

# Finding your organization's critical success factors

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By David Parmenter

## Background

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 them to find their critical ones – their CSFs
- communicated the CSFs to staff

Finding an organization's CSFs is relatively simple step, and is the focus of this article. I want to show you a process that can be run in-house without the assistance of complex methodologies that only a "brain surgeon" can operate.

If your organization has not completed a thorough exercise to know its critical success factors performance measurement will be a random process creating an army of measurers producing numerous numbing reports, and who often "measure" progress in a direction very remote from the strategic direction of the organization.

This chaos needs to stop now! I will show you a process, which over a period of a couple of weeks, will crystallize and communicate the organization's CSFs. This exercise may well leave a legacy in the organization that will be greater than everything you have done in the past.

You will have created CSFs that will help to link daily activities into the organization's strategies - the 'El Dorado' of management.

## Definition of critical success factors

I first came across this definition in the late 90s and it is as good now as was then.

*"a list of issues or aspects of organizational performance that determine ongoing health, vitality and well-being" source AusIndustry*

## Finding the CSFs is part of a twelve step process

Before I reveal the process to find your organization's critical success factors I have to assume that not all readers will be familiar with my work, so a little introduction is in order. In my book, in articles and web casts on [bettermanagement.com](http://bettermanagement.com), I have talked about a twelve step process, see

Exhibit 1. This process was developed to incorporate better practice and facilitate a swift introduction - a 16 week time frame. Before implementing this critical success factor process, outlined in this paper, you would need to be familiar with this work.

You would need to understand that I am talking about step 6 in a twelve step process, or step 2 in the 8 step process (for smaller organizations, under 200 staff). See [www.bettermanagement.com](http://www.bettermanagement.com) .

Exhibit 1: Twelve-step implementation timeline

	Project week	pre	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	post
1 SMT commitment		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
2 Establishing a "winning KPI" project team		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
3 Establishing a "just do it" culture and process		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
4 Setting-up a holistic KPI development strategy		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
5 Marketing KPI system to all employees		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
6 Identifying organisation-wide critical success factors		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
7 Recording of performance measures in a database		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
8 Selecting team performance measures		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
9 Selecting organisational winning KPIs		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
10 Developing the reporting frameworks at all levels		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
11 Facilitating the use of winning KPIs		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
12 Refining KPIs to maintain their relevance		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█

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

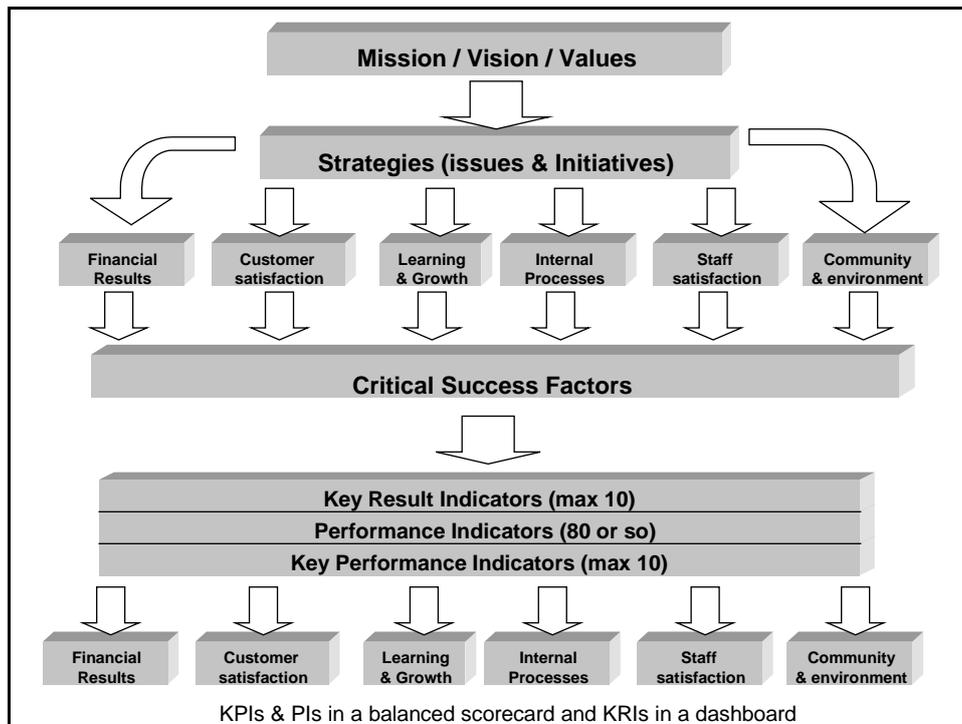
## Identifying organization-wide critical success factors

Critical success factors (CSFs) selection is very subjective, anybody who says different is misleading. Any two groups of management with the same organization would come up with different ingredients albeit that the flavor and texture would be similar.

