

GUEST EDITORIAL

PERFORMANCE EVALUATION MEASURES IN THE PRIVATE SECTOR: EGYPTIAN PRACTICES

Tariq H. Ismail

Faculty of Commerce

Cairo University

Nahdet Misr Street

Giza

Egypt

Tel.: (+2) 010 1369 557

E-mail: tariqmhi@hotmail.com and

E-mail: tariqmhi@main-scc.cairo.edu.eg

Tariq H. Ismail is Associate Professor at the Department of Accounting, Cairo University, Egypt. He received his PhD from Cairo University, Egypt in conjunction with Birmingham Business School, The University of Birmingham, UK. He is the author of 6 textbooks and has written about a dozen research papers on information technology, internet reporting, audit quality, strategic management accounting and capital budgeting. His work has been published in leading academic journals including *Managerial Auditing Journal*. He is acting as ad-hoc reviewer for *Managerial Auditing Journal*, and *International Journal of Productivity and performance Management*.

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ABSTRACT. *This study examines performance evaluation measures across private sector companies in an Egyptian context and pinpoints obstacles that may limit the adoption of the balanced scorecard (BSC). The analysis of survey results reveals that companies rely on both financial and non-financial measures of performance evaluation. The profit margin, as a financial measure, is the most commonly used performance measure. Customer satisfaction is the most commonly used non-financial measure of performance evaluation. The BSC has wide-spread use in Egyptian companies but the level of use of multi-dimensional indicators is significantly low. The survey provides considerable insight into obstacles inhibiting the adoption of the balanced scorecard. The most significant obstacle is the inadequacy of implemented information systems.*

KEYWORDS: balanced scorecard, medium enterprises, management accounting, performance evaluation, Egyptian private sector.

JEL classification: M41, C19, C42, L25.

Introduction

In the private sector the survival of an organization depends on its ability to both evaluate current performance and identify strategies to improve the quality of planning and control decisions. To help them do this, firm managers have used a variety of performance evaluation tools and measurement techniques.

Many studies examine management accounting practices and performance evaluation measures, along with individual benchmarking dimensions, in different developed countries. However, there is a lack of empirical research examining the issue of how the Egyptian private sector uses performance evaluation measures and analyzing factors that may affect the selection of those measures. This study narrows this gap by determining the factors that influence managers' selections among traditional and sophisticated measures of performance evaluation; specifically, the balanced scorecard, which is currently widely used among companies in the USA, the UK, and elsewhere.

This study examines performance evaluation measures across private sector companies in the Egyptian market. A variety of internal company characteristics are used to examine the implementation of different measures of performance evaluation. Several key business practices are examined for their impact on performance evaluation measures. These are: company activity, company age, company size, and data processing system. Results are based on a sampling of Egyptian private sector companies engaged in various sectors of the economy.

This paper is structured as follows: *Section 1* provides a review of prior research on performance evaluation practices with emphasis on the BSC; *Section 2* presents the methodology used for the study; analysis and discussion are included in *Section 3*; and the conclusion considers limitations and directions for future research.

1. Literature Review

Traditional methods of measuring a company's performance by financial indices alone have virtually disappeared from large organizations (Basu, 2001). Currently, non-financial measures are at the core of strategy descriptions and are used to develop a unique set of performance measures that clearly communicate business strategy (Kaplan and Norton, 1992).

The balanced scorecard (BSC) is a strategic performance management system that links performance to strategy using a multi-dimensional set of financial and non-financial performance measures. Kaplan and Norton (1996) argue that the balanced scorecard provides managers with the tool they need to navigate future competitive success.

Blackwell *et al.* (1994) empirically examine the relationship between accounting-based performance and personnel decisions for lower-level managers based on a sample of Texas banks. They find turnover of subsidiary bank managers negatively related to subsidiary performance, while promotions are positively related to performance. Holding own-bank performance constant, turnover increases with holding-company performance, which is consistent with the view that turnover decisions are based on performance relative to a company-specific benchmark.

Joshi *et al.* (2003) examine budget planning, implementation and performance evaluation practices by utilizing a questionnaire survey of 54 medium- and large-sized companies located in Bahrain. They conclude that budget variance is used to evaluate manager ability and timely recognition of a problem, as well as to improve period budgets.

