Finding your organization's critical success factors – the missing link in performance management

An extract from my **"Finding your organisation's critical success factors"** which can be acquired from http://davidparmenter.com/how-to-guides)

By David Parmenter

Background

Understanding, measuring and managing critical success factors, is increasingly important to ensuring the survival and future prosperity of organizations, in these times of economic recession and uncertainty.

Most organizations know their success factors, however few organizations have:

- worded their success factors appropriately
- segregated out success factors from their strategic objectives
- sifted through the success factors to find their critical ones – their critical success factors
- communicated the critical success factors to staff

It is the CSFs, and the performance measures within them, that link daily activities to the organization's strategies.

In these trying times knowing your CSFs maybe the deciding factor in survival. If your organization has not completed a thorough exercise to know its critical success factors (CSFs) performance management cannot possibly function. Performance measurement, monitoring and reporting will be a random process creating an army of measurers producing numerous numbing reports, full of measures which monitor progress in a direction very remote from the strategic direction of the organization. Very few, if any, of the measures in these reports could be defined as 'winning KPIs' as they have been derived independently from the CSFs.

Besides focusing on the relevant performance measures, thus significantly reducing the number of performance measures used, knowing ones CSFs will reduce the number of reports that are produced at the end of the month. Many of these 'monthly' reports are not related to the CSFs, and are reporting progress too late, well after the 'horse has bolted!' so the question has to be asked "Why do we have them?" Pareto's 80/20 rule most certainly applies with reporting, with 80% of management's need being met by 20% of the reports prepared.

The process outlined in this article will crystallize and communicate the organization's CSFs. The beauty of the method, like all great methods, is that it is a simple methodical process, which can be run by in-house staff. In order to find our CSFs we need to first know our success factors.

Some relevant success factors for these turbulent times

Set out below are some relevant success factors for these turbulent times:

- Supporting local businesses.
- Delivering in full, on time, all the time, to our key customers.
- Prioritizing all activities that will collect cash quickly from major accounts.
- Finding better ways to do the things we do everyday.
- Maintaining a safe, happy, and healthy workplace .
- Implementing innovative ideas from staff quickly.
- Finishing what we start.
- Starting only value-adding projects.
- Selling a greater share of our profitable products to our key customers .
- Increasing repeat business from key customers.
- Encouraging our key customers to be active advocates for our business.
- Increasing adaptability and flexibility of staff.
- Attracting quality staff to the organization.
- Maintaining a 'stay, say, strive' engagement with staff.
- Maintaining regular recognition of staffs' contribution.

This list is an extract from my "Finding Your Organisation's Critical Success Factors" which can be acquired from www.davidparmenter.com/how-to-guides .

Notice that these SFs are all relatively specific. If told these success factors, staff members would understand what was expected of them. I believe all correctly worded SFs should be understandable to a fourteen year old, I call it the 14 year-old test.

You need to avoid wording SFs as broad statements whose meaning is not clear to employees. In other words, such factors would fail the test of being able to be understood by a 14-year-old. Examples that are too broad to be a success factors include:

- Increased customer satisfaction
- Increased profitability
- Maximizing the use of our most important resource: our people
- Optimization of working capital
- Increasing the gross margin
- Optimal utilization of assets and resources

