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Finding your organisation's operational critical success factors

Using performance measures which are not linked to the critical success factors (CSFs) of your organisation can severely hamper your ability to manage business performance. In the first of a series of workshop guides, **David Parmenter** explains how to identify the CSFs in your organisation.
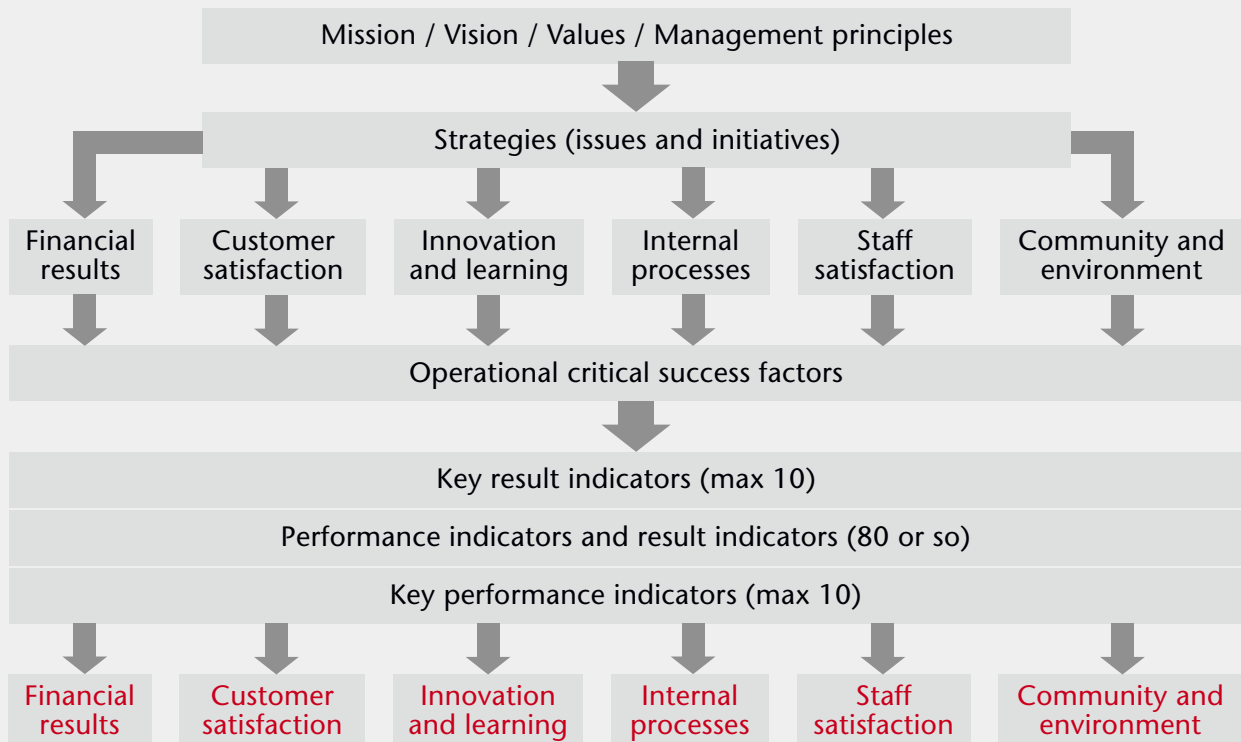
Critical success factors (CSFs) can be defined as the 'list of issues or aspects of organisational performance that determine ongoing health, vitality, and well-being.' I have always seen these as operational issues or aspects that need to be done well day-in and day-out by the staff in the organisation.

This article looks at what you need to cover in a workshop that is setting out to ascertain the five to eight organisational CSFs. To better understand the issues access two articles in the faculty's *Finance &*

Management magazine ('Winning KPIs in SMEs', December 2010, and 'Measuring performance in difficult times', April 2009) where I have written about the importance of knowing your organisation's operational CSFs.

CSFs should be seen as the source of all performance measures, as illustrated in Figure 1, below. If you get the critical success factors right, it is very easy to find your winning KPIs. You can find your CSFs in a two-task process (see page 2).

Figure 1   HOW OPERATIONAL CSFs DRIVE PERFORMANCE MEASURES

Mission / Vision / Values / Management principles

Strategies (issues and initiatives)

Financial results | Customer satisfaction | Innovation and learning | Internal processes | Staff satisfaction | Community and environment

Operational critical success factors

Key result indicators (max 10)

Performance indicators and result indicators (80 or so)

Key performance indicators (max 10)

Financial results | Customer satisfaction | Innovation and learning | Internal processes | Staff satisfaction | Community and environment

Source: *Key Performance Indicators* by David Parmenter, 3rd Edition

' To get this workshop to work it needs to be attended by experienced staff (the oracles) from around the organisation, as much of the senior management team as possible, as well as the CEO '

Task 1: Documenting the already identified success factors

A small team needs to review the strategic documents in your organisation covering the last 10 years. Then, extract and develop success factors from these documents. You may find an old strategic document written by an executive, long since moved on, which could prove very helpful because the success factors are still relevant.

