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The Perspecives of Using Balanced Scorecard in Intangibles Measurement and Management in Albania

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Abstract: *In the new age economy , the company value and competition is shifting from traditional products composed of inputs such as raw materials and labor to new and innovative products such as brand name, patents, know how etc. These innovative products are based mainly on intangible assets such as knowledge, skills, experience and other supportive facilities. The internal and external users cannot obtain similar information regarding the knowledge based products from the standard financial statements, because the accounting standards are not designed to have in their focus the intangible assets, and as a consequence the information regarding the intangibles is "lost" in income table as expense.*

In the function of measurement and management of intangibles several models have been developed. These models are divided in two main groups, monetary and non-monetary based models. These models can provide to the internal and external users more accurate information regarding the value and the management of intangible assets.

The purpose of this research paper is to analyze one of the most popular models that is part of non-monetary group of intangible measurement and management models, the balanced scorecard model , and it's perspectives to be used from the Albanian companies , especially for internal reporting.

The methodology used in the preparation of this paper will be that of the utilizing the foreign and national literature, and the utilization of interviews with selected business management in Albania that are interested in intangible asset management and other related parties to fulfill the questions raised by this research.

Keywords: *BSC, intangible assets, intangible management, non-monetary models.*

1. INTRODUCTION

The balanced scorecard model was firstly developed in 1992 from well known professors of Harvard Robert S. Kaplan and David P. Norton, and was revised periodically since then. The model was firstly designed to align business activities to the vision and strategy of the organization, improving the internal and external communication and to monitor organization performance against strategic goals.

The balanced scorecard is a framework that allows the managers to measure business performance from different perspectives, and it does not simply list the measures of the perspectives. The special point of view with the balanced scorecard is that it links all the measures together through cause and effect relationship (Kaplan, R.S. and Norton, 1992). By doing so, the BSC serves as a framework that formulates a company’s strategy, and translates strategy into actions in the company as well.(Bontis, N., Dragonetti, N. C., Jacobsen, K. and Roos, G.1999)

Even that initially the model was introduced as a strategic tool for business management; it was later widely used as model that measures the company’s performance. The balanced scorecard tries to measure the company performance not only based on traditional metrics of financial measures, but it takes in consideration also the non-financial performance measures. Thus by becoming a tool for performance measurement it become a useful tool to measure the “surplus” value from tangible assets that indicates the total value of the intangible assets. The balanced scorecard model is widely accepted as a tool for measurement of the intangible assets, making it one of the most influential business ideas of the past century. According to Gartner Group it is suggested that over 50 % of large US and European firms have adopted balanced scorecard.

2. Idea Behind the Balanced Scorecard

The need for such a tool rose from the traditional financial measures that were based in the financial measures reflecting the history and performance of past events, leaving out of focus the future and key elements like customers relationship, employees, processes, technology and the need for innovation to stand the rough competition (Colin Drury, 2008).

The basic concept where the model is based is the encouragement of the actions that are consistent with company's strategy, thus by creating a framework for the measurement of company performance. During 80"managers were mainly focused in the financial performance measurement, neglecting important but non financial factors such as products' quality, customer satisfaction, after sale services etc. During that period of time the management was focused mainly on cost reduction, which mainly become unnecessarily the main target of management, and brought abuses in products or services' quality and diminished the ability of the company to succeed in long terms.

The neglecting of important non-financial factors, weakened the product quality, customer relationships, after sale services etc. which weakened the strategic advantages of the company. The main concept of the balanced scorecard is the usage of the financial factors and non-financial factors together in decision making. By implementing the financial factors and non financial factors in a single table the strategic management of the company becomes easier , because the fact that the financial variables gives information regarding the past of the company , whereas the non-financial factors are used as a milestone for the future performance of the company. The combination of the financial valuation together with operative valuation enables the management to have a more balanced view of the company's performance (Bontis, N., Dragonetti, N.C., Jacobsen, K. and Roos, G., 1999).With balanced scorecard the companies are encouraged to measure and manage both, financial and non-financial from four different key perspectives ; Consumer perspective, internal business process perspective, learning and growth perspective, and financial perspective.

