of measured results, we can conclude the low data availability in all municipalities. The maximum number of obtained data in one municipality was 27. This number includes all monitored identification data, which can be considered as the basic geographic data (e.g. number of inhabitants). One of the ways to improve access to information is their disclosure e.g. on the website. It is also possible (after considering the time and financial possibilities) to change the methodology in obtaining data for increasing the number obtained data.

The majority group of municipalities is headed by a man and there is not possible to observe the negative/positive impact on the number of available data. By applying of selected statistical methods was confirmed only a small correlation between the number of inhabitants, respectively distance from the district town and the number of available data, which are not considered as significant.

A separate chapter is the amendment to Act no. 431/2002 Coll. on accounting (§ 23 to § 23d), which introduced new provisions on register of financial statements. Into the register of financial statements (hereinafter "RUZ") are stored the financial statements, which are compiled to the 31st December 2013 and at a later date. Since 2014, the entities have an obligation to store of financial statements to RUZ, which subsequently will ensure their deposit into the collection of documents of Business Register. The mandatory publication of information in the RUZ ensured the access to obtaining the basic information on the activities of the municipality in the past. On the basis of carried survey, we must also conclude that the available are data for the whole, not partial data that were followed.

There are not also accessible information on the current (not all municipalities meet the obligations under the Act no. 211/2000 Coll., i.e. they do not disclosed the obligatory published contracts) and future planned activity of the municipality.

6. Acknowledgements

The study is a partial output of the research project GAMA/14/3.

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

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Volume 3, Issue 3, 2014

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

Evolution after 1990 of the Legal Framework with the Incidence on the Managerial Ethics of the Romanian Firms

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Abstract. Firms with an ethical behaviour, which satisfy the conditions of morality, namely to respect applicable law articles, have certain characteristics: “balance between profit and ethics; ethical values underlying the daily behaviour of individual actions; penalty system which provides penalty and correction actions by unethical nature; set of values that involves treating others with respect and honesty as you want and to be treated; manufacture and marketing of the products so that you are be thankful if you use them; treating the environment as it would be your property”.

In Romania, although the law has improved methodologically according to the European Directives, but problems arise in its implementation. The Commission report to the European Parliament and the Council on Progress in Romania under the Cooperation and Verification Mechanism {SEC (2008) 2539} show that Romania continues to face important difficulties in the functioning of its judiciary and fighting the corruption. In 2013, the political clienteles and corruption have worsened the Romanian state budget, representing, however, the greatest threat to the economic growth (MCV Report - 2013 - Brussels, 30.01.2013 COM (2013) 47 final). What are the solutions? There are the political stability and, not least, that constitutional.

Keywords: firm, ethics, law, commercial activity, illicit activities, competition, consumers

JEL Codes: M21

1. Introduction

In the period following of the 1989 Revolution, ethics was approached from the point of view of protecting the public against illicit activities, combating unfair competition, consumer protection, forms of corruption that occurs in the public or private sector etc.

2. Romanian legal framework with the incidence on the managerial ethics

Romanian legislation in fighting against the corrupt behaviour and encourage the ethical attitudes started with Law no. 12 of 8 August 1990 on the protection of the population against the illicit commercial activities. In order to create a competitive environment and a competitive internal market, principles



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

provided by the Constitution of 1991, and given the economic climate developments in Romania in 2003, with the revision of the Constitution, it was felt the need to guarantee at the constitutional level of the economic freedom principle which, together with the free initiative, is the foundation of the market economy. This fundamental right is governed by Article 45 of the Constitution which, in conjunction with Article 135 of the Basic Law stipulates that Romania's economy is the market economy based on the free enterprise and competition. Also, the state is obliged to ensure the free trade, protection of fair competition and the favourable framework for valuing of all factors of production.

Anti-competitive practices are the dishonest ways used by some economic agents to attract the competitors' customers. The Law no. 11/1991 on combating the unfair competition defines the principles for applying and regulating the anti-competitive practices. In terms we are concerned, we have some reservations about the need to criminalize provided by Article 5 thereof (Article 5, paragraph 1 a-b: using a business name, an emblem, special designations or packaging likely to cause confusion with the legitimate ones used by another trader, production in any way, import, export, storing, selling or offering for sale of some goods wearing false inscriptions on the invention patents, origin and characteristics of the goods and the name of the manufacturer or dealer in order to mislead other traders and consumers.)

In this regard, a first argument would address the idea of legislative coherence needed to any legal systems to reinforce the concept of justice. Article 5 letter b) of the Law is situated in a qualifications competition with a number of other criminality provided in the special legislation and in the Criminal Code in force. Noting for these offenses, the criminal action shall be initiated upon the prior complaint and the withdrawal of the complaint or reconciliation of the parties removes the criminal responsibility, whereas GEO 190/28.12.2005 was not removed the prior complaint procedure. However, we do not dismiss the importance of providing the adequate protection for trademarks. Buyers can not always investigate thoroughly the quality of a product. Therefore, the major investments in building a brand - around a brand - solve, to some extent, this issue. However, those mentioned do not justify criminalization provided by Article 5 letter b), since a similar protection can be provided by Law no. 84/1998 on the trademarks and geographical indications.

A second possible argument could be based on the applicability of the principle of minimal intervention in the criminal law. Thus the criminalization mentioned is the general framework for counterfeiting or pirating the goods. It remains therefore questionable to what extent certain undesirable behaviours produce damaging of the social values protected by the rule of criminality, so that to fully justify the intervention of the criminal law. The discussion requires reporting, firstly, on the social values damaged by the commission of the offense, but also on the existence of other non-criminal mechanisms would be liable to effectively combat this anticompetitive phenomenon.

Analyzing the liable social values to be damaged by the commission of the offense, we can identify the competition observance (fair) and the consumer protection. These arise both in the content of Article 1 of the law subject to discussion and typicality of the crime itself. Thus, we wonder to what extent the competition observance - the social value - could not receive the adequate protection only through the intervention of the Competition Council. This is because, under the principle of the minimal intervention, not any social value recognized by the legal system justifies the protection under the criminal law.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

Moreover, we have reservations to consider that misleading the consumers could justify in abstract, the intervention of the criminal law. In case of counterfeiting the drugs, or other goods or services that may endanger the life or health of the consumers, such interference by criminal law could be justified. However, since the Article 5 letter b) of the Law has applied to all acts of circulation, the simply misleading the consumer is definitely insufficient to prove compliance with requirements derived from ultimate ratio character of the criminal law.

In the Romanian legislation the unfair terms have special regulation by Law no. 193/2000 on unfair terms in the contracts concluded between traders and consumers, and by Law no. 296/2004 on the Consumer Code, Ordinance no. 21 of 21 August 1992 on consumer protection with subsequently amended, Law no. 240 of 7 June 2004 on the producers' liability for damages caused by the defective products. Also, some provisions of the Civil Code have an impact in the field of the unfair terms and, as well as Article 5, Article 966-968, Article 970, Article 977-985, Article 1069, Article 1070, Article 1072, Article 1086 and Article 1087. Rules applicable to the unfair terms are recognized and in the Article 1541 of Law no. 287/2009 on the Civil Code.

In the community law, several regulations have been adopted in this area, namely: Resolution of 14 April 1975 of the European Communities Council, which was approved preliminary program of consumer protection; European Council Recommendation of 16 November 1976 on the unfair terms in the consumer contracts, EU Directive no. 93/13/EEC on the unfair terms concluded with consumers, implemented in our positive law by Law no. 193/2000 on the unfair terms in contracts concluded between traders and consumers. It is estimated that a trader meets the requirement of good faith when acting fairly and equitably against the other party whose legitimate interests must be taken into account.

