Identifying and Using Critical Success Factors

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This article focuses on defining and discussing the concept of critical success factors as input into the environment analysis, resource analysis, and strategy evaluation steps in the strategic planning/strategy development process. The reader is provided with eight possible sources of critical success factors including environmental analysis, analysis of industry structure, industry/business experts, analysis of competition, analysis of dominant firm in the industry, company assessment, temporal/intuitive factors and PIMS results. Examples of CSF's from various sources are provided and a scheme by which the reader can assess the relative importance of identified CSF's is presented.

Daniel first discussed Critical Success Factors (CSF's) in an article in the early 1960s. The concept received little attention until a decade later, when Anthony, Dearden and Vancil utilized the concept in the design of a management control system. Anthony and Dearden pointed out that the management control system, in addition to measuring profitability, identifies certain 'key variables (also strategic factors, key success factors, key result areas and pulse points)' that significantly impact profitability. These authors suggest, among other things, that there are usually six different variables; these variables are important determinants of organizational success and failure; they are subject to change and this is not always predictable. The concept of critical success factors has also been used to assist in defining the CEO and General Manager's information needs.

This approach forces the key decision maker to identify those information needs that are critical or important to the success of the business. The factors identified become the basis for the company's management information system and provide the standards for subsequent performance measurement and control systems. While Rockart and Anthony et al. believe the critical success factors approach can be an important tool in the two management areas cited above, we contend that another beneficial application of the concept is in the strategic planning and the business strategy development area. The identification of critical success factors provides a means by which an organization can assess the threats and opportunities in its environment. CSF's also provide a set of criteria for the strengths and weaknesses assessment of the firm. These two elements (assessment of environmental threats and opportunities, and specific firm resource analysis) are corner-stones of the strategic planning and strategy development process.

The purpose of this article is three-fold. First is to define and discuss the concept of critical success factors. Second is to link the concepts to the strategic planning/strategy development process, and third, the major focus of this paper, is to assist the reader with CSF identification and use. This is accomplished through discussion of various techniques for determining CSF's and by providing examples of usage applied to specific industries and/or firms.

Critical Success Factors

Definition

What is a critical success factor? Rockart observes:

Critical success factors thus are, for any business, the limited number of areas in which results, if they are satisfactory, will insure successful competitive performance for the organization. They are the few key areas where 'things must go right' for the business to flourish. If results in these areas are not adequate, the organization's efforts for the period will be less than defined (p. 89).”

According to Hofer and Schendel:

Key success factors are those variables which management can influence through its decisions that can affect significantly the overall competitive positions of the various firms in an industry. These factors usually vary

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from industry to industry. Within any particular industry, however, they are derived from the interaction of two sets of variables, namely the economic and technological characteristics of the industry involved . . . and the competitive weapons on which the various firms in the industry have built their strategies . . . (p. 77).”

Hofer and Schendel argue that such factors are obvious, easily identified through a combination of sensitivity and elasticity analyses; they contend that the major problem is assessing relative importance.

We contend, that critical success factors are not as obvious as Hofer and Schendel imply. While sensitivity and elasticity analyses are useful identification tools they are by no means sufficient nor are they the only useful methods for identifying a critical success factor. A substantial portion of this paper deals with these issues: factor identification and the determination of relative importance.

Because some definitional differences exist across the three applications identified above (MIS, control system, or planning system), we will use the following definition in this paper. Critical Success Factors (CSF’s) are those characteristics, conditions, or variables that when properly sustained, maintained, or managed can have a significant impact on the success of a firm competing in a particular industry. A CSF can be a characteristic such as price advantage, it can also be a condition such as capital structure or advantageous customer mix; or an industry structural characteristic such as vertical integration (see Table 1 for some examples).

