

WHAT DO MANAGERS WANT? TRANSPARENCY AND OBSCURITY IN THE COMPANY'S STRATEGIC MANAGEMENT

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ABSTRACT

The general management of any company must clearly state the broad guidelines it wishes to give the company, i.e. its vocation, the levels of performance it must achieve, the place it wants to occupy in the field of activity, and so on. This is done in order to further guide the process of strategic reflection. The transparency in communication, the system of values, norms and aspirations of management, and the degree in which they are respected are the most important aspects in the strategic orientation and corporate governance of a company.

Management decisions directly affect the company's evolution and performance, with direct impact on the satisfaction of all those involved (employees, unions, shareholders, clients, suppliers, and others). Without a system of management rules, values and aspirations based on principles and rules that are fair and transparent for all involved, we cannot talk about qualitative performance in an organization's strategic management, regardless of its nature (economic, social, political).

In this paper, we will address a very timely, very delicate and poorly addressed issue in Romania, namely that of transparency and obscurity in managerial activity, with direct consequences on the quality of strategic management within a company and its performance.

KEYWORDS: *company values and norms, corporate governance, economic performance, obscurity, strategic management, transparency.*

1. THE SCOPE OF A COMPANY'S STRATEGIC MANAGEMENT

The concept of "**strategic management**" was consecrated at the first "International Strategic Management Conference" organized by I. Ansoff in 1973 at Vanderbilt University (USA). Concerning the scope of this concept, there have been and still are many discussions, some authors considering it as an extension of the concept of "strategic planning" or even its equivalent. We regard this aspect as normal, given that this science is still very new; if we would try to make a comparison in time between the "philosophy" and "strategic management" sciences, we will find a gap of over two and a half millennia between them (we considered the gap between Thales (624-547 BC), the founder of the Philosophical School of Miletus and Igor Ansoff (1918 - 2002), considered the "father of organizational strategy").

It is indeed a very long time gap, but **in terms of strategic management we do not interpret this time gap as a "weakness", but rather as an "opportunity"**.

We have the opportunity to approach within this paper a very delicate and disturbing problem for our country, that of the *impact of the manager's system of norms and values, of the transparency and obscurity in the practical activity of strategic management within a company.*

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The first management dictionary edited in our country defines strategic management as a **“management category based on strategy, through which managers aim to ensure the evolution and performance of the organization over the long term, focusing on rigorous formulation of the strategy, its systematic and effective implementation and on the continuous evaluation of developments”** (Nicolescu et al., 2011). In the specialty literature we find no unitary vision of the authors regarding the succession of the actions that comprise the process of formulating the strategy and its phases, but we do find a starting point: Harvard Business School’s modern approach of the strategy, presented in the work of Professors Learned, Christensen, Andersen and Guth. It introduces for the first time a substantial analysis framework capable of highlighting the opportunities and threats of the environment and the strengths and weaknesses of the company. This framework of strategic analysis is known in the literature as **“The Harvard School Diagnostic Analysis Grid”** or **“LCAG Model”** (Learned et al., 1965).

In the strategic planning system of the 1960s, according to this model, the company’s strategic diagnosis aimed at assessing the degree of compatibility between the following main issues:

- the capabilities and resources of the company;
- opportunities and threats of the environment;
- the system of values and aspirations of those who decide.

Regarding these aspects, four fundamental questions arise, presented in Figure 1 (Deac, 2017).

