

# 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](http://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

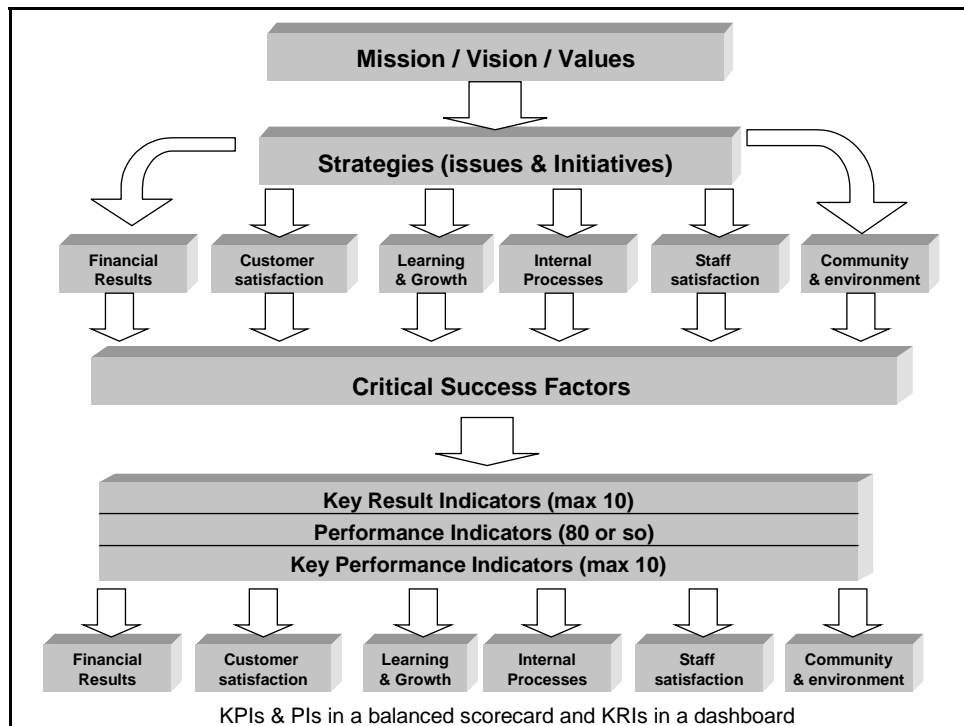
## So what are Critical Success Factors

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



There are a number of characteristics of critical success factors which are worth dwelling on. Critical success factors:

- Are worded so a 14-year-old can understand them and run the company.
- Will be no surprise to management and the board as they will have talked about them as success factors.
- Apply to more than one balance scorecard perspectives (e.g., the timely arrival and departure of planes impacts nearly all the BSC perspectives of an airline).
- Have a great influence on other success factors.
- Are focused in a precise area rather than being the bland statements that strategic objectives often are.

## 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 [www.bettermanagement.com](http://www.bettermanagement.com), I have talked about a twelve step process, see Exhibit 2. 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 need to understand that I am talking about step 6 in a twelve step process, or phase 2 in the 8 phase process (for smaller organizations, under 200 staff). For further explanation access webcasts, available free of charge, see [www.bettermanagement.com](http://www.bettermanagement.com) and search under 'Parmenter'.

Exhibit 2: 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

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](http://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	<p>The new thinking on Key Performance Indicators</p> <ul style="list-style-type: none"> <li>• The difference between the four types of performance measures</li> <li>• The characteristics of a winning KPI - two stories</li> <li>• The 10,80,10 rule for performance measures</li> <li>• Importance of knowing your organisation's critical success factors</li> <li>• A case study on success factors</li> </ul> <p>(the CEO, and some members of the senior management team(SMT) may leave after this session)</p>
10.00	<b>Presentation on success factors</b>
10.20	<b>Commence workshop #1 Revisiting your organisation's success factors (SFs).</b> 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	<p>Groups give their feedback on the SFs.</p> <p><i>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.</i></p>
11.10	Presentation on relationship mapping (an example of this is on <a href="http://www.bettermanagement.com">www.bettermanagement.com</a> )
11.20	<p><b>Commence workshop #2 Relationship mapping using an airline's success factors</b></p> <p><i>During this workshop two staff continue updating the success factors list etc.</i></p>
11.45	<b>Commence workshop #3 Finding the organisation's top five to eight critical success factors</b> (using the work from workshop #1)
12.45	Lunch
1.30	<b>Recommence workshop #3 Finding the organisation's top five to eight critical success factors</b> (using the work from workshop #1)
2.00	Feedback from workgroups on their top 5 success factors. Use a summary table, as set out in Exhibit 7.3.
2.20	Demonstrate brainstorming of a critical success factor (an example of this is on <a href="http://www.bettermanagement.com">www.bettermanagement.com</a> )
2.40	<b>Commence workshop #4 Brainstorming performance measures on the CSFs for the organisation.</b> One CSF is allocated to each workgroup