Lipe and Salterio (2000) test judgmental effects of the balanced scorecard, comparing the influence of measures common across business units to those unique to a particular

business unit by examining how these measures affect a superior's evaluations of a unit's performance. Results indicate that only the common measures influence superior evaluations.

Balanced scorecard users rate their performance measurement systems much higher in communicating and supporting strategy than do the users of other management systems (Norton, 2000). This may be attributed partly to the fact that balanced scorecard performance measures include more non-financial measures derived specifically from the organization's strategy. Manufacturing plants that strategically link their corporate goals to performance measurement systems perform better than those that do not (Sim and Koh, 2001). Generally, companies not using a balanced scorecard framework report that more than 80% of their performance measures are financial, whereas companies successfully implementing balanced scorecards report approximately 20% of their performance measures as financial (Norton, 2000).

Ittner and Larcker (2003) emphasize that simply including non-financial measures of performance is not sufficient; the link to a firm's strategic goals is essential. After extensive field work in the USA they conclude:

Companies in increasing number are measuring customer loyalty, employee satisfaction, and other non-financial areas of performance that they believe affect profitability. But they've failed to relate these measures to their strategic goals or establish a connection between activities undertaken and financial outcomes achieved. Failure to make such connections has led many companies to misdirect their investments and reward ineffective managers.

Bourne *et al.* (2005), examining performance measurement and management practices in the UK, conclude that, like all performance measurement tools, the balanced scorecard has been criticized for not delivering the expected performance improvements. While many companies gain significant benefits and advantages from the use of this measurement system, others do not. What is apparent is that simply having a scorecard is not enough. The quality of the information used and how the measurement system is implemented within the organization are equally important. Performance measurements may fall into disrepute through poor information and execution. Maisel (2001), surveying 1,990 financial professionals across the USA, finds that while 35% of respondents rate their company's performance measurement system as effective, 80% considered the quality of information from their performance measurement system merely adequate, if not poor.

Abdel-kader and Luther (2006) investigate management accounting practices in the British food and drink industry and conclude that direct costing is more widely practiced than either activity-based or full absorption costing among these firms. Despite the limitations of conventional budgets, they remain a central management accounting "pillar" and are frequently used in "what if?" analyses. The balanced scorecard and other non-financial performance measures are perceived to be important but are never or only rarely used by 40% of companies. Product profitability analyses are frequently applied with the profitability of supplying individual customers calculated by more than 50% of the companies surveyed.

Abdel-kader and Luther's (2006) findings are somewhat contradicted by those of Cadez (2006), who investigates 193 large Slovenian companies and finds a wide range of application rates for 17 strategic management application (SMA) techniques. The capital-budgeting and competitor-focused techniques are the most widely employed, while customer-focused techniques are the least used. The cross-industry comparison shows that levels of SMA usage are fairly distinct across industries. The manufacturing sector appears to take the lead whereas the public services and utilities sectors lag behind.

Some surveys conclude that many companies have found the balanced scorecard a useful tool for focusing and sustaining their continuous improvement efforts (see for example,

Brewer, 2002; Gumbus and Lyron, 2002; Kershaw and Kershaw, 2001). Research indicates that a firm's strategy may also be important when investigating its choice of performance measures. Jusoh et al. (2006) examine the issue of alignment of measures with strategy by categorizing firms according to the strategic approaches of Miles and Snow (1978), then examining the firm's performance measures. They surveyed the top manufacturing executives of 120 Malaysian firms, inquiring about their supplementation of financial measures with non-financial measures focusing on customer satisfaction, internal business processes, and organizational learning and growth. Results indicate that the use of customer and learning and growth measures, when combined with the prospector strategy, significantly and positively impact firm performance. Financial measures produced a significant and positive impact on firm performance for firms categorized as using primarily a defender strategy.

2. Methodology

This study uses a questionnaire to investigate managers' perceptions of performance evaluation measures within the Egyptian private sector. The questionnaire was pre-tested and revised based on a pilot study on a sample of academic and non-academic specialists in performance evaluation.