According to the mentioned Directive “ for appreciation of the good faith must be given a special attention to the force of the bargaining positions of the parties, the fact of whether the consumer was encouraged to give their consent to the clause in question and whether the goods or services were sold or supplied to express request of the consumer”, “provided in good faith may be satisfied by the seller or supplier when it actions fairly and equitably with the other party whose legitimate interests must be taken into account”. We appreciate the good faith reporting requirements in the definition of the unfair terms is not necessary because, first, the contractor seeks an unreasonable advantage over the other Contracting Party shall be deemed to be in the bad faith. On the other hand, good faith is evoked by Article 970 Civil Code. Reference to good faith in the definition of the unfair terms is unnecessary, since Article 970 Civil Code is inevitably implemented. The legislator sanctioned such clauses, considering that their stipulation in a contract, or more specifically their imposition by one party to the other party (in a state of inferiority or need etc.), gives expression to the contractual abuse. Taking into account that the unfair terms is not restricted only to the contractual relations between traders and consumers, but also covers the contractual relationships in general, and the law provides specific penalties only in case of the unfair terms in the contracts made between the traders and consumers, the court plays an important role to invalidate the unfair contract terms stipulated in other types of contracts, applying the rules of the common law.

On 21 January 2003, the Romanian Parliament adopted the Law no. 52/2003, which, as it is shown in the explanatory memorandum that accompanied it, was intended to achieve, along with Law no. 544/2001 on free access to information of public interest recently adopted at that time, a substantial reform of the



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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public administration. In this way, citizens, and members of the business community will be able to participate in decision-making in the public administration in Romania.

“Whatever the government and political colour have been in Romania, the enhancing transparency and the public administration reform has remained a hot topic on the political agenda. It is believed that transparency is one of the central pillars of a European style government, the standards of which Romania had to fulfil to join the European Union. Hence the continuous obsession to search patterns and reforms that give content to administrative transparency principle. In the Romanian doctrine, the transparency is associated with the idea of opening the administration, a phenomenon that allows absorption of opinions and ideas coming from outside”. This is reflected in the advertising of the administration actions and participation in decision making of the persons whose interests are at stake, with the direct access it is realized the proximity between citizens and the public administration. “Transparency is designed to make administration less opaque to clear the fog that surrounds it, to break the wall of silence; it involves removing the secrecy rule of the administration activity, which is the last redoubt of the bureaucratic construction”.

In the year 2012, the reality proves that there is still a large gap between the administration and the administered. Either we talk about under technical or logistical equipment, the slowness, the carelessness of officials and the queues at the counter, the lack of courtesy and contemptuous behaviour of public servants; they are real facets of the public administration in Romania that can combat any opinions savant-euphoric or politicking on the reforming of the administrative system. Just because there are real samples about it mustn't practice the administration in a democratic state, it is necessary to be found ways to improve the services provided by the administration, to increase efficiency of the public authorities activities, so that the people no longer have suffered because the deficiencies of the system.

The limits of transparency result from the actual content of the reforms initiated by the authorities in this regard. Information policy is only in an early stage in the achievement of the administrative transparency. The main objective remains to eliminate the ignorance or malevolence in the activity of the public administration, the practice demonstrating once again that the proclaimed desire to make from the public administration a house of glass remains illusory. It is important that, once registered on deepening the transparency policies, the measures taken from the top of the administrative pyramid to its base, to respect such an orientation. This means that all institutions falling under the Law no. 52/2003 to be obliged under the threat of the severe penalties provided by law to respect the established standards.

Ethical considerations are important for the public activity in the different ways. What is happening in the public management not only depends on the choices of those involved in this activity, and their choices are influenced naturally by the ethics they proved. Another influential factor is the role of the state.

Ineffectiveness and inefficiency of the communication is a major nowadays issue. The communication inability does not show as a unique social phenomenon but in combination with other phenomena such as emphasizing psychological distance between people based on the national criteria, racial and ethnic, spiritual isolation of the people through their integration into the large industrial and urban complexes, dehumanization of the interpersonal relationships as a result of the “affective vitamin deficiency” of the totalitarianism or of the money force domination etc. In general, our ability to achieve the spontaneous and creative human contact is paralyzed by the frantic pace of the modern life and daily stress. On the other



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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hand, the current business environment is characterized by explosion of information technology, globalization of economies, the acute economic crisis in some areas, increasing the number of the pressure groups in the consumer-syndicates-government relations, increasing the technological competition, deepening the specialization and diversification.

Fight against the opacity of public administration is conducted in an extremely slow pace, because this situation can be both the institutional and the legal framework with the incidence in the field. It is both the officials' fault that treat superficially or slowness the requests received and the institution that does not organize a more effective communication and interaction spaces for citizens - cyberspace, websites, specialized offices, so that to operate according to the standards prescribed by law. The legal framework also bears a part of the blame through the lack of explicit penalties for the authorities and the officials and of some provisions to responsible both parties not to send someone to court (action involves some cost and time) to solve problems that may arise due to the lack of transparency of the authorities.

Law no. 149 of 5 July 2011 approving Government Emergency Ordinance no. 75/2010 on the amending and supplementing of the Competition Law no. 21/1996. The new regulations create the premises for institutional strengthening of the Competition Council and making efficient its intervention when there are signs from the market about the possible anticompetitive practices. The Competition Council shall be constituted as a new formula designed to increase the level of professionalism and independence of the management of the institution. However, the national procedures are adapted to the EC provisions in the competition field. More specifically, there are accepted the interim measures and commitments from the investigated companies, the penalty may be suspended only after paying a bail, increasing the share of the economic analysis to identify the anticompetitive practices. However, in order to a procedural optimize were simplified the steps that must be followed in terms of the economic merger.

Government Decision no. 1.553/2004 of 23 September 2004 on ways to stop the illicit practices in the protection of the collective interests of consumers aims to cessation of the illegal practices in order to increase the protection of the collective interests of the consumers and improve the legal relationship between consumers and economic operators. In this context, when the collective interests of the consumers in a Member State of the European Union are harmed by illegal acts committed on the territory of Romania or their authors are domiciled in Romania, the authorized organizations in that state have the opportunity to seize the competent authorities in Romania in taking and handling of the complaints.

World economic development has generated progress and expansion of methods and techniques for obtaining "black" capital, which constantly attempted and continues to attempt to be given by its owners the legality affiliation. Black Capital represents the amount of money or other property values acquired by one or more persons after intentionally committing or participation in the commission of an offense condemned by the law, having an aim and result to obtain the illicit profits.

In this context, amid of the transition to a market economy, in Romania was found increasing the professionalism and inventiveness of the interested people in the functioning of the underground economy in which the statutory financial circuits are bypassed, the obvious purpose being to obtain sums from illegalities, and, not least, recycling goods and the assets acquired fraudulently.

In the Romanian legislation, the term of money laundering was consecrated by the provisions of Law no. 21/1999, normative act that was part included, at that time, in the large share of harmonization of the



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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national legislation with EU legislation. Law no. 21/1999 was repealed on December 7, 2002, when the Romanian Parliament adopted the Law no. 656/2002 on preventing and sanctioning the money laundering and for the establishment of measures to prevent and combat financing of the terrorist acts.

National Office for Prevention and Control of Money Laundering functions as a specialized institution with legal personality under the Government, and has, according to Article 19 paragraph (2) of Law no. 656/2002, the object of activity “preventing and combating money laundering and financing of the terrorist acts, purpose in receiving, analyzing, processing information and notify, under Article 6 paragraph (1), the Prosecutor's Office attached to the High Court of Cassation and Justice, and in case it is found the financing of the terrorism acts, it shall immediately notify the Romanian Intelligence Service on the suspected operations of financing of the terrorist acts”.