In addition the effectiveness and usefulness of CSFs chosen is highly dependent on the degree of analytical skill of those involved. Active leadership by senior management in this step is essential.

The relationship between CSFs (also referred to as key result areas) and KPIs is vital, as illustrated in Exhibit 2. 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”.

Exhibit 2: How KPIs fit in the big picture



When you first investigate CSFs, 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 key to the success of the KPI project. There are a number of characteristics of critical success factors which are worth dwelling on:

- they will be a 'no surprise' to management and Board, they will have talked about them as a success factor
- their influence cuts across a number of BSC perspectives (e.g., the timely arrival and departure of planes impacts nearly all the BSC perspectives of an airline; see the following example).
- they have a positive influence on the organization
- have a great influence on other success factors
- are focused in a precise area, rather than being a bland statement so often characterized by strategic objectives – e.g. increased profitability, cost reduction, maximizing the use of our most important resource - our people

Extract 3: Extract from the success factor checklist in the book:

- Positive public perception of organization
- Minimizing pollution and waste
- Good working relationships with key community organizations
- Supporting local businesses (% of purchases to have local content)
- Delivery in full on time, all the time to our key customers
- Finding better ways to do the things we do everyday
- Maintaining a safe and healthy workplace
- Enhancing operational efficiency, e.g. reducing cost per transaction
- Optimizing technology that matters
- Completion of projects on time and to budget
- Encouraging innovation that matters
- We finish what we start

- Growth in revenue and product mix to our profitable customers
- Increasing the gross margin
- Increased repeat business from key customers
- Our customers being active advocates for our business (especially our key ones)
- Getting the right product in the right place at the right time
- Positive brand recognition
- Developing internal leadership amongst managers
- Increasing adaptability and flexibility of staff
- Increasing empowerment (delegated decision making)
- Increasing productivity through increase in skills, motivation, etc
- Innovative ideas from staff encouraged and adopted quickly
- R&D and knowledge rewarded and encouraged
- Attracting quality staff to the organization
- “Stay, say, strive engagement with staff”
- Provide opportunities staff to grow
- Supporting balance in working and home life
- Appropriate reward and recognition structure for all
- Promoting open decision making
- A pleasant physical work environment for all staff

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.

## **Identifying organization-wide CSFs (Step 6 in the book<sup>1</sup>)**

To help organizations around the world find their critical success factors I have developed a three stage process which further clarifies my thoughts on this process as set out in my book.

**Stage 1: Finding out the CSFs that have been mentioned over the last ten years or so**

**Stage :2 Holding a two day focus group workshop**

**Stage 3: Presentation to the SMT and Board to obtain agreement on the CSFs**

This worksheet assists with the location and identification of the organization’s critical success factors.

**Stage 1: Finding out the SFs that have been mentioned over the last ten years or so**

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<sup>1</sup> “**KEY PERFORMANCE INDICATORS - Developing, Implementing, and Using Winning KPIs**” by David Parmenter published by John Wiley & Sons Inc ISBN: 978-0-470-09588-1

Review all the strategic documents in your organization covering the last ten years. Then draw and develop SFs from these documents. Interview as many of the organization’s “oracles” as you can and the SMT. From this information you will be able to come up with a list. See Exhibit 3 for an example of the success factors you might come up with. To ensure you have covered all bases in your search for the existing success factors I have attached a checklist from my book in Appendix 1.

## Stage 2: Determining the critical success factors workshop

Invite members of the focus group, along with others who have shown an aptitude in this area, to a two day workshop. There are break-out sessions where workgroups of up to six people will brainstorm this issue. Use the workshop timetable, set out below in Exhibit 4.

