

The Advances of Information Technology to the Telecommunication Sector: The Case of Albtelecom

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Doi:10.5901/ajis.2016.v5n3s1p198

Abstract

Telecommunications in general and mobile telecommunication especially, act as key infrastructure factor for economic development of a country. Its role has become increasingly important with the growth of electronic business. Enterprise Resource Planning (ERP) represents a contemporary phenomenon in the use of information technology by many telecommunication companies worldwide and also in Albania. The purpose of this study is to assess the impact of privatization of the Albanian Telecom, namely ALBtelecom focusing on the added business value of the integrated enterprise system, adopted after the company was privatized. Hence, we analyze Systems, Applications and Products (SAP), which is one of the most frequently selected ERP software. SAP constitutes important topic for research, due to its great potential for strategic, managerial, financial, technical and human benefits, not to mention the associated risks. We measure the business performance of ALBtelecom in ERP environment comparing side-by-side the time before and after implementation using ratio analysis, for the period spanning from 2007 to 2012. We aim to show the importance of information got through financial statements and more deeply through financial ratios which enable shareholders and all stakeholders to better understand the company progress. The findings outline complexity, but in general they indicate significant improvement of ALBtelecom performance.

Keywords: Telecommunications, ALBtelecom, ERP, SAP, ratio analysis

1. Introduction

The telecommunication market structure for European countries, until the mid-1990's, was monopolistic and all the telecommunication companies were state-owned. After the launch of the European telecommunication policy in 1987, by end of 1990s, the Europe telecommunication market has undergone dynamic changes, driven by liberalization, competition, privatization and globalization. That led to an important price decrease, improvement of service quality and a wide range of technological developments. Telecommunications now can be considered as the road toward modern trade, not to mention the changes in the humans' everyday life. In order to be more competitive as much as possible, the firms try to take advantage of what new technology offers and one of that is the implementation of Enterprise Resource Planning (ERP). The ERP systems are now prevailing platforms in most enterprises all over the world. They are an enduring part of the IT landscape and remain to be a large part of organizational IT infrastructure. ERP can be defined as customizable, standard application software which includes integrated business solutions for the core processes and the main administrative of an enterprise.¹ If we take into consideration the significant investment and the huge costs involved in ERP implementations, the impact of this system on the business performance is an important subject to be examined.

The purpose of this study is to provide the impact of the integrated enterprise system adopted after ALBtelecom was privatized. Hence, we analyze Systems, Applications and Products (SAP), which is one of the most frequently

¹ *Measuring the Performance of ERP Software— a Balanced Scorecard Approach* Michael Rosemann, Jens Wiese

selected ERP software. SAP constitutes important topic for research, due to its great potential for strategic, managerial, financial, technical and human benefits, not to mention the associated risks.

This research study is organized as follows: The next part provides a literature review highlighting mixed and in some cases even controversial findings. It also describes the main objectives and methodology applied. Section 2 introduces briefly ALBtelecom as one of the major Albanian communication networks. Section 3 analyzes the data with regard to ERP investment for the time period considered and presents the empirical results of this study. This section about the ALBtelecom financial performance, which is shown using ratio analysis. The contents of this analysis and the statements attaching to it, strive to achieve better understanding of role of ERP implementation and also of corporate transparency. The final part draws the conclusions and recommendations and discusses the implications of our research findings.

The study provides comparative knowledge for current and potential investors, for various stakeholders and for scholars as well, since they will get a better idea about the significance of the ERP environment and its impact on the business success.

1.1 Literature review

With regard to the main objective of our research, we conduct a literature review in order to make use of diverse studies that examine a range of business performance dimensions. The main aspects observed in these studies are costs, benefits and risks involved in ERP implementation and usage for many enterprises. They reveal different and in some cases controversial results. Some of the studies find important to analyze both financial and non-financial aspects, as ERP implementation also affect organizational and operational excellence which may not be immediately reflected on cost reductions. Other studies assess mainly the financial performance of ERP adopting organizations. Therefore we report here their findings classifying them based on the research focus as far as several business performance dimensions are concerned.