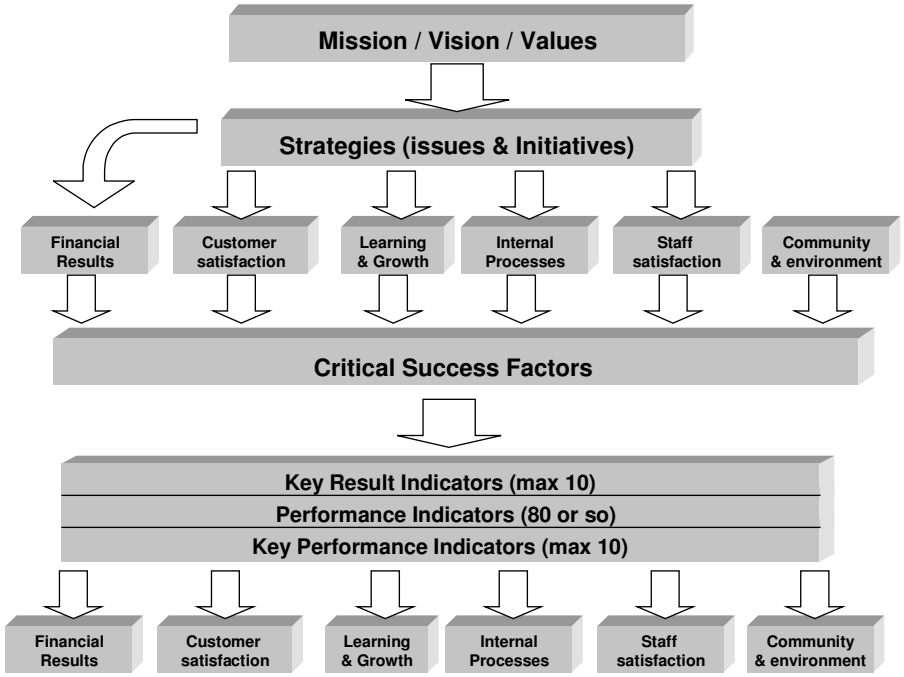
So what are Critical Success Factors

The CSFs are the 'list of issues or aspects of organizational performance that determine ongoing health, vitality and well-being' source: AusIndustry.

Better practice suggests that organizational CSFs should be limited to between five and eight regardless of the organization's size. However, for a conglomerate the CSFs will largely be industry specific e.g. the CSFs for an airline are different to a retail record chain store. Thus there would be a collection of CSFs in the conglomerate greater than the suggested five to eight.

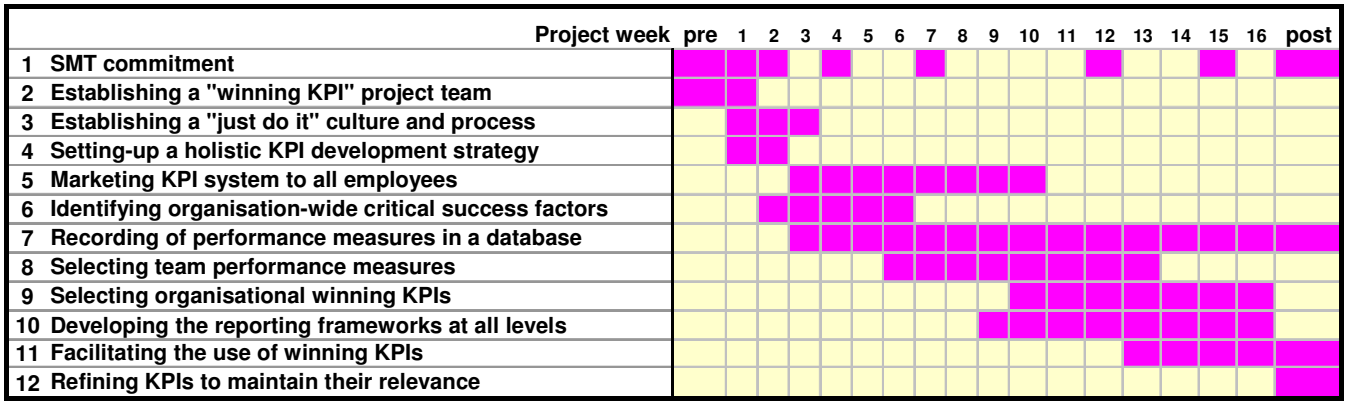
The relationship between CSFs and KPIs is vital, as illustrated in Exhibit 1. If you get the CSFs right it is very easy to find your winning KPIs e.g., once the 'timely arrival and departure of planes' CSF was identified it was relatively easy to find the KPI – 'planes over 2 hours late' for a well known airline.