The concept of critical success factors has been applied at three levels of analysis (firm specific, industry and economic socio-political environment). Analysis at each level provides a source of potential critical success factors. Firm specific analysis utilizes an internal focus to provide the link to possible factors. Industry level analysis focuses on certain factors in the basic structure of the industry that significantly impact any company’s performance operating in that industry. A third level of analysis goes beyond industry boundaries for a source of critical success factors. This school of thought argues that one needs to perpetually scan the environment (economic, socio-political) to provide sources that will be the determinants of a firm’s and/or industry’s success. We believe all three levels of analysis have merit as sources for critical success factors. We note that the more macro-oriented approaches are of lesser importance when designing a firm’s management information system or internal control system.

**Table 1a. Critical success factors—industry**

<table>
<thead>
<tr>
<th>Automotive industry</th>
<th>Semi-conductor industry</th>
<th>Food processing</th>
<th>Life insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Styling</td>
<td>Manufacturing process: cost efficient, innovative, cumulative experience</td>
<td>New product development</td>
<td>Development of agency personnel</td>
</tr>
<tr>
<td>Strong dealer network</td>
<td>Technological competence: adequate technical capital availability product development</td>
<td>Good distribution</td>
<td>Effective control of clerical personnel</td>
</tr>
<tr>
<td>Manufacturing cost control</td>
<td>Ability to meet EPA standards</td>
<td>Effective advertising</td>
<td>Innovation in policy development</td>
</tr>
<tr>
<td>Ability to meet EPA standards</td>
<td></td>
<td>Marketing strategy</td>
<td></td>
</tr>
</tbody>
</table>

**Table 1b. Critical success factors—firms semi-conductor industry**

<table>
<thead>
<tr>
<th>National semi-conductor</th>
<th>Intel</th>
<th>AMD</th>
<th>Avantek</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad product line</td>
<td>Innovator and leader in technology</td>
<td>Proprietary innovative products</td>
<td>Strong transistor product line</td>
</tr>
<tr>
<td>Large efficient production capacity</td>
<td>Strong product development and customer service</td>
<td>Does not compete in price sensitive markets</td>
<td>Solid customer range</td>
</tr>
<tr>
<td>Vertically integrated</td>
<td>Capability</td>
<td>Effective location of fabrication and assembly</td>
<td>high yield manufacturing</td>
</tr>
<tr>
<td>Innovative packaging and assembly operations</td>
<td>High margin proprietary devices</td>
<td>Operations strong technical marketing capabilities</td>
<td></td>
</tr>
</tbody>
</table>

1 Adapted from Daniel 1961.
strategy formulation models, indicate that strategy development is a seven step process (Strategy Identification, Environmental Analysis, Resource Analysis, Gap Analysis, Strategic Alternatives, Strategy Evaluation, Strategic Choice). We will use these seven steps as a generally accepted representation of the strategy development process as well as the basis for our discussion of fit with critical success factors.

CSF analysis can aid the strategy development process at three specific junctures. The three are environmental analysis, resource analysis and strategy evaluation. Environmental analysis includes an assessment of the social, political, economic and technological climates and their general impact on an industry and/or firm. In addition this analysis usually will focus on the competitive environment. Environmental analysis is used to identify the significant threats and opportunities facing a firm. CSF analysis, specifically at the macro and industry level, aids in the determination of threats and opportunities. CSF analysis provides a means to identify the essential competences, resources and skills necessary to be successful in a particular industry or specific economic climate. This type of information can assist the analyst responsible for identifying threats and opportunities. For example, if analysis indicates that vertical integration is a critical success factor for the soft drink industry, any firm in that industry or that is contemplating entry into that industry will evaluate this either as a threat to or opportunity for itself.

Resource analysis involves an inventory of a firm's strengths and weaknesses. Firm-level CSF analysis should go beyond inventorying. It identifies those variables that have been instrumental to a firm's success in a particular industry. This approach leads to a level of sophistication that provides greater depth and insight than a mere listing of a firm's strengths and weaknesses. This level of input provides more useful information for assessing a firm's competitive advantage (a firm's competencies vs its competitors). In addition, firm-specific CSF's can be compared with threats and opportunities to aid with the identification of strategic options.