Exhibit 4: Two day in-house workshop on developing the critical success factors and preparing the way to use them

### Learning Outcomes:

Attendees after this workshop will be able to:

- **Describe** the new thinking on performance measures
- **Distinguish** KRIs, PIs and KPIs
- **Identify** how KPIs can work in your organization
- **Recall** the way you brainstorm performance measures
- **Design a Board dashboard** based on the critical success factors
- **Identify** some performance measures of relevance to your organization
- **Recall** all agreements made at the workshop (these will be documented)

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](http://www.bettermanagement.com)

### Suggested attendees:

- 20 to 40 people experienced and knowledgeable staff from all around the organization (operators, administrators, sales staff, production,
- selection of management from head office including one or two from the senior management team
- all KPI project staff
- external KPI project facilitator, if you have one
- a team from the business unit where the new KPI process will be piloted

**Requirements:** event secretary to document agreements as they are reached in the workshop, lap tops , data show, white boards, screen, lapel microphone.

### Day 1

8.20	Introduction from CEO
8.30	The new thinking on key performance indicators, in this presentation you would talk about the information covered by David Parmenter’s “introduction

to winning KPIs" web cast

- 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
- Critical success factors
- A case study on CSFs

**Each business unit will be represented in the workshop.**

9.30	<b>Commence workshop #1 revisiting your organization's success factors.</b> All work that has been already done in this area, in stage 1, will be tabled to attendees (e.g. from a review of the last few year's strategic plans)
10.30	Morning tea
10. 50	<b>Re-commence workshop #1 Groups give their feedback on the SFs</b>
12.00	Lunch
12.45	Group session on brainstorming performance measures from a SF
1.15	<b>Commence workshop #2 brainstorming performance measures on two important SFs for the organization</b> (arising from workshop 1)
2.00	Feedback from workgroups
2.20	Afternoon tea
2.40	<b>Commence workshop #3 Finding the organization's top 5 to 8 critical success factors(CSFs)</b> (using the work from workshop 1)
3.40	Feedback from workgroups
4.00	<b>Commence workshop #4 design key result indicators for reporting to the Board progress on the CSFS</b> (this task will take a further 2-4 week period to finalize)
5.00	Finish of Day 1 of workshop

## Day 2

9 am	Question & Answer session
9.20	Project team report back on the changes to the success factor list and the proposed critical success factors
9.30	<b>Commence workshop #5 Brainstorm performance measures within the organization's critical success factors.</b> All measures are recorded in a simple table template. (this task will take a further 10-16 week period to finalize)
10.15	Feedback from workgroups
10.30	Morning tea
10. 50	<b>Recommence workshop #5</b>
11.30	Groups give their feedback
11.40	<b>Recommence workshop #5</b>
12.30	Groups give their feedback and state their tasks by way of one or two slides per team
1.00	Lunch (those people not involved in the detail execution of the project leave this workshop)

#### **Day 2 afternoon for KPI project team members**

2.00	Presentation on the way forward using the twelve step process. (Steps 6,7,8 having already been covered). There will be workshops and afternoon tea during this session.
4.20	KPI project team complete documentation on lap tops (covering the CSFs, some measures worth pursuing, the first draft of the next steps, resource requirements etc )
4.40	KPI project team state their next steps to senior management (senior management arrive at 4.30pm)
5.30	Closure and refreshments drinks with the senior management team