Escapist behaviour is intentional premeditated, but also involves the legal issues. Thus, because the fiscal pressure many economic agents have resorted to use for their business of the micro enterprise status to remuneration the executive level, by resorting the legal process to avoid the salaries taxation.

I share the view of the post-revolutionary Romanian legislators who have created these gaps in the legislative framework for two reasons: offering the capitalization of some people for completion the privatization process and satisfaction of the political customer.

The illegal or actual tax evasion is the taxpayer action of flagrant violation of the relevant laws. It is so called the tax fraud. This fraud is realised by not submitting or filing the incorrect tax returns. It is known that our tax system is the declarative one.

Forms of the tax fraud under Law no. 241/2005 to combat the tax evasion are the unjustified refusal to submit to the control, prevent the competent authorities of the audit, not paying the withholding taxes, highlighting the false accounting expenses, the fictitious declaring of the main or secondary headquarters or not their declaring and so on, all of which have as result diminishing the tax base.

In this area, the most common tax evasion is hiding the taxable source. The most critical and exhibited field of this phenomenon are those of the excisable products, especially the mineral oils, alcohol and tobacco.

The concept of corruption is defined by several international organizations, UNO, EU and NGOs, notably Transparency International, which have the task or run the programs to prevent and combat the corruption. Thus, as defined by Transparency International, the corruption means “misuse of entrusted power, either in the public or the private sector in order to meet personal or group interests”. According to the National Anticorruption Strategy 2005-2007, corruption is “systematic deviation from the principles of impartiality and fairness that must underlie the functioning of the public administration and assume that the public assets to be distributed universally, fairly and equally and replacing them with practices that allocation to certain individuals or groups of a disproportionate part of the public goods relative to their contribution”.

In all official documents or of the NGOs, with some differences and noticeable nuances, corruption is presented as a major negative point as a “disease” of the Romanian society. Corruption undermines the effectiveness and legitimacy of state institutions and limited the economic development of Romania. In addition the perception of corruption shows the low level of the public trust in the state institutions.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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An example is given by the Report on evolution of the accompanying measures in Romania after accession in which the European Commission considers the legal framework for combating the corruption as a quite well developed but its application remains weak. There is still a clear weakness in transforming of these intentions into results and the realised progress in the short time that has elapsed since the establishment of the mechanism for cooperation and verification are still insufficient. The deeply rooted problems, especially the corruption, require the irreversible establishment and effective functioning of some sustainable structures at the criminal investigation and the law enforcement level, capable of sending strong dissuasive signals.

Law no. 78/2000 on preventing, discovering and sanctioning corruption, amended and updated, is a means of control and punishment of all the acts or omissions that lead undoubtedly to the offence of the corruption act.

By Decision no. 609/ June 4, 2008 approved the National Anticorruption Strategy on the vulnerable sectors and local public administration over the period 2008-2010. Strategy proposed measures which complement the Public Administration Reform Strategy and Objective no. 1 Increasing the transparency and integrity in the public administration from the National Anticorruption Strategy 2005 - 2007. However, in the strategy there are considered the conclusions of some institutional assessments, governmental and nongovernmental, realised in Romania, but also from the external sources.

Law no. 137/2005 on environmental protection and Emergency Ordinance no. 195/2005 considering the environmental protection as a goal of public interest and to ensure the sustainable development of the society, ensuring the appropriate sanctions for failure. The legal liability has a special character for the area to which we refer. Liability for damages appears seems to be based on breach of the legal obligation for all individuals and legal persons to protect the environment. That does not mean, however, an exception to the general principle that anyone who causes damage should repair it. That will be the specific of that liability are conditions of incurring of the liability and how to repair the damage from the point of view of the author and establish the victim entitled to repair.

The principle of the objective liability is, moreover, only able to implement the polluter pays pollution (PPP) principle, the liability is engaged for the risk presented by the activity which it is conducted.

As for the damage reparation, in the Environmental Framework Law it is mentioned that the author incurring the cost of the damage repairing and removes its traces, restoring the previous conditions of the prejudice occurrence. Of course, this statement takes into account the individuals or legal persons whose liability has been established, aiming to fully repair of the damage, including bringing to the previous state of the environment to which it has been achieving, so, including the ecological restoration, if it is possible.

European Commission Decision no. 2006/928/EC for establishing a mechanism for cooperation and verification (MCV) of the realised progress in Romania to achieve certain specific benchmarks in the areas of the judicial system reform and fighting against corruption - Conditioning no. 2 for Romania, led to setting up in the Romanian legal system of a legal institutions such as the National Integrity Agency (ANI).

In this context, the starting point in the development of the Agency is consisted by the mentioned Decision, namely Law no. 144/2007 regarding the setting up, organization and functioning of the National Integrity Agency (ANI). Through this law, according to the commitments, the Agency is confined to a specific area of action, namely to ensure the exercise of the public functions and dignities in terms of



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

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impartiality, integrity and transparency. The scope of the Agency is represented by the organization in a unitary and institutionalized manner of the control activity of the property acquired during the exercise of mandates or performing the functions or public dignities and the verification activities of the situations where conflicts of interest and incompatibilities arise. Specifically, the control of the wealth and checking the conflicts of interest and incompatibilities are performed by the integrity inspectors of the agency.

Law no. 176 of 1 September 2010 on the integrity in performing the functions and public dignities, for amending and supplementing the Law no. 144/2007 and for amending and supplementing other acts, actually led to the transformation of Law no. 144/2007 in a simple legislative act for the organization and functioning of the institution.

Legislation in Romania on the protection of the population against the illicit activities, combating the unfair competition, consumer protection, forms of corruption that occurs in the public or private sector, was in a permanent change, which has improved the legal framework affecting the ethical management of the firms.

Positive aspects, if you can call them, result from the current reality of improving the legal framework affecting the ethical management of the firms in the year 2013. So, if the laws of Romania in combating the corruption behaviour and encouraging the ethical attitudes started with Law no. 12 of 8 August 1990 on the protection of the population against of some illicit commercial activities, that directly led to creation of a competitive environment and a competitive internal market. Constitution of Romania guarantees as a principle value the economic freedom that together with the free enterprise is the foundation of the market economy. In this context, signing by Romania of the various documents, pacts, treaties regarding the copyright and related rights, industrial property, led to the adoption in 1998 of Law no. 84 on trademarks and geographical indications.

Since joining the European Union, the legislative activity was improved by aligning with the *acquis communautaire*. Although Romania is trying to fulfil the objectives set by the treaties, not infrequently, it is condemned for mismanagement and law enforcement. An eloquent example is the one in which the Court of Justice of the European Union regarding the Directive on copyright, mentions in a report that it has not been correctly transposed into the Romanian legislation.

Regarding the anti-competitive practices, they have shown and will continue to produce its devastating effects. A first step was the adoption of Law no. 11/1991 on combating the unfair competition. Of course this area has improved in terms of legislation, but as counteracting of the phenomenon, the appropriate authorities declared they were quite often helpless. Only in 2009 the parliamentarians voted a law to prevent the anti-competitive practices of the supermarkets.

Combating the tax evasion is one of the most difficult phenomena to combat. Law no. 241/2005 to combat the tax evasion provides means of repression of hiding the taxable source. The most critical and exposed areas are those of excisable products, especially the mineral oils, alcohol and tobacco. At the European and the world level have searched different sustainable solutions to combat the tax evasion (Action Plan to strengthen the fight against the fraud and the tax evasion - Brussels, XXX COM (2012) 722/2), solutions that, unfortunately, are far behind the methods used by offenders. At the European level, about a thousand billion Euros are lost each year through the evasion and the tax fraud.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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3. Conclusion

In conclusion, we can say that in an Europe terror by incapacity to pay salaries and pensions, to preserve the jobs, threatened by withdrawal of the powerful economical states of European Union, Romania has the capacity to coordinate an appropriate legal framework where the legislation commits the long-term performance, to combat the illicit activities, unfair competition, forms of corruption that occurs in the public or private sector; consumer protection, etc.