3.15	Afternoon tea
4.00	Present an example of a team scorecard factor (an example of this is on <a href="http://www.bettermanagement.com">www.bettermanagement.com</a> )
4.00	<b>Commence workshop #5 Brainstorm the measures for your team scorecard.</b> Brain storm the relevant CSFs for measures that will help focus the team in working successfully in the CSFs.
5.00	End of Day 1 for participants

## Day 2

From 8.15 am	Breakfast
9 am	Question & Answer session and the Corporate Planning presents the agreed CSFs and we ascertain which ones have already been brainstormed and which have not.
9.20	<b>Re-commence workshop #5 Brainstorm performance measures for your team scorecard score card based on the CSFs.</b> The teams focus on the critical success factors they have not worked with and any other relevant SFs. (The team scorecard will take a further 8 week period to finalise).
10.00	Feedback from workgroups
10.20	Presentation on reporting performance measures (an example of this is on <a href="http://www.bettermanagement.com">www.bettermanagement.com</a> )
10.50	<b>Commence workshop #6 Design a daily/weekly KPI report for the senior management team</b> (These reports will require further fine tuning).
11.40	Groups give their feedback
12.10	<b>Revisit workshop #4 Brainstorming performance measures on all CSFs for the organisation.</b> Allocate the CSFs ensuring that they have been brainstormed at least by two separate teams.
1.00	Lunch
1.45	Groups give their feedback
2.00	<b>Commence workshop 7 Design a dashboard for the Board</b> (These reports will require further fine tuning).
2.40	Groups give their feedback
3.00	Afternoon tea

3.15	<b>Commence workshop 8</b> Groups prepare a small PowerPoint presentation (3 to 4 slides covering new measures, measures that are to be discarded, their next steps, implementation timeline and team meeting date)
4.00	Groups give their feedback via a small PowerPoint presentation (2 or 3 slides). (CEO joins the session)
4.50	Closing remarks by CEO
5.00	End of Day 2 of workshop

### 6. Finding the CSFs through a 'relationship mapping' process

There has been much discussion about documenting "cause-and-effect" relationships, and the relationship mapping process is a derivative of this and a quicker process. When using a 'relationship mapping' process, teams need to be careful not to get sidetracked by it. It can become an interesting intellectual process going nowhere.

The aim of 'relationship mapping' process is to understand and document the likely 'cause and effect' (e.g., if a late plane is brought back on time it will lead to . . .).

To find your five to eight critical success factors a good technique is to draw all your success factors (SF) on a large white board and draw in all the linkages, which SF affects which SF. Take care in drawing the arrows the right way. In a recent workshop we were handling over 40 SFs and thus the arrows were shown as leaving and entering, with a letter to identify them by, see Exhibit 4 to 6 for examples of this mapping. 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 4: example of a CSF Relationship Mapping exercise using a flip chart

