

# Appropriately Managing Knowledge in Romanian Entrepreneurial Businesses: Finding Balance in Restructuring Companies

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**Abstract:** In light of the global economy transformation and the several crises affecting the world, streamlining and reorganization of companies' activities is a priority. We posit that concentration of knowledge and its use in companies for short term gains can lead to misguided economic behavior, crisis and insolvencies coupled with low probability of successful restructuring. In turn the success of restructuring is dependent on cohesive knowledge management while dispersed knowledge management can, at most, prolong the economic life of a company and not save it from demise. We analyze the impact and lack of impact that knowledge and its guided/misguided management can have on Romanian companies, ex ante and ex post insolvency procedures. We chose both an exploratory and explanatory case study approach of Romanian companies affected by economic crisis that underwent various insolvency stages, tracing the use of knowledge and its different practical deployment to the decision-making processes and their outcomes. We review the causes that lead to the economic crisis and subsequent insolvency contexts. We compare the use of knowledge by the companies' leadership against similar cases in other jurisdictions and we identify patterns of successful and unsuccessful application of knowledge management. Next, we investigate the effects of dispersed knowledge management in the early insolvency stages, focusing on the reorganization phase identifying gaps and discussing potential solutions. The results suggest, as they apply to the researched case studies, that both concentrated and dispersed knowledge management within distressed companies do not lead to positive outcomes and a balanced approach to knowledge management is more prone to provide effective and viable restructuring. The article explores several knowledge management theories and various academic research as they relate to the decision-making process for Romanian companies in distress and expands the academic universe as it relates to knowledge treatment in economic crisis. The results of our research and the potential solutions discussed can be further developed into a best practice guidance or a practical model to be used both by academics and practitioners as well.

**Keywords:** Knowledge management, Restructuring, Insolvency, Reorganization, Crisis management

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## 1. Introduction

The use of Knowledge Management in the context of transformations/reorganization of companies, due to numerous crises, is increasingly important. Despite this importance, it is noted that this area is still little explored and there are many possibilities for academic research. From the point of view of companies' reorganization process and management of knowledge, there are opportunities related to the analysis of case studies in companies in Romania.

The financial crisis that started out in the US in 2007 found its way to Romania at the end of 2008 and began really causing major disruptions in the domestic economy in early 2009. The real economy which, in Romania is primarily driven by industry sectors and consumption took a severe hit. Businesses involved in tourism, construction, agriculture, food processing, manufacturing and other industrial products suffered cash shortages, problems with the supply chain and acquiring raw materials as well as the need to optimise costs. This macro-economic event took many business owners by surprise although the crisis was unfolding overseas for almost two years. The information, was there but few chose to transform it into knowledge and act accordingly to steer the direction of their business to safer grounds.

Moreover, organisations such as the ones that we are going to discuss subsequently, have chosen to take major risks in ignoring the signs of distress, in handling knowledge in an ineffective way and choosing to use the available knowledge to elude their business partners, financiers and other stakeholders involved.

The researched cases discussed below are all insolvency cases. We explore how knowledge was managed and argue whether knowledge could have been used more effectively. We also explore whether

Our research is structured in 7 parts, the first part includes the literature review, secondly the case background, thirdly, the methodology used, fourthly, the findings of our research, then the conclusions drawn, practical implications, limitations and further research.

## **2. Literature Review**

We've investigated the academia discussion on types of knowledge and the classifications done by Nonaka, Boisot, Chase and Roos (1997) and Demarest (1997)

In their paper entitled "A critical review of knowledge management models" Rodney Mc Adam and Sandra McCreedy discuss three primary Knowledge Management Models: "Knowledge Category Model" (a concept developed by Nonaka and Takeuchi, 1995), "Intellectual Capital Model" (Chase R.L. (1997), Socially Constructed Models, initially developed by Clark and Staunton's (1989) and later on perfected by Demarest (1997).

The "Knowledge Management Category Model" developed by Nonaka(1997) maintains that knowledge consists of tacit and explicit elements. The model postulates the existence of transformation processes: Socialization (everyday comradeship), externalization (formalising a body of knowledge), internalization (translating theory into practice) and combination (combining existing theories) (Mc Adam, R., McCreedy, S, 1999).