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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Management of Innovative Projects through Agile Technology

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Abstract. Because of the globalization and the evolution of internet and technologies, nowadays the innovation is associated with open collaboration conducted by a legal framework. The paper analyses the methods that allow a better management for innovative projects and focuses on agile projects within a technological network.

Keywords: open innovation, Extreme Programming (XP), Scrum, agile programming, NIO package

JEL Codes: M15

1. Introduction

Firms' managers understood that without innovation they will abandon the road to success. The innovation results in cost-efficient actions and quality manner of programming and collaborating within a network. Although big companies and SMEs innovate in different ways, today trend is open innovation. Open Innovation refers to each stage of the product/service life cycle. Either we consider Extreme Programming (XP), Scrum, or some other agile method, all of them implies open communication between counterparts (firms, clients, policy institution, universities, ecological agencies, consultancy agencies, inventors and marketing agencies) and implements specific principles that have stood the test of time.

2. Agile programming

The key practices that distinguish an agile method from other methods are [Eeles, 2014]

- *Test-Driven Development (TDD):* This practice is about creating tests, which reflect what the code should do and unpunished an efficient rhythm for developers —test, code, refactor, test, code, refactor" [Beck, 2005].
- *Continuous Integration:* This practice talks about frequent integration and testing of programming changes.
- *Refactoring:* This practice is about rewriting an existing body of code as to obtain a better internal structure, updating the initial design of models created.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

- **Whole Team:** Modern programming mitigates the role of project managers and emphasizes the role of teams' members collaboration, even within a network. The team is flexible and dynamic. They self-organize and adapt accordingly to the project goals, bearing a collective ownership and responsibility.
- **User Story-Driven Development:** This practice describes functional and non-functional requirements such as to be understood by the relevant stakeholders throughout a project, too. The practice refers at many stages of the project: planning, development and testing.
- **Team Change Management:** This practice allows discovering defects and integration of new requirements, by any member of the team.

Additional practices for more complex projects may be:

- **Measured Performance:** Measuring the performance is important to check the project stage in every moment and for continuous adjusting of the methods, practices and key business decisions, for a successful project.
- **Formal Change Management:** The changes has to have a formal control when stakeholders outside have the decision, or when the contract terms are modified.
- **Concurrent Testing:** An external independent test team presents the user-acceptance within the iteration or release

Extreme Programming (XP), divide the project into several iterations, delivered into production in order to get the feedback from the client and increase the project's performance, delivering greater functionality, answering to any unexpected changes or correct problems arising from any misunderstandings about the client's requirements at any stage of the project. Active client involvement and pair programming and collective ownership are more efficient then reading the project documentation associated. The XP practices categories are foundations, customer planning, craftsmanship and XP team factor: [Wood, 2013].

Foundation refers to testing, pair programming and refactoring.

Customer planning refers to planning, customer access, short releases and stand-up meetings.

Craftsmanship refers to sustainable pace, simple design and use of metaphor.

XP team factor refers to continuous integration, coding standards and collective code ownership.

All these factors are related to project performance.

In their case study on 40 small-scale software development teams which used Extreme Programming (XP), the authors [Wood, 2013] found that there is a direct and positive relation between customer planning, the XP-specific team factor and performance while the relation between foundations and performance is negative. This negative relation is explained by the fact that "The real benefits of foundations are revealed in advantages for the user, and these only materialize after delivery."



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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3. Development environment

In agile programming the changes must be adopted incrementally such that people can assimilate the new information, technology, standards, collaboration techniques, etc.

A platform for innovation based on architecture and agile principles has greater efficiency if the members of the teams implements well the project lifecycle, and adopt incremental changes. (fig. 1.)

- *Method*: The formally or informally method practiced by developers refers to their roles, the tasks and processes, the standards, the guidelines, the templates and examples and the components, the work products used to develop the software.
- *Tools*: Tools are used to automate a sequence of steps from the methods above. There are tools for configure agile task boards, sprint planning, to make velocity charts such as Planio. Continuous integration is more effective if the proper tools for the project are chosen.
- *Infrastructure*: Agile programming requires open collaboration, which implies working within a network, with a specific hardware and software environment. In Open Source they are frequently using Linux operating system, MySql database management system, BOUML to specify and generate code in C++, Java, Php, Python and to design UML diagrams, etc.
- *Enablement*: It refers to training and constant mentoring for developers, professionalization of the staff and adopting external standards, obtain certifications in order to understand and internalize the methods, how to use the tools and infrastructure for a successful project.
- *Organization*: Any project must be managed by a professional organization with specialist in different fields, such as developers, method experts, tool specialists, trainers, system/platform administrators, etc. It is important to know whom you ask if there is a new requirement, a change, a bug or to recommend it for a new project.
- *Adoption*: The firm may establish a center of excellence (CoE), which has the task to facilitate the adoption of work environment, plans, working methods and practices. The effectiveness of the environment has to be measured with specific metrics.
- *Cross Cutting Concerns*: Refers at functionality, qualities, and constraints of the development environment.

Agile puts the focus on functionality of the software, on answering the clients' requirements and on the value of the project/product, through the constant feedback from the clients that may test different improved releases before the final version.

The management of agile project is fundament on collaboration between the project and client team and the organisations concerned. This approach emphasizes the feeling valued of the team members. It also involves sharing knowledge with colleagues to achieve that next breakthrough. [Collins, 2014]



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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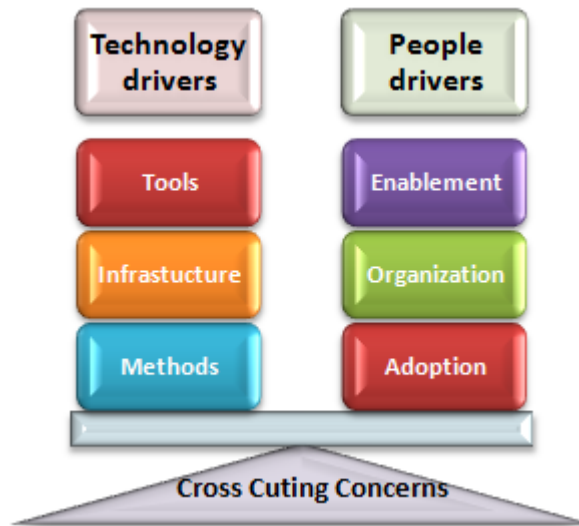


Fig.1. Key development environment elements

In our paper the focus is set on refactoring in agile projects. Refactoring the architecture is an iterative way for implementing variability. There are basically three criteria to decide if an environment is suitable for combining agility and variability: [Galster, 2014]

- Commonalities and differences between products justify systematic handling of variability and not implementing separate, custom-built products.
- The high dynamic of domain changes justify an agile, variability-handling approach
- The complexity or magnitude [McGregor, 2008] of products, including a big team involved in the project, the organization which develops a software system and the client organization.

Agile architecting is often used when the project is characterised of changeability that require flexibility and adaptability. The flexibility and adaptability refers to the ability to deal with changes. In the first case the changes can be either anticipated or planned, and in the second case the can neither be neither anticipated nor foreseen [Highsmith, 2009]. Thus, agile methodologies benefit of the advantage of variability mechanisms in order to flexibly adapt software architecture and to incrementally develop it together with a working product [Perez, 2010].