For instance, Poston and Grabski (2001) measured the profitability of an ERP adopter company comparing with the profitability before systems' adoption and found no connection between ERP implementation and profitability. Hunton et al (2003) reported that there is no difference in the financial performance comparing the time before and after ERP adoption. These results are consistent with the findings of Poston and Grabski (2001). Velcu (2005) used some significant profitability and asset utilization ratios to compare the financial performance of successful ERP adopters with less successful ones. The findings showed no considerable difference between these two groups as far as Return on Investment (ROI) and Return on Assets (ROA) were considered. However, the successful firms resulted to have better efficiency than the less successful ones in terms of Assets Turnover and Capital Turnover within two years after ERP has been implemented.

Nikolaou and Bhattacharya (2008) tested the impact of Post-Implementation Review (PIR) showing a significant improvement for firms that employ PIR activities as far as ROI, ROS, gross margin and the employee efficiency ratios are concerned. Also Liu et al. (2008) reported in their study no financial benefits in the three years observed after implementation.

There are also studies that provide positive impact (Sudzina et al. 2011) on the financial figures of ERP adopters.

While some research studies focus mainly on the financial benefits, there are also many other studies that follow different approaches. Stefanou (2001) argued that the adoption of ERP systems, which leads to changes in organizational structure and in business processes have a broad range of benefits, directly and indirectly, related to the whole performance of the enterprises. For instance, the cost reductions, occurred not from the use of the system per se, but from the simplification and re-engineering of business processes as a result of ERP implementation, can be considered as a source of competitive advantage. The implementation may also affect only specific organizational functions such as costing, auditing or human resources. On the other hand, Beard and Sumner (2004) argued that the business costs are not reduced due to the adoption of ERP systems.

Moreover, Ignatadis and Nandhkumar (2007) showed in their study that ERP adoption led to a decrease in organizational flexibility. Madapusi and D' Souza (2012) reported the impact of ERP systems on operational performance. They divided their research objective into several modules such as financials, sales and distribution or human resources. They concluded that each module affected the business performance separately. Some of them have significant influence and the others less. Additionally they reported that the more modules are included in ERP implementation, the better the performance could be. Powel et al. (2013) followed a multiple-case-study approach and evaluated the functionality provided by ERP software in order to support production.

As we can see from above, there are many and in some cases contradictory results reported in literature by several researchers during the last years. Stefanou (2001) pretends that this inconsistency of the findings with regard to the impact of ERP implementation is attributed to the fact that this subject is very complex. At the end, we made use of these very useful reports and defined the main indicators where our study should be mainly focused on, in order to come up with findings related to our research question.

1.2 Methodology and data

This study covers telecommunications, which is one of the most common industries that make use of ERP systems. We select ALBtelecom an important component of Albanian telecommunication industry. Considering the fact that this company was previously state owned, we intend to show the impact of technology and systems advancement such as SAP software, implemented after privatization. We follow an approach with respect to the company vision "to be the most preferred data service provider for the best customer experience"², mission and its values. We focus our data analysis on financial benefits of the company and try to provide evidence on this key area. The period chosen for this part of study is from January 2010 to December 2012. The main intent of using this time period is to compare the performance of the company before, during and after SAP implementation. In order to examine the financial performance we use the quantitative ratio analysis based on annual financial statements of ALBtelecom. The study intends to capture similarities, differences, patterns and trends in ALBtelecom activities and movements and analyses the significance of SAP software on the company prosperity. In short, we examine if the company has realized tangible or intangible business benefits as a result of SAP implementation. It is an empirical question designed to determine if the variations observed in our findings provide evidence on this significant issue.