Another element in the strategy development process is strategy evaluation. Strategy evaluation involves comparing your strategic alternatives with the specific goals and objectives of the firm and its various constituencies, as well as any other evaluation criteria deemed pertinent. One 'other' evaluation criteria could be the critical success factors for an industry. For example one available strategic option may be entry into the soft drink industry and, as before, vertical integration may be a CSF. Now that this fact is known, the evaluation becomes whether the firm can negate this factor (minimize its impact) or replicate it (do we have the resources financial and otherwise to become vertically integrated?). Obviously, the viability of the alternative is influenced by the firm's 'where-with-all' relative to the CSF.

When a strategic alternative is tested as to its 'CSF Fit' the strategy evaluation process becomes more rigorous and comprehensive.

Earlier in this paper three levels of CSF analysis (macro, industry, firm) were discussed. In this section the strategy development process was outlined and the linkages to critical success factor analysis were set forth. Figure 1 shows the linkages between the three levels of CSF analysis and the strategy development process. This linkage completes the discussion on CSF importance and usage.

Figure 1. Critical success factor analysis and the strategy formulation process
The focus of the paper shifts to its third and most important objective: techniques for the identification of a critical success factor.

Identification Techniques
Identification of CSF's can be an important element in the eventual development of a firm's strategy as well as an integral part of the strategic planning process. Eight techniques for identifying CSF's are set forth below. In addition, we will present their respective advantage and disadvantages, discuss ways of applying them, and present examples of their usage (see Table 2).

1. Environmental Analysis
This broad category includes a variety of approaches that identify the economic, political and social forces that will be and are impacting an industry and/or firm's performance.

Table 2. Critical success factors: identification techniques

<table>
<thead>
<tr>
<th>Technique</th>
<th>Focus</th>
<th>Sources</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Environmental analysis</td>
<td>Macro</td>
<td>Environmental Scanning (Corp. staff) Econometric models Socio-political consulting services</td>
<td>Future Orientation Macro orientation: analysis goes beyond industry-firm focus Can be linked to threats/opportunity evaluation</td>
</tr>
<tr>
<td>II</td>
<td>Analysis of industry structure</td>
<td>Industry</td>
<td>A variety of industry structure frameworks</td>
<td>Specific focus is on industry Frameworks allow user to understand interrelationships between industry structural components Can force more macro level focus (beyond industry boundaries)</td>
</tr>
<tr>
<td>III</td>
<td>Industry/business experts</td>
<td>Industry</td>
<td>Industry association executives Financial analysts specializing in industry Outsider familiar with firms in industry Knowledgeable insiders who work in industry</td>
<td>Means of soliciting 'conventional wisdom' about industry and firms Subjective information very often not discovered with more objective, formal and analytical approaches</td>
</tr>
<tr>
<td>IV</td>
<td>Analysis of competition (focus is limited to the competitive environment, how firms compete)</td>
<td>Industry</td>
<td>Line Managers Internal Consultants External Consultants</td>
<td>Narrowness of focus, offers advantage of detailed, specific data Depth of analysis leads to better means of justification</td>
</tr>
<tr>
<td>V</td>
<td>Analysis of the dominant firm in the industry</td>
<td>Industry</td>
<td>Staff Specialists Line managers Internal consultants External consultants</td>
<td>Dominant competitor may in fact set industry CSF's Understanding of No. 1 may assist in corroborating firm specific CSF's A thorough functional area screening reveals internal/advantages and weaknesses that may assist CSF development</td>
</tr>
<tr>
<td>VI</td>
<td>Company assessment (comprehensive firm-specific)</td>
<td>Micro</td>
<td>Internal staff line organizations (detailed analyses by organization function—checklist approach)</td>
<td>More subjective and not limited to functional analysis approach Leads to identification of important short run CSF's that may go unnoticed in more formal reviews</td>
</tr>
<tr>
<td>VII</td>
<td>Temporal/intuitive factors (firm-specific)</td>
<td>Micro</td>
<td>Internal staff Brainstorming CEO/General Mgt. observation</td>
<td></td>
</tr>
<tr>
<td>VIII</td>
<td>PIMS results</td>
<td>Industry</td>
<td>Articles on PIMS Project results</td>
<td>Empirically based Excellent starting point</td>
</tr>
</tbody>
</table>
Environmental scanning, econometric models (such as the Chase Econometric Service or the Wharton models based upon key environmental/economic variables), socio-political consulting services, and governmental affairs departments are but a few of the diverse approaches used to monitor and assess environmental impact on the industry and the firms comprising that industry. The analysis is macro in approach and the data obtained do not always provide a clear linkage to the determination of industry, let alone firm-specific CSF's. The major advantage is the breadth of analysis. That is, the scope goes well beyond the industry/firm interface. This is particularly important to those industries whose survival is dependent upon forces outside the control of the industry competitive environment.