Boisot's model, cited by McAdam R. and Mc Creedy S. (1999) in their paper, considers knowledge within an organization as either codified and uncoded and as diffused or undiffused, Boisot uses the term "codified" to refer to knowledge that can be readily prepared for transmission purposes (e.g. financial data). The term "uncodified" refers to knowledge that cannot be easily prepared for transmission purposes (e.g. experiences). If knowledge is categorized as both codified and undiffused, then the knowledge is referred to as proprietary knowledge. In this case knowledge is prepared for transmission but is deliberately restricted to a selectively small population, on a need-to-know basis (e.g. projected profits, share price issues) (McAdam R., McCreedy S., 1999).

In our research paper, we explore via the 3 case studies, this type of knowledge element which becomes proprietary not because of its intrinsic characteristics but because the organizational leadership makes it so. We reveal similar patterns in handling knowledge and in lacking knowledge and business acumen.

McAdam and McCreedy purport that the "Socially Constructed Model of Knowledge Management" ("SCMKM") views knowledge as intrinsically linked within the social and learning processes of the organization (McAdam R., McCreedy S., 1999). These model predicates on the social construction of the knowledge concept Demerest (1997), an adaptation of Clark and Staunton's (1989) model. Demerest sees knowledge management as an iterative process that begins with "knowledge creation", follows with "knowledge dissemination", "use" and and finally it culminates with "knowledge embodiment" (McAdam R., McCreedy S., 1999).

The iterative characteristic of the "social model" highlights the importance of multiple-way- interaction in the process of knowledge formation, knowledge transfer and its use. In all its practicality, knowledge management is not a sequential, unidirectional process, but rather a recursive phenomenon.

Further, we review and explore through our case studies, starting from the initial Nonaka model (Nonaka 1997) the knowledge classifications present in the academic literature and its reverberations in the business world. We analyze the definitions and traits of the tacit and explicit knowledge as they are present in the academic literature, and subsequently we trace

The *tacit* type of knowledge was originally defined by Polanyi in 1966. It is sometimes referred to as know-how (Brown & Duguid 1998) and refers to intuitive, hard to define knowledge that is largely experience based. Because of this, tacit knowledge is often context dependent and personal in nature. It is hard to communicate and deeply rooted in action, commitment, and involvement (Nonaka 1994). Tacit knowledge is also regarded as being the most valuable source of knowledge, and the most likely to lead to breakthroughs in the organization (Wellman 2009). Gamble & Blackwell (2001) link the lack of focus on tacit knowledge directly to the reduced capability for innovation and sustained competitiveness.

In regards to Tacit Knowledge, management practices and leveraging of tacit knowledge from employees and top managers is fundamental for the organization's competitive success (Cheryl Marie Cordeiro-Nilsson and Suliman Hawamdeh, 2010). Knowledge sharing transforms the culture of

*"You're the boss you should decide" to one that "No we have to talk about it and we have to decide together" (Cheryl Marie Cordeiro-Nilsson and Suliman Hawamdeh, 2010).*

The *explicit* type of knowledge is formalized and codified and is sometimes referred to as "know-what" (Brown & Duguid 1998). It is therefore fairly easy to identify, store, and retrieve (Wellman 2009). This is the type of knowledge most easily handled by KMS, which are very effective at facilitating the storage, retrieval, and

modification of documents and texts. Explicit knowledge is found in: databases, memos, notes, documents, etc. (Botha et al. 2008)

Perusing the academic literature, we've identified that in restructuring cases, certain authors are focused on analyzing the transformation of tacit into explicit knowledge. In his article entitled "Innovative application of knowledge management in organizational restructuring of academic libraries: A case study of Peking University Library", author Long Xiao ascertains that in restructuring cases, management emphasizes work on user knowledge and less on internal knowledge management (Xiao, 2020). Knowledge management design should be approached in a wholistic manner, maintains the author, considering the human orientation and the knowledge stream system based on a knowledge lifecycle (Xiao, 2020).

### **3. Case-Study Background**

The below developed case-study research discussion is divided into two main areas:

Area 1: Company's Brief Activity Description;

Area 2: Information and Knowledge Architecture.

Area 2 further addresses the following sub sections: "Knowledge Management Process in Review", "Types of Knowledge" (Explicit and Tacit) based on the classifications identified during the literature review.

