CHAPTER 3

CRITICAL SUCCESS FACTORS

PAGE

CHAPTER 3

CRITICAL SUCCESS FACTORS

3.1 INTRODUCTION

The purpose of the study was to develop a model that will enable the strategic identification and integration of critical success factors for tourism destinations. The objective of this chapter is to analyse the contemporary literature on critical success factors in order to:

- Provide a perspective on the nature and extent of critical success factors;
- Identify possible sources of critical success factors;
- Establish the relationship between critical success factors and core competences; and
- Determine success factor importance and how it can be measured.

3.2 THE NATURE AND EXTENT OF CRITICAL SUCCESS FACTORS

Fishman [1998: 10] points out that well-defined goals are critical to the success of any organisation or destination, but that it is just as important to identify the critical success factors needed to attain these goals.

The concept of critical success factors [or factors that are critical to success] was first mentioned by Daniël [1961: 111]. Daniël's main thrust was the need for the elimination of issues not directly related to the success of the firm in the planning process of management information systems.

Rockart [1979 : 81-93] took this further and used the idea of identifying the information needs of the executive manager based on the critical factors for success, suggesting that the critical success factors concept would be useful as an information systems methodology. Rockart [1979 : 85] defines critical success factors as follows:

> "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 organisation, they are the critical key areas where 'things must go right' for the business to flourish. If results in these areas are not adequate, the organisation's efforts for the period will be less than defined"

The themes of both Daniel and Rockart's approaches were the provision of better information to management for more effective planning and control. The important contribution of their work was the focus on critical areas, rather than a vague attack on all problem areas. However, while this early work on critical success factors widened the view beyond the traditional view of factors that decide the success of the firm, their approach was also limited by the view that success factors could be applicable only to the firm itself. Critical success factors for an *industry* were considered peripheral to the need for planning and control within the firm.

Hofer and Schendel [1978 : 77] suggest that the critical success factors concept could be used to analyse the relative competitive positions of the firms in an industry. Their definition reflects this expanded view:

> "Critical success factors are those variables that 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 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…"

This definition introduces the key feature that makes business strategy different from other kinds of business planning – the focus on competitive advantage. Another important aspect of this definition is the acknowledgement that the characteristics of the industry affect the critical success factors of the firms in that industry.

In the years that followed Hofer and Schendel's definition, many organisations used the critical success factor approach as a framework for strategic planning [Bullen, 1995: 13]. Definitions found in the literature study reflecting this approach are given in Table 3.1.

Table 3.1 Selected definitions of critical success factors

Critical success factors are "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"

[Bruno, 1984: 24]

Critical success factors are "events, conditions, circumstances or activities. Specifically, they are the limited number of areas in which results, if they are satisfactory will ensure the successful competitive performance of the organisation".

[Jenster, 1987: 102]

Critical success factors are "sub-goals, end statements, characteristics, conditions or variables that are critical for the attainment of the organisation's mission and ultimate success".

[Hardaker & Ward, 1987: 114]

Critical success factors are "the limited number of areas in which results, if they are satisfying, will ensure the competitive performance of the organisation".

[Daft, 1988: 618]

"The most important **factors** governing the **success** are those which are consistent with the company's goals and objectives".

[Pollalis & Grant, 1994: 12]

"The critical success factor method directs managers to determine those things that must go right in order to succeed in achieving goals and objectives. The ultimate value that the CSF method brings is the ability to focus management's attention on what needs to be done well to achieve success".

[Bullen, 1995: 13]

"Critical success factors are those components of strategy where the organisation must excel to outperform competition".

[Johnson & Scholes, 1999: 458]

"Critical success factors are those product features that are particularly valued by a group of customers and therefore, where the organisation must excel to outperform competition".

[Johnson & Scholes, 2002: 151]

"Critical success factors are the resources, skills and attributes of an organisation that are essential to deliver success in the marketplace:.

[Lynch, 2003: 102]

While the definitions and views provided by the above authors differ, there appear to be a few common characteristics that help to explain the nature and extent of critical success factors, namely:

a] Critical success factors are the sub-goals and/or success outcomes that are directly related and critical to the attainment of the vision, mission and long-term goals of the organisation.

b] Critical success factors can be internal areas like resources, skills, competences, attributes, conditions or market related areas like product features and profitable market segments.

c] Critical success factors are **limited** areas of success that will ensure the successful **competitive performance** of the organisation.

d] Critical success factors are result areas in which success can be measured.