The primary data used is the information provided by many ALBtelecom employees, members of different departments who made a great contribution to this study. The information is collected through the periodic interviews with all of them, but also through several materials made available to us. We have also prepared a question pool which is responded by the IT manager. In the main part of the study where we evaluate the financial performance of ALBtelecom through ratio analysis, we referred to the annual statistics published by National Business Center.

1.3 Research question

According to the main objectives presented, this research study aims at responding to the following question: What are the relevant outcomes generated by the implementation of SAP system in one of major Albanian telecommunication companies

2. The Overview of ALBtelecom

2.1 ALBtelecom before the privatization

The today's ALBtelecom was founded just after the creation of the Temporary Albanian Government, in 1912, after the declaration of Independence of the Albanian State. This government, having acknowledged the importance of interconnection for the essential needs of the new state, population, economy and external communication, took steps to organize the Post-telegraphic service. Albanian telecom prior to the 1990s was a structure of Albanian Post Telegraph Telecommunication (PTT), but since February 5, 1992, it was established as a separate legal entity and has been turning a profit since 1996. It carried international traffic and national long distance on exclusive rights basis. In addition to the primary services it also provides local network and telegraph services, leased lines, data transmission, private network and telex services.

2.2 Privatization Period

Privatization of the company was initially scheduled to begin in Q4 of 1999 but the war in Kosovo raised emergency problems even in Albania therefore the privatization was postponed. On June 19, 2007, the Albanian government

²<http://www.albtelecom.al/en/about-us/mission-vision-values>

finalized two-year long privatization negotiations. The deal also included Eagle Mobile, the third mobile telephony license, which by that time was not yet operational. On October 1st, 2007, the CETEL Company (Ankara), member of ÇALIK Holding, headquartered in Istanbul, and in consortium with Turk Telekom, officially became the owner of the fixed telephony giant ALBtelecom, and of the third mobile operator in Albania, Eagle Mobile. The goal of the privatization of this company was to develop and enhance the quality of telecommunications, as well as to provide a new cutting edge and up-to-date technology.³

2.3 ALBtelecom after privatization

ALBtelecom's main priority is customer care and the application of technological innovations. ALBtelecom's objective is to provide contemporary services for the Albanian citizens, and to transform Albania into the main center of information technology and telecommunications in the region. By the end of 2012, the company has invested about €150 million on the replacement or expansion of the network, to increase the capacities across the country, on the preparation of infrastructure, on the latest technology services, as well as to improve the service infrastructure. ALBtelecom provides and adapts the ideal solutions for the business sector and entrepreneurship in the country, starting from professionals, medium and large businesses, public and private sector. The network of its shops all around Albania, which continues to expand, is more than 150. Even today, the company carries out on-going investments for the expansion of the network, in order to further increase the capacity all around Albania, for the implementation of the latest technological services infrastructure.

2.4 Implementation of SAP at ALBtelecom

SAP stands for Systems, Applications and Products and it is a type of ERP that allows a company to manage databases and different processes from a single system. The main reason for selecting SAP among other providers was its best functional fit to the company. The software is highly advanced and the options that it offers enable the users to operate effectively and efficiently. The strategic objectives of ALBtelecom by implementing the SAP were to offer to its current and potential customers better services and products in a faster and more comfortable way, to create more revenue stream, to keep and even increase the market share and to decrease the OPEX. Another important reason is the flow of information that SAP facilitates by collecting data from various levels of the organization offering management insights into key performance indicators (KPI) in real time and helps them during the decision-making process. Moreover, by implementing SAP, ALBtelecom adopted the same system with its parent company.

The SAP implementation in ALBtelecom started in April 2009 and went live in January 2010. The full implementation duration was 8 months, which was not considered as a long time since the company had realistic expectations to achieve ERP success. The company followed a proper strategy and developed a data migration plan well before duration in order not to experience a problem such as data issues that could be a reason for schedule overages. The project was on-schedule and did not exceed its initial estimated timeline due to full dedicated SAP team and the guidance of ERP consultants.

