

Chapter 18

Critical Success Factors



Ch18. Critical Success Factors

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Ch18. Critical Success Factors

Short Description

"Critical success factors are the few things that must go well to ensure success for a manager or an organization and, therefore, they represent those managerial or firm areas that must be given special and continual attention to bring about high performance"

(Boynton and Zmud, 1984:17)



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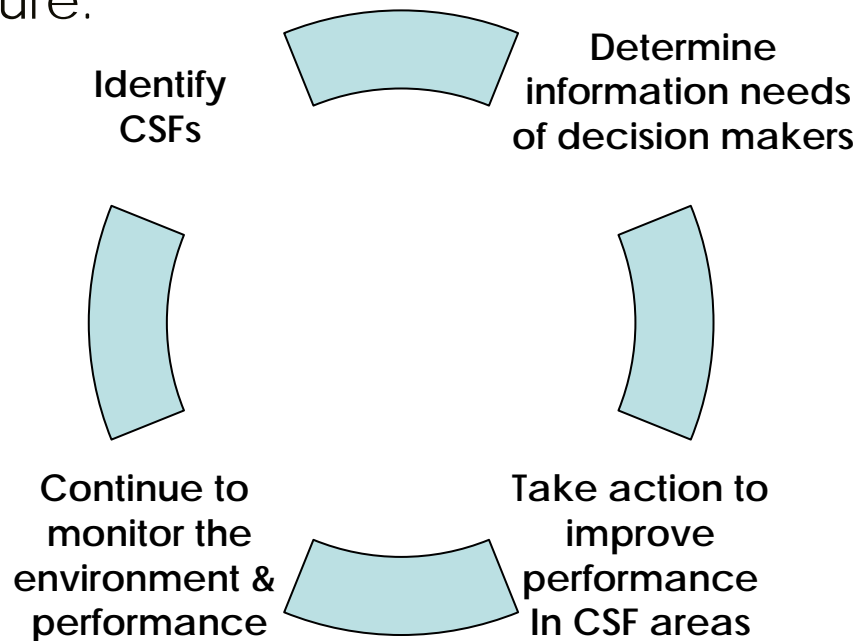
Background

- 1961: J.R. Daniel notices managers are overwhelmed with information, distracting them from important issues.
- 3 to 6 factors that distinguished successful competitors from their less successful peers.
- 1970s and 80s Rockart further defines concept involving a multi-stage interview process for discovering the factors, followed by a performance monitoring process matched to the uncovered CSFs.
- Technique was IT focused until 1980s when it was adopted by other industries.
- Focus on industry level CSFs exclusively.
- Benefit of identifying CSFs is to view one's business in a larger industry context and to assess your own firm's strengths and weaknesses in relation to the industry's CSFs.

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Strategic Rationale and Implications

- The CSF method helps identify what factors are most crucial to success.
- Cyclical in nature:





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Strategic Rationale and Implications

- Identifying CSFs can help educate executives and employees as to why strategies are adopted.
- CSFs can be broken down into segments:
 - Technology-related
 - Manufacturing related
 - Distribution related
 - Marketing related
 - Skills and capability related
 - Other CSF types



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Strategic Rationale and Implications

- CSFs vary from industry to industry, as well as over time:

Industry	Potential CSF
Airline	<ul style="list-style-type: none">• Load factor• Easy to use reservation systems• Attractive routes and routing/airport slots
Brewing	<ul style="list-style-type: none">• Capacity utilization• Strong network of wholesale distributors• Appealing advertising
Bottled Water	<ul style="list-style-type: none">• Access to extensive distribution• Image• Low cost production facilities• High sales volume
Business Schools	<ul style="list-style-type: none">• Active alumni relations• Attractive and leading-edge programs, good career services• Popular instructors

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Strategic Rationale and Implications: Taiwan Banking Example

Critical Success Factors	Includes	CSF Area
Management of bank operations	Internal management issues such as staff kindness, speed of transactions and the bank manager's skill, strong internal auditing and control, and asset and liability management.	Skills/capability related.
Marketing	Long term relationships with loyal customers, acquiring deposits, and providing sufficient staff incentives.	Marketing related.
Bank image and visibility	Bank reputation and image, location, and number of bank branches.	Marketing and distribution related.
Ability of financial market management	Quantity and contents of service items, government deregulation policy, and the prosperity of the stock and securities market.	Skills/capability related.