Critical success factors are normally determined at two distinct levels: the industry level and the organisational level [Rockart, 1979: 86, Leidecker & Bruno, 1984: 24 and Lynch, 2003: 253]. Each industry, by its very nature, has a set of critical success factors determined by the industry itself. Each organisation in the industry will pay attention to these factors and use them as benchmarks for competitive performance. Organisations in the same industry would however, have different critical success factors as a result of differences in geographic location, strategies, product features and internal resources and competences. Bullen [1995: 14].

In this study, critical success factors will be identified at two levels. Firstly, at the industry level where the destination success factors of the international tourism industry will be identified and secondly, on an organisational level where the destination success factors of South Africa as a tourism destination will be determined. Critical success factors will, for the purpose of this study, be defined as: Those limited result areas that are critical for the attainment of the destination's vision and competitive position and when properly sustained and managed, will have a significant impact on the sustainable growth and competitiveness of the destination.

3.3 THE IDENTIFICATION OF CRITICAL SUCCESS FACTORS

Critical success factors can be identified at different levels and sources as pointed out in the previous sub-section. The purpose of this sub-section is to analyse the sources of critical success factors, investigate the relationship between critical success factors and critical competences and evaluate the criticism on the identification of critical success factors.

3.3.1 Sources of critical success factors

An analysis of the literature [Rockart, 1979: 87; Leidecker & Bruno, 1984: 26; and Lynch, 2000 : 253] indicates that, while the views provided by authors of the sources of critical success factors differ, there appears to be agreement on the following three sources, namely:

- Environmental factors; flowing out of the socio-, political-, economic-, technological- and ecological and legal environments
- Industry factors; such as competition, geographic location, characteristics, markets
- Organisational factors; eg. resources, competences, skills, strengths, competitive advantages.

The above factors are briefly outlined below.

a] Environmental factors

Environmental scoring, econometric models, 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 [Leidecker & Bruno, 1984: 27; Lynch, 2003: 20]. The major advantage of the environmental analysis is the breadth of the analysis as the scope goes well beyond the industry/firm interface. This is of particular importance to those industries whose survival is dependent upon forces outside the control of the industry environment [Cooper & Kleinschmidt, 1996: 18]. The external environment comprises economic, social, political, technological, ecological and legal factors that originate beyond, usually irrespective of any single firm’s operating situation [Pearce & Robinson, 1991: 23; Shirvastava, 1994: 23; and Wright *et al,* 1996: 23]. As the world economy and political factors change and ecological factors becomes more important, critical success factors will also change for different industries and organisations.

The environmental scan is based on the identification of those critical success factors considered to be the central determinants of attractiveness of a particular industry [Hax & Majluf, 1996: 91]. The success of a particular industry is therefore influenced by the current and future impact of external factors. The external factors impacting on the Tourism industry were discussed in Chapter 2.

b] Industry factors

Lynch [2003: 102] defines industry success factors as “those skills and attributes of the organisations in the industry that are essential to deliver success in the marketplace”. Industry success factors are common to all the major organisations in the industry and do not differentiate one organisation from another [Leidecker & Bruno, 1984: 24 and Lynch, 2003: 103].

The industry success factors will relate to the external environment as well as to the resources and skills of the organisations in the industry [Lynch, 2003: 102]. Various authors for example, [Johnson & Scholes, 2002: 172 and Hitt *et al*, 2003: 64] agree that the best way to identify industry success factors is to do an industry analysis. Methods that are promoted by these authors are Porter’s Five Forces; a market analysis and a competitor analysis. Hitt *et al* [2003: 64] argue strongly that because of globalisation, international markets and rivalries must be included in the analyses.

Lynch [2003: 205] summarises the above views by indicating that industry success factors should be identified out of the assessment of three principal areas:

- **Customer**. Who are the customers? Who are the potential customers? Are there any special market segments? What are the market segments of the future?
- **Competition**. Who are the main competitors? What are the main factors in the market that influence competition? What is necessary to achieve market superiority?
- **Corporation or Organisation**. What are the key resources and competences compared with those of the competitors? What do they offer and deliver to the customers?

Crouch and Ritchie [1999: 149] in a tourism study identified tourism industry success factors, or so called “situational qualifiers” that will determine the competitive success of a tourism destination. These industry success factors are:

- Location
- Dependencies
- Safety
- Cost.

[i] Location: refers to the destination's ability to attract visitors.

[ii] Dependencies: refers to the competitive or complementary nature of destinations that could have an important influence on the competitiveness of the destination. For example, although South Africa is a destination in its own right, a sizeable proportion of visitors will see it as part of the destination configuration in Southern Africa, and South Africa's tourism could therefore in part be dependent on the competitiveness of these other nations.