The new concept in balanced scorecard is that for each perspective the company will establish its objectives and goals together with a specific number of measures, which later can be used to compare the established goals and objective with the current situation. The positive accomplishments of the objectives and goals are a positive indicator in the company overall performance. The key concept among the four perspectives lies in a cause-and-effect situation, where the scorecard table allows the user to see that one financial or non-financial variable in one of the perspectives can effect other variables in other perspectives (Speckbacher, G., Bischof, J. and Pfeiffer, T., 2003). Thus the user of the scorecard table is able to have a full picture of the company's performance together with tangible and intangible assets. With e balanced view of company performance the managers are able to see if one factor is increased in behalf or at the expense of other factors between different perspectives.

To reach the goals and objective of the company, the authors recommend that the management should first begin considering the intangibles, in our case the customer perspective, that is , in order to achieve our goals how should we appear to our customers? Following to the first perspective the consequent step is the learning and growth perspective, which is effected by the objectives that we stated in the first perspective. In the second perspective we will react in accordance to first perspective and check the alternatives to how will we sustain our ability to change and improve in accordance to our customers' needs.

The effect of these first two perspectives will be reflected in internal business process perspective, and financial perspective. In the internal business perspectives we will check the possibilities to excel at some specific business processes in order to satisfy the goals and objectives stated in the previous perspectives. Finally the financial perspective which makes the non-financial variables and factors mentioned in the previous perspectives to be reflected in financial variables. Through this whole process we can observe that the non financial factors stated by the management is reflected at the and in financial factors , increasing companies performance and value by measuring intangible assets such as customer royalty , structural capital as well as quality that can later be transformed in valuable brand names.

In the balanced scorecard each perspective is analyzes according to four different point of view: objectives, measurements, targets and initiatives. In dividing each perspective in four sectors the balanced scorecard permits the management to achieve short-term goals and accomplish short – term plans in accordance with its long term strategy.

3. Balanced Scorecard Perspectives

In contrast to the financial system of double entry bookkeeping, indicators taken in consideration from the balanced scorecard are relevant only if they help understand strategy rather than obey principles of recording financial transactions (Porter, M.E. ,1985). That makes the balanced scorecards a powerful tool for the internal reporting, and specially a great tool for the management accountants who can use not only historical data, but also more elements even in the form of non-financial data.

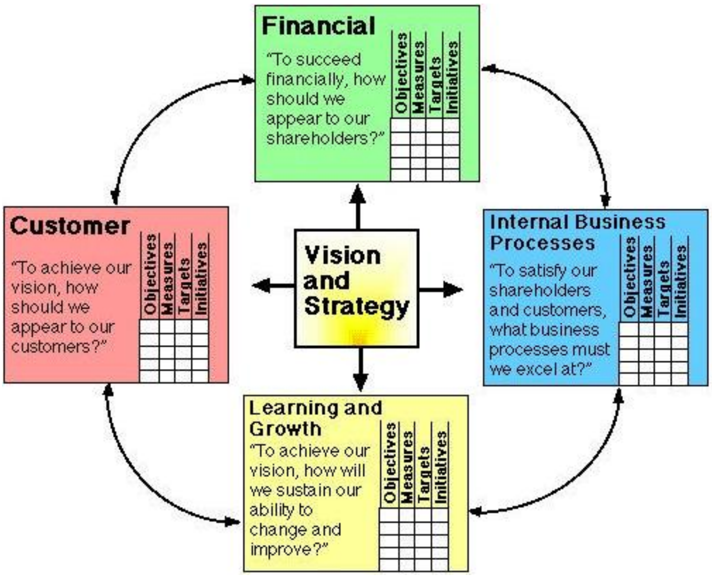

Figure 1. *Balance Scorecard (Kaplan & Norton, 2003)*

3.1 Customer Perspective (How The Firm Looks To Customers)

The customer perspective should identify the actual customers and the potential ones, and in respect to the customers it should go into the market segmentation that the company aims. The customer perspective is very important, because in this phase are planned the milestones regarding the targeted incomes that later will be used in the financial perspective. To achieve this, generally in the customers perspective factors such the new products, designs, quality and price are taken in consideration. The information gathered by these factors are then translated into concrete measures and by trying to increase the efficiency of the company that will result in value added.