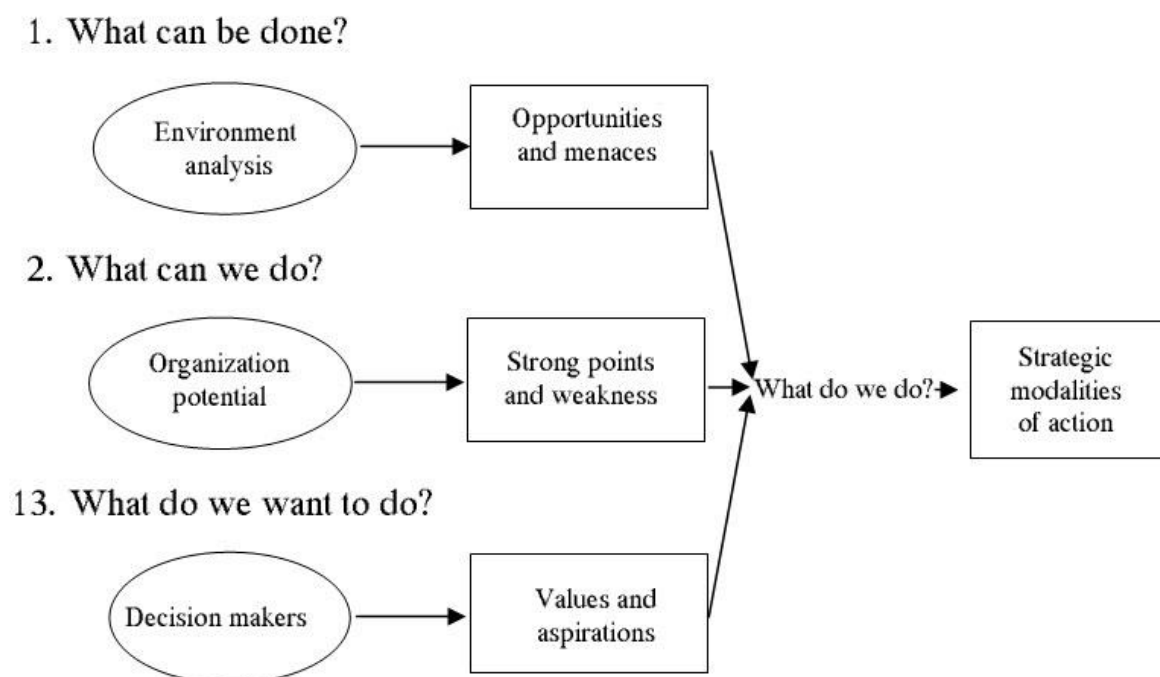


Figure 1. The process of formulating the company strategy

Source: adapted from Deac et al. (2017, p. 62)

The answers to the first question result from the analysis of the competitive environment, aimed at identifying the opportunities and threats of this environment. The answer to the second question is given by the company’s internal strategic diagnosis, the objectives of this diagnosis being the determination of the strengths and weaknesses of the organization and its distinctive skills.

What the decision-makers want to do (answers to the third question), their aspirations, their system of norms and values will influence the choice that will be made. In the case of similar companies (the same activity profile, the same size and so on), the individual characteristics of those who

decide (shareholders or managers), their own system of norms and values will influence their strategy.

If the questions of the first two questions are widely available in the specialty literature, starting from the famous "**SWOT analysis**", "**Ansoff's approach**", with the famous "*internal evaluation*" and "*external evaluation*" (Ansoff, 1965), "**activity portfolio analysis models**" (BCG, Mc Kinsey, ADL and so on) and ending with "**M. Porter's Five Forces Model**" (Porter, 1982), the question "**what do we want to do?**" is less addressed in the specialty literature in our country and very disturbing in the management-employees or management-shareholders dialogue.

We "fondly" remember how, not too long ago, we asked a candidate for the post of Rector of The Bucharest University of Economic Studies, "**which will be the top priority in your mandate?**", and received a "by the book" answer, respectively, "**motivating the teaching staff**". He also pleaded in this respect heartily, which convinced a lot of people to vote for him. After winning the mandate, we sadly found that we were deceived. Not only we received no extra incentives, but some were even taken from us (pay by the hour tariffs reduced more than three times, exams no longer paid and so on).

We believe that the general management of any company must clearly state the broad guidelines it wishes to give, namely the company's vocation, the levels of performance it must achieve over different horizons of time, the place it wants to occupy in the field activity, all communicated with great transparency inside the company, but also in its external environment, to further guide the process of strategic reflection. It is essential that everyone in the company understands its strategy and to contribute to its realization. At the same time, it is also good for competitors to know your strategy because there are chances for them to look for other options, to do otherwise, so companies that dispute the same market can avoid engaging in a destructive or zero-sum competition (Porter, 2008).

