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Indicators: Helpers or hindrances?

"If you can't measure it, you can't manage it." Many companies have turned this axiom into a dogma and forsaken the principles that should underlie good management planning and control systems.

April 1, 2010

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At this point in the year, you've probably already figured out what kind of budget you'll need next year in order to achieve, at long last, positive EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). And, of course, for the past two financial quarters, you've been keeping close tabs on your stock levels, the rate of repeat sales among your key accounts, and the gross margin for each of the units that you manage.

Over the past few decades, management indicators have become a key resource in the corporate toolbox. If used properly, they can lead to advancements and improvements, provide insight into whether certain results are being achieved, reward good management practices and penalize those that fail to make the grade.

In this article, we outline the guiding principles for creating an effective system of management indicators. Our conclusions are based on a review of relevant literature and a study of a Spanish IT company. Our analysis illustrates how indicator systems, like knives, can be good or bad instruments, depending on how they are used: in the right hands, they're excellent tools for improving management; but in unskilled hands, they can be damaging.

This article is published in IESE Insight Issue 5 (Q2 2010).

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