The survey was mailed to executives involved in performance evaluation in a sample of companies obtained randomly from the directory of listed companies in the 2005 Egyptian stock exchange market. The returned questionnaires were analyzed using SPSS package v11.0. Statistical tests were conducted to verify the reliability and validity of the questionnaire, as well as for testing the possible relationships between variables.

The questionnaire contains two sections: the first section collects company background and general information such as company activity, company age, number of employees, data processing systems, and the performance evaluation measures adopted by the company. Respondent companies were asked to state their objectives for adopting a performance evaluation system. In addition, they were asked to select which performance evaluation measures they had already adopted. The respondents were asked to rate the degree of agreement with each statement based on a five-point Likert scale ranging from 1 "*strongly disagree*" to 5 "*strongly agree*".

The second section consists of statements related to marketing strategies as suggested by Porter (1980; 1985). This section also determines the extent to which the balanced scorecard system is used in performance evaluation, investigates the use of multi-measures, and identifies motivators for a company otherwise reluctant to use the BSC. A Likert scale similar to that used in the first section is used to rate the use of multi-indicators under the BSC and to indicate reasons that may explain non-adoption of the BSC by private sector companies in Egypt.

3. Analysis of the Results

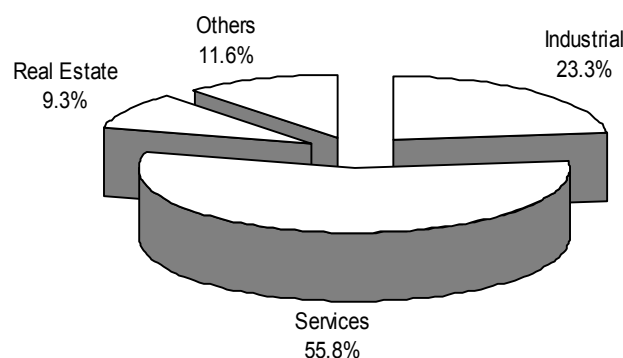
The questionnaire was sent to 150 companies in a cross-sectional sample of Egyptian private sector firms. 46 were returned, of which 43 are valid for analysis as three of the respondents failed to complete the questionnaire. The response rate is 28.6%, which is sufficient for statistical analysis in the social sciences.

The questionnaire was tested for reliability and internal consistency using Cronbach's α . This test calculates the reliability coefficient (α) if one variable is removed from the original set of variables in the questionnaire. This test helps determine the set of variables with high reliability based on the α coefficient above 0.7. The coefficient of the original set of

questionnaire variables is judged reliable using this method with scores varying from 0.846 to 0.934 when two variables are removed from the questionnaire.

3.1. Descriptive statistics

A total of 43 questionnaires represent a cross-section of Egyptian organizations (e.g., industrial, services, real estate, and others). *Figure 1* summarizes the sectors of activity of the sample. Of the 43 companies analyzed, ten companies (23.3%) are in the industrial sector, twenty four companies (55.8%) are in the services sector, four companies (9.3%) are in the real estate sector, with the remaining five companies (11.6%) in other sectors of activity.



Source: own compilation from the survey data.

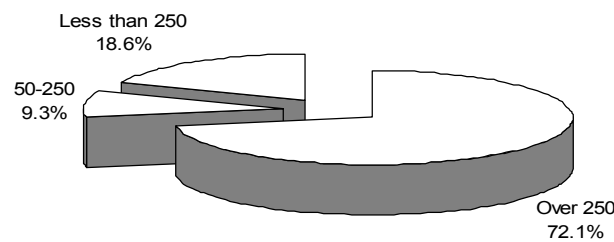
Figure 1. Sectors of Activity of Egyptian Companies, 2006

Table 1 shows the breakdown of respondent companies by sector and age. Four companies (9.3%) have been operating less than 5 years, 14 companies (32.5%) between 5–20 years, 8 companies (18.6%) between 21–35 years, and the remaining 17 companies (39.5%) more than 40 years. Approximately 58% of the firms surveyed have been operating more than 20 years and have considerable business experience within their sector. It is anticipated that the level of business experience is positively related to a firm's ability to develop performance evaluation measures related to their strategic objectives.