2. THE CORPORATE GOVERNANCE CODE

At the current stage, strategic management's "Bermuda Triangle" refers to the management's confusion when it comes to the true value of the company, namely its economic performance, social responsibility and the value it brings to its shares. The years prior to the 2008 financial and economic crisis have been awful, years in which many managers have considered that a company's goal is closely linked to the value it brings to its shareholders. This "illness" is older; in the early 1970s, M. Friedeman, Nobel Prize winner for Economics in 1976, advocated that maximizing financial results and dividends paid to shareholders is the greatest social responsibility of a company. Subsequently, the concepts have changed due to various financial scandals and collapses (the effects of the 1973 world crisis, the Asian crisis of 1978 and so on), as well as the lack of confidence in the financial reporting of many British companies. Consequently, the Financial Reporting Board, the London Stock Exchange and the Accounting Profession have launched the idea of setting up a committee whose purpose was to create conditions for companies' managers to "*account for*" the actions they have taken, an idea manifested in the Cadbury Report, May 1991. **A year later, the concept of "corporate governance" emerged, representing a development of the concept of "corporate social responsibility"**. In the European Union, the concept of corporate governance began to emerge clearer after 1997, when most member countries adopted corporate governance codes, but these were optional.

We believe that an unforgivable error has been committed, that even economics students could have avoided, namely the omission that shareholder value is an effect, which normally can only occur when you, as a manager, create a superior economic performance of the company. Reality has shown that believing that the price of a company's shares at any given moment is a true reflection of its true economic value has been a very dangerous thing for company management and not only. Managers of many companies whose motivational packages were linked

to the value of the shares, **"bewildered"** by the mirage of huge personal gains, began to believe and behave according to the idea that the price of company shares showed their true value. After the **"cold shower"** of the financial crisis (see the famous bankruptcy cases: Lehman Brothers, Merrill Lynch, AIG, Enron, and others), **it was time for business management to understand that the real goal of a business is to create superior economic performance, which will be reflected in higher financial results that all the shareholders (employees, suppliers, customers, state, and so on) will enjoy and, as a final result, a higher value of the shareholders' shares.** It is a process that can not occur overnight, it is a lengthy process that dissatisfies management, but if we review the very hard lesson given by the last crisis, it is important to understand what the company's real goal is and act in this sense, instead of losing time trying to satisfy the shareholders (Porter, 2008)

Corporate governance is among the modern companies what democracy was for the ancient states, namely the application of fundamental democratic principles within an organizational typology, namely a company. The Corporate Governance Code sets out a set of rules and exigencies that influence a company's management behavior in its strategic management towards optimizing the interests of its various stakeholders: shareholders, employees, customers, suppliers, bankers, trade unions, political organizations, state, NGOs, and others. These codes do not set the rules that define business ethics, nor the ethical rules that a company has to respect when dealing with its shareholders. We consider that, in order to ensure that all the provisions contained in this Code will be implemented in addition to the legal sources regulating the relations between the company and shareholders (company law, insolvency law, various financial regulations and so on) these should also be included in the company's constitutive acts and internal regulations, representing formal elements of the company's organizational culture.

If we were to give examples of behaviors that conflict with corporate governance in Romania, the list would be very long, but just at the top of the list (if we only consider the lawsuits) we consider money laundering, tax evasion and the use of confidential information for gains out of shares transaction (see criminal case from SIF Banat-Crișana for manipulation of the capital market, trading of Rompetrol shares and others); to these we add the multiple cases of lack of transparency or total obscurity in the strategic decisions of many companies, some of them inconsistent with the legal provisions (see the multiple sanctions applied by the Competition Council to companies in various fields of activity for "price cartels").

One of the specific corporate governance provisions is the need to separate the Board of Directors from the management of the company. According to the UK-specific model, the Board of Directors should pursue management activity and ensure that it reports fair and transparent to the different shareholders. Corporate Governance aims to increase the company's performance and harmonize the various interest groups, but this can not, in our opinion, happen when the CEO is one and the same person as the President of the Board of Directors.

