

Intangibles and Management Control Systems in Theatres:

The Case of the Ferrara Municipal Theatre

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1. Introduction

Management control systems have been usually adopted by profit-oriented organisations. Nevertheless the adoption of management control systems can be useful also in not for profit organisations (Anselmi, 1997). In fact, even if such organisations have specific characteristics and aims, they have to face economic constraints as well. That is particularly true during these years. In many countries the financial crisis of public budgets has become more and more relevant. That means that public bodies alone can no longer sustain non profit organisation by the transfer of funds. Furthermore, the adoption of a management control system could be useful for such organisations under another point of view. It can help to better focus on the effectiveness side of their activities by means of developing a system of indicators that encompasses both artistic indicators and economic indicators.

In the Italian case, the introduction of managerial principles in not-for profit organisations has been carrying out for several years. Nevertheless, it has to be highlighted that the process of implementation of managerial tools and techniques in such kind of organisations has been slow and has faced several resistance. That is particularly true in a specific sector, as the cultural one is, that is characterised by a peculiar organisational attitude. In these organisations, indeed, the managerial culture has often been considered as a risk for the artistic autonomy of the organisations.

This paper argues that management control systems could be usefully adopted by cultural organisations. Nevertheless, it is put in light that the introduction of managerial systems should strictly consider the characteristics of the specific organisations. In the case of a theatre, it means that it could be quite risky to introduce managerial systems and tools without crafting them in order to be consistent with the peculiarities of such an organisation. In particular, it is argued that cultural organisation should develop a performance measurement systems capable to put in light not only the financial performances but also the non-financial ones. It means the introduction of a system that consider, in a balanced way, both tangible resources and intangible ones. In fact, in cultural organisations the intangible factors are usually the real drivers of the performances, both in an artistic and in a financial perspective.

This paper is structured in two sections, strictly interrelated to each other.

The first section refers to a theoretical analysis of performance measurement systems in theatres, and in cultural organisations more in general. This section is composed by two parts. In the first part it is carried out the analysis of the framework in which theatres are to operate, with specific reference to the case of Italy. By such an analysis it is put in light the importance of the intangible resources for the success of theatres both in a financial and in an artistic perspective. As a consequence, the second part puts in light, in a theoretical view, the subject of the intangibles, considering how they can be measured in a cultural organisation and in a theatre in particular. For this purpose, a brief literature review is carried out, and, afterwards, a categorisation suitable for a cultural organisation is adopted.

The second section refers to an empirical analysis. In fact, some cases where the artistic organisational culture and the economic organisational culture has been melting are growing up. The case of the Ferrara Municipal Theatre (FMT) is one of these cases. Hence, this paper analyses the Ferrara Municipal Theatre case by an empirical research. The research has been carried out as a part of the Prism-project researches. The Ferrara group has focused both policy issues and management issues. The latter has been referred both to profit oriented organisations and to not-for-profit organisations. In this framework Ferrara group WP4 has built up a network at a national level covering the issue of the relationship between Intangibles and new management models in cultural organisations. This network is composed by several organisations operating both in the field of visual arts and in the field of performing arts, as well as academics and researchers. The network has carried out several initiatives. One of these initiatives has regarded the development of a management control system suitable for a cultural organisation in an empirical perspective. For this purpose the case of the Ferrara Municipal Theatre has been chosen.

Hence, the case study aims at focusing in particular the development of the FMT s performance measurement system in a consistent way with the need of pointing out intangible factors. The empirical part is divided in two parts. The first part is related to the presentation of the FMT in order to analyse its characteristics. The second part focuses the development of the performance measurement system. The new performance system is not operating yet, but it is in a development stage. However it represents a quite interesting case of an organisation conscious of the importance of considering and measuring artistic and financial factors both at a tangible level and at an intangible one.

1. Italian cultural organisations towards the adoption of managerial principles, systems and tools.

Italian cultural organisations are facing strong economic constraints. This is not a new topic. In fact, the financial difficulties of theatres had already been put in light in the often cited Baumol s article, written in 1966, on the economic problems in performing arts (Baumol, Bowen, 1966). As the Author pointed out, there is a sort of economic disease for cultural organisations, with particular reference to the performing arts ones. It is tied to the diversity of the pace of the productivity in different productive sectors. In some sectors the productivity grows further than in other ones. That is mainly due to the different capability, in different sectors, of substituting human work with technology work. Since such a substitution is not uniform in all sectors, it appears that where the substitution is larger there is an higher increase of productivity. In Baumol s thesis, the performing arts organisations are going to suffer on this dynamics since their capability of substituting human work introducing new technologies is lower than the capability of organisations operating in other sectors. But, since the inflation rate is tied to the overall increase of the prices in all the sectors, it grows out that the increase of the inflation rate is larger than the increase of the productivity rate of the performing arts organisations. Hence the cost of the production for performing arts

organisations is going to grow more and more than in other sectors. It grows out the need of public subsidies in order to sustain the activity of the performing arts organisation.