3. Data Analysis

The following are some interesting findings achieved through data elaboration tracked down to demonstrate how a valuable source such as SAP and the effects after its implementation can be channeled into decision-making. In this section, we are going to compare the company's performance before and after the SAP adoption. As we mentioned before, the company was privatized in October 2007 and the SAP went live in January 2010. Based on these facts, the period considered here is 2007 until 2012. The merger of ALBtelecom with Eagle Mobile in one single company, occurred in February 2013, and its impact on the company performance will be subject for a further research.

3.1 Assessment of financial performance using ratio analysis

A ratio analysis is a quantitative analysis based on the data contained in the line items of financial statements. It is

³ www.albtelecom.al

considered as a cornerstone of fundamental analysis. The figures held in balance sheet, income statement or cash flow statement are calculated using different formulas. We used ratio analysis to assess the impact of SAP system implementation by evaluating various aspects of company's operating and financial performance such as liquidity or profitability. We examined the upward and downward trends over the time and then explained the patterns related to them. As we have mentioned also at the beginning, the main aim our study is to check whether some of the performance dimensions are improving or deteriorating. The data is held from National Business Center and it provides a great statistical significance.

Profitability Ratios: Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time.⁴ For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well.⁵ Since the absolute numbers shown in the income statement do not have increased significance, we made use of margin analysis to determine the true profitability of ALBtelecom. These ratios help us to measure the ability of the company to generate revenues and manage costs and expenses.

- o **Gross profit margin:** Gross profit margin is a financial metric used to assess a firm's financial health by revealing the proportion of money left over from revenues after accounting for the cost of goods sold.⁶

$$\text{Gross profit margin} = \frac{\text{Gross profit (Net sales - COGS)}}{\text{Net sales (Revenue)}}$$



Comments: In general, the gross profit margin should be stable, but the company has been undergone a drastic change such as a privatization in 2007 and the ERP-SAP implementation in 2010 which affected a lot the costs of goods sold. The main aim of analyzing the gross profit margin is to detect the positive or negative trends in company's earnings. In 2010, this ratio differs substantially from the previous years due to the decrease in COGS. After that, the gross profit margin has not fluctuated much from one period to another. Finally, we can come up with the conclusion that the positive trend and the consistency can be interpreted (translated) into a positive investment quality.

- o **Net profit margin:** Net margin is the ratio of net profits to revenues for a company or business segment - typically expressed as a percentage - that shows how much of each dollar earned by the company is translated into profits.⁷

$$\text{Net profit margin} = \frac{\text{Net income (Earnings available for common stockholders)}}{\text{Net sales (Revenue)}}$$



Comments: The net profit margin intends to be a measure of overall company success. The results of this measurement reveal the amount of profit ALBtelecom has extracted from its total revenues. This ratio is very effective to compare the past performance of the company with the performance after ERP adoption. The improved net profit margin and the positive trend over the years indicate that ALBtelecom prices its services and goods properly and it exercises good cost control. Our findings show that despite the falling tariffs due to the competition between telecom companies and market

⁴ <http://www.investopedia.com/terms/p/profitabilityratios.asp>

⁵ <http://www.investopedia.com/terms/p/profitabilityratios.asp>

⁶ http://www.investopedia.com/terms/g/gross_profit_margin.asp

⁷ http://www.investopedia.com/terms/n/net_margin.asp

liberalization, the company achieved to keep revenues constant and to lower expenses. The use of SAP is one of the most important factor that helped managers to reduce the spending budgets and improve net profit margin.