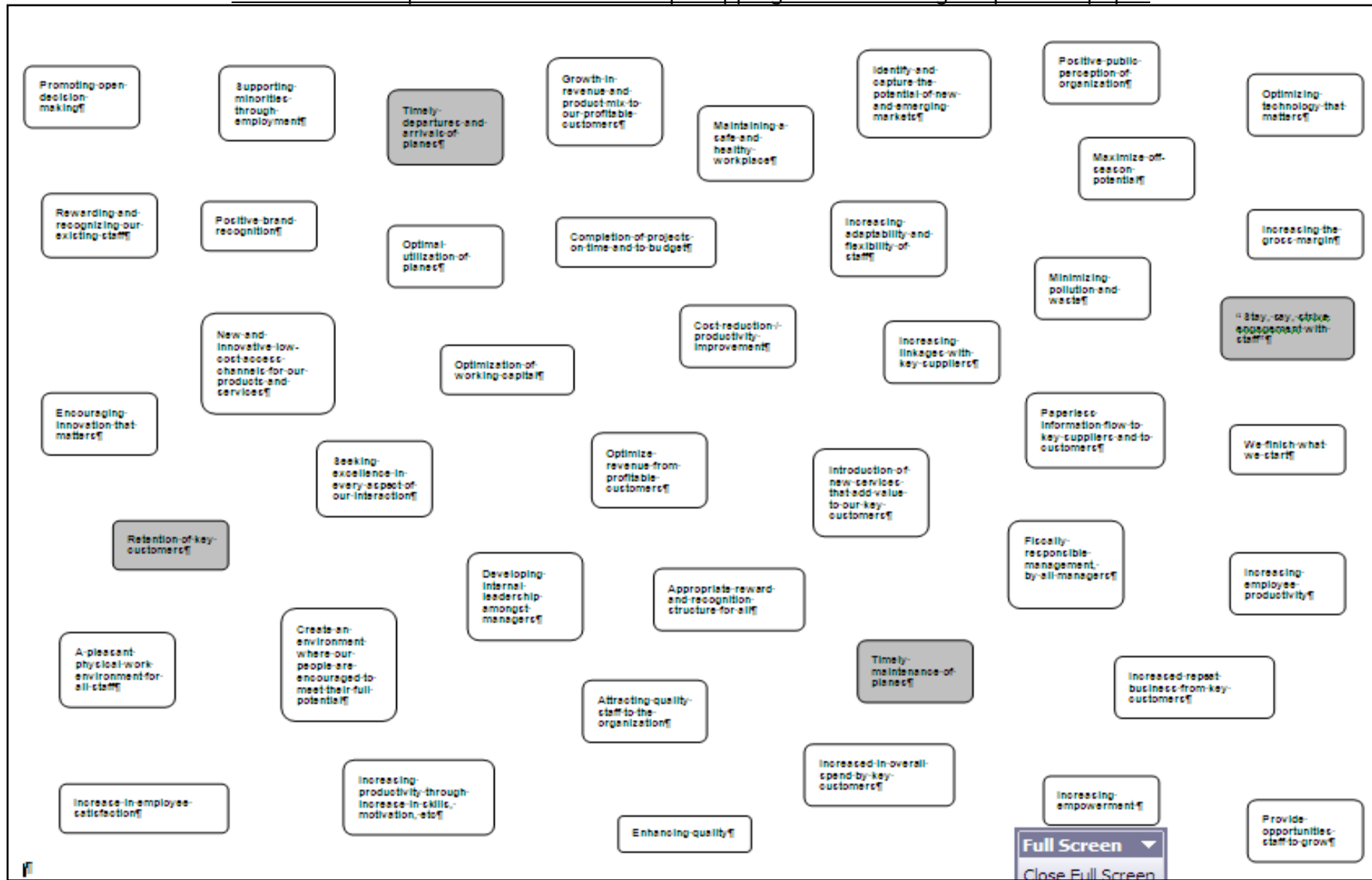




Exhibit 5: example of a CSF Relationship Mapping exercise using a whiteboard



Exhibit 6: example of a CSF Relationship Mapping exercise using A3 piece of paper





## Last words

This 'finding the CSFs' 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.

## Writer's biography



David Parmenter is an international presenter who is known for his thought provoking and lively sessions, which have led to substantial change in many organisations. David is a leading expert in: the development of winning KPIs, replacing the annual planning process with quarterly rolling planning, quick month-end processes and converting reporting to a decision based tool.