CASE 1- BEYLER SA – A METAL DOOR MANUFACTURER:

*Brief Activity Description:*

The first case subject to our research is *Beyler S.A. a metal-door manufacturer*, ranked number two in 2008 in Romania owned by Turkish entrepreneurs. We delve into understanding what deterministic role, if any, knowledge handling played as strategic causes of insolvency.

Based on existing judicial evidence, Beyler's causes of insolvency were: lack of financial control, engagement in large projects, decrease in demand for metal doors as a consequence of the financial crisis; in short a series of unfortunate strategic and tactical decisions.

Chronologically, it took a year for a reorganisation plan to be approved and two years until the causes for insolvency were finally clarified. Meanwhile, sales decreased by 89% y-o-y and demand could not be satisfied given the lack of cash flows necessary to acquire raw and auxiliary materials. The company found itself unable to service the existing debt and pay off its critical suppliers. Given the precarious financial state, Beyler filed for insolvency protection in April of 2009.

In the following paragraphs we briefly discuss Case 1 knowledge management context and its implications for the organization.

While overseas, the real estate bubble burst caused immense damage to the US economy also affecting other parts of the world.

In Galati, Romania the company's owners decide to invest in developing a real estate ensemble of apartment buildings. The overall investment value amounted to 70 million EUR, a large project that took up a significant amount of financial resources. On top of the contracted loans, the owners decide to re-direct, through various financial schemes the cash available from the manufacturing business to the real estate business.

*Insufficient knowledge* about the rippling effects of a financial crisis and its implications, the lack of knowledge sharing culture to ensure proper control of operations, finance and accounting functions lead also to the lack of solvency.

Through our research we have identified that *information was hardly turned into knowledge* and applied to steering the company's direction to avoid financial distress and eventually insolvency.

Beyler's Information and Knowledge Architecture:

*Data Storage and Management:*

Except for financial and accounting data which was centrally stored and processed on a rudimentary accounting software platform, the commercially sensitive data and other data was significantly scattered (i.e., stored on computers, external drives etc).

For the financial and operational data, the company lacked an Enterprise Resource Planning (“ERP”) software whereby the operational activity (sales, production, and distribution) is integrated with the financial function (budget analysis, various profitability and other KPIs reports) and with other business areas (e.g., payroll and personnel management).

Information circulated on a “need to know” basis. For example, production orders were created based on weekly schedules that were prepared upon reception of the purchase orders from the distribution network.

*Beyler’s KM Process in review*

*Explicit Knowledge Handling:*

Explicit knowledge was not readily available to all the implicated stakeholders. For example, the Finance Manager was hardly aware of any strategic deviations from the budgetary planning. Strategic knowledge management was concentrated in the hands of the owners and the Sales Manager. Explicit knowledge was also stored on individual hard drives with little to no back-up support.

The existing explicit knowledge rudimentary handling has put additional stress on the decision-making process which deepened the effects of the financial pressure that in turn lead to the company’s state of insolvency.

Types of Explicit Knowledge:

The primary focus of the company’s leadership was towards local scale commercial knowledge (metal doors market evolution in Romania, pricing strategies, promotional campaigns for customers etc).

If business was thriving, and sales were increasing little attention was directed towards building explicit knowledge in times of crisis.

The company lacked formal internal control procedures and hence inefficiencies and misrepresentations were present more and more often.

*Tacit Knowledge Handling:*

The company had no system in place to handle tacit knowledge. However, tacit knowledge as applied in all the principal business areas such as: sales, marketing, operations, production, personnel etc.

The top executives (i.e. business owners) did not set into place a knowledge management system to address the explicit knowledge and tacit knowledge content. Moreover, the existing knowledge was highly concentrated and less visible, being primarily controlled by the owners of the business.

Company’s category of existing explicit knowledge:

Highlights of verifiable Pre-existing explicit knowledge in the organization:

Design Patents for various metal doors and other interior type doors;

Production equipment line up and flow;

Commercial Doors’ Market Knowledge in Romania.

Technical knowledge on operation of heavy production equipment.

Machinery maintenance and support.

Highlights of non-verifiable “should-have-been foreseen” explicit knowledge conditions:

Construction knowledge with regards to the development of large real estate projects;

Financial Restructuring of distress companies;

Negotiation with creditors and other vested stakeholders;

Business continuity plan.

The above evidenced lists of explicit knowledge stand proof of the incongruencies between the backbone of the organization’s core operations and the 2008 initiative undertaken by Beyler’s owners to invest in large real estate projects.