- o Return on total assets (ROA): ROA measures the net income produced by invested capital. The higher ROA the better is.

$$ROA = \frac{\text{Net income (Earnings available for common stockholders)}}{\text{Average total assets}}$$

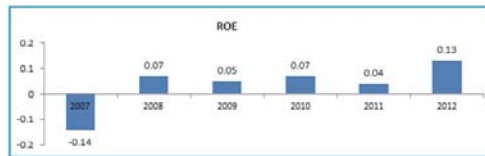


Comments: We calculated the ROA by comparing net profit to the average total assets for the respective years. However, we analyzed these two parameters separately, in order to come to a better conclusion. The figures show that after privatization the total assets have been increased until 2009. Starting from 2010 until 2012, they have gradually decreased while the net profit has increased particularly in 2012 by 193%. Due to this fact, we could state that the management is making wise choices in allocating its resources.

After the SAP adoption, ALBtelecom has been performing better at converting the capital used to purchase assets into net income or profit. In other words, the company is earning more return on less investment.

- o Return on equity (ROE): Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity.⁸

$$ROE = \frac{\text{Net income (Earnings available for common stockholders)}}{\text{Average shareholders' equity}}$$



Comments: There are several ways on the formula used to calculate the ROE. We came up to our results by dividing the net profit by average shareholders' equity. We analyzed the ROE by breaking down its main components. After 2009, the amount of equity reported in financial statements of 2010-2012 has been slightly raised. As we mentioned above, the net income has also increased as a higher portion compared to equity, rising ROE from 5% in 2009 to 13% in 2012. The higher ROE indicates that management is deploying effectively the shareholders' capital and that the company is able to generate profit without the need of additional capital. It is important to emphasize that ROE has not been boosted artificially, in spite of increased equity and lower level of debt.

Liquidity Ratios: A class of financial metrics that is used to determine a company's ability to pay off its short-terms debts obligations.¹⁰

- o Current ratio:

This ratio gives an idea of the company's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, receivables, or inventory).¹¹

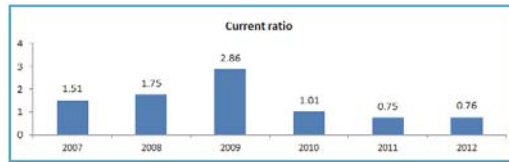
$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

⁸<http://www.investopedia.com/terms/r/returnonequity.asp>

⁹<http://www.investopedia.com/terms/r/returnonequity.as>

¹⁰Investopedia www.investopedia.com

¹¹ <http://www.investopedia.com/terms/c/currentratio.asp>



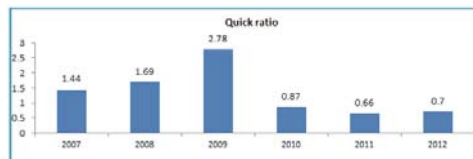
Comments: A higher current ratio shows the capability of the company to pay its obligations, as it has a larger proportion of asset value relative to the value of its liabilities.¹² Current ratio in 2007 was lower and has been improved until 2009. Starting from 2010 it has declined from 2, 86 to 1, 01 and in 2011 and 2012 this ratio has been below 1, which in general it is not considered as a good sign. However, the company is expecting large investment returns (among them also from SAP implementation) after the debts are due, so it will likely stave off its debt.

To better assess how the company's short-term assets are allocated, more specific ratios than the current ratio are needed to be further analyzed.

- Quick ratio: That indicator defines the ability of a firm to cover its current liabilities with its short-term assets, without considering its inventory.

$$\text{Quick ratio} = \frac{\text{Short term investments} + \text{Cash} + \text{Account receivable}}{\text{Current liabilities}}$$

$$\text{Quick ratio} = \frac{\text{Current assets} - \text{Inventories} - \text{Prepaid expenses}}{\text{Current liabilities}}$$



Comments: The higher the quick ratio, the better the company's liquidity position. Also known as the "acid-test ratio" or "quick assets ratio".¹³ Starting from 2010, we calculated the quick ratio by simply subtracting inventory and current prepaid assets from total current assets and dividing then by current liabilities. We see that by year 2007 to 2009 the quick ratio has been increased, that means that the liquidity of ALBtelecom improved after privatization. Starting from 2010, the ratio decreases so does the liquidity of company, which might have raised the concern of creditors to be paid back on time.