4. Case study:

Agile projects use iterative and cooperative source code development techniques, leveraging the client feed-back. Java is a favourite development platform for Agile projects because allows distributed software development (object-oriented, platform independent), code reengineering due to its robust and secure capabilities and resource balancing being a multithreaded programming language. Below is an example of optimizing alternative structures in accessing data on disk using NIO Java package.

Optimizing alternative structures and replacing them by organizing program code in subclasses, drive to the following advantages:

- efficiency in executing programs - substituting alternative structures with multiple calls to objects that implement the same abstract method, defined in a common base class;



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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- source code maintainability - in case of new alternatives (conditions) are necessary it is sufficient to create subclasses that implement specific behaviour, calling these instances of the base class is done independently by their behaviour.

4.1. Browse recursive directory structures (browse):

We called static method `walkFileTree` of `File` class accepting two parameters: one is `Path` type and the other is `SimpleFileVisitor` type `<Path>`:

```
Path srcPath = src.toPath();
ListDirVisitor listDir = new ListDirVisitor(srcPath);
Files.walkFileTree(srcPath, listDir);
out = listDir.sb.toString();
```

We ensure that the object inherits the `SimpleFileVisitor` abstract class implements `visitFile` method (`Path`, `FileAttr`) so as to obtain the file name encountered:

```
class ListDirVisitor extends SimpleFileVisitor
{
public String sb;//variabila care va strange numele fisierelor
public FileVisitResult visitFile(Path file, BasicFileAttributes attrs) throws IOException
{
sb=file.getFileName().toString();
return FileVisitResult.CONTINUE;
}
}
```

4.2. Copying directory structure recursively (copy dir)

We called static method `walkFileTree` of `File` class accepting two parameters: one has the `Path` type and the other one is a `SimpleFileVisitor<Path>` derived object:

```
File src = new File(ResPath);
File dest = new File(DestPath);
Path srcPath = src.toPath();
Path destPath = dest.toPath();
Files.walkFileTree(srcPath, new CopyDirVisitor(srcPath, destPath, ResName,
StandardCopyOption.REPLACEEXISTING));
```

We ensure that the object inherits the `SimpleFileVisitor` abstract class implements `visitFile` method (`Path`, `FileAttr`) so as to copy every file encountered:

```
public FileVisitResult visitFile(Path file, BasicFileAttributes attrs) throws IOException
```



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

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URL: <http://jedep.spiruharet.ro>