Lacking financial acumen in understanding the rippling effects of a large scale worldwide financial crisis (with direct impact on the real estate market), having little grounded knowledge of the real estate development

business model and its workings, ineffectively handling cash flows to support the construction of large apartment buildings, having a low-level internal control environment, these are all solid factors that contributed to the company's demise.

Concentrated, undistributed information and limited knowledge in the hands of few led to poor decision making, elusive economic behavior and misguided allocation of financial resources.

#### Case 2- PIC S.A. FIRST AND ONLY ROMANIAN HYPERMARKET

##### Brief Activity Description:

PIC S.A. began operating in 1991 in Pitești and is a privately held company with a share cap valued historically at 20 million EUR. PIC was the first and only large size Romanian fast moving consumers goods (FMCG) retailer with stores in five important cities (Craiova, Pitesti, Oradea, Calarasi, Braila). The majority owners of the company were two local entrepreneurs. The company had multiple related parties that performed ancillary activities such as distribution or transportation.

As discussed in the above Case 1 situation, the financial crisis has affected entire industries and the retail sector was no exception. When the Romanian retail sector was impacted by the crisis, PIC SA had just completed its last investments opening three large retail stores in Oradea, Calarasi and Braila. People were already hired on the stores' roasters and stores just began selling their items.

2004 to 2007 was a period of strong growth for the Romanian retail market. Managers and owners that had little experience with crisis situations were irrationally confident in the strength of their businesses and showed no concern for controlling the generated costs or considering potential business risks.

Therefore, knowledge sharing was limited while knowledge and information storage was dispersed.

##### PIC's Information and Knowledge Architecture:

###### *Data Storage and Management*

One of the remarks made by PwC, the Judicial Administrator appointed by the Insolvency Court was that data and information was significantly scarce in the company. Information and knowledge was unreliable and managerial reporting was often unreconcilable with the financial reporting.

Accounting data was stored separately from sales and inventory and manual accounting entries were performed based on printed reports provided by operational SAP software and Receivables Management app.

Although the company has invested a large sum of money to implement a digital solution (SAP) that would assist management in

Moreover, the Judicial Administrator Team found that primarily accounting entries had no corresponding supporting documentation, no information, no additional data. The Physical archive was not organized, and many documents were missing.

###### *PIC's KM Process in review*

###### *Explicit Knowledge Handling*

In terms of explicit knowledge, we also found that in this case, relevant knowledge was fragmentary, or it was even missing.

We found no evidence of formal managerial reporting or other type of governance. The SAP application, which could have been easily developed into a solid ERP, was solely used for integration and reporting on hypermarket sales information. There was no integration between the SAP application and the Accounting Application. Management was clearly focused on monitoring the top line of the business performance and put less weight on other indicators such as gross or net margins, operational gearing etc.

We could not identify evidence of cash-flow governance or efficient working capital management. In fact, we found signs of misguided working capital decisions as small term financial instruments such as suppliers' credit, short-term leasing and bank debt were used to finance investments in the construction and equipment of three new hypermarkets in the cities of Oradea, Braila and Calarasi.

Major discrepancies totaling more than 20 million EUR between the book value and actual value of existing current assets were identified. Salaries were distributed in cash without any existing nominal evidence of their

designated employees. Large amounts of money more than 400.000 EUR were distributed in advance without any justifying proof of their destination.

*Types of Explicit Knowledge:*

We found similarities in terms of explicit knowledge types with Case 1. Management turned to commercial knowledge (sales) with little propensity towards cost optimization knowledge or profitability.

In terms of business continuity and business sustainability (including control procedures and corporate governance), we couldn't identify any such elements during our research. Explicit knowledge on handling economic crisis was not available.

*Tacit Knowledge Handling:*

Tacit knowledge was the prerogative of the owners' family. Prior to commencing the retail business, the company's owners studied the business models of European market leaders such as Carrefour, Rewe Group to understand the mechanisms and implications of such models. These aspects were partially replicated in developing the PIC SA business. Nevertheless, efforts were concentrated in ensuring viability of commercial day to day operations that generate top line growth while control processes, contingency planning, cost optimization practices were not given sufficient attention.

Tacit knowledge was concentrated in the hands of a few, and little sharing was done. The high degree of knowledge concentration led to a "telling and do" type of culture, whereby even top managers were executioners and decision making was non-consensual.