Today such analysis is still relevant. In fact, during last decades, the State public deficit have constraint several countries to reconsider the level of the flows of public funding towards several organisations, including the cultural ones. In Baumol's theory the reduction of public financial resources transfer should address to a decline of performing arts organisation. However, it has to be put in light that such a decline would be a consequence of the maintaining of the traditional way to operate.

It means that whether performing arts organisations decide to move towards a different way to operate they could recover savings of costs and improve their revenues.

In this case, the dilemma is: is the new way to operate consistent with an high cultural quality performances perspective?. Obviously, there is not a definitive answer for this question. However, some reflections about it can be carried out. In fact such a dilemma encompass several other matters that deserve to be put in light.

The first question relates to the nature of the funding, i.e. whether it has to be public funding, private funding or a mix public-private funding.

The second question relates to the nature of the organisation itself, i.e. a not for profit public organisation, a not for profit private organisation or a profit organisation.

The third question relates to the dominant organisation culture that has to address the decisions of the organisation, i.e. a pure artistic culture, an economic culture or a melting of the two cultures.

Finally, the last question regards the way to operate, and apparently it is the logical consequence of the questions above mentioned.

As for the first question, in Italy the large majority of cultural organisations are public funded. Obviously it does not mean that there are no private resources but they are a smaller fraction than the public ones. Anyway it has to be highlighted that Italian framework is close to many European countries. In fact it appears to be a strong difference between the USA case and the Europe case. The former has a relevant fraction of private funding that mixes the public one. The latter has generally a large predominance of public funding, and the private funding initiatives are rare or not systematic.

As for the second question, in Italy the very large majority of cultural organisations are not for profit ones. However, it has to be stated that, as for the Italian case, a process of changing is going on. In fact, during the last decade there has been a growing shift towards not for profit private schemes. Many museums and theatres are changing their legal form, transforming itself in private foundations. In particular, it has to be highlighted the decree n. 367/96 that states the transformation of thirteen opera theatres in private foundations, imposing the entrance of private subjects in the Board of directors.

The third question is likely the most difficult to deal with. The key artistic subjects have generally make a strong resistance to the adoption of economic principle in the management of cultural organisations. The reason refers mainly to the risk of a decrease of the quality of the artistic

activities put in place. It has been claimed that cultural organisations should pursue an educational objective and not an entertaining one. Furthermore, it has been put in light the importance of the cultural innovation for the social development of a country. All of these statements are obviously true. Nevertheless, in Italy, under the actual public finance constraints, it is no longer possible to imagine cultural organisations that does not pursue an improvement of their financial conditions under the assumption that any deficit is going to be recovered by public bodies. On the other hand it is apparent that the economic objectives cannot be the only aim of a cultural organisations. It means the need for a melting between the artistic and the economic perspectives. In fact, the introduction of managerial principles in a cultural organisation should be consistent with the characteristics of the organisation itself. The initiatives for improving economic and financial performances could mean a reconsideration of the traditional activities carried out and, most of all, of the approach to the stakeholders. The efforts for improving the efficiency could reduce wastes of resources and could support the innovation. The efforts for increasing the revenues could mean a stronger attention to the needs of the customers and stakeholders.

Under this perspective, in the Italian case, a re-thinking of the principles under which cultural organisations are to operate is going on. The basic assumption is to find, in the different cases, how consistently integrate economic and artistic views.