Table 1. Age of Surveyed Egyptian Companies, 2006

Sectors	Age of Companies				Total
	< 5 years	5-20 years	21-35 years	> 40 years	
Industrial	2	4	2	2	10
Services	2	6	4	12	24
Real Estate	-	2	2	-	4
Others	-	2	-	3	5
Total	4	14	8	17	43

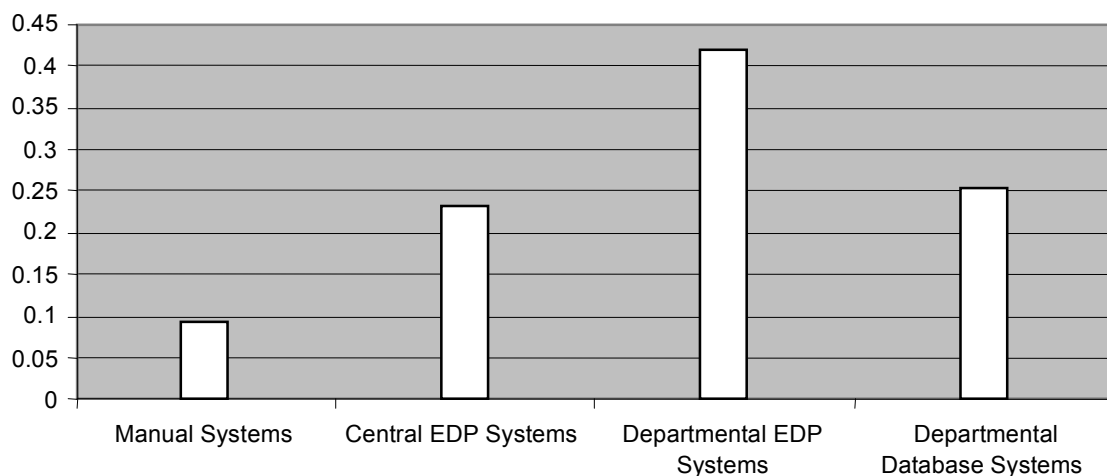
Figure 2 illustrates the number of people employed in each respondent sector. Approximately 72.1% employ more than 250 people, 9.3% employ 50–250 people, and 18.6% have less than 50 employees. This is a surrogate measure of firm size and is anticipated to be positively correlated with a firm's need to maintain a policy of performance evaluation that encourages employees to refine processes, reduce costs, and encourage continuous learning.



Source: own compilation from the survey data.

Figure 2. Numbers of Employees in Surveyed Egyptian Companies, 2006

The data processing systems are quite different across companies, ranging from manual systems to EDP based on database systems, rather than the traditional method of file organization based on separate files. *Figure 3* illustrates that 9.3% of respondent companies have manual data processing systems, 23.3% have central systems of EDP, 41.9% depend on EDP in each department based on separate files, and 25.5% have departmental EDP based on databases. A lack of database technologies may be one of the major obstacles to the adoption of a sophisticated system of performance evaluation, which should rely on a comprehensive and well-structured system insuring data consistency across different departments within a company.



Source: own compilation from the survey data.

Figure 3. Data Processing Systems in Surveyed Egyptian Companies, 2006

Performance evaluation measures may be used for a myriad of reasons. *Table 2* shows that among respondents, performance evaluation measures are used primarily for control and decision-making purposes (mean of 3.91 and 3.63). Using performance evaluation measures for planning purposes seems to have less importance when compared with these other purposes.

Table 2. Specific Purposes Served by Performance Evaluation in Surveyed Egyptian Companies, 2006

	Mean	Std. Deviation
Planning	3.28	1.62
Control	3.91	1.25
Decision Making	3.63	1.46

Source: own compilation from the survey data.

Section Two of the questionnaire contains statements that describe the marketing strategy adopted by the respondent, i.e., cost leadership, differentiation, and focus strategies. It is anticipated that the strategy chosen influences the firm's selection of performance measures. Table 3 illustrates the marketing strategies chosen by respondent firms. Differentiation strategy is the dominant strategy adopted by the respondents (with mean of 3.42), exceeding the mean of both cost leadership (2.30) and focus strategy (2.33). Table 4 includes the interaction effect between the business sector and the marketing strategy adopted. The relationship between activity type and marketing strategy is significant, as sectors of activity influence management's selection of the suitable strategy.