3.2 Internal Business Process Perspective (What The Firm Must Excel At)

In this perspective are included several measures that have to be taken from the organizational structure in order to fulfill the strategic objective. The strategic objectives should be organized in accordance with the objectives established in customer perspective and later on the financial perspective. Some of the factors and variables that can be studied in this perspectives can be: the lifetime of the products, staff quality and skills etc. According to the authors the successful accomplishment of the internal perspective should undergo three phases: innovation, operational and after sale phases.

The innovation phase aims the work of the company management to develop products and services to satisfy the customer’s needs and expectations. In the operational phase the production of products and services are taken in consideration and that these products and services to be delivered at the planned time schedule. In the last phase, that of the after sale, the guaranty given to the customers are studied, number of products with defect returned, repaired products etc.

3.3 The Learning and Growth Perspective (Actions To Improve And Create Value)

The globalization process forces the companies to be under a constant improvement of the product and services they offer in order to expand their customer's target. In the learning and growth perspective the authors have developed three front lines such as: employee's skills, the capacities of the information systems and the organizational behavior in order to increase the staff's motivation and synergy.

3.4 *Financial Perspective (How The Firm Looks To Shareholders)*

Through the financial tools, the management can observe weather the financial parameters are changing in accordance to new plans and strategies observed in other perspectives. Financial measures provide managers with a good picture of the economic consequences of actions already taken. Even that the main objective of the financial perspective is maximization of the profit margin , lately tis objective is not commonly accepted and new parameters are suggested such as the % of revenue generated from new products, % of the incomes form the new market segmentation , % of the cost reduction , EVA etc.

By setting up plans, beginning with customer perspective in a cause-and-effect relation and ending with financial perspective, the management can observe each objective in a more complete manner and connecting each factor and objective with the company's strategic vision. By this procedure a better and more effective communication between department is achieved. The plans can be also settled beginning through any other perspective, according to the specific situation that the management can judge as more suitable.

The balanced scorecard is a business management tool that can be used for the measurement and management of the intangible assets. The usage of the balanced scorecard as a tool for the intangible measurement and valuation increased during 90" and from then is become one of the most popular models in intangible management (Petty, R. and Guthrie, J. ,2000).Today there are many versions of software packets that can be purchased to be implemented for each organization's need.

The advantage of the model is that the balanced scorecard summarize in a single table all of the company's competitive factors that in a first look, seems to have no relation with each other. Another advantage of the model is that with this model a company can evaluate more accurately it's resources because in the balance scorecard it can be easily observed if a factor is improved at the expense of another factor, helping such, the management to understand the interaction between different strategic interest perspectives. With the help of the balanced scorecard these factors can be better integrated to increase the efficiency and performance without affecting negatively the other factors.

Another strong point of the model is the combination of financial and non financial factors and variables in one model by combining the ability of the financial factors to describe past event and the ability of the non financial factors to predict future performance.

This model is now widely used from the management accountants. With the balanced scorecard the management accountant have increased their role in reporting of the fair and qualitative information regarding the value of tangible and intangible assets as well as giving prediction regarding the future performance of the intangibles that will become concrete in accordance to the customer perspective , internal perspective and that of the innovation. (Johnson, H. T., and Kaplan, R. S. ,1987)

As a conclusion we can state that with the balanced scorecard the authors Kaplan and Norton, established a new standard in the company performance evaluation. Apart of the balanced scorecard success, we are aware of the model's weak points that need to be improved, concretely in the learning and growth perspective it is showed how much the company has accomplished it's objectives and goals, but does not give any value regarding the value of the intangibles. In the achievement of the innovation, not the all extra value is attributed to intangible assets, but other external factors such as competitors, technologic and politic developments and macro economic conditions can affect the value and the performance (American Accountant Association, 2002). The model should be revised in these aspect to become more accurate in intangible assets individual measurement.