Tacit knowledge was primarily oriented toward business development and less towards business continuity.

Case 3- Terra Vision

*Brief Activity Description:*

Terra Vision started out in Bucharest in 2004 as a television, video producing company. In 2005, the company decides to go into real estate development as its main activity.

The residential project was built over 25.000 sqm piece of property and envisages 7 residential buildings, out of which three were finalized and the others were still in progress at the beginning of the insolvency procedure.

The company filed for insolvency in 2009, as it became clear that it could not service the existing debt. The state of financial distress was primarily the result of capital tied-up into immovable investments and poor management foresight. Also, the investigation undertaken by the judicial administrator went on to reveal that certain illicit practices were carried on by the former owner.

*Terra Vision's KM Process in review*

*Explicit Knowledge Handling*

Based on the "Causes of Insolvency Report" published by PwC BRS SPRL Romania in the Insolvency Gazette No. 4087 from 31<sup>st</sup> of August, 2009, the financial and accounting records found were scattered and inconsistent.

Moreover, upon appointment of the Judicial Administrator, a large volume of records went missing, reported as stolen, making it hard to ascertain the formal stand of the company's patrimony.

Explicit knowledge was very limited in nature and was for the most part inconsistent.

*Tacit Knowledge Handling*

Similar to what we discussed above, knowledge was concentrated in the hands of one person, the majority owner of the business. He was the one who oversaw all sales transactions. The owner was in charge with negotiating with banks, suppliers and other stakeholders.

## **4. Methodology**

We have based our findings on three qualitative studies of knowledge management and knowledge culture in distress Romanian companies that were subject to insolvency procedures. To produce meaningful results, our focus was on organizations activating in retail, production, and real estate to explore similarities and disparities in knowledge handling and behavior.

We used an exploratory, partly inductive partly deductive approach to draw our findings and conclusions. The chosen organizations were large and medium size, all privately held, being owned by both local and foreign individuals. We have intentionally selected different organizational sizes and ownership demographics to ascertain characteristics of knowledge behavior and knowledge management as well as the dynamics or inertia associated with the identified processes.

We have designed the research objectives as follows. First, we wanted to enhance hypothetical distinctions and consequently we have chosen a heterogenic industry base for our case studies (real estate development, metal doors manufacturing and retail FMCG). Secondly, we considered the socio-demographics of the ownership (Romanian and foreign) to see whether cultural background influences knowledge management and the architecture of knowledge (knowledge types, knowledge repositories, knowledge transfer, knowledge sharing).

We established the underlying pervasive organizational behavior by building data clouds using a specialized software called Worldle. An illustrative example of the constructed data cloud is shown in Figure 1 below:



**Figure 1: Example of Data Cloud Showing Underlying Economic Culture and Insolvency Causes**

#### **4.1 Data Collection**

Firsthand data was collected based on discussions with members of the organizations of different tenure and seniority, including, where applicable, company owners. We also had unconstrained access to the companies' intranet and correspondence. Through these sources, we were able to obtain useful background information and utilize it in our research. We corroborated various field notes and documentation to obtain our research findings.

Access to the organizations' resources was available at different moments in time. Data on knowledge management was collected over several months.

The documentation and information used was either proprietary for the organizations or was included in the public records publicized in the Romanian Insolvency Gazette ("Buletinul Procedurilor de Insolventa").

The collected data was reviewed for consistencies and organized accordingly using a relevant categorization technique.

#### **4.2 Data Analysis**

First and foremost, based on the literature review we've identified the different types of knowledge used in the organizations, the knowledge model and framework theories. In turn we determined the different company individuals and their positions in the organizations, and we initiated discussions to obtain adequate data. We've also reviewed the public reports on the causes of insolvency and the possibility of restructuring. We've assessed the internal knowledge structure and where applicable the knowledge base. We've looked into whether certain patterns emerge in relation to how the studied organizations treat and use knowledge; We've identified and charted the common characteristics in handling knowledge. We looked for patterns emerging in our case studies, and we compared them across the case study universe.

We defined and coded by categories the relevant data as shown in Table 1.