Table 3. Adoption of Marketing Strategy in Surveyed Egyptian Companies, 2006

	Mean	Std. Deviation
Cost Leadership Strategy	2.30	1.26
Differentiation Strategy	3.42	1.59
Focus Strategy	2.33	1.30

Source: own compilation from the survey data.

Table 4. The Relationship between Sectors of Activity and Marketing Strategy in Surveyed Egyptian Companies, 2006

	Marketing Strategy			
	Sectors	Cost Leadership	Differentiation	Focus
Chi-Square	23.698	13.860	12.000	13.860
Df	3	4	4	4
Asymp. Sig.	.000	.008	.017	.008

Source: own compilation from the survey data.

Also included in this section of the survey are questions related to the organizational level of performance evaluation, i.e., performance evaluation may be measured on a company, divisional, and (or) activity basis. Table 5 summarizes the responses and indicates that the divisional basis is the most common level of performance evaluation, followed by evaluation at the company and activity levels. Divisional performance evaluation seems to have the highest priority in Egyptian companies, although management also emphasizes performance evaluation at the activity level.

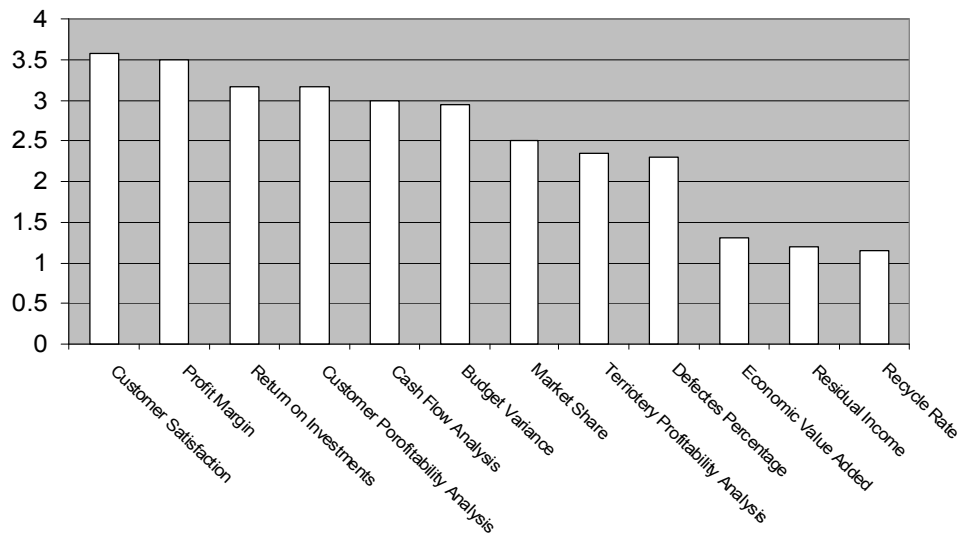
Table 5. Levels of Performance Evaluation in Surveyed Egyptian Companies, 2006

	Mean	Std. Deviation
Company Performance Evaluation	3.33	1.63
Divisional Performance Evaluation	3.49	1.56
Activity Performance Evaluation	2.72	1.79

Source: own compilation from the survey data.

The survey also questioned respondents about their use of various commonly used measures of performance evaluation. Figure 4 summarizes the results and indicates that companies rely on both financial and non-financial measures of performance evaluation. The profit margin, as a financial measure, is the most commonly used performance measure (with a mean of 3.49). Customer satisfaction is the most commonly used non-financial measure of

performance evaluation (with a mean of 3.58). Since most survey respondents are in the services sector, this result is consistent with the importance of customer satisfaction. The relationship between customer satisfaction as a performance measure and the sectors of activity was tested statistically and is significant (X^2 is 0.003).



Source: own compilation from the survey data.

Figure 4. Performance Evaluation Measures Application

Respondents were asked to discuss their adoption of the balanced scorecard. Table 6 shows that 60.5% of companies had adopted the BSC as a measure of performance evaluation, with 39.5% reporting non-adoption. Such results are consistent with those of Abdel-Kader and Luther (2006). The rate of BSC adoption is highest in the services sector. Further investigation using a chi-square test of the relationship between sectors of activity and the adoption of the BSC indicates no significant relationship, although there is wide-spread use of BSC among Egyptian companies.