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```
{  
if (file.toString().matches("(.*)" + FName))  
    Files.copy(file, toPath.resolve(fromPath.relative(file)), copyOption);  
return FileVisitResult.CONTINUE;  
}
```

Note that walkFileTree static method - called twice by the same object - differs only by the type of the second parameter, instantiated inline on the second polymorphic call, see Fig.2.

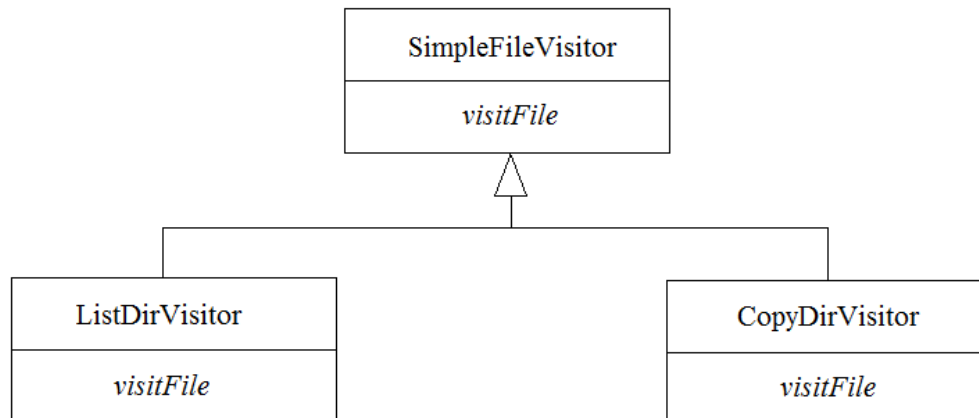


Fig.2. Inheritance relationship evidenced by a report of specialization

5. Conclusion

Innovation in agile programming is possible in refactoring, by optimizing alternative structures and replacing them with subclasses. This will result in increasing efficiency and source code maintainability. Agile programming is a solution for answering the clients' requirements in a shorter time and a more efficient way.

6. Acknowledgement

This work is supported by the Romania's Operational Program for Human Resource Development (POSDRU), financed from the European Social Fund and the Romanian Government under the contract number POSDRU ID 134393 (cempdi.pub.ro/knowledge).

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(online) = ISSN 2285 – 3642

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Journal of Economic Development, Environment and People

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 2, Issue 3, 2013

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

Recycling of the MSW in the Slovak Republic

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Abstract. The Paper aims at recycling of the MSW in the condition of Slovak Republic. Waste management is facing big criticism in Slovakia. It is one of the environmental policies that is written in political strategies but not taken seriously. Environmental policy has not been given any priority in the government for many years. The changes came together with EU membership. Standard scientific research methods included synthesis, analysis and comparative method.

Keywords: Waste management, recycling, MSW, Slovak Republic

JEL Codes: Q20, Q28

1. Introduction

Resources are the backbone of every economy. In using resources and transforming them, capital stocks are built up which add to the wealth of present and future generations.

On 21st December 2005 the European Commission proposed a Strategy on the Sustainable Use of Natural Resources used in Europe. The objective of the strategy is to reduce the environmental impacts associated with resource use and to do so in a growing economy. Focusing on the environmental impacts of resource use will be a decisive factor in helping the EU achieves sustainable development [European Commission, 2014].

Waste management programs worked out particularly for the waste management field are the most important conceptual materials. They are elaborated at the national and regional levels as well as the level of individual waste producers.

2. Waste management in the Slovak Republic

Waste management is facing big criticism in Slovakia. It is one of the environmental policies that is written in political strategies but not taken seriously. The national waste management plan had set to reduce the landfill waste down to 13% by 2010. However, current situation is emerging and far behind the average of EU countries. Only 3% of the waste is being recycled. 83% of all the waste is landfilled, 10%

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

URL: <http://jedep.spiruharet.ro>

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burned and 5% composted. The amount of waste produced per person is 2.4 ton per year while only 26 kg per person is recycled. The number of black landfills is also growing – there are around 20 thousand black landfills around the cities.

Missing motivation for recycling is caused by insufficient legislation support because processing of recycled waste is several times more expensive than handling general waste. Prices of raw materials are low and at the same time there are no fees for landfills.

Nevertheless, since 2010 each municipality is obliged to do the minimal waste recycling of plastic, glass, metal and paper. Mandatory separation of biological waste was moved to 2013. This regulation is a reflection of the country commitment towards the aims of European Union. Also several schools are integrated into educational projects for recycling. Recycling fund is funding municipalities for the purpose of waste recycling development. The fund collects financial means from commodity producers in order to share them among the companies that focus on recycling. In spite of the fund that helps municipalities to start recycling waste, it faces accusation of corruption and missing transparency when deciding for the companies that can use money from the fund [Sustainable Event Alliance, 2014].

The current government sets as the most important aim the improvement of the life standard quality of the population while they emphasize the ethical principles. Government undertakes for growth in competitiveness through transparent processes. Successful realization of these commitments would be an important turning point after constant changes in law and high level of corruption led to unproductive economic environment and high cost.

2.1. Waste management in the Slovak Republic

Waste management in the Slovak Republic based on 3 international convention strictly follows EU legislation – 5 main Acts:

- Waste Act,
- Act on Landfill Tax (charges for waste disposal),
- Act on Persistent Organic Pollutants,
- Act on Packaging,
- Act on the management of waste form extractive industries.

Waste management budget in the Slovak Republic is created by:

- public sources of funding,
- EU Structural funds,
- Environmental Fund,
- private sources of funding,
- Recycling Fund,
- sources from waste producers and holders,
- taxes of waste disposals at landfills.

Measures of the waste management in the Slovak Republic are focused to minimize the impact of waste on human health and the environment:



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

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URL: <http://jedep.spiruharet.ro>

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- to promote the reuse and recycling of municipal waste,
- to reduce landfilling of biodegradable municipal waste,
- to achieve the objectives for bio waste,
- to achieve the objectives for selected waste streams [Ministry of Environment of the Slovak Republic, 2013].

2.2. MSW management in the Slovak Republic

Main points regarding MSW management in Slovakia:

- According to the latest data , 75 % of MSW generated in Slovakia was still landfilled in 2011,
- Around 10 % of MSW in Slovakia is incinerated with energy recovery. There are two incineration plants for MSW in Slovakia,
- Municipalities are responsible for MSW management in their administrative territories,
- Around 7 % of municipal waste is collected selectively. Existing recycling infrastructure is sufficient, but separate collection systems need to be improved further,
- The total recycling rate of MSW is still very low. According to present trends, an exceptional effort will be required to meet the EU requirement of 50 % MSW recycling in 2020,