Such an effort has relevant consequences in an internal view. In terms of considering under a new perspectives several internal areas. With particular reference to the case of a theatre, the following activities could be re-addressed:

- *Strategic positioning of the theatre*: it regards the choice of the characteristics of the shows to put in place. Deciding a specific typology of plays to put in place, the theatre pursue to be acknowledge as a leader for specific attributes. For example, the aim could refer to traditional plays, to innovative shows, to the quality of the plays and so on.
- *Management processes*: it refers to the ways under which the day by day activities are carried out. Managerial principles ask for a planning and a controlling system able to pursue effectiveness and efficiency levels. Furthermore, management processes refers to the production of the shows and to the marketing and activities.
- *Organisational changing*: such a subject regards two main points. The first one is related to the organisational structure and processes. It is related to how managerial principles affect the definition and the modification of the organisational structure and processes in order to improve economic efficiency. The second one is related to the influence of the entrance of private subjects in the board of director. In these cases, the theatre governance system could be strongly modified.
- *Fundraising activities*: the decrease of public funding makes alternative fundraising necessary for the development of the theatre s activities and sometimes for the pure survival of the theatre itself. Realising processes of fundraising is a quite new activity for the very large majority of Italian theatres. It means the need of developing skills that are only seldom located inside these organisations.

- *The relationship with stakeholders*: the relationship with stakeholders could be highlighted under two perspectives: the internal stakeholders one and the external stakeholders one. As for the former it has to be outlined the importance of the role of the internal knowledge for the success of the activities of the theatre. The role of the personnel is critical. This is particularly true in a sector where standardisation is possible only for a very few extent. On the other hand it is essential to stimulate knowledge and creativity at any level. As for the external stakeholder, it is crucial the relationship both with the artistic community and with the local community. The quality of the relationship with the artistic community allows the cultural organisation to be part of a network. That has a strong importance for the success of the initiatives put in place. The quality of the relationship with the local community is related to their acknowledge of the importance of the cultural institutions for the social and economic development of the area.
- *Performance measurement systems*: the melting between an artistic and an economic approach has a reflection on the definition of the performance measurement system as well. In fact the individuation of the key variables on which to evaluate the success of the activities grows out from the dominant perspective. As above mentioned, this paper argues the need for a balanced melting of the artistic and economic perspectives. Hence, the performance measurement system should be consistent with such a view. In particular, as it is going to be put in light in the following section, the performance measurement system should specifically consider the intangible factors.

2. A consistent performance measurement system for a theatre: the importance of the intangible resources

Recently, several scholars have put in light the importance of intangible assets for companies. At the very beginning, most of this attention has been driven by the development of the so called new economy . In fact, in this framework new organisational patterns have grown out in order to response and to push markets needs. Furthermore, as it has been put in light by Lev, during the new economy boom there has been a large increase of the ratio between book value and market value (Lev, 2000). While until eighties such ratio has always been close to the value of one, during the development of the new economy such ratio has increased of many times. Even if a large part of such ratio was due to the market bubble , it is apparent that there is a real strong difference between the book value and the market value. Such a difference is related to the presence inside the organisations of intangible assets that are not captured by traditional accounting systems. Hence, some important scholars have started on focusing on such a subject. The studies brought about several innovative framework, as the intangible asset monitor , developed by Sveiby (Sveiby 1998), the balanced scorecard , developed by Kaplan and Norton (Kaplan, Norton 1996), The Skandia value scheme developed by Edvinsson and Malone (Edvinsson, Malone, 1997) the Intellectual capital accounts developed by the Danish Agency for Trade and Industry (Danish Agency for Trade Industry 2001). Following to these studies, aiming at creating a framework, other

studies have been developed, mainly focusing on some more specific aspects, as it has been highlighted by Petty and Guthrie s literature review (Guthrie J., Petty, 2000).

The first studies on intangibles, then, have specifically regarded profit-oriented organisations. They aimed at put in light the roots of the value creation in a new economy and in a net economy, where knowledge and relationships are critical factors of success.

Nevertheless, many of the same reason for which intangible assets are relevant for profit oriented organisations are relevant for not for profit organisations as well. Indeed, in some cases they are even more relevant. It is the case, for instance, of the importance of the quality of relationships. That is a crucial point for a not for profit organisations since their legitimacy is closely tied to the perceived quality of their activities on behalf of the artistic community, local community or other more focused categories of stakeholders. In fact, cultural sector, the tangible contents of activities is quite low, and the success of the organisation relies mainly on its capability of developing cultural knowledge inside and outside the organisation.

Then, this paper argues that the implementation of a management control system (MCS) in a cultural organisation should specifically consider intangible factors. It means that the development of a MCS in a cultural organisation should be consistent with an Intangible scheme framework in order to encompass all the various aspects of intangible factors.

For this scope, in this paper the Intellectual capital framework proposed by Malone and Edvinsson will be followed (Edvinsson, Malone, 1997). In the Edvinsson and Malone s model, Intellectual capital is divided into human capital and structure capital. Then, structure capital is divided into customer and organisational capital. Finally, organisational capital is further split up in innovation and process capital. It means that the overall performance of an organisation encompasses both financial outcomes and intangible outcome. The overall organisational performance grows out from the interrelated combination of the management of tangible assets, human resources, customer relationships, and innovation and process activities.