Table 6. Adoption of Balanced Scorecard in Surveyed Egyptian Companies, 2006

Sectors	Balanced Scorecard					
	N	Adoption %	N	Non-adoption %	N	Total %
Industrial	8	18.6	2	4.7	10	23.3
Services	14	32.6	10	23.3	24	55.8
Real Estate	2	4.7	2	4.7	4	9.3
Others	2	4.7	3	7.0	5	11.6
Total	26	60.5	17	39.5	43	100.0

Source: own compilation from the survey data.

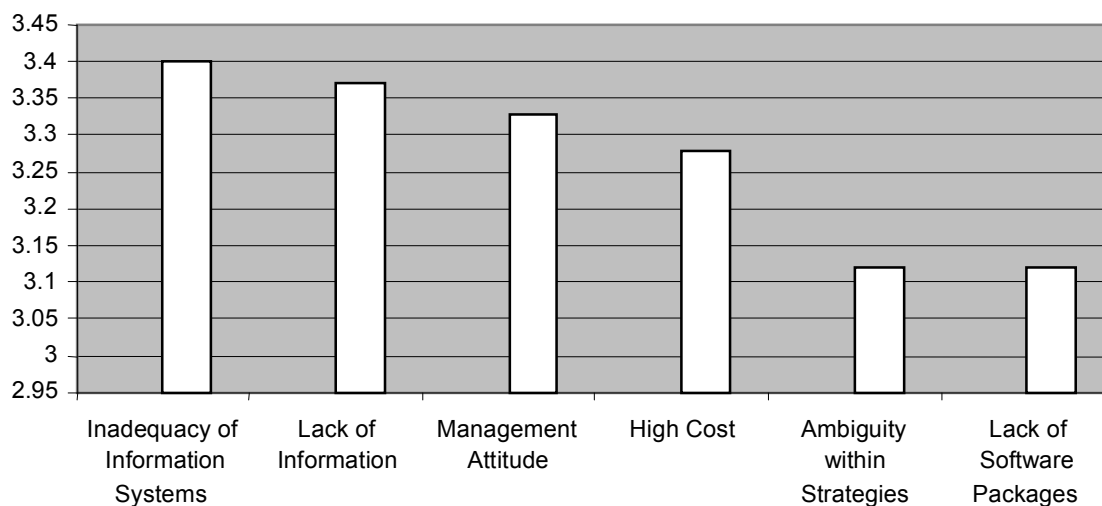
The BSC contains multi-dimensional indicators that examine four perspectives of organizational performance: financial, customer, internal process, and learning and growth. Table 7 summarizes the different indicators used under the BSC framework. Usage of indicators was rated by the respondents as 2.46 on average. This implies that although the respondents report that they have adopted BSC, they are not using all perspectives equally. Financial measures are considered the most widely used, while learning and growth indicators are least used.

Table 7. Balanced Scorecard Measures Used

Measures	Mean	Std. Deviation
Financial indicators:		
profit margin	3.49	1.08
cost versus budgets	2.59	2.09
return on assets	3.16	1.09
Customer indicators:		
customer satisfaction	3.58	1.03
on-time delivery	2.28	2.10
retaining customers	2.07	2.03
Internal process indicators:		
effective use of resources	2.42	2.11
number of rejects	1.74	1.90
cycle time	2.35	2.14
Learning and growth indicators:		
employee turnover	1.51	2.62
employee satisfaction	2.00	1.87

Source: own compilation from the survey data.

The survey respondents were also asked to express their thoughts on the reasons BSC usage may be limited. As *Figure 5* illustrates, an inadequacy of information systems is the most significant obstacle. This is followed by a lack of information on how to adopt the BSC, management's attitude that non-financial measures are of less importance in performance evaluation than financial measures, the high cost of acquiring and maintaining such systems of performance evaluation, ambiguities within the company's strategies, and a lack of software packages supporting BSC.



Source: own compilation from the survey data.