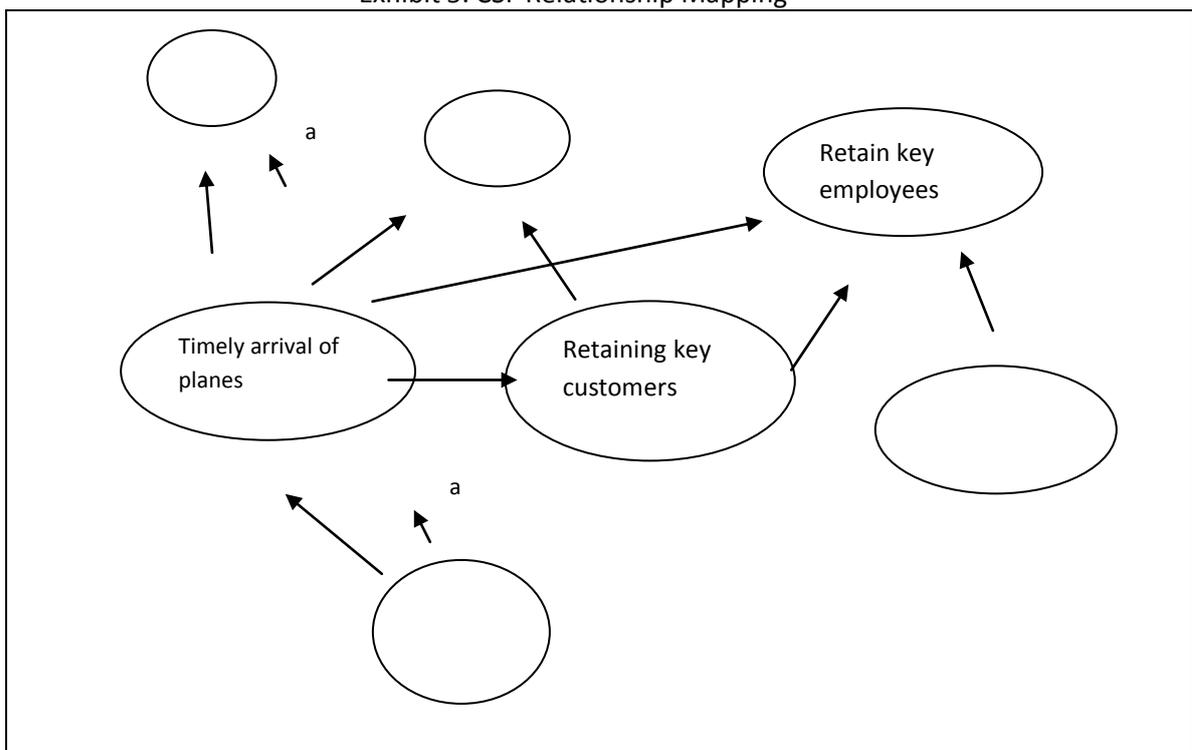
During workshop #2 the KPI project team revise the list of the success factors from workshop #1 and write them up on the electronic whiteboards (one for each group)

### Relationship mapping process used in workshop #3

To find your five to eight critical success factors a good technique is to draw all your critical success factors on a large white board and draw in all the linkages, which SF factor effects which SF. Take care in drawing the arrows the right way. In a recent workshop we were handling over 40 SF and thus the arrows were shown as leaving and entering, with a letter to identify them by, see Exhibit 5.

The SFs with the most arrows out are the ones with the greatest influence and are thus more likely to be the critical ones, the CSFs!

Exhibit 5: CSF Relationship Mapping



If you have the strategy mapping software you can use this to support the output from this workshop.

### Between Day 1 and Day 2 of the workshop

After Day one is finished the KPI project team test the list of the top 5 to 8 critical success factors against the six balanced scorecard (BSC) perspectives and the organizations strategic objectives. See Exhibits 6&7 below.

Exhibit 6: How do your top 3 CSFs cover the 6 perspectives of performance

	Perspectives
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Critical success factor	Financial	Customer satisfaction	Staff satisfaction	learning & growth	Internal process	Environment & community
e.g. timely arrival and departure of planes	✓	✓	✓	✓	✓	possible
e.g. delivery in full and on time to key customers	✓	✓	possible	✓	✓	
1. xxxxxx		✓			✓	✓
2. xxxxx	✓					
3. xxxxx		✓	✓			✓
4. xxxxx		✓			✓	
5. xxxxx	✓			✓		
6. xxxx			✓		✓	
7. xxx	✓	✓		✓		✓

Exhibit 7: Testing that your top 5-8 link to your strategic objectives

Critical success factor	Strategic Objectives					
	SO#1	SO#2	SO#3	SO#4	SO#5	SO#6
e.g. timely arrival and departure of planes	✓		✓			possible
e.g. delivery in full and on time to key customers	✓		possible			
1. xxxxx		✓			✓	✓
2. xxx	✓					
3. xxxxx			✓			
4. xxx	✓	✓			✓	
5. xxxxx			✓			✓
6. xxxx			✓			
7. xxxx	✓		✓		✓	

In the Exhibit 6 the CSFs are not impacting the strategic objective #4, and thus we need to ask whether we have all the CSFs, could one be reworded, or is the strategic objective #4 correct in the first place.