2. Analysis of Industry Structure

Much of the strategic planning literature offers techniques to analyze the structure of an industry. The framework of analysis set forth in a recent effort by Michael Porter provides an excellent example of this approach. This particular framework consists of five components (barriers to entry, substitutable products, suppliers, buyers and inter-firm competition). The evaluation of each element and the interrelationships between them provide the analyst with considerable data to assist in the identification and justification of industry CSF's. One advantage of the analysis of industry structure approach is the thoroughness that the classification scheme provides. Another positive characteristic is the facility to schematically depict the industry's structural components as well as the critical interrelationships between elements (Figures 2 and 3 are examples of this technique).

3. Industry/Business Experts

This category includes inputs from people who have an excellent working knowledge of the industry/business. Although this technique may not be as objective and thorough as others, it does offer the advantage of obtaining information or a perspective not always available or discernable using the more standard analytical techniques. The 'conventional wisdom', insight, or 'intuitive feel' of an industry insider often is an excellent source of CSF's and, coupled with more objective techniques, provide the analyst with a two-fold data source to substantiate other CSF identification.

This approach is being used by the Center for Information Systems Research at MIT to identify firm CSF's that ultimately will be incorporated into a management information system. We believe this technique is an equally rich, though subjective, source of CSF's to be utilized in the strategy development process. The disadvantages are obvious. The inputs may be no more than biased opinion and, therefore, result in a tenuous base for strategy development. Application is relatively straightforward but not simple: all that the analyst must do is to ask the 'right' questions of the 'right'

![Industry structure analysis: semi-conductor industry](image)

Figure 2. Industry structure analysis: semi-conductor industry
the importance of competitor analysis and approaches to competitor analysis can be found in the literature.\textsuperscript{10-12}

5. Analysis of the Dominant Firm in the Industry

Often the way the leading firm in the industry conducts itself can provide significant insights into an industry’s CSF’s. This method is very useful in industries dominated by one or a few firms. I he careful analysis of firms such as: IBM, in the mainframe computer industry; H & R Block, in the tax preparation business; and Boeing, in the commercial jet aircraft business would provide valuable information to identify and justify specific industry CSF’s. Figure 4 is an example of this type of analysis for a leading firm in the electronic components distribution industry. The advantage of this approach is that if the dominant firm establishes the traditional success pattern for an industry, a thorough understanding of what the firm does successfully would aid in one’s own internal analysis as well as in determining strategic posture. The major disadvantage is the narrow focus of this type of analysis. To say the way ‘so and so’ does it establishes the industry CSF’s and this is the only path to success in the industry can be too limiting. The strategic decision to emulate the dominant firm is fraught with danger. There are many examples of how firms have found ways of neutralizing or avoiding CSF’s dictated by the dominant firm in the industry (e.g. the by-passing of existing distributor networks by direct selling in the microwave components industry, the leasing of aircraft to offset capital intensiveness in the jet air freight business). However, the industry leader should be analyzed before deviations from its success pattern can be formulated.