The team should interview as many of the organisation's 'oracles', the wise men and women who everybody refers to for advice, as possible, along with the entire senior management team. From this information, you will be able to come up with a list of success factors.

The wording of success factor is very important and should meet the SMART criteria attributed to Peter Drucker[i] (specific, measurable, achievable, relevant, and timely). Figure 2, below, is an example of what you would expect.

Figure 2   SAMPLE SUCCESS FACTORS

- 'Stay, say, strive' engagement with staff who contribute to our success both now and in the future.
- Recruit the right people all the time.
- Develop exceptional people and teams who follow our organisation's philosophy
- Innovation is a daily activity.
- Willingness to abandon activities, processes, and initiatives that are not working or are unlikely to succeed.
- Delivery in full, on time, all the time to our key customers.
- Maintaining a healthy and safe workplace.
- We finish what we start.

At this point the objective is to identify all operational success factors. At a later stage these will be cut-down to the five to eight critical ones.

Task 2: Determining the operational critical success factors in a one-day workshop

In my KPI book[ii] I promote a two-day workshop, with the critical success factors being ascertained on day one.

To get this workshop to work it needs to be attended by experienced staff (the oracles) from around the organisation, as much of the senior management team as possible, as well as the CEO. The CEO needs, at the very least, to attend the first and last session. However, many CEOs have said they regretted not attending all the sessions.

The one-day workshop needs to cover the following:
- agreement of the organisation's operational success factors, which have been gathered in Task 1;
- an overview of how 'sphere of influence' mapping works; and
- the identification of the organisation's operational CSFs through the application of the 'sphere of influence' mapping process on the organisation's success factors.

Agreement of the organisation's success factors

In one or two break-out sessions the attendees review the operational success factors, tighten up the wording so they are SMART and remove external outcomes (eg. retention of key customers) and strategic objectives (eg. product leadership in our sector) from the list.

Finding the operational CSFs through a 'sphere of influence' mapping process

To find your five to eight operational CSFs, a good technique is to type all your success factors into numbered boxes on a large sheet of paper (A3). Each team of five to seven people is then asked to map the sphere of influence of each success factor. By achieving in success factor 13 we will have a positive impact on success factor 4. Or conversely a negative impact in success factor 13 will have a negative impact on success factor 29. We insert an arrow to reflect the direction of influence.

When running this workshop I always give the following instructions:
- The mapping process is performed by the team members, starting with one success factor and then looking at each other success factor and asking 'Does it impact this success factor?' It is understandable that some relationships are two-way. In these cases we draw two arrows, travelling in opposite directions.
- To handle the number of relationships (in most organisations, you will be handling between 30-40 success factors). Draw short arrows with the number of the box it is going to, and then another arrow entering that box with the number of the box it has come from (see Figure 3 on the next page).
- If one member of the team sees a linkage, other members of the team should draw the relationship without debate. This speeds up the process.
- Although the magnitude of the relationships will clearly be different, teams should pretend they are all equal for the time being.
- Each team should mentally jump into one success factor box at a time and look out at the other operational success factors, drawing arrows to reflect the relationships they find.
- After a couple of success boxes have been mapped and there is a common understanding of the exercise, each group should split into smaller teams of two or three people, each looking into a designated number of success factors.

Figure 3   EXAMPLES OF CSF RELATIONSHIP-MAPPING EXERCISE

1. Promoting open decision making

10. Seeking excellence in every aspect of our interaction

18. Enhancing quality

28. Introduction of new services that add value to our key customers

36. Increasing empowerment

2. Rewarding and recognising our existing staff

11. Create an environment where our people are encouraged to meet their full potential

19. Growth in revenue and product mix to our profitable customers

4

29. Timely maintenance of planes

13   15   24   33

37. Optimising technology that matters

3. Encouraging innovation that matters

12. Increasing productivity through increase in skills, motivation, etc

20. Completion of projects on time and to budget

30. Increased in overall spend by key customers

29

29

4. Retention of key customers

13. Timely departures and arrivals of planes

21. Optimise revenue from profitable customers

31. Positive public perception of organisation

38. Increasing the gross margin

6   8   17

5. A pleasant physical work environment for all staff

14. Optimal utilisation of planes

22. Appropriate reward and recognition structure for all

39. 'Stay, say, strive engagement with staff'