Studies on corporate governance do not specifically investigate the implications of consensus on the power of the Board of Directors. Therefore, we aim to extrapolate the results of previous research to fully understand the role of consensus in assessing its power. Power is defined by Pfeffer (Pfeffer, 1981) as the ability of shareholders to overcome resistance in achieving a desired goal or result. We can deduce from Pfeffer's definition that this Board of Directors will successfully exercise power over the President of the Board when it manages to remain immune to its influence and protect the interests of shareholders or employees against those of the President. However, even if this Board of Directors is designed to monitor and control executives (the Executives Board), in practice the power of the Executives Board is limited and depends on several variables. For example, Zajac & Westphal (Zajac & Westphal, 1996) proposed a methodological model that describes four binary dimensions that measure the power of the Board of Directors:

- **CEO's mandate in relation to the average duration of the Board of Directors' member mandate;**
- **the duality of the Board of Directors' presidency;**

- **the ratio of external to internal members;**
- **ownership of shares by Board of Directors' members.**

According to this model, the Board of Directors will have a high power over its President when: the President of the Board of Directors is relatively new; the Board of Directors is chaired by a person other than the President; there is a high degree of independence of members; the members own shares.

Starting from the reality that the successful implementation of collective decisions depends on ensuring the cooperation of all involved, a decision-making process with an emphasis on the consensus among Board of Directors members is likely to be more effective than one that does not emphasize this (Guth & MacMillan, 1986). Consequently, based on Zajac & Westphal's model, **we propose the "consensus of the members of the Board of Directors" as a fifth valid and vital dimension of power.** However, consensus, as defined by Schein (Schein, 1999), is not equivalent to unanimity. An open communication environment and a group support atmosphere in which all members of the council feel that their point of view is recognized fosters the formation of consensus. Thus, in order to increase the chances of successfully implementing a decision, and implicitly the efficiency of Board of Director's power, consensus does not mean simply agreeing on a particular problem (Amason, 1996), but actually involves active teamwork in implementing the decision.

We consider that, in general, in order for a team to reach consensus and thus effectively implement the decisions taken, two conditions must be fulfilled by the team members:

- they must understand all aspects of that decision;
- they must devote themselves to implementing it as the last step of the decision-making process.

In companies, Executive Officers are generally considered to be powerful individuals who try to show control over the Board of Directors by selecting and maintaining members who are resembling them (demographic and behavioral), and by excluding those with experience in more active boards (Zajac & Westphal, 1996). These ideas are used to make an indispensable reconsideration of the assumption that the councils are homogeneous and internally consensual. But, if we are referring to the Boards of Directors of the Romanian higher education institutions, this issue is invalidated even by the legislation in force, given that the Vice-Rectors and the Deans, as members of the Board of Directors, are appointed by the Rector (President of the Executive Board). We rethorically ask ourselves: how could they then oppose him when he proposes to cut in four the hourly pay rate or the non-payment of exams (to give only two examples that occurred not a long while ago)? All these measures were substantiated on a poorly funded budget. When pointed that it is totally unheard of to be asked to sign a pro bono contract for the hours we have worked, we were told that our disciplines could be excluded from the curriculum at any time.

As a rule, companies are made up of individuals with contradictory preferences and objectives (Eisenhardt & Zbaracki, 1992) and there is a divergence of interest between the President and the Board of Directors. More specifically, preference conflicts arise even between Board of Directors members, not to mention between Board of Directors and employees, where preferences and objectives are sometimes diametrically opposed. Once the President of the Board of Directors perceives the conflict, he will exploit this weakness in order to act according to his own interest. Significant in this case would be the issue of "*social ties*" (Westphal, 1999) between the President and Board of Directors' members, which increase involvement by encouraging collaboration between them. It can be inferred from an opportunistic point of view that once the President notes that the Board members have no internal consensus on his point of view he could establish social ties with Board members who are compatible with his ideas, and thus, by establishing a social link, he can easier exploit de power.

Therefore, we suggest that shareholders appoint a Board of Directors consisting of mainly two types of members: internal members who do not belong to the top management team and affiliates.