6. Company Assessment

This approach is firm specific. The purpose of the analysis would be to identify the CSF’s for a particular firm. While this is a worthwhile analytical exercise in itself, the results should be analyzed in light of industry and competitor CSF’s. A variety of approaches have been articulated: strengths and weaknesses assessment, resource profiles, strategic audits, and strategic capabilities. All have one characteristic in common; that is, the analyst must thoroughly explore what the firm does well and not so well. The positive aspects of the firm’s operation may provide the means to determine a firm’s critical success factors. Any of the approaches above, if applied by a good analyst, will most likely result in a useful set of CSF’s. One specific method of application is the comprehensive checklist approach. This is a series of questions, by functional area, designed so that the answers will provide the information necessary to determine a
7. Temporal/Intuitive Factors

This is another approach with a firm specific outlook. This, like its industry level counterpart (Item 4 above), focuses on the intuition and insight of an individual(s) very familiar with the firm. While very subjective, this approach often uncovers subtleties about CSF's that the more conventional and objective techniques overlook. The temporal issue deals with firm-specific occurrences, that in the short run may have a significant impact on performance and hence constitute a CSF (e.g. key management people leave for a new company; purchasing fails to order enough of a critical material; in a non-capital intensive industry a new technological breakthrough in equipment design forces a financially weak firm into a disadvantaged position).

An example of how this approach can result in the determination of an important CSF is as follows: the founder/president of a local solar energy firm, discussing ‘The Key Ingredients That Make His Firm Successful’, identified two important factors from his point of view. An earlier analysis utilizing a more conventional objective approach failed to discern these two important aspects, machine design and manufacturing process. Both were people specific, each gave the firm a competitive advantage that was not available in the open market. The more conventional approach did not identify the major importance of either factor.

8. PIMS Results

In recent years the PIMS (Profit Impact of Market Strategy) project data indicates among other things, that relative market share, degree of vertical integration, new product activity, capital intensity, and ratios of R & D and marketing to sales play a major role in determining profitability.\(^{16,17}\) Profitability is certainly one of an industry’s or firm’s measures of success, if not the only one. If the PIMS results identify the key determinants of profit-
ability, then these inputs provide a starting point for CSF analysis (other techniques may be used to substantiate).

The major advantage appears to be the empirical basis of the project results. The major disadvantage, as an identification technique, is the very general nature of the factors. The PIMS results do not provide a method of analysis to indicate whether the data are directly applicable to a specific firm or industry and/or what their relative importance may be.

The relative importance of a CSF is something that must be determined and periodically evaluated. Some CSF's are obviously more important than others. In the next section we discuss an identification and prioritization scheme for critical success factors.

**Determination of Factor Importance**

The profit impact of an activity or condition is usually the most significant factor for CSF identification as well as determination of factor importance. While other areas may be important the authors suggest four starting points for the profit impact analysis which will assist in determination of factor importance.

**Major Activity of Business**

Usually CSF's are found in major areas of the business. For example, if a wholesaler were under examination, many of the factors that influence overall performance should be found in and around the inventory and warehousing function as opposed to say, the advertising activity. If the opposite were true and most firms in a particular industry were concerned with marketing to consumers, then the advertising function might deserve closer scrutiny.

**Large Dollars Involved**

Major factors probably have relatively large dollar amounts associated with them. For example, in a manufacturing firm, direct labour may be a large dollar amount and the productivity of the workforce might be a CSF. Improving workforce productivity might lead to improved bottom-line performance. This compares to the wholesaling activity described immediately above, where improved workforce productivity might not significantly improve bottom-line performance since most wholesale operations are not labor intensive.

**Major Profit Impact**

Another way of looking at a business is to assess the sensitivity of overall results to changes in certain activities. For example, in some circumstances, a small change in price might have enormous bottom-line impact, whereas doubling the advertising effort might have little impact. ‘Value Added Analysis’ would be an excellent tool to utilize for this level of analysis.