32. Maximise off-season potential

29

13

40. We finish what we start

6. Increase in employee satisfaction

15. Optimalisation of working capital

23. Maintaining a safe and healthy workplace

29

16. Developing internal leadership amongst managers

29

41. Increasing employee productivity

7. Supporting minorities through employment

24. Cost reduction productivity improvement

33. Minimising pollution and waste

13

25. Identify and capture the potential of new and emerging markets

42. Increasing repeat business from key customers

8. Positive brand recognition

17. Attracting quality staff to the organisation

34. Paperless information flow to key suppliers and to customers

26. Increasing adaptability and flexibility of staff

9. New and innovative low-cost access channels for our products and services

27. Increasing linkages with key suppliers

35. Fiscally responsible management, by all managers

43. Provide opportunities staff to grow

Source: *Key Performance Indicators* by David Parmenter, 3rd Edition

Mapping of 13 and 29 are incomplete

' The mapping process is performed by the team members, starting with one success factor and then looking at each other success factor and asking "Does it impact this success factor?" '

There is an alternative method of mapping relationships, shown to me by a clever attendee at an in-house workshop I was running, which involved mapping the relationships on a spreadsheet matrix (see Figure 4, below). This method is preferred by some and also creates documentation of the process that is easy to review.

This exercise is slow to start with and then becomes quicker as teams remember where the success factors are positioned. It is also very subjective and requires participants who know the organisation well.

Handling the diversity of the mapping by the teams

To handle the diversity of the mapping by the teams – eg, where one team has 10 arrows out of a success factor and another team has 16 arrows out of the same success factor – we look at each team's top five operational success factors, the ones with the most arrows out. This way we are gathering what they see as the most important, regardless of the actual count of the number of relationships.

Some of the top five success factors may have the same score, in which case I give them a position of joint second or joint third place. Thus, the scores from one team may be (1st, 2nd,=3rd,=3rd, 4th), and another

team may have (=1st,=1st,=2nd,=2nd, 3rd) for its top five success factors. I list their rankings on a summary chart; see Figure 5 (on the next page), to see which success factors selected are the most significant.
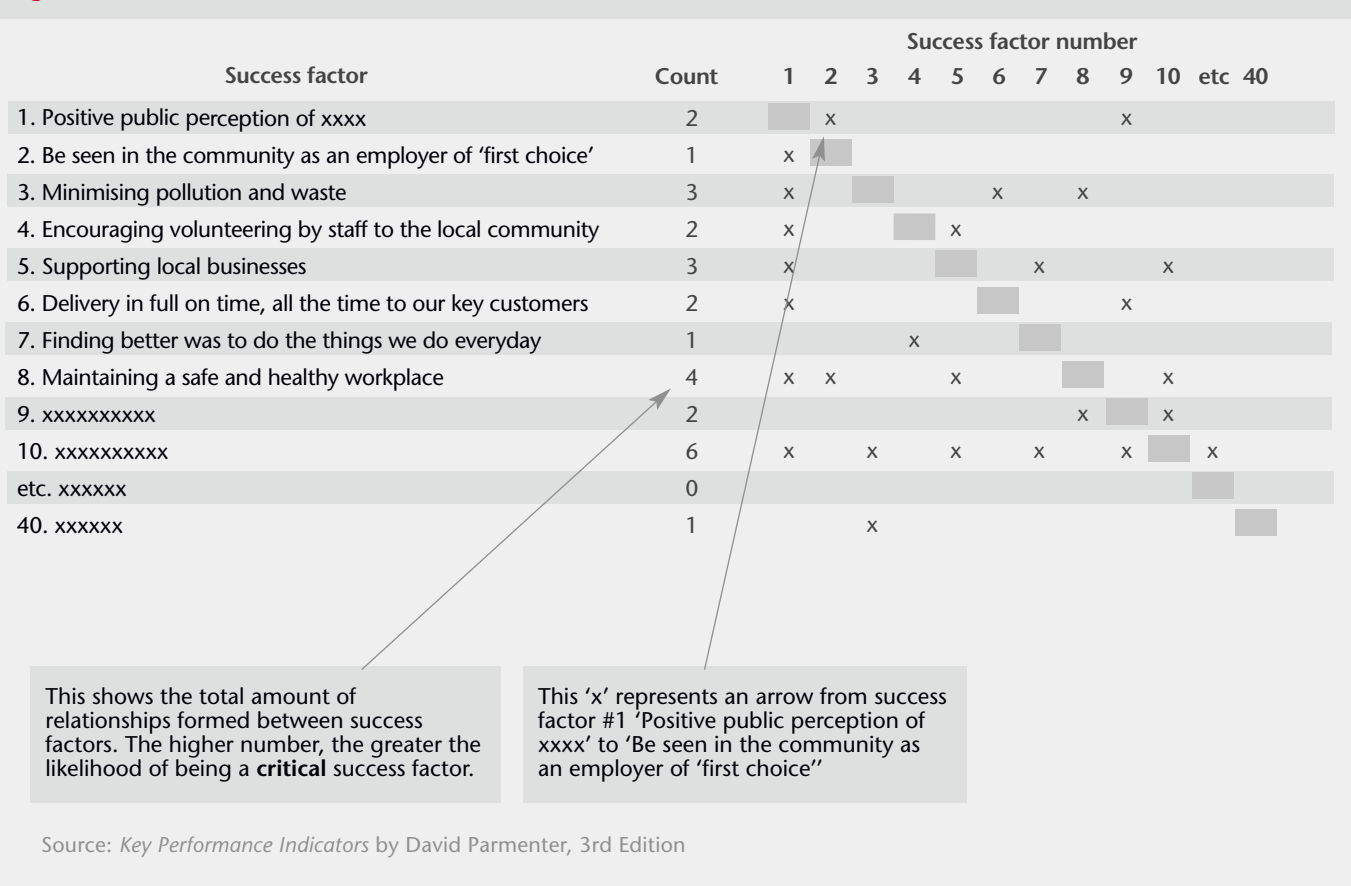
I avoid the temptation to use a weighting, as it tries to add certainty to a subjective process. It is my belief that success factors that are rated more frequently in the top five by most or all of the teams are the most likely to be the organisation's critical success factors. In this case success factors 2,8,10 and possibly 9.