- Cash Asset Ratio: This ratio is also used to measure a firm's ability to pay its short-term obligations. It is the most commonly used, because it shows a much more accurate picture of a firm's liquidity by considering only cash and marketable securities.

$$\text{Cash asset ratio} = \frac{\text{Cash} + \text{Marketable securities}}{\text{Current liabilities}}$$



Comments: In contrast to current and quick ratios, cash asset ratio decreased from 2007 to 2009. The speedy cash increase in 2010 influenced the improvement of this ratio. However, being below the 1, this ratio indicates that there is insufficient cash on hand to pay off short-term debt.

In conclusion, we include current, quick and cash asset ratios as the most common ratios used in calculating liquidity, although some analysts consider only the cash and equivalents as the most liquid assets to cover the short-term

¹²<http://www.investopedia.com/terms/c/currentratio.asp>

¹³<http://www.investopedia.com/terms/q/quickratio.asp>

obligations in an emergency. Starting from 2010, the increase of short-term liabilities over the years has led to the decrease of liquidity. However, we are going to analyze other ratios to better evaluate financing, since the company has realistic prospects of future earnings against which have been borrowed.

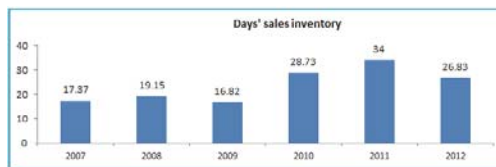
Asset Utilization Ratios: Accounting ratios that measure a firm's ability to manage effectively its assets. An increase in asset utilization indicates that company is being more efficient with assets it has.

- o Inventory turnover: It shows how many times company's inventory is sold and replaced over a period.¹⁴

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

The days sales of inventory value, or DSI, is a financial measure of a company's performance that gives investors an idea of how long it takes a company to turn its inventory (including goods that are a work in progress, if applicable) into sales. Generally, a lower (shorter) DSI is preferred, but it is important to note that the average DSI varies from one industry to another.¹⁵

$$\text{Average age of inventory} = \text{Days' sales inventory} = \frac{365}{\text{Inventory turnover}}$$



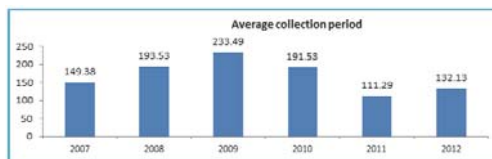
Comments: Comparing 2009 with 2010 and 2011 while the Costs of Goods Sold (COGS) fell gradually from year to year, an increase in inventories led to a decrease in inventory turnover and to a longer DSI. After that, from 2012 until 2014 the COGS increased and so did the average inventory bringing the DSI shorter. Taking into consideration the fact that there is a high demand in telecom sector and the prices fall rapidly, a low inventory ratio is not preferred. It may increase the storage costs and decrease the opportunities for higher profit. Inventory ratio is the best indicator to show the poorly managed inventory by ALBtelecom while DSI goes one step further and puts those figures in daily base. Both ratios provide us a great picture of company's inventory management and overall efficiency.

- o Receivables turnover: An accounting measure used to quantify a firm's effectiveness in extending credit and in collecting debts on that credit.¹⁶

$$\text{Accounts receivable turnover} = \frac{\text{Net sales}}{\text{Average accounts receivable}}$$

- o Average collection period: The average collection period is the approximate amount of time that it takes for a business to receive payments owed, in terms of receivables, from its customers and clients.¹⁷

$$\text{Average collection period} = \frac{365 \text{ days}}{\text{Acc. receivable turnover}}$$



Comments: A long collection period means that ALBtelecom clients are too slow in paying bills. After privatization, ALBtelecom allows its clients to still have access for a longer time (generally three months) even when they do not pay their bills on time. However, the implementation of SAP resulted to a lower average collection period, since the system provides strong collecting process, a better control over the payments and fraud and a dedicated money collection team work closely to this issue.