**Major Changes in Performance**

Sometimes it is a good idea to follow up on significant changes in the company’s performance: e.g., dramatic drop in sales, major profit reversal in a segment of the operation, sizeable increases in margins. A significant change often will eventually be linked to a major CSF. Whether it will be of short or long run term duration is to be determined by the analyst. Another aid to the determination of relative factor importance and subsequent CSF usage would be a prioritization scheme. The basis for establishing CSF priorities should be linked to the industry and or firm’s success criteria (economic or otherwise). When classifying industry CSF’s, the factor importance and profit impact analysis discussion above is relevant; the classification of firm specific CSF’s can be influenced by ‘other’, non economic firm objectives. The discussion above provides the basis for prioritization. The decision as to how to prioritize the CSF’s is, of course, up to the individual analyst. In the examples in Tables 3 and 4 we have used a four-factor scheme.

In most cases, the type of company or the nature of the industry will determine which CSF’s are important. For example, the success of a retail business is heavily influenced by factors such as store location, effectiveness of the merchandising and inventory control. The wholesaler(s) selling to this same retailer would normally not expect a CSF to be location-oriented. Tables 3 and 4 provide examples of how the prioritization scheme can be utilized with a set of potential CSF’s. On the vertical axis, various stages in the production distribution process are identified; on the horizontal axis, for comparative purpose, various industries or firms are listed; at the intersection of each category the analyst would assess the relative importance of the factor for the respective firm or industry. This method of focusing the search provides more comprehensive CSF analysis and will assist with subsequent application.

**Summary and Conclusions**

Critical success factors, their identification, importance and use have been the focus of this paper. The authors cite literature that links the use of CSF’s to management information systems design and management control system design. The paper concerns itself with a discussion of the application of CSF’s in the strategic planning process. The authors argue that CSF’s can be particularly instrumental in three areas of the strategy development process: environmental analysis, resources analysis and strategy evaluation. After establishing the importance of CSF analysis in the functions of management information systems,
Table 3. Importance of CSF’s: industry comparison

<table>
<thead>
<tr>
<th></th>
<th>Soft drink industry (bottler’s)</th>
<th>Semi-conductor industry (manufacturers)</th>
<th>Ferrous metals distribution industry</th>
<th>Tax preparation industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic R &amp; D</td>
<td>PF</td>
<td>MF</td>
<td>NF</td>
<td>NF</td>
</tr>
<tr>
<td>New product development</td>
<td>SF</td>
<td>MF</td>
<td>PF</td>
<td>NF</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>MF</td>
<td>MF</td>
<td>SF</td>
<td>NF</td>
</tr>
<tr>
<td>Distribution</td>
<td>MF</td>
<td>SF</td>
<td>MF</td>
<td>MF</td>
</tr>
<tr>
<td>Customer service</td>
<td>MF</td>
<td>SF</td>
<td>MF</td>
<td>MF</td>
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<tr>
<td>Advertising</td>
<td>SF</td>
<td>NF</td>
<td>NF</td>
<td>SF</td>
</tr>
<tr>
<td>Post sales service</td>
<td>SF</td>
<td>MF</td>
<td>SF</td>
<td>MF</td>
</tr>
</tbody>
</table>

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Major factor (MF)—An activity or condition that has a significant impact on company or industry results. This factor is usually linked directly to profit performance, but other success measures may be employed.
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Possible factor (PF)—An activity or condition that could influence a company or industry results but it is not likely. This category could also be utilized when analysis does not turn up sufficient data to warrant classification in the two previous categories (the importance is not clear or future impact is probable).
Non factor (NF)—This activity of condition has very little impact on the company or industry results. Analysis indicates that there is no historical data or future expectations that link this activity with profit performance or other success criteria.

Table 4. Importance of CSF’s—firms—semi-conductor industry

<table>
<thead>
<tr>
<th></th>
<th>National semi-conductor</th>
<th>Intel</th>
<th>Signetics</th>
<th>Texas Instruments</th>
</tr>
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<tbody>
<tr>
<td>Basic R &amp; D</td>
<td>PF</td>
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<td>PF'</td>
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management control systems and strategic planning, the authors conclude that the identification of critical success factors is a very important step in the application process. For the practitioner, eight identification techniques are discussed and examples of usage presented. In addition a means of establishing the relative importance of a critical success factor is set forth.

References


(13) Robert R. Buchele, How to evaluate a firm, California Management Review, pp. 5-17, Fall (1962).