Fine tuning the first cut of the critical success factors

During this exercise, you will note that some attendees have a gift for this mapping process. Identify four to six of these attendees and invite them for a special exercise: remapping the 12 or so success factors that have been identified as possible operational CSFs.

The purpose of this exercise is to test the robustness of the shortlist and then narrow them down to the five to eight success factors with the highest-scoring relationships. Again we do not use the exact count of outward arrows to prioritise, as not all of the arrows are equal. We simply assume, for example, that success factors with 20 outward arrows will be more important than success factors with eight outward arrows.

Figure 4   A SPREADSHEET MATRIX OF SUCCESS FACTOR RELATIONSHIPS

Success factor	Count	1	2	3	4	5	6	7	8	9	10	etc	40
1. Positive public perception of xxxx	2		x							x			
2. Be seen in the community as an employer of 'first choice'	1	x											
3. Minimising pollution and waste	3	x				x		x					
4. Encouraging volunteering by staff to the local community	2	x			x								
5. Supporting local businesses	3	x					x			x			
6. Delivery in full on time, all the time to our key customers	2	x							x				
7. Finding better was to do the things we do everyday	1			x									
8. Maintaining a safe and healthy workplace	4	x	x			x				x			
9. xxxxxxxxxx	2								x		x		
10. xxxxxxxxxx	6	x		x		x		x		x		x	
etc. xxxxx	0												
40. xxxxxx	1		x										

This shows the total amount of relationships formed between success factors. The higher number, the greater the likelihood of being a **critical** success factor.

This 'x' represents an arrow from success factor #1 'Positive public perception of xxxx' to 'Be seen in the community as an employer of 'first choice''

Source: *Key Performance Indicators* by David Parmenter, 3rd Edition

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Figure 5	SUMMARISING THE SUCCESS FACTORS							
		T1	T2	T3	T4	T5	T6	# of times selected
1.	Be seen in the community as an employer of first choice	=5		=4			=1	3
2.	Delivery in full on time, all the time to our key customers	1	=3	1	1	1	=2	6
3.	Finding better ways to do the things we do every day	=5						1
4.	Optimising technology that matters			2			4	2
5.	Encouraging innovation that matters		1		4			2
6.	Enhancing quality		=3					1
7.	Timely, accurate, decision-based information							
8.	We finish what we start	4	2	=4	2	3	=2	6
9.	Reducing supply chain costs		=3	=5		2	=1	4
10.	'Stay, say, strive' engagement with staff	2		3	3	5	3	5

Next steps
- Get a copy of my fore mentioned articles from the Finance and Management Faculty and forward them around the organisation, they might create some interest.
- Commence your review of the organisation's success factors
- Send me an email, parmenter@waymark.co.nz and I will send you the templates from this article, including some others I use.

References:
i Drucker, Peter F, *The Practice of Management*, 1954.
ii Parmenter, David, *Key Performance Indicators: Developing, implementing and using winning KPIs, third edition* (John Wiley & Sons Inc., 2015).

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