### Stage 3: KPI team prepare a presentation to the senior management team

The KPI team prepare a 40 minute presentation to facilitate discussion and agreement with the senior management team.

The presentation will cover:

- the top 5 to 8 CSFs
- discussing these CSFs between discussed with employee representatives
- conveying these CSFs to staff
- the ramifications on 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 performance measure development process needs to be put on hold. In effect, there is no agreement as to the direction in which the organization is going. It is also likely that there is not sufficient agreement on the holistic strategy for achieving best practice.

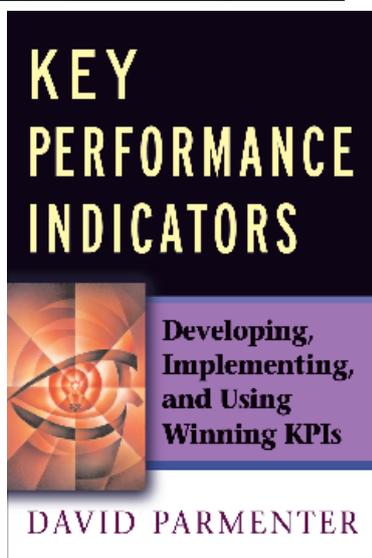
Without this agreement the foundation stone of partnership has been undermined. The only option is to consult further to secure agreement.

### Writer's biography



David Parmenter is the CEO of waymark solutions. He runs speaking tours in Australia, Asia and Europe. John Wiley & Sons Inc. published two of his books in 2007: *Key Performance Indicators – developing, implementing and using winning KPIs* and *Pareto's 80/20 Rule for the Corporate Accountant – better practices from winning finance teams*. David has also worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse. David is a fellow of the Institute of Chartered Accountants in England and Wales. He can be contacted at [parmenter@waymark.co.nz](mailto:parmenter@waymark.co.nz) or telephone +64 4 499 0007

His recent thinking is accessible from [www.DavidParmenter.Com](http://www.DavidParmenter.Com)



## Appendix 1

Checklist for identifying the organization's critical success factors<sup>2</sup>

1. In you search for the organizations SFs have you reviewed the following:	
• Vision statement?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• Mission statement?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• Values statement?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• Strategic plans over the last five to ten years?	<input type="checkbox"/> Yes <input type="checkbox"/> 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)?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• Analysis of the markets in which the organization operates and identification of future trends and developments?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• Review of current expectations and satisfaction levels of the organization's key customers?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• Analysis of likely future customer expectations and requirements?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• Review of current supplier performance and likely future requirements and the status of those relationships or partnerships?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• Analysis of the financial status of the organization and the available capacity to meet future requirements?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• Review of the human resource capabilities of the organization, taking into account the future requirements identified?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• Review of the existing organizational culture and its appropriateness for meeting the anticipated challenges?	<input type="checkbox"/> Yes <input type="checkbox"/> No
3. Have you checked to ensure that the wording of each SF is as specific as possible?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4. Have you looked for missing SFs?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5. Have you short listed to between five to eight CSFs?	<input type="checkbox"/> Yes <input type="checkbox"/> No
6. Have you used the workshop processes suggested?	<input type="checkbox"/> Yes <input type="checkbox"/> No
7. Do the CSFs address all six of the perspectives?	<input type="checkbox"/> Yes <input type="checkbox"/> No
8. Have you tested the short listed CSFs to ensure that, between them, they link back to <b>all</b> the organization's strategic objectives?	<input type="checkbox"/> Yes <input type="checkbox"/> No
9. During the process have you consulted with:	

<sup>2</sup> extract from chapter 3 of "**KEY PERFORMANCE INDICATORS - Developing, Implementing, and Using Winning KPIs**" by David Parmenter, John Wiley & Sons Inc ISBN: 978-0-470-09588-1

• employee representatives?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• key customers?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• key suppliers?	<input type="checkbox"/> Yes <input type="checkbox"/> No
• the Board?	<input type="checkbox"/> Yes <input type="checkbox"/> No