Exhibit 1: How KPIs fit in the big picture



KPIs & PIs in a balanced scorecard and KRIs in a da

Exhibit 2: Twelve-step implementation timeline



Note: the blocks indicate the elapsed time not actual time taken.

Identifying organization-wide critical success factors

In order to find our CSFs, we first need to know our SFs. When you first investigate success factors, you may come up with 30 or so issues that can be argued are critical for the continued health of the organization. The second phase of thinning them down is the key to successful performance management, the alignment of daily activities to strategy.

To help organizations, around the world, find their five to eight critical success factors I have developed a process with four key tasks.

Task 1: Determining the Already Identified Success Factors

Review all the strategic documents in your organization covering the last ten years. Then extract and develop SFs from these documents. Interview as many of the organization's 'oracles' as you can and all the senior management team (SMT). From this information you will be able to come up with a list of success factors.

To ensure you have covered all bases in your search for the existing success factors I have attached a checklist in Appendix 1. The project team, should amend this checklist before use to suit the organization and desired approach.

Task 2: Holding the critical success factors workshop

Invite your oracles from around the company to a two day workshop. These oracles are the individuals everyone refers you to when you need something answered, "You need to talk to Pat". I have set out the suggested people in the agenda set out below in Exhibit 3. This agenda and associated workshop instructions, success factor lists etc, see Appendix 2, are available electronically through the purchase of my critical success white paper.

Workgroups of up to seven people, from across different functions, are informed about the new techniques. They are shown an example and then asked to tackle each exercise.

During the workshop material needs to be updated on the computer so lap tops are required. The output of working out the success factors needs to be updated so the next workshop can commence.

To help you run this workshop in-house I have prepared detailed worksheets in the associated whitepaper.

Task 3: Finalize CSFs after wide consultation

Once draft CSFs have been prepared, review them with the SMT, the board of directors, identified stakeholders (relevant CSFs with key customers and key suppliers), an employee focus group, and with the employee union representatives

The KPI team prepare and deliver a presentation on the organisation's critical success factors to facilitate discussion and agreement with the senior management team (SMT).

The presentation will cover:

- the top 5 to 8 CSFs
- process to discuss these CSFs with employee representatives
- how the CSFs are to be conveyed to staff
- the ramifications on existing performance measurement
- what 24/7, daily, weekly measures, if any, are currently being collected in this area
- permission to proceed to next stage, (selection of the team and organizational measures)

If CSFs are not going to be discussed with employee representatives or conveyed to staff the benefits of the CSFs will be adversely affected.

Task 4: Explain the CSFs to employees

Once final CSFs have been agreed on, communicate them to all management and staff. If CSFs are not going to be discussed with employee representatives and conveyed to staff, the benefits of knowing the CSFs will be adversely affected. If staff are told what is important they can align their daily activities to maximize their contribution.

Exhibit 3: Two day in-house CSF workshop

Suggested attendees:

- 20 to 40 experienced and knowledgeable staff from all around the organization (operators, administrators, sales staff, production, dispatch etc)
- selection of management from head office including one or two from the senior management team
- all KPI project staff, if one has been set up
- external facilitator, if you have one

Recommended pre work:

Attendees to listen to the D Parmenter webcast on 'introduction to winning KPIs' and read the associated paper. Both can be found on www.bettermanagement.com

Requirements:

Appoint an event secretary to document agreements as they are reached in the workshop. Organise a laptop and flip chart for workgroup, a data show projector, 2 white boards, a data show screen and a lapel microphone for the presenter(s).