3. The empirical research: the case of the Ferrara Municipal Theatre

The empirical research derives from the research activities carried out during the PRISM Project. As for the Ferrara WP4 unit, among the other initiatives, a network has been built up at national level covering the issue of the relationship between Intangibles and new management models in cultural organisations. This network is composed by several organisations operating both in the field of visual arts and in the field of performing arts, as well as academics and researchers.

Members of the network regarding the visual arts are the following organisations:

- Municipal Museum of Firenze;
- Municipal Museum of Castelvecchio-Verona;
- Municipal Museum of Lecco
- Renaissance Studies Institute of Ferrara

- Carrara Academy in Bergamo

Members of the network regarding the performing arts are the following organisations:

- Cagliari Opera House
- Arturo Toscanini Foundation in Parma
- Ravenna Opera Festival Organisation
- Ferrara Municipal Theatre

This network aims at the comprehension of innovative management systems for cultural organisations able to melting an artistic and an economic perspective. In particular, one of the activities of the network has focused the development of a management control system consistent with a cultural organisation. For this purpose, in an empirical perspective, the case of the Ferrara Municipal Theatre has been chosen.

It has to be outlined that in Ferrara theatre has a very old tradition. In fact, modern theatre originated in this town. In the 15th century the Estense Duchy was at the height of its splendour, and the cultural life of the town was centred on the court. The Princes loved to surround themselves with artists and literati, particularly those combining a passionate admiration for classical style with a desire to experiment with new styles.

The first accurate evidence regarding the staging of a play dates back to the Carnival in 1486, when in the courtyard of the Palazzo Ducale was staged Plauto's *Menaechmi*. In music, poetry, figurative arts, and architecture Ferrara was one of the more active cultural centres in Europe. In this environment of intellectual activity the theatre started to evolve.

In 1531 came the inauguration of the first permanent court theatre in history. The theatre hall, built under the supervision of Ariosto himself, was located on the first floor of Palazzo Ducale, just in front of the bishop's palace. One year later the hall was completely destroyed by fire, but the theatrical tradition of the town did not diminish. Throughout the entire 16th century the Estense Duchy staged splendid performances of incredible magnificence in the Court's halls, increasingly involving various Academies, and moreover, other noble families.

At the end of the reign of Alfonso II the Este duchy's capital became Modena, and Ferrara faced a progressive decline. Nevertheless, the cultural tradition of the town was kept alive by the constant involvement of the local noble families.

In 1790, after twenty years of discussion regarding the project designer and the building area, the construction of the present Municipal Theatre began. Works were concluded in 1797

On the 2nd of September 1798 the Municipal Theatre opens to the public, with the staging of the opera production *Gli Orazi e i Curiazi* by Marco Portogallo, and the ballet *La figlia dell'aria* by Salvatore Vigan .

In the season 2002-2003 FMT has staged (and planned to stage) the following shows:

- drama (10 shows, 42 plays)
- opera (4 shows, 8 plays)
- ballet (12 shows, 16 plays)

Furthermore it has bring about two own productions: *The Death of Klinghoffer* and *Love in the mirror* .

4. The development of the Ferrara Municipal Theatre s performance measurement system: towards the full consideration of the intangible factors

Ferrara Municipal Theatre is characterised for a well developed traditional management control system. FMT s management control system has been structured in a consistent way with the financial planning and controlling needs of a not for profit organisation. Since 1996 an accrual accounting system is in place. In the organisational chart, the administrative director has the responsibility of maintaining the MCS actually working. Management control is actually going on: the organisational structure is divided in centres of responsibility and a management accounting system is working on. The management accounting system is based on a direct costing methodology. Reports on financial performances are brought about every three months and a more focused cost analysis activity is carried out at the end of the year. Furthermore, the FMT s management control system focuses in particular the cash flows. In fact, the theatre suffer of the delay of public funding delivering. It makes a need for an accurate analysis of financial flows in order to avoid to pay high interests sums for the capital borrowed to the banks. Finally, the management control system encompasses a project management system as well. Every play is considered as a specific project. For any project both expenses and time of production are planned and controlled.

As it appears, FMT s management control systems is a well developed one. That is quite important since it represents a strong platform on which to work in order to improve the system itself.