Figure 5. Obstacles to the Adoption of the Balanced Scorecard in Surveyed Egyptian Companies, 2006

Summary and Conclusions

This study examines performance evaluation measures across private sector companies in an Egyptian context. A variety of internal company characteristics are used to examine the use of different measures of performance evaluation. Results indicate that the Egyptian companies surveyed rely on performance evaluation measures for planning, control, and

decision-making purposes. The BSC is widely used in the Egyptian companies but the level of use of multi-dimensional indicators is significantly low. This highlights an important gap, which may be narrowed by increasing management awareness regarding the role of performance evaluation measures to help organizations achieve their business strategies.

There appears to be no significant difference across sectors in the use of performance evaluation measures, although this finding may have been influenced by the low response rate. Clearly, among those surveyed, financial measures are the most widely used, while learning and growth indicators are least used. This may be related to difficulties associated with accurately measuring intangibles, such as learning.

Interestingly, the survey provides considerable insight into obstacles inhibiting the adoption of the balanced scorecard. The most significant obstacle is the inadequacy of implemented information systems. Management's attitude towards non-financial indicators and a lack of information may also be considered major obstacles to the adoption of a sophisticated system of performance evaluation, which relies on a comprehensive and well-structured system to support data gathering and dissemination across multiple departments within a company.

Limitations of the Study

As is the case with all studies, this one has limitations. First, the survey results restrict generalization, as the sampling design cannot be claimed to represent all Egyptian companies. Second, the scale used in the questionnaire may not always accurately capture a respondent's opinion or perception and, therefore, it may be biased toward a neutral selection which does not necessarily express the true point of view. Additionally, one of the issues, which was not tested is the impact of organizational culture on the performance evaluation system, which may influence management's selection of performance evaluation indicators.

Directions for Future Research

Further research is needed to survey a large sample of listed, unlisted and public sector Egyptian companies to increase generalization of survey results and (i) determine internal and external environmental factors that impact the selection and use of performance evaluation systems, (ii) define the relationship between strategy-BSC-performance evaluation measures, and (iii) test the impact of adopting specific performance evaluation indicators on a company's future performance.

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PRIVATAUS SEKTORIAUS VEIKLOS VERTINIMO PRIEMONĖS: EGIPTO PRAKTIKA

Tariq H. Ismail

SANTRAUKA

Šis tyrimas analizuoja ekonominės veiklos vertinimo priemones Egipto privataus sektoriaus kompanijose. Kompanijų vidinių charakteristikų įvairovė panaudojama tirti įvairių veiklos aspektų vertinimui. Rezultatai parodo, kad apžvelgtosios Egipto kompanijos planavimo, kontrolės ir sprendimų priėmimo klausimais remiasi veiklos vertinimo priemonėmis. Subalansuota vertinimo sistema (BSC, *angl.*) plačiai naudojamas Egipto kompanijose, tačiau multidimensinių rodiklių panaudojimas yra statistiškai žemas. Tai išryškina svarbių atotrūkių, kurių galima niveliuoti, didinant vadovybės suvokimą apie veiklos vertinimo priemonių vaidmenį, padedant organizacijoms įgyvendinti savo verslo strategijas.

Atrodo, kad tarp sektorių nėra esminių skirtumų, naudojant veiklos vertinimo priemones, tačiau tokiam rezultatui galėjo daryti įtaką nedidelė tyrimo imtis. Apžvelgtosiose kompanijose vienareikšmiškai plačiausiai naudojamos finansinės priemonės, o mokymosi ir augimo rodikliai naudojami mažiausiai. Tai gali būti susiję su problemomis, kylančiomis iš tikslaus neapčiuopiamųjų aspektų, tokių kaip mokymosi, vertinimo.

Įdomu, kad apžvalga pateikia esminių išvalgų apie kliūtis, trukdančias įvesti subalansuotą rezultatų sistemą. Reikšmingiausia kliūtis yra taikomų informacinių sistemų neadekvatumas. Vadovybės požiūris į nefinansinius rodiklius bei informacijos stoką gali būti laikomas esmine kliūtimi, priimant sudėtingą veiklos vertinimo sistemą, paremtą išsamia efektyvios struktūros sistema, renkančia duomenis bei paskleidžiančia juos per daugelį kompanijos padalinių.

REIKŠMINIAI ŽODŽIAI: subalansuota vertinimo sistema, vidutinio dydžio įmonės, valdymo apskaita, veiklos vertinimas, Egipto privatus sektorius.