Internal members who do not belong to the top management team are less likely to have similar interests to the General Manager (and the President of the Board of Directors) and at the same time have a high level of specific knowledge. Moreover, in order to further increase their level of independence, we suggest that they have a higher work experience than the President. External members will mandatory need to have a higher level of company-specific knowledge than internal ones and a greater degree of independence from the President. Therefore, by adopting this structure, we believe that more independence and knowledge will be gained.

Another important aspect is that executives engage in intra-council policy, mainly in coalition formation in order to reduce the relative power of non-Board members. For example, in a mixed council with a large number of external members, the President could try to form a coalition with the internal members and also engage in other opportunistic behavior (for example, distorted disclosure or incomplete information on behalf of this minority group in order to force a decision, which would lead to an over-representation of minority interests in the Board's decision-making process and hence a distortion of the interests of various stakeholders). We believe that confronting the duality of the President of the Board of Directors (for example, separating the positions of General Manager and President of the Board) can help diminish such opportunistic behavior to reduce consensus and therefore the relative power of Board members in favor of the President. In negotiation, strategic decision-making is ultimately political in the sense that powerful people get what they want (Eisenhardt & Zbaracki, 1992). The issue of coalition formation and building is an essential aspect of decision-making process in any political system. In the Boards of Directors, or any other decision-making authority in which more than one person is involved, the crucial issue is often to establish a winning coalition within the team. The President, which is supposed to be looking for legitimacy and support, will always seek the formation of coalitions with Board members in order to find support for his own interests.

3. TRANSPARENCY AND OBSCURITY IN THE COMPANY'S STRATEGIC MANAGEMENT

In conducting a rigorous and correct corporate governance program, we believe that **transparency and disclosure of information** is one of the most important directions. The key element in company monitoring is the disclosure of relevant corporate information within the framework of competition law. Transparency gives the company effective protection of its shareholders, and thus the confidence of investors from the capital markets can be increased. For this information to be useful, they must meet the conditions of fairness and opportunity.

Business reports are issued in Romania annually or biannually most of the times, which makes it necessary to report and publish periodical information on the company's website. Companies also need to adopt internationally recognized auditing and accounting standards to ensure information security. Another sensitive issue in this regard is the influence of executive managers or shareholders on auditors, especially on internal auditors (although the external auditors should not be neglected), on which no influence or, more seriously, pressure should manifest.

In order to highlight aspects of transparency and obscurity in the strategic management of companies, we will refer to the results of a double research conducted in 2016, at the level of companies from different fields of activity operating in Romania (the sample consisted of 45 respondents, representatives of these companies, generically called "practitioners"); also at theoretical level, for the theoretical questionnaire, the sample consisted of 35 respondents (in particular members of the academic community or research institutions specialized in the field of economics, management or business administration, commonly referred to as "theoreticians"). The practical questionnaire had mostly the same structure, with some changes required by the status of the respondents.

It is known that transparency in disclosure of information is an essential aspect, a fundamental proof of good corporate governance, which brings many benefits that are difficult to achieve otherwise, such as the trust of shareholders, creditors or even civil society. The issue addressed in the research we mentioned was:

- a. By what means does the company disclose the following information?
 - the sale and purchase of shares by the members of the Board of Directors within the company;
 - the resume of the Board of Directors' members;
 - the remuneration of the Board of Directors' members;
 - significant changes in the ownership structure of the company;
 - governance policies;
 - the extent to which corporate governance practices correspond to national and international standards.
- b. How do you assess the representativeness and timeliness of the information provided?
- c. How do you assess the company's accounting and auditing standards in relation to international standards?
- d. How are the members of the Board of Directors informed about the items on the agenda of the Board's meetings?

Answers to questions on these issues show that there is a need for serious refinement on this issue. For example, the resume of Board members is not disclosed in 72% of the cases, governance policies are disclosed in only 32% of the cases, and the extent to which they meet national and international standards is just 44%. For companies that still choose to disclose such information, the most popular method is the company's website (over 60%), which we favor, so the information is accessible to the general public.