This is the reason for which the Prism Ferrara network has chosen FMT for a research activity addressed to the development of an overall performance measurement system that encompasses intangibles as well.

The process of definition of an innovative management control system able to consider also intangible factors (Mouritsen, Larsen, Bukh, 2001) is at the moment still going on. Nevertheless it is quite interesting to put in light the outcomes already realised, since they show that intangibles resources are indeed key performance factors for the success of a cultural organisation.

For the development of an overall performance measurement system that encompasses also intangible factors Edvinsson and Malone's Intellectual capital framework has been chosen (Edvinsson, Malone, 1997).

As it is well known, Edvinsson and Malone's Intellectual capital framework points out human capital, customers capital, process capital and innovation capital.

As for *human capital*, FMT is carrying out a personnel competencies improvement scheme. In FMT 55 employees are working: 15 of them full time and the other 40 with seasonal contracts. The personnel competencies improvement scheme is based on training courses and intermediate and final evaluation tests. Furthermore a financial incentive scheme tied to the individual performances is in place.

As for the *customer relationships* capital, considering the characteristics of a cultural organisation it has been decided to split it up in three sub-categories: customer relationship in a strict sense, local community relationships, artistic community relationships.

The customer relationship in a strict sense regards the activities for improving customer's fidelity. The theatre uses different communication channels for different typologies of shows. The communication activities are realised mainly at a local area level for the drama, at a regional level for the ballet and at a national and international level for the opera. This is tied to their different degree of relevance. In fact, at moment, FMT has a particular relevance in the field of opera. For instance, this year Maestro Abbado has directed two concerts at FMT. Some important improvements in the field of the relationship with customers have been realised starting to sell tickets by Internet. That allows to reach a younger audience and allows to submit a questionnaire in order to analyse the audience itself. As for the latter point, the most important information for FMT are related to the age and to the geographic area of the buyer.

The relationship with the local community regards the joint initiatives that FMT is carrying out with not for profit organisations operating in the cultural sector, local tour operator, foundations of the banking sector and other local sponsors. Furthermore FMT is drawing up a social balance, also with the aim of showing the social and economic impact of FMT's activities in the local area.

The relationship with the artistic community is mainly based on the perceived prestige of FMT. For that scope several elements are considered. The most important ones are related to the acceptance of FMT's proposal by important members of the artistic community and to the quotations in specialised TV programmes, journals and magazines.

As for the *process* capital, FMT utilises the results of the project management system in order to improve their effectiveness and timeliness. That is particularly relevant for FMT own production that have a large influence on the perceived quality of the theatre itself.

Finally, as for the *innovation* capital, several initiatives have to be pointed out. The more relevant ones regard the live projection of the most important plays on giant screens outside the theatre and the collaboration with the Rai (the State-owned television company) for the selling of property rights. It is worthy to be mentioned also the utilisation of new technologies, and Internet in

particular, as well as the building up of a Centre of documentation open to the artistic and local community.

5. Conclusions

From the research activities carried out it emerges that in Italian cultural organisations there is a real will for a changing. However, at the same time, there is a fear for the direction of the changing, as well. General manager of performing arts organisations and visual arts organisation of the network above described underline the risk of an overlapping, instead of a melting, of two different approaches. In fact, artistic principles and economic principles should combine in a consistent way.

As it emerge from the research carried out the process of implementation of a new management control system is particularly important during this phase. In fact, as it is often quoted, you can manage only what you can measure. Hence the choice of the key indicators is important also under the perspective of building up an innovative organisational culture. In fact, the choice of the indicators deliver to all the stakeholders which are the variables that the organisation consider more relevant.

Under this perspective, it has been in-depth analysed one of the most relevant cases of the network. It is the Ferrara Municipal Theatre case. In fact, FMT has already a quite complete management control system, built up considering the financial characteristics of a not for profit organisation. That represent an important platform on which to improve the system, in order to consider intangible factors as well.

In fact, neither of the organisations of the network consider explicitly the intangible factors in their management control systems.

This paper has presented the outcomes of the on-going effort of improving the FMT s management control systems. The framework adopted is the Edvinsson and Malone s Intellectual capital scheme. For any category of intangible asset, FMT has screened the activities put in place in order to point out which indicators could be monitored.

As it has been highlighted, the process of definition of an innovative management control system able to consider also intangible factors is going on. Finally, this paper suggests that this research area dealing with the implementation of an Intangibles-oriented framework for the management of cultural organisations is promising for future scholarly enquiry, mainly in an international comparative perspective.

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