Session Outline

Day 1

From 8.30am	Registration and Breakfast
9.00	Opening Remarks by CEO - Setting the context of the workshop
9.10	The new thinking on Key Performance Indicators • The difference between the four types of performance measures • The characteristics of a winning KPI - two stories • The 10,80,10 rule for performance measures • Importance of knowing your organisation's critical success factors • A case study on success factors (the CEO, and some members of the senior management team(SMT) may leave after this session)
10.00	**Presentation on success factors**
10.20	**Commence workshop #1 Revisiting your organisation's success factors (SFs).** All work that has been already done in this area will be tabled to attendees (e.g. from a review of the last few year's strategic plans)
10.50	Groups give their feedback on the SFs. ***During this discussion two staff up date the success factors list and the A3 page or whiteboards which have been prepared before the workshop commenced.***

Appendix 1 Checklist for identifying the organization's critical success factors[1]

1. In you search for the organizations SFs have you reviewed the following:	
▪ Vision / Mission / Values statements?	❑ Yes ❑ No
▪ Strategic plans over the last five to ten years?	❑ Yes ❑ No
2. In you search for the organizations SFs have you covered the following:	
▪ An analysis of economic, social, political, environmental, and technological trends that will shape the general context in which the organization operates (i.e., an environmental scan)?	❑ Yes ❑ No
▪ Analysis of the markets in which the organization operates and identification of future trends and developments?	❑ Yes ❑ No
▪ Review of current expectations and satisfaction levels of the organization's key customers?	❑ Yes ❑ No
▪ Analysis of likely future customer expectations and requirements?	❑ Yes ❑ No
▪ Review of current supplier performance and likely future requirements and the status of those relationships or partnerships?	❑ Yes ❑ No
▪ Analysis of the financial status of the organization and the available capacity to meet future requirements?	❑ Yes ❑ No
▪ Review of the human resource capabilities of the organization, taking into account the future requirements identified?	❑ Yes ❑ No
▪ Review of the existing organizational culture and its appropriateness for meeting the anticipated challenges?	❑ Yes ❑ No
3. Have you checked to ensure that the wording of each SF is as specific as possible?	❑ Yes ❑ No
4. Have you looked for missing SFs?	❑ Yes ❑ No
5. Have you short listed to between five to eight CSFs?	❑ Yes ❑ No
6. Have you used the workshop processes suggested?	❑ Yes ❑ No
7. Do the CSFs address all six of the perspectives?	❑ Yes ❑ No
8. Have you tested the short listed CSFs to ensure that, between them, they link back to **all** the organization's strategic objectives?	❑ Yes ❑ No
9. During the process have you consulted with:	
▪ Employee representatives?	❑ Yes ❑ No
▪ Key customers?	❑ Yes ❑ No
▪ Key suppliers?	❑ Yes ❑ No
▪ The Board?	❑ Yes ❑ No

[1] An extract from my **"Finding your organisation's critical success factors"** which can be acquired from http://davidparmenter.com/how-to-guides

Appendix 2: Success Factor matrix

(An extract from the full table in my "Finding your organisation's critical success factors" which can be acquired from http://davidparmenter.com/how-to-guides)

Please note that success factors (SFs) do not neatly fit within a perspective, they can often be in more than one perspective

Success factor	Finance	Resources	Retail	Services	Govt	Not for profit	Manu
SF environment & community							
Positive public perception of organization	Y	Y	Y	Y	Y	Y	Y
Be seen in the community as an employer of 'first choice'	Y	Y	Y	Y	Y	Y	Y
Supporting minorities through employment					Y		
Minimizing pollution and waste		Y					Y
Supporting educational institutions (share knowledge via organization's website)				?	Y		
Encouraging voluntary assistance by staff to the local community		Y		Y	Y		Y
Recognition by industry for environmental endeavours		Y	Y	Y	Y		Y
Supporting local businesses (% of purchases to have local content)		Y			Y		Y
Enhanced community interaction (favourable reputation in the community)	Y	Y	Y	Y	Y	Y	Y
Environmentally friendly culture and reputation (use of environmentally friendly materials)		Y	Y				Y
SF for internal process							
Delivery in full on time, all the time to our key customers	Y	Y	Y	Y	Y	Y	Y
Finding better ways to do the things we do everyday	Y	Y	Y	Y	Y	Y	Y