4. Relationship between Intangibles and Company Performance

Intangible assets, are assets that lack physical appearance, and can be recognized from accounting standards if it's cost can be measured reliably, the economic unit can control it, and it is probable that the expected future economic benefits will flow to the entity.

The accounting standards, with its limitation in the intangibles recognition leave a majority of the intangibles without being represented in financial statements.

In this paper the intangibles will be considered not limited to accounting standards, but to the wider definition, because the main objective of this paper is internal reporting. The intangibles in general way, are more wider and complex, and in the management science they are called intellectual capital. The intellectual capital is composed of three main element: human, structural and customer capital (Stewart, Thomas A. ,1997).

4.1 Human Capital

The human capital is the knowledge, skills and the experience of the employees or management of the organization. It can be evaluated as individual or in total as the capabilities of the employees to demonstrate those skills as a work team. It is logical that the human capital is itself a valuable asset of the economic entity, even it is not present in the balance sheet, the performance and the success of the company mainly depend from the abilities of its human capital, management and employees. Obviously under same conditions a company with high value of human capital components will demonstrate a higher performance.

4.2 Structural Capital

The structural capital is considered as the accumulated knowledge of the economic unit that belong to the company. As component of structural capital we can list work procedures, database, internal network, work standardization etc. It is obvious that a company with high intensity of structural capital will result in higher performance of the employees, cost reduction, higher efficiency and in the same time can be one of the major contributors in profit margin.

4.3 Customer Capital

The customer capital we can categorize the special or privileged relationships that the company can create with strategic suppliers, partners as well as the customer royalty. The customer royalty has a connection with the products or services of the organization that can be related to the products quality, design or trademark, all of these components are the "soft" part of the products or differently called the intangibles.

It is obvious that an economic unit with high values of customer capital will have a major possibility to maintain stable its sales as well as to increase them, compared with other organizations with lower values of customer capital (Final Report MERITUM 2001). The same organization can be more stable even in respect with the supplying with raw materials, thanks to the special connections with limited suppliers. These attributes that customers capital can provide, creates a strategic competiveness toward other organizations, that result in a more value added for the company itself.

4.4 Company Performance and Intangibles

As we discussed above it is clear that the benefits from human, structural and relation capital will eventually effect the financial dimension of the organization. The balanced scorecard is able to collect all these factors and "translate" the effects of them in financial performance for the economic unit.

In the new economic era where the financial information is past oriented, and the visible part of the components that creates value, it is obviously insufficient for the managers to base their decision making only in such information. The financial information alone cannot measure accurately the performance of the company, for the simple fact that there are many other factors that cannot be expressed in monetary forms like components of human, structural and customer capital and are decisive elements in the company performance. The company performance is not just the financial figures, but the sum of accomplishment attained by all departments and intangible assets, both financial or non financial measures (Ling, Ya-hui & Hung, Ling 2010).

The balanced scorecard together with financial performance measured in the financial accounting sense takes in consideration the other important non-financial performance indicators and creates a multiple perspective of the value added and performance measurement. The balanced scorecard beside the intangible management contributes to the strengthening of intangible assets, specially under the learn and growth perspective. The learn and the growth perspective are the key elements for the development of new intangibles according to their three basic components human, structural and customer capital. Besides the contribution of the balanced scorecard in intangibles through the learning and growth perspectives it helps the managers to monitor the progress in these components of intangibles (Bukh, P.N, Johansen, M.R. & Mouristen, J. , 2002).