The opinion of "theoreticians" on the accessibility of information is that it is opportune to publish biannual or quarterly reports (80% of them consider), and 100% claim that it is necessary for a company to have a website that is also available in a language of international circulation. Also, for the clarity and opportunity of information, 84% of "theoreticians" believe that international accounting and auditing standards should be used in data analysis and interpretation.

The study shows that more than half (66%) of the companies in the sample publish bi-annual reports and only 40% quarterly reports. If 95% of companies have a website, it is also available in an international language for only 66% of them. Also, only 66% of companies subject to international accounting and auditing standards.

With regards to transparency of the members of the Board of Directors, the research shows that in 61% of cases, they receive adequate and timely information on the issues to be discussed in Board meetings; in 27% of the cases they receive the information at the time of the hearing, and 12% do not usually receive detailed information on the topics to be discussed. The opinion of the "theoreticians" on this issue is a unanimous one – they consider that it is necessary for the members of the Board of Directors to receive the complete information at least 3 days before the Council meetings (Deac & Cobuz, 2016).

Given the role of publishing relevant corporate information for monitoring companies under market competition rules, it is advisable to attach a major importance to this by creating a stable legislative framework regulating the manner and frequency of published information and its nature. Within the research, various elements have been hierarchically subjected, which we believe should be essential prerogatives of the Board of Directors as a shareholders' backer. In this sense, both "theoreticians" (academics or research institutes' members) and "practitioners" (representatives of investigated companies) have been asked to rank on a 1-10 scale the following aspects:

- a. *the company image;*
- b. *employee welfare;*
- c. *economic development of the region in which the company operates;*

- d. *sustainable development*;
- e. *philanthropic activities*;
- f. *promoting transparency and accuracy of information*;
- g. *involvement in education, training and research programs*;
- h. *promoting ethics in business*;
- i. *ensuring an effective framework of Corporate Governance*;
- j. *respect for the values of local communities*.

Each aspect investigated was given a score of 0.1 - 1 points, consequently the score that could be obtained in each of the ten aspects could be between 3.5 points and 35 points for the "theoretician" respondents, respectively 4.5 points and 45 points for the "practitioner" respondents.

As the maximum scores on the two categories of respondents are different, for a more rigorous interpretation of the obtained results, besides the highlighting of the occupied place, the percentage held by the investigated aspect was calculated as a ratio between the number of points obtained by each aspect (in each of the two cases) and the maximum possible number of points, respectively 192.5 points (for "theoreticians") and 247.5 points (for "practitioners"); the scores obtained are shown in Figure 2.