¹⁴ <http://www.investopedia.com/terms/i/inventoryturnover.asp>

¹⁵ <http://www.investopedia.com/terms/d/dsi.asp>

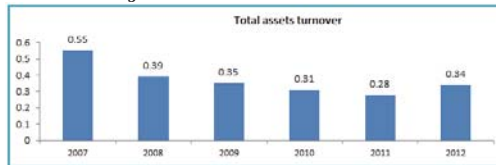
¹⁶ <http://www.investopedia.com/terms/r/receivableturnoverratio.asp>

¹⁷ http://www.investopedia.com/terms/a/average_collection_period.asp

According to the results obtained, we can conclude that ALBtelecom possesses a lower average collection period compared to the time before SAP adoption, since it manages more efficiently the credit issued to the customers and it takes shorter time to collect on that credit.

- Total asset turnover: Asset turnover ratio is the ratio of the value of a company's sales or revenues generated relative to the value of its assets.¹⁸ In general, the higher the total asset turnover ratio, the better the company's performs in deploying its assets to increase sales and generate revenues.

$$\text{Total assets turnover} = \frac{\text{Net sales}}{\text{Average total assets}}$$

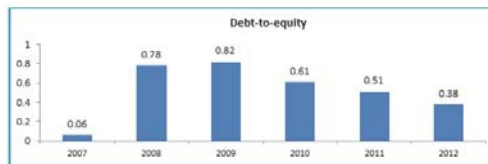


Comments: This ratio decreased during the first two years after SAP was implemented due to the decline in the level of sales, but increased again in the recent years. Taking into account the price fall in telecommunication products and services, this ratio implies the ALBtelecom efficiency in using its assets to generate revenues.

Debt Ratios: The last series of ratios in our analysis are debt ratios. These ratios give users a general idea of the company's overall debt load as well as its mix of equity and debt. Debt ratios can be used to determine the overall level of financial risk a company and its shareholders face.¹⁹

- Debt-to-equity (D/E) ratio: The D/E ratio indicates how much debt a company is using to finance its assets relative to the amount of value represented in shareholders' equity.²⁰

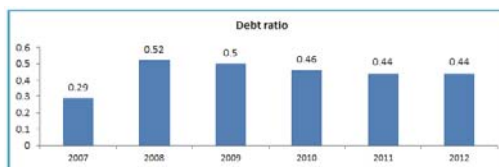
$$\text{Debt - to - equityratio} = \frac{\text{Long-term debt}}{\text{Stockholders'equity}}$$



Comments: We made use of this ratio to measure the financial leverage of ALBtelecom, by dividing total liabilities by equity. As we can see from the results, ALBtelecom has been able to keep this ratio declining from 0,82 in 2009 to 0,38 in 2012.

- Debt ratio: A financial ratio that measures the extent of a company's leverage.²¹

$$\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}}$$



Comments: This ratio also gives a general idea of the company's financial leverage as does the debt-to-equity ratio examined above. We can interpret as the proportion of the assets financed through borrowing. In general, a higher ratio

¹⁸<http://www.investopedia.com/terms/a/assetturnover.asp>

¹⁹<http://www.investopedia.com/university/ratios/debt/>

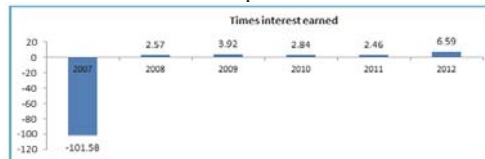
²⁰<http://www.investopedia.com/terms/d/debtequityratio.asp>

²¹<http://www.investopedia.com/terms/d/debratio.asp>

implies greater financial risks, but a debt level of around 45% it is easy to be managed by ALBtelecom since the cash flows are stable.