- According to the amended Waste Act the municipalities in Slovakia were under an obligation to introduce separate collection for paper wastes, plastic wastes, metallic wastes, glass wastes and biodegradable waste by January 2010 [European Environment Agency, 2014].

MSW can represent a considerable potential resource. In recent years, the global market for recyclables has increased significantly. By considering waste disposal options, the waste management sector follows a generally accepted hierarchy. The hierarchy responds to financial, environmental, social and management consideration [Worldbank, 2012].

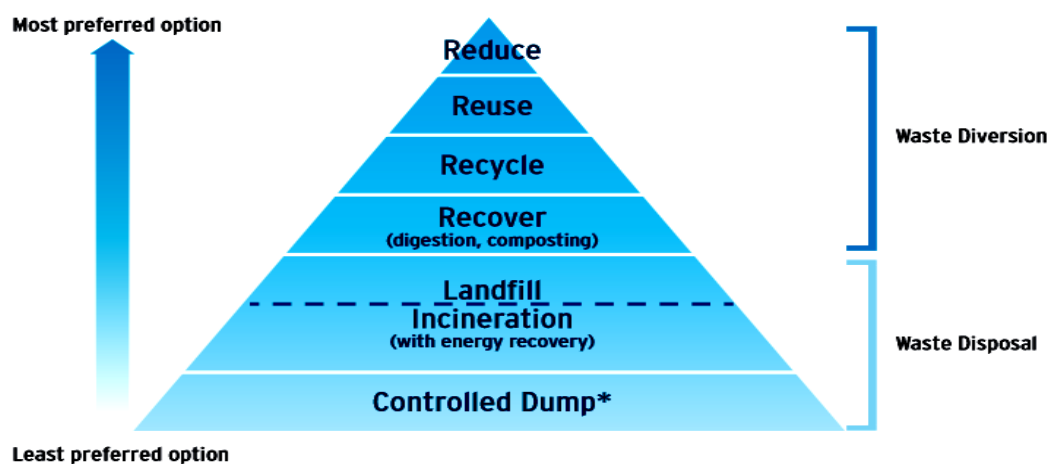


Fig.1.Waste hierarchy, Source: Worldbank, 2012



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

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We have focused on recycling of the MSW in the Slovak Republic. Environmental policy has not been given any priority in the government for many years. The changes came together with EU membership and European legislation when regulations were incorporated in the national legislation, too. This is shown in Fig. 2 where we can see development of recycling of MSW in the Slovak Republic from 2001 till 2010 [Slovak Environmental Agency, 2011].

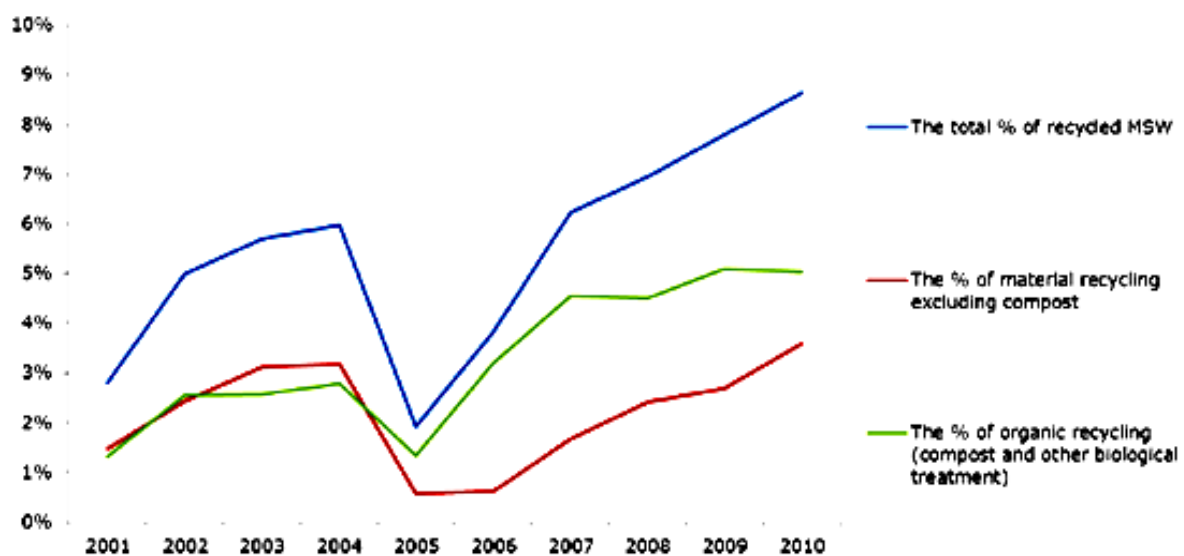


Fig. 2: Recycling of MSW in Slovakia

Source: Ministry of Environment of the Slovak Republic, 2013

Figure 2 shows the development of recycling of MSW in Slovakia in terms of total recycling, material recycling and organic recycling (composting and other biological treatment). As illustrated, the recycling level is low but after 2001 there has been a positive trend in the recycling of MSW, with a considerable drop in 2005. The positive trend has since continued, with the total percentage of recycled MSW increasing from 3 % in 2001 to 9 % in 2010. In absolute terms recycling of MSW increased from 36 000 tonnes in 2001 to 156 000 tonnes in 2010 [European Environment Agency, 2014].

According to the calculation done by Copenhagen Research Institute, we can predict recycling of MSW in the Slovak Republic to the year 2020. This prediction is represented by Figure 3.

According to the country assessment on waste provided by Slovakia (EEA, 2010), in the coming years, a slight increase in municipal waste generated in Slovakia can be expected. The amount of material recovery including composting and energy recovery of municipal waste is very low and did not substantially approach the target set in the WMP until 2010. Slovakia therefore sees a need to extend separate collection as well as improve the level of home composting [EEA, 2010].



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

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URL: <http://jedep.spiruharet.ro>

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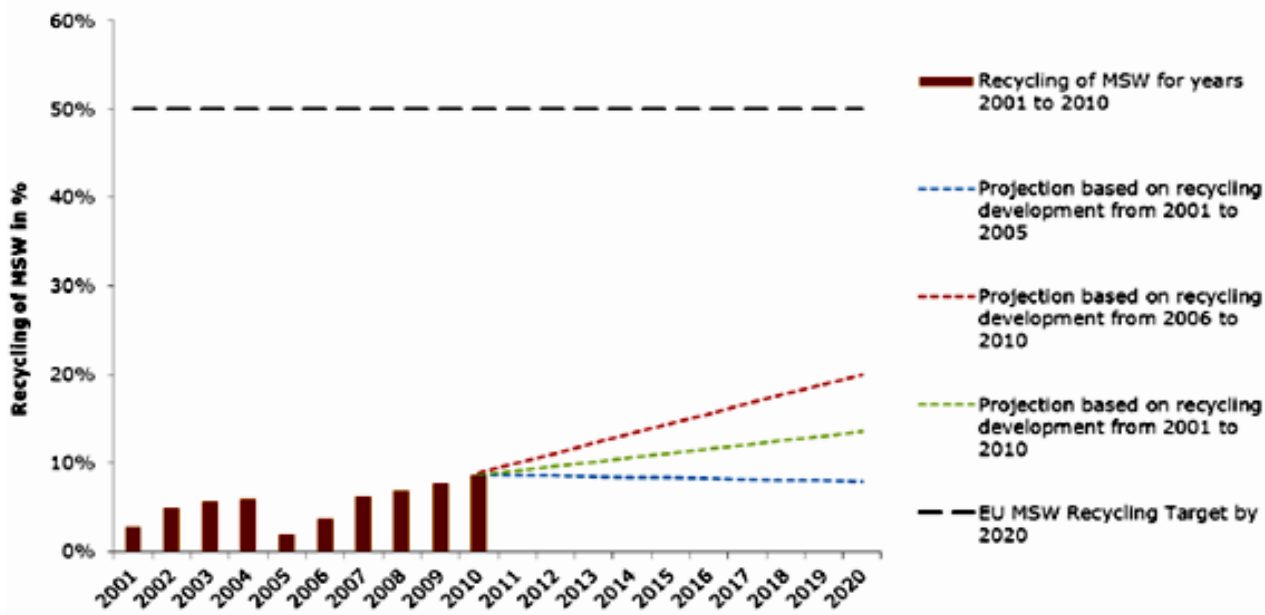


Fig. 3: Future recycling of MSW in Slovakia
Source: Ministry of Environment of the Slovak Republic, 2013

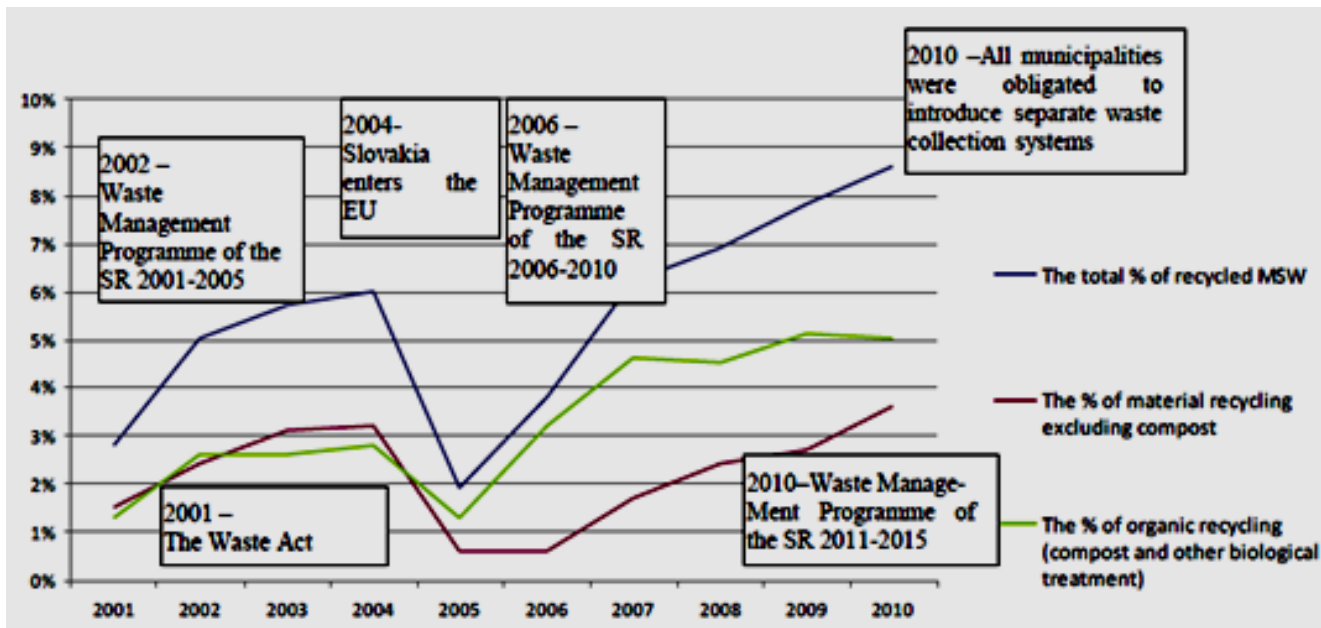


Fig. 4: Recycling of MSW in Slovakia and important policy initiatives
Source: Ministry of Environment of the Slovak Republic, 2013

3. Conclusion



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

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Although, the Environmental policy in the Slovak Republic has not been given any priority in the government for many years, the changes came together with EU membership and European legislation when regulations were incorporated in the national legislation, too. Waste management in the Slovak Republic based on 3 international conventions strictly follows EU legislation. These changes are clear in issues of recycling of the MSW. In absolute terms recycling of MSW increased from 36 000 tones in 2001 to 156 000 tones in 2010.

The total recycling rate of MSW is still very low. According to present trends, an exceptional effort will be required to meet the EU requirement of 50 % MSW recycling in 2020. Therefore, many important policy initiatives have become active during the last period.

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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Virtual Teams and E-leadership in the Context of Competitive Environment - Literature Review

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Abstract. Globalization, accelerated movement of goods, technology and information transformed society in recent decades in unprecedented ways. In the context of a generation that focuses on continuous innovation and creativity at the highest levels, ability to lead and motivate people represents one of the best qualities of a manager, regardless of the activity. Unprecedented growth of competition, the need to reduce costs by automating continuous processes and create a competitive advantage in a market where the supply of goods and services is similar are forcing companies to put increasing emphasis on human resources. As part of creating competitive advantage, organizations relocate and create virtual teams in order to reduce costs, but keep the quality of the products or service, but they self-expose to risks if the virtual teams are not managed efficiently.

The present article aims to explore new directions for leadership competencies in virtual context, reviewing the basic team characteristics from the traditional environment through new requirements based on virtual experience particularities.

Keywords: virtual team, e-leadership, leading virtual teams, complex society, leadership competencies, virtual context

JEL Codes: O3, M5, L1

1. Introduction

As a response to a challenging business environment, organizations wanted to benefit from technology development and create virtual team, instead of investing money on building offices in numerous locations across the world [Chinowsky P. S., Rojas E. M., 2003]. These changes created opportunities for organization to overcome the barrier of hiring local employees, and to benefit from the experience and knowledge of experts across countries or continents [Hunsaker P. L., HunsakerJ. S, 2008]. However, this involves some risks and challenges the team are exposed to, as the context is changed and the role of the leader in virtual settings must sustain the performance of the business.



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

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2. Literature review

2.1. Virtual teams

Contributions A Virtual Team or remote team [Nevogt, D., 2013] is a group of people with complementary competencies [Chinowsky et al., 2003] who work across time, space and organizational boundaries with links strengthened by webs of communication technology [Lipnack, J., 2000]. The main features of virtual teams are: working with online tools (via telephone, e-mails, video conferences), across time zones, no face to face interactions, different organizational contexts [Bal & Teo 2000; Kayworth&Leidner 2002].