[iii] Safety and security: is internationally considered a critical success factor for a tourism destination to be competitive [Crouch and Ritchie, 1999: 150]. If potential tourists are gravely concerned about crime, drinking water, natural disasters, or the quality of medical services, other competitive strengths may account for very little in their minds.

[iv] Cost, in its broadest terms [i.e. transportation costs, the effect of exchange rates and the cost of living in a destination – particularly of tourist goods and services], is also largely a destination success factor. Crouch and Ritchie [1999: 150] indicate that although the national tourism industry can impact on this cost, the cost of a destination is largely driven by much broader socio-economic and global forces.

Thompson and Strickland [2002: 81] view industry success factors as the major determinants of financial and competitive success in a particular industry. They show that the identification of the success factors in an industry is a top strategic issue as these factors normally serve as cornerstones for building an organisation's strategy. Leidecker and Bruno [1984: 17] go further and note that the leading firm or organisation in the industry can itself provide significant insight into the industry's critical success factors. This is very applicable in industries that are determined by one of a few firms like SA Breweries in the beer industry or Sun International in the accommodation industry.

c] *Organisational factors*

Each organisation in the industry is in a unique situation determined by its history and current resources, competences and competitive strategy. Just as differences in industry position can dictate critical success factors, differences in geographical location, resources, competences and strategies can lead to differing critical success factors from one organisation to another [Rockart, 1979: 86; and Johnson & Scholes, 2002: 103].

One would expect, therefore that organisations in the same industry would exhibit different critical success factors as a result of differences in geographic location, strategies and other factors. A study by Mooradian [1976: 201] of the critical success factors of three similar medical group practices bears this out. The study shows that although several of the same success factors were shared by the three groups, several factors were identified that were unique to each institution.

An analysis of the various sources including Rockart, [1979: 82]; Hardaker and Ward, [1987: 113]; Kaplan and Norton, [1996: 10]; and Johnson and Scholes, [2003: 151] provides a number of steps in determining critical success factors at the organisational level. These steps can be summarised as follows:

- <u>Gather the team</u>

The team should consist of the leadership of the organisation or destination and everyone in the immediate management team. The team should be cross-functional to ensure the integration of all functions.

- <u>Understand and clarify the vision, mission and strategic position</u>

The team should reach consensus on the organisation's direction by agreeing on its vision and strategic position. Fishman [1998: 10] points out that it is important that each member understands the organisation's goals and how the critical success factors can help to attain them.

- Generate critical success factors

The next step is to generate the critical success factors. Critical success factors should have the following characteristics:

- Their attainment should be critical for success
- They should contain strategic as well as tactical factors
- Each critical success factor should be necessary and together they should be sufficient to achieve the overall vision, mission and strategies.

- Identify the underpinning competences

Johnson and Scholes [2002: 156] define competences as "those competences that critically underpin the organisation's competitive advantage". They argue that critical success factors are underpinned by core competences. These competences are essential in gaining competitive advantage in each of the critical success factors.

According to Sims and Smith [2001: 38] this will involve a thorough investigation of the capabilities, skills, processes and resources that will deliver superior performance in each of the critical success factors.

- Balance, integrate and measure critical success factors

Lastly, critical success factors should be balanced, integrated and measured for superior long-term financial and competitive performance according to the following guidelines:

- Critical success factors should be limited and balanced among all the important perspectives of the organisation.
- Critical success factors should be integrated with the processes that are critical for achieving breakthrough performance.
- Critical success factors should be measured by critical indicators that will direct and manage the process for optimum success..