It also can give the managers a clearer view that how the short-term expenses in intellectual capital such as training expenses, marketing expenses, internal software development can contribute to a added value for the company by increasing the value of the intangible assets and contributing directly in long-term competiveness. In the balance scorecard it can be easily understood that the value added for a company can be created from intangible assets .According to the model the added value that intangibles contribute to the company is derived from the product or service itself , where functionality , quality, price and timing are determinant factors together with intangible assets such as image and relationship.

5. Perspectives of Intangible Management Using Balanced Scorecard in Albania

Albanian economy is a fragile economy, but in coherence of new economic development in the developed countries. Currently the companies understand the properties of the new, global economy, where the main competitive weapon for the businesses is knowledge. The Albanian companies are focusing, more on knowledge management, investing more in intangible assets such as intellectual property. The registered intellectual property rights in General Directorate of Patents and Trademarks has almost doubled for the last five years. This is an indicator that the management awareness for the intellectual property and intangible assets in general has raised. The investments in intangible assets from the companies are obvious, reflected in the company budgets related to marketing, products design, after sale services etc.

The Albanian management are aware of the potential ability of the intangible assets to create added value and stability for the business performances, and are in search of alternatives to better manage their intangibles. The management of intangibles is not an easy task, as we explained above, the intangibles themselves are composed of different components that are in a close relationship with each other. The balanced scorecard has the ability to follow the interaction of the various components of intangible assets such as human, customer, learning and growth factors in an cause-and-effect relationship and to reflect their overall company performance and financial factors.

The balanced scorecard is one of the most popular models used by the management and management accountants to measure the company performance. In Albania, the case is the same, almost all of the interviewed managers were aware of the advantages of balanced scorecard as an instrument for the company performance management as well as the intangible management. Based in our interviews, still there is not a completed implementation of the balanced scorecard from Albanian management, mostly because the lack of experience. Many managers are in efforts to implement a balanced scorecard, but not any case of complete implementation of balanced scorecard were observed. The main factors that negatively influenced the implementation of the balanced scorecard were observed as below:

- Lack of experience from managers and other employees to implement and create the right conditions for its implementation.
- The lack of coordination and cooperation between different departments of the company.

- As in Albania the informality remains high there will be a lack of efficient data collection and reporting
- Accountant managers are still under influence of higher management and are not given the competences to create and implement different strategies.
- Implementing the software and setting up the right structure for the implementation of the balanced scorecard is a process that has no little costs and the Albanian company hierarchy is not ready yet to undertake this task.

6. Conclusions and Recommendations

The Albanian businesses are being aware of the new economic era, where the products of knowledge, or the intangible assets have their undisputed role in improving company performance and contribute to sustainable profits. The intangible assets have direct connection with the company performance and long-term strategic advantages. On of the best models to consider all these element together is , the balanced scorecard.

The balanced scorecard has many advantages to be used by the Albanian management as an intangible assets measurement and management tool such as:

- It provides the managers with a full view of the company performance, looking four aspects of company performance and directing management towards their objectives.
- It consider mostly the non financial factors , in company performance evaluation, where in developing countries like Albania , where the economic informality remains high , makes it a very useful and practical tool to use.
- It helps the managers and management accountants to look in perspective, to the business strategy in medium and long-term not evaluation the company performance just in the short term.
- It will help the managers to evaluate the current outcomes with the long-term strategies.
- It can increase the participation and creativity of the employees and different departments to reach common goals.

As a conclusion the balanced scorecard with it advantages and disadvantages is a tool that definitely will help the managers to better manage their intangible assets. For the Albanian case it is early to begin with the development and the implementation of the balanced scorecard, mostly because of the lack of experience from the employees and the cost of the implementation of the system.

We recommend that for a successful implementation of the balanced scorecard intense training should be realized for the staff and managers of the interested companies. Only when the organization staff will have the right knowledge and experience with performance management models, it's implementation can be reached successfully. In this aspect the institute of the chartered accountants can take in consideration courses and trainings for the management accountants too, where models like balanced scorecards can be tough to the interested parties as well as to the public accountants by raising the business awareness for the related topics.

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