- Times interest earned (Interest coverage): Times interest earned (TIE) is a metric used to measure a company's ability to meet its debt obligations.²²

$$\text{Times interest earned} = \frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Interest expense}}$$



Comments: This ratio is a good indicator that shows how many times the company covers its interest expense on a pretax basis. Comparing 2009 with 2012, the figures almost doubled, since the earnings level increased while the debt level decreased.

4. Concluding Remarks

Definitely, the world is moving at a very fast speed toward the wireless information society. The new technology improves considerably the way we live.

The high demand in the Albanian telecommunication market is a well-known fact. In the past ALBtelecom could not meet the demand for fixed telephony causing long waiting lines. The main reason was the lack of investment in the infrastructure. Mobile operators took full advantage of this situation offering mobile telephony for all. However, the barriers to enter in the market are very high.

Starting from 2000 until now, the telecommunication sector in Albania has been significantly improved. Main factors for this improvement are the consumer needs for these kinds of services and the technology development. Privatization of ALBtelecom brought a more efficient use of all sources. The main aim behind privatization was the development and enhancement of telecommunication services' quality by making use of up-to-date technology.

After the privatization, the company has carried out a large amount of investments mainly on the replacement and enhancement of infrastructure and network, as well as on the information systems. The implementation of SAP software can be considered as the largest investment made by ALBtelecom so far. The company anticipated boosting of the customer satisfaction, but also future revenue growth was expected from all new investments.

In this study we focused more on financial performance, taking into account an array of ratios that are widely used in the literature and demonstrate the overall performance of a firm. In this research we selected ALBtelecom as a case study, in order to analyze closely the issues the company has confronted after privatization. Hence, we looked for the motive why ALBtelecom has implemented an ERP system. We found out that the main reasons for implementing the SAP software were the improvement of company performance and provision of better customer service and care. According to the information collected through the interviews and also based on the question pool, there are numerous benefits realized after the implementation. Based on our findings we also agree with their statements. Some of the benefits worth to be mentioned are; availability of information, improved data reliability, improved customer care, reduced operating or reduced labor costs.

According to the company intentions when it adopted the ERP system, we focused our data analysis mainly on assessment of financial performance using ratio analysis. After calculating and analyzing the main profitability, liquidity, asset utilization and debt ratios, in general we found evidence of a positive relation between the SAP implementation and financial performance of the company for the time period considered. The ERP implementation should be set on the predefined objectives and measurements. The company has not undertaken any post-implementation cost-benefit analysis yet. However, based on the results obtained through profitability ratios, we state that the company achieved to find balances between SAP investments costs and benefits gained. Moreover, we came up with the conclusion that the positive trends and the consistency can be translated into positive investment quality. Spend budget reductions occurred after SAP implementations but there is no clear evidence that the company achieved any competitive advantage through

²²<http://www.investopedia.com/terms/t/tie.asp>

cost reductions induced by the ERP system alone. On the other hand, starting from 2010 the liquidity of the company has decreased raising the concern of creditors. However, many other factors or happenings can affect a company performance during and after implementation of an ERP system. According to the facts provided in the interview with the Head of Finance Directorate, the financial position of ALBtelecom is affected a lot by the global crisis. Also she emphasized that liberalization of international traffic, occurred in 2011 had a great impact at ALBtelecom that year's annual revenues but also during the following years. Another important factor is the tough competition between the telecommunication companies.

To conclude we state that, despite the fact that the cost of SAP investment was very high, (around two million Euros,) the ERP adoption has impacted positively in the entire company performance.

5. Recommendations

Apparently the competition will be tougher in the future. Therefore differentiation in the company performance is vital. We recommend ALBtelecom to increase the customer service, since this is a crucial element toward success. Regarding the topic with respect to our research study, we recommend ALBtelecom to pursue and assess the performance of SAP project using well defined indicators in order to analyze the success of this giant project. We suggest the company to measure periodically the finance performance in order to check whether the trends of most important ratios are improving or deteriorating.

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