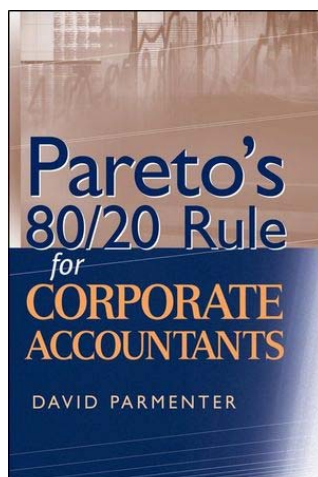
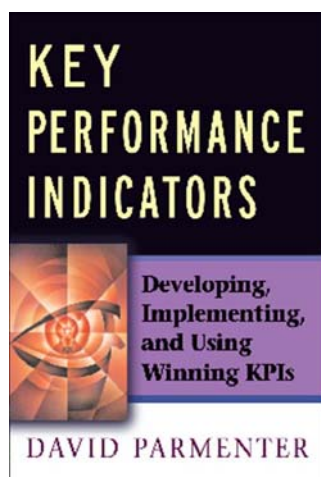
David's work on KPIs is recognized internationally as a breakthrough in understanding how to make performance measures work. His book, 'Key Performance Indicators: Developing, Implementing, and Using Winning KPIs' is one of the best selling performance management books on Amazon.com. John Wiley & Sons Inc have also published his second book "Pareto's 80/20 rule for Corporate accountants".

David has delivered workshops to thousands of attendees in many cities around the world including Sydney, Melbourne, Kuala Lumpur, Singapore, Tehran, Johannesburg, Dublin, London, Manchester, Edinburgh and Prague.

David has worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse, and he is a fellow of the Institute of Chartered Accountants in England and Wales.

He has written over 30 articles for the accounting and management Journals including *"quarterly rolling planning - removing the barriers to success"*, *"Throw away the annual budget"*, *"Beware corporate mergers"*, *"Implementing a Balanced Scorecard in 16 weeks not 16 months"*, *"Convert your monthly reporting to a management tool"*, *"Smash through the performance barrier"*, *"Is your board reporting process out of control?"* *"Implementing winning Key Performance Indicators"*, *"Quick month end reporting"* etc.

He can be contacted at [parmenter@waymark.co.nz](mailto:parmenter@waymark.co.nz) or +64 4 499 0007. He has recently completed a series of white papers which can be purchased from his website [www.davidparmenter.com](http://www.davidparmenter.com)



## Appendix 1 Checklist for identifying the organization's critical success factors<sup>1</sup>

1. In you search for the organizations SFs have you reviewed the following:	
▪ Vision / Mission / Values statements?	<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 <u>key</u> customers?	<input type="checkbox"/> Yes <input type="checkbox"/> No
▪ Analysis of likely <u>future</u> 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:	
▪ 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

<sup>1</sup> 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
<b>SF environment &amp; community</b>							
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
Good working relationships with key community organizations	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
<b>SF for internal process</b>							
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

Product leadership in industry	Y		Y	Y	Y		Y
Maintaining a safe and healthy workplace		Y	Y				Y
Enhancing operational efficiency, e.g. reducing cost per transaction	Y	Y	Y	Y	Y	Y	Y
Increasing linkages with key suppliers	Y	Y	Y	Y	Y	Y	Y
Optimizing technology that matters	Y	Y	Y	Y	Y	Y	Y
Completing of projects on time and to budget	Y	Y	Y	Y	Y	Y	Y
Encouraging innovation that matters	Y	Y	Y	Y	Y	Y	Y
Enhancing quality	Y	Y	Y	Y	Y	Y	Y
Occupational health and safety legislation compliance	Y	Y	Y	Y	Y	Y	Y
Timely, accurate, decision based information	Y	Y	Y	Y	Y	Y	Y
We finish what we start	Y	Y	Y	Y	Y	Y	Y
We administer change management processes successfully	Y	Y	Y	Y	Y	Y	Y
Timely maintenance of assets	Y	Y	Y	Y	Y	Y	Y
Paperless information flow with both our key suppliers and key customers	Y	Y	Y	Y	Y	Y	Y
<b>SF for finance</b>							
etc		Y	Y	Y	Y	Y	Y