**Table 1: Illustrative Example Showing Analysis Coding**

Coding	Case 1	Case 2	Case 3
Knowledge Instances	Metal Door Design and Manufacturing Patterns	Sales and Inventory Reports held in SAP Software	Technical Construction Book
Knowledge Architecture	Scattered comercial data, centralized accounting repository. No system to handle tacit knowledge (only verbal transference)	Unreliable data and information; scarcity of knowledge structure. No evidence of corporate governance (reporting process and sharing of knowledge).	Large volume of data and information were missing. Little top down knowledge sharing
Ownership behavior in handling knowledge	Ownership decided to invest in building an apartment complex and finance it with short term inflows from the manufacturing business based on limited opportunity analysis	Preference to transfer knowledge on a need to know basis	Owner performs commercial activities and negotiations with creditors.
Organizational Culture	Family business of foreign origin- autocratic leadership style. Formal structure informal processes	Family business- different members of the family hired in key management position. All major operational decisions taken by the owners	Focus on sales and cash in and less on controlling the business.
Knowledge Transference	Knowledge clustered based on the functional organization chart. Difficulty in sharing inter departmental knowledge	Knowledge concentrated in the hands of owners and comercial manager (transferred on a need to know basis).	Lacking Critical control knowledge and basis for transfer relevant knowledge

Coded instances were subjected to team scrutiny, differences in interpretation were reconciled until agreed upon by the team.

### 5. Findings

Based on the research and the applied methodology, we have identified several pervasive knowledge handling patterns within the studied organizations.

First, knowledge management, generally accepted in the academic literature, as a formal, fully integrated concept with all its components (creation, storage, transfer, and iterations) was not present in the studied organizations. Knowledge repositories were scattered, and transfer of top down or horizontal knowledge transfer was scarce.

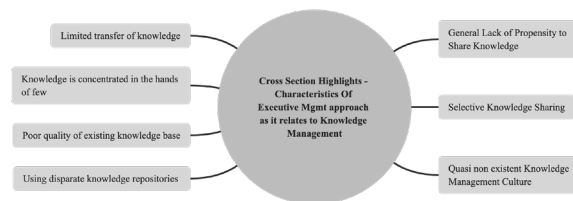
Second, in terms of structure, knowledge repositories and knowledge storage in general were highly clustered lacking integration. For example, knowledge related to operational activities was stored in one application while the resulting interrelated financial knowledge was stored and accessed on a different platform.

Third, based upon the above discussed classification, when present, tacit knowledge was pervasive, and its transfer was deficient among the organizations’ members. Explicit knowledge was only present to satisfy the operational prerequisites and was used to execute the daily specific activities for each department within the organization.

Forth, organizational culture and ownership behavior was conducive to free-form knowledge handling, that set the grounds for poor monitoring controls of the operations and eventually to financial distress.

Knowledge that should have been shared was in the hands of ownership, kept away or not thoroughly distributed to other important stakeholders.

A cross section analysis of the principal top executive characteristics as they relate to knowledge management is shown in the below pictogram:



### 6. Conclusions

We conclude that for the three studied organization knowledge management in all its different subprocesses was precarious and knowledge was for the most part handled informally. Selective knowledge sharing and concentrating important knowledge in the hands of the few were present in all the three case studies. Ineffective knowledge handling shaped a context that hindered the development of viable restructuring initiatives. None of the three studied organizations took a balanced and structured approach towards knowledge management and as a result they set the stage for insolvency.

We provide below an identified list of critical knowledge that should have been appropriately managed by these organizations.

Critical Knowledge that should have been managed: Market Knowledge, Customer Base and CRM, Debt Finance, Cash Flow Management, Adequate Asset Allocation

## **7. Practical Implications**

The three case studies reveal real business circumstances as they relate to knowledge handling for Romanian organizations under distress in need of restructuring. The research shows that organizational culture, understanding of knowledge use, lack of knowledge transference, impede on the development of sound restructuring actions and deepen the knowledge gap so desperately needed in the insolvency context.

## **8. Limitations and Further Research**

Given that this is both an exploratory and an explanatory research study, the analysis focused on the qualitative aspects of understanding the knowledge environment and knowledge management in the researched organizations. Quantitative analysis could reveal aspects related to causality elements and the resulting effects that both the lack of, or the mishandling of knowledge may have on the restructuring process.

Further analysis could be conducted envisaging the deterministic relationship between management of certain types of knowledge and the success of restructuring undertakings. Also, understanding the way effective knowledge can improve the rate of success is also a subject matter worth to be further researched.

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