Adapted from Tser-yieth Chen (1999), 'Critical success factors for various strategies in the banking industry,' *International Journal of Bank Marketing*, 17(2), 83-91.



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Strategic Rationale and Implications

- Identifying CSFs can make a firm successful -- if it is competitively better than its competitors in one or more industry-level CSFs.
- The top-down nature of the CSF methodology directs the entire organization towards common goals.
- CSFs are dynamic.
- Knowledge of CSFs is important for any size business.



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Strengths and Advantages

- Forces analysts to identify what information is truly important.
- Concept is easy and trustworthy.
- Top-down nature focuses strategic decisions.
- Helps managers to prioritize their investments and resources.
- Method stresses continuous monitoring of CSFs.
- Information systems can be developed that will monitor performance and proficiency in those areas identified as CSFs.



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Weaknesses and Limitations

- Criticized because:
 - Either the CSFs will be so obvious that they will not necessarily provide any advantage.
 - Or that they will be so elusive that they will defy any decision making or action.
- Must be developed by individuals who have unique training.
- Firm-specific CSFs are often confused with *industry-level* CSFs.
- Process could be influenced by subjective biases.



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Process for Applying the Technique

- Two basic steps are identifying the CSFs (usually 4-9 in number per industry, 6 being most common) then identify which 2 or 3 are truly most important.
- Starting point:
 - On what basis (attributes, characteristics) do buyers of the industry's product choose brands?
 - Given the nature of competitive forces and rivalry, what capabilities does a firm require in order to be a success?
 - What limitations or shortcomings among product/service attributes, competencies, capabilities, or historical market achievements will put a firm at a disadvantage?



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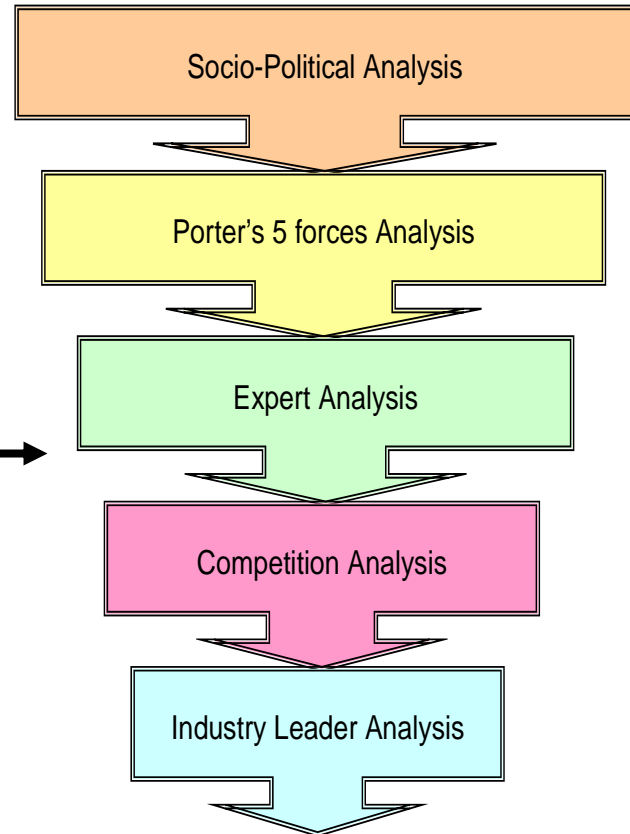
Process for Applying the Technique

- Using customer perspective try to answer:
 - Why does the industry exist?
 - For what purpose and to serve whom?
 - What do those customers desire/demand?
 - What don't customers know they want/need?
- There are different methods for identifying CSFs.
- Individually, they may not identify all CSFs but combining two or more methods decreases risk that the analyst will miss a CSF.

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Process for Applying the Technique

- Leidecker & Bruno's five identification techniques:
- Techniques are oriented from macro to more micro levels of analytics for identifying CSFs at the industry level.
- Advantages and disadvantages on next slide.