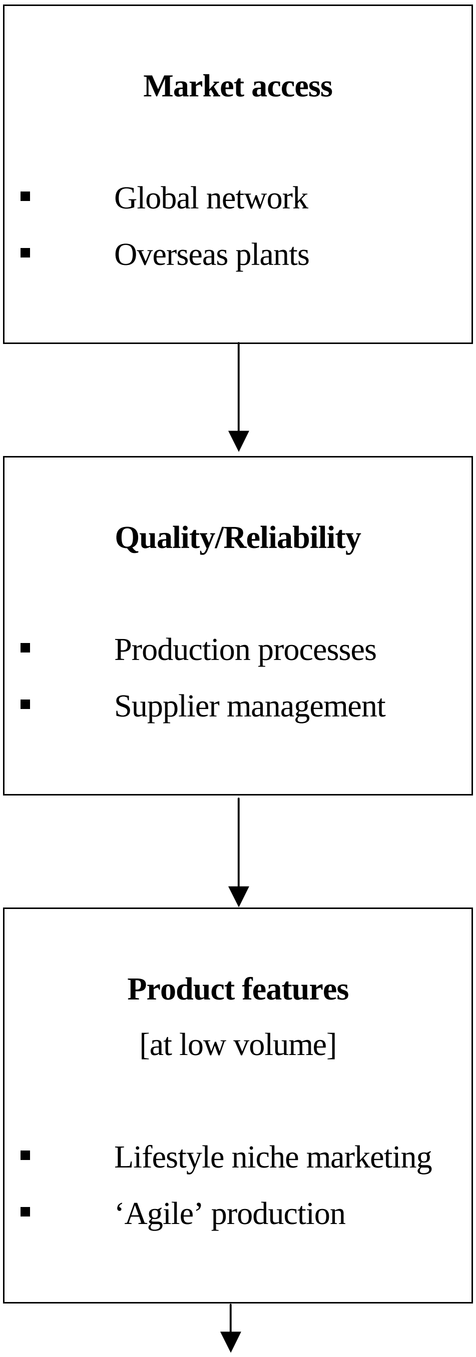
3.3.2 Competences and critical success factors

Critical success factors refer not only to the factors that are critical for success in the external and internal environment, but also to the competences that are needed for this success.

Johnson and Scholes [2002: 156] argue that critical success factors are underpinned by core competences. For example, if "speed to market" with a new product launch is a critical success factor, it may be underpinned by core competencies in the logistics of physical distribution and negotiating skills with key account retail outlets.

Critical success factors and core competences change over time as the basis of the competitive advantage of the industry changes. The example in Figure 3.1, illustrates how the critical success factors changed from market access to quality/reliability to product features for the world automotive industry. During the 1950s and the 1960s, United States giants such as Ford and General Motors dominated the global market through the critical success factor of market access supported by core competences of establishing dealer networks and later, overseas production plants. Meanwhile Japanese manufacturers were developing competences in defect-free manufacture. By the mid 1970s they were significantly outperforming Ford on quality and reliability – which became critical success factors. By the mid 1980s, both Ford and the major Japanese companies had achieved similar competence in achieving these critical success factors. The competitive arena then switched to competences which would create some uniqueness of product in an increasingly "commodity like" industry. The new critical success factor became the ability to provide unique product designs and features at low volumes of manufacture – underpinned by core competencies in "lifestyle niche" marketing by companies like Mazda.

Figure 3.1 Critical success factors and core competence change over time



Source: Johnson and Scholes [2002: 170]

Kaplan and Norton [1996: 92] suggest that core competences are part of critical success factors and classify them under the learning and growth component in their analysis. For the purpose of this study, taking note of the views of Johnson and Scholes' core competences will be considered an integral part of critical success factors.

3.3.3 Criticism on the identification of critical success factors

Criticism of critical success factors has concentrated on four issues [Ghemawat, 1991: 7]:

[a] Identification: It is difficult to pick out the important factors.

[b] Casualty of relationships: Even though they have been identified, it may not be clear how they operate or interact.

[c] Dangers of generalisation: The competitive advantage of a single organisation, by definition, cannot be obtained by seeking what is commonly accepted as bringing success to all organisations in the industry.

[d] Disregard of emergent perspectives: Success may come from change in the industry, rather than the identification of the current key factors for success.

It is a fallacy that strategies and /or critical success factors can be identified in isolation. This view is supported by Mintzberg [1994: 256] who observes: "Effective strategists are not people who abstract themselves from the daily detail but quite the opposite : they are ones who immerse themselves in it, while being able to abstract the strategic messages from it".

The interaction and integration of critical success factors is of extreme importance and one of the main objectives of this study was to investigate the integration of those factors to achieve optimum success. The criticism of generalisation is only true for the identification of industry success factors. These factors are general factors that will change from time to time. However, for the individual organisation these factors will be unique and will consist of external factors as well as internal competences that will give that organisation a distinctive, unique competitive advantage. Heene and Sanchez [1997: 6] support this statement by noting that organisations are characterised as open systems that pursue strategic goals that comprise sets of objectives distinctive to each organisation.

Mintzberg [1994: 23] points out that definitions of strategy that stress the role of planning ignore the fact that strategies can emerge from within an organisation without any formal plan. Mintzberg defines strategy as “a pattern in a stream of decisions or actions”. These decisions on strategy and/or critical success factors, should therefore not only be formally planned factors but should be able to emerge from within the organisation.