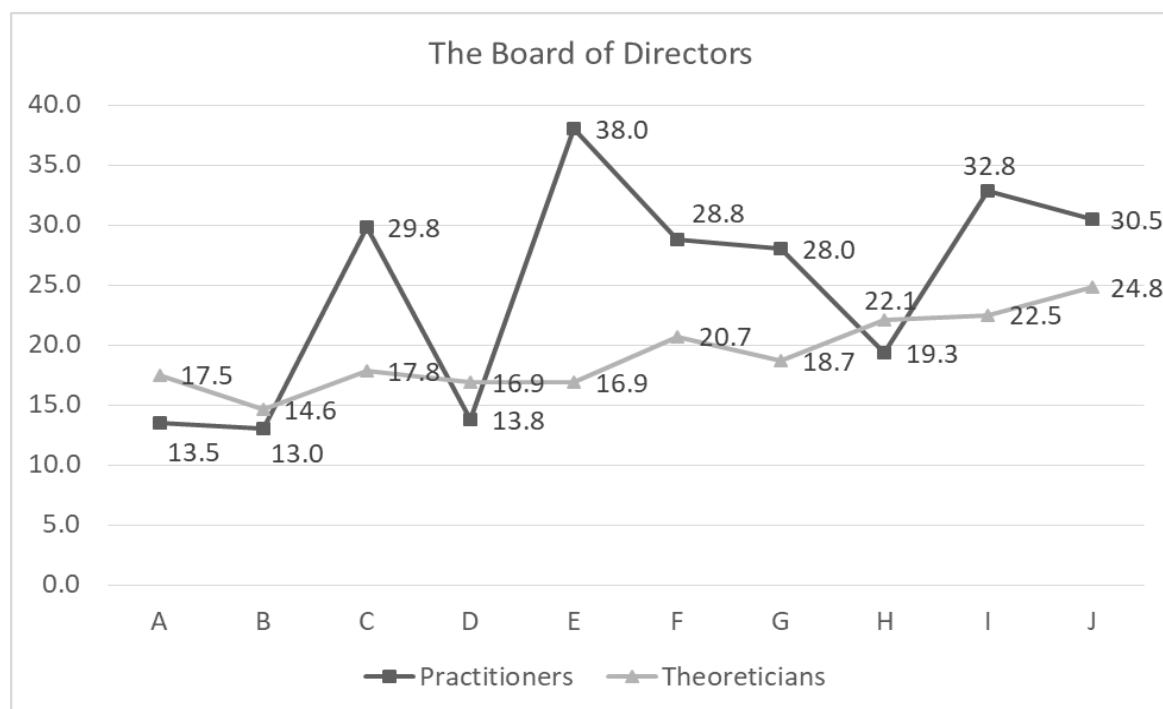


Figure 2. Score hierarchy for the essential concerns of the Board of Directors

Source: adapted from Deac & Cobuz (2016, p. 6)

As can be seen from Figure 2 on the key concerns of the Board of Directors, the first important conclusion to be drawn is that both the "theoreticians" and the "practitioners" did not consider any of the investigated aspects as "the most significant one" based on the scores they obtained; surprisingly for the "theoretician" respondents, we notice that the score distribution is quite uniform. Still surprising is which aspects occupy the first two places in ranking according to the "practitioners". Thus, the "philanthropic activities" are ranked first, with a total score of 30.8 points, respectively a weight of 12.44% (which in the opinion of the "theoreticians" should only be ranked seventh). In the opinion of "theoreticians", the "respect for the values of local communities" is ranked first, with a score of 24.8 points and a weight of 12.88% (which in the opinion of "practitioners" should only be ranked third). Second place is occupied in both cases by the aspect of "ensuring an effective framework of Corporate Governance". Surprisingly, especially for human

resources specialists, is that the "welfare of employees" (Deac & Cobuz, 2016) is ranked last, both in the opinion of "theoreticians" and "practitioners".

The issues regarding the "*promoting transparency and accuracy of information*" are at the middle of the ranking, but as a conclusion, starting from the concrete reality regarding the importance given to the investigated items, the following paradox (which is not a novelty for many other aspects in Romania) arises: *we say one thing and do another!*

4. CONCLUSIONS

In the current context, a pressing issue in strategic management is to define the true value of a company by hierarchizing elements such as the company's economic performance, social responsibility and the value of its shares. Corporate governance comes to solve the problem by trying to harmonize all these elements and, considering trends in Western countries we can say that corporate governance will still be on the list of company management priorities.

The upcoming reality will confirm that those companies that will succeed in adopting a culture that promotes transparency and an effective governance model that considers all the stakeholders involved will achieve superior performance.

If so far we have discussed issues that are more about the structural problems of the Board of Directors, another important aspect we consider to be that related to interpersonal relations and communication within it. Considering the definition of consensus (Schein, 1999), we recommend that the Board of Directors adopt open discussion rules, but without losing collective focus and focus on common goals. Sufficient time should be allocated to all its members in order to express their opinions and feel that the other members understand them. In this way, each member will find that his opinions matter and can influence the final decision. ***However, regardless of how important the degree of openness of communication is, we strongly recommend that the President of the Board of Directors, in his role of moderator of discussion, keep the discussion focused on the real decision, and not allow discussions and misunderstandings to become of personal and emotional nature.*** We also advocate an open attitude when listening to the opinions and ideas of a Board member as part of the consensus building process. Moreover, when trying to reach a consensus, we believe that the Board of Directors should not engage in any type of vote because the vote increases the chances that some members will not be satisfied with the decision taken and therefore not subscribe to it (consensus is preferred). Finally, we emphasize that in the Board of Directors, reaching consensus is not the same as unanimity. However, it is vital for consensus that the President should ensure that every decision taken is fully understood by everyone and that there are no residual feelings.

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