As research studies have demonstrated, the number of virtual teams is on the rise, with almost a quarter of a billion people already working online globally and increasing [Bergiel et al., 2008]. If in the former stage, virtual teams were created for simply project-based, they migrated to being permanent structures consisting of several team members located across the globe with their direct line managers located in different countries [Picolli, Powel & Ives 2004; Bal &Teo 2000; Purvanova & Bono 2009].

Table 1. The main advantages and disadvantages of virtual teams

Advantages	Disadvantages
Reducing relocation time and costs, reduced travel costs	Lack of physical interaction
Reducing development times and time-to-market	Challenges are more related to the distance between team members than to their cultural or language differences
Provide a vehicle for global collaboration and coordination of R&D-related activities	Challenges of determining the appropriate task technology fit
Able to tap selectively into centres of excellence, using the best talent regardless of location	Cultural and functional diversity in virtual teams lead to differences in the members' thought processes
Teams can be organised (whether or not members are in proximity to each other)	Developing trust among the members is challenging
Greater degree of freedom to individuals	Challenges and obstacles like technophobia
Provide organizations with unprecedented level of flexibility and responsiveness	Variety of practices (e.g. cultural and work process diversity) and employee mobility can negatively impact performance
Organizations seeking to leverage scarce resources across geographic and other boundaries	Team members need special training and encouragement
Sharing knowledge, experiences	Everything to be reinforced in a much more structured, formal process

Source: Ebrahim, Ahmed &Taha (2009)

Taking into account the advantages of creating a virtual team, it is necessary to respond to the challenges that appear and find solutions to better integrate the persons to a virtual team, as they may



(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

never actually met face to face. Actually, virtual teams are often built for non-routine tasks [Corso, Martini, Pellegrini, Massa, Testa, 2006], based on knowledge sharing [Cramton, 2001], through online media. This trend toward remote work groups has necessitated a detailed analyses into the role, responsibilities and competencies of e-leaders [Mogale L., Sutherland M., 2010].

2.2. Virtual leadership

As identifying the positive and negative aspects of the virtual teams, a closer look should be taken on leaders who need to manage the team, and the features of the new type of leader being born, e-leader [Mogale L., Sutherland M., 2010].

Leadership is an intricate construct that can be described and measured in multiple ways [Mogale L., Sutherland M., 2010]. The complexity of this concept, which involves interaction between three elements: the leader, his followers and the context or situation in which it is exercised [Bennis w., Nanus B., 1985] transposes in the virtual environment, with some particularities. Organizational scientists have begun to talk about “e-leadership” to refer to leaders who conduct many of the processes of leadership largely through electronic channels [Zaccaro, Bader, 2003].

Authors Avolio, Kahai and Dodge (2000) define e-leadership as —“a social influence process mediated by AIT (advanced information technology) to produce a change in attitudes, feelings, thinking, behaviour, and/or performance with individuals, groups, and/or organizations”. As online media is a developing sector in the economy, leaders need to integrate this form of communication “in every hierarchical level in an organization” [Avolio, Kahai, Dodge, 2000], involving both one-to-one as well as one-to-many interactions over electronic media [Das Gupta P., 2011].

The main challenge for a virtual leader is creating the team, and an appropriate environment for members to know each other and build trust relationships, in order to approach the common goals. At a first view, the limitation of channels of interaction may be considered a boundary, but key online channels like social media may create the same bound as in a traditional team and give member a point to start a strong relationship based on trust and knowledge sharing. This represents one of the key factors an e-leader should include in his strategy of coordinating virtual teams.

As the scope of creating virtual teams is engaging the most appropriate specialists into the projects, solving geographical or temporal separations, managing the team for maximal performance is one problem more that needs to be fixed. In order to achieve maximal performance in virtual teams, e-leaders need to set goals and vision, clearly explain the role of every member and encourage them to share knowledge and experience, and organise habitual meeting, video conferences to create a common ground and keep the idea of membership, even if members are located in different geographical space. Also, encouraging incentives and provide recognitions for good performance keep the members motivated to achieve great results [Abbasnejad, Moud, 2012], because, regardless the place where it is located and the type of work a person does, employees will always be motivated by material or immaterial rewards.

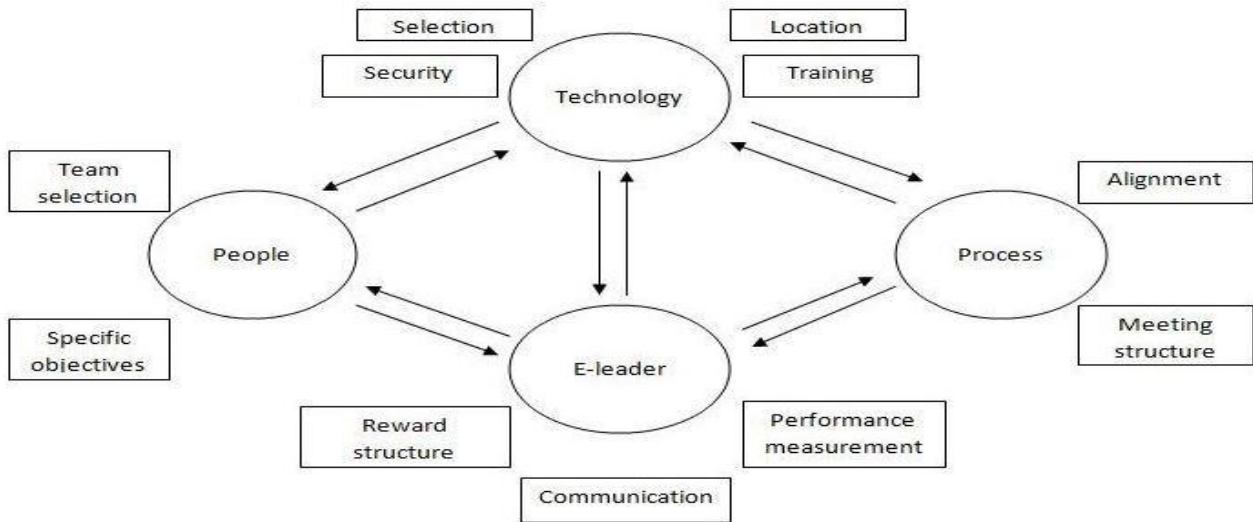


Fig. 1. Valid model for virtual team working

Source: Personal remake after Bal and Gundry(1999)

2.3. Future research

If the direction is set to virtual teams and competitive advantages are taking companies in areas never reached before, future research in implementing virtual teams in small and medium businesses and university environment would be essential for developing a new path for these concepts. The development and application of this new model of work in different areas of activity should be studied in order to provide the features of virtual teams managed in specific situations..

3. Conclusions

Virtual teams will not fully replace traditional teams in the future, but represent an alternative to reducing costs for big companies that need to maintain a competitive advantage and offer same products and services as the competitors, with the same quality and a smaller price. Investment in technology always represents a productive mode to interpolate money into business, with positive return of investment, if tools and human resources are perfect integrated in a new business system, through e-leaders. Virtual teams represent new and exciting work form with many aspects which may represent subject for future research, as it is a developing phenomenon in organizations. The opportunities and challenges provided by remote users must consist in internal opportunities also for technology companies, to develop new efficient ways to communicate and make virtual interactions as easy as Google is nowadays.

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(online) = ISSN 2285 – 3642

ISSN-L = 2285 – 3642

Journal of Economic Development, Environment and People

Volume 3, Issue 3, 2014

URL: <http://jedep.spiruharet.ro>

e-mail: office_jedep@spiruharet.ro

ISBN 0471388254;

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