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Identification Technique	Advantage	Disadvantage
Socio-Political/ Environmental (PEST or STEEP) Analysis	<ul style="list-style-type: none">• Very broad view identifying factors outside of industry's control.	<ul style="list-style-type: none">• Broad nature of the technique may not point to specific CSFs for an industry.
Industry Structure Analysis	<ul style="list-style-type: none">• Very thorough method.• Acknowledges all forces effecting industry and relationships between them.	<ul style="list-style-type: none">• Frequently done in static fashion.• May miss driving forces or trends.• Can ignore disruption.
Industry Experts/ Consultants	<ul style="list-style-type: none">• Exposes nuances of industry.• Good for use in conjunction with Industry Structure Analysis.• Insights borne in experience.	<ul style="list-style-type: none">• Not as thorough as some techniques.• Subjective.• Can be expensive.• Experts can help competitors too.
Competition Analysis	<ul style="list-style-type: none">• Stresses importance of competition rather than diffusing it.	<ul style="list-style-type: none">• Myopic if used on its own.• Neglects other forces outside competition.
Industry Leader Analysis	<ul style="list-style-type: none">• Accessible view of what success looks like.• Best practices today can be benchmarked.	<ul style="list-style-type: none">• Narrow and potentially misleading.• What works today may fail tomorrow.



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Process for Applying the Technique

- Determining critical success factor importance:
 - Major business activity
 - Involvement of heavy monetary resources
 - Major profit impact



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Summary:

- CSFs remain a popular and easily communicated method.
- They help analysts and decision makers focus attention on a limited set of factors that can help achieve success.
- Properly performed, CSF analysis can assist decision making clients in allocating resources to those places that require their greatest attention.



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- **FAROUT Summary**

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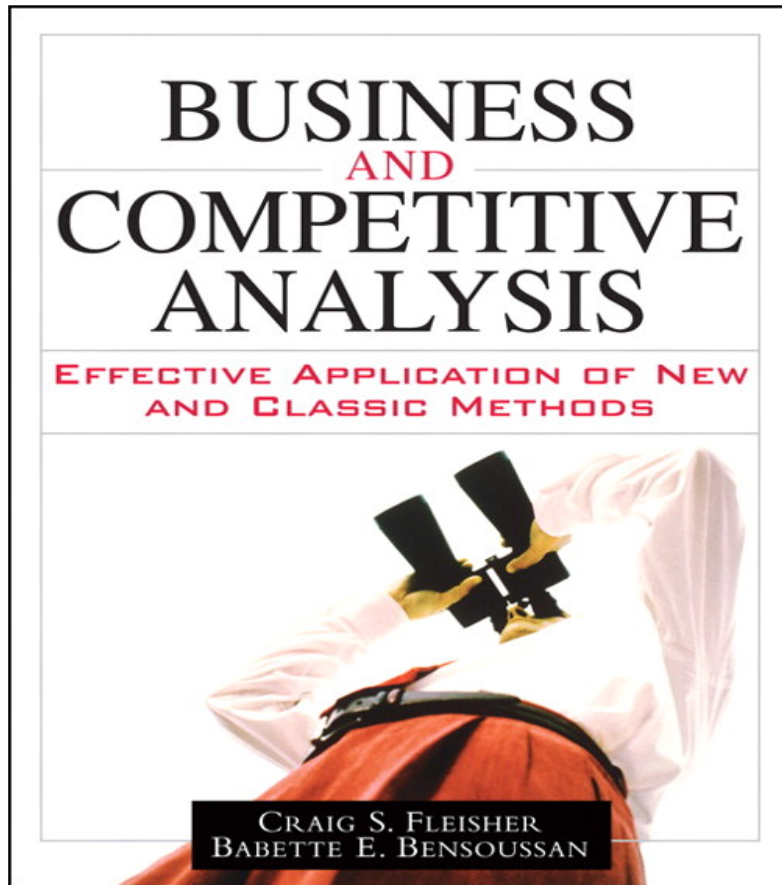


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Related Tools and Techniques

- Porter's Five Forces Analysis
- Weighted Competitive Strength Analysis
- Strategic Group Mapping
- Balanced Scorecard
- Benchmarking
- Functional Capability and Resource Analysis
- Product Line Analysis
- Cluster Analysis

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For More About **Critical Success Factors** and 23 Other Useful Analysis Methods, see:

Fleisher, Craig S. and Babette E. Bensoussan

Business and Competitive Analysis: Effective Application of New and Classic Methods

FT Press
FINANCIAL TIMES

Upper Saddle River, NJ
2007