3.4 CRITICAL SUCCESS FACTOR MANAGEMENT

To make critical success factors strategically manageable, it is important to determine the priority and importance of the factors and to identify indicators that can be used for the measurement of success within these critical success factors [Leidecker & Bruno, 1984; Goodstein *et al*, 1972 and Thompson & Strickland, 2002: 97].

3.4.1 Determination of factor importance

The impact of an activity or condition on the profit of the organisation is usually the most significant criterion for identifying a critical success factor and determining its importance.

Leidecker and Bruno [1984: 30] suggest four points for the profits impact analysis that will assist in determining factor importance:

- Major activity of business: Usually critical success factors are found in the major areas of business. According to Kaplan and Norton [1996: 45] these major areas can be divided into four perspectives, namely financial, customer, internal process and innovation and learning.
- Large amount of money involved: A major factor will probably have a large amount of money associated with it, for example, in a manufacturing firm direct labour may be a large cost component and the productivity of the workforce might therefore be a critical success factor.
- Major profit impact: An impact analysis will assess the sensitivity of overall results to changes in certain activities. For example, in some circumstances a small change in price might have an enormous bottom-line impact.
- Major changes in performance: It is a good idea to follow up on significant changes in the company’s performance: for example, a dramatic drop in sales, a

major profit reversal in a segment of the operation, a sizable increase in bargains. A significant change can often be linked to a major critical success factor.

The impact of critical success factors was briefly discussed above but it is important to note that more than one factor can cause the impact or change. Two techniques that can be used to determine the importance of a critical success factor are panels [brainstorming] and weighted values.

- Panels [brainstorming]: A management group or panel prioritises the critical success factors according to their importance [Fit-enz, 1985:55].
- Weighted values: Weights are attached to the different critical success factors that reflect their relative impact on overall profitability, market share, and other measures of competitive position. The final weights should add up to one. Weighted values are calculated by deciding how the organisation performs on each critical success factor [using the one to five or one to ten rating scale] and multiplying the value by the assigned weight to obtain the weighted value [Hofer & Schendel, 1978: 77; and Thompson & Strickland, 2002: 97;]. Table 3.2 shows an example of weighted values.

Table 3.2 Weighted critical success factor values

Critical Success Factor	Weight	Value out of 10	Weighted Value
Quality product performance	0,3	8	2,40
Technological skills	0,2	7	1,40
Marketing	0,3	5	1,50
Financial strength	0,1	6	0,60
Reputation/image	0,1	3	0,30
	1		6,20

Source: Adapted from Thompson and Strickland [2002: 97]

3.4.2 Critical success factor indicators

According to Goodstein *et al* [1992: 210], critical success indicators should be developed "to calibrate the progress toward achieving the organisation's mission". These indicators are typically a mix of hard and soft indices of success, such as opinions of customers about service, employee morale, and the attitudes of stakeholders inside and outside the company. An example of indicators and targets is depicted in Table 3.3.

Table 3.3 An example of critical success indicators

Critical Success Indicators	**2000 – 2005 Target**
1. Profitability	20%
2. Liquidity	No exceptions on payables; R100,000 line of credit; minimum of R15,000 per R1 million in sales or 117½% of revenue
3. Compensation-to-Revenue Ratio	1995 rate + 10%
4. Size/Growth	>15% but <20%
5. NPD Reserve	No decrease
6. Employee Satisfaction	At least as good as 1995 audit
7. Customer Satisfaction	Develop system for monitoring
8. Inventory Turnover	No worse than for last 3 years
9. Marketing-Revenue Ratio	Budget on basis of 1997 – 99.
10. Income-Tax Rate	12½% per year (average over 4 years).

Source: Adapted from Goodstein *et al* [1992: 210]

Elliot [1992: 62] shows that the measurement of success remains mainly anchored in an accounting model developed centuries ago. However, this financial accounting model should, according to Elliot, be expanded to incorporate the valuation of a company's intangible and intellectual assets, such as high quality products and services, motivated and skilled employees, responsive and predictable internal processes and satisfied and loyal customers. Such a valuation of intangible assets and company capabilities would be especially helpful since, for information age companies, these assets are more critical for success than traditional physical and tangible assets.

Kaplan and Norton [1996: 8] developed "balanced scorecard" measures which complement financial measures of past performance with measures of the drivers of future performance. The success factors and measures of the scorecard are derived from the organisation's vision and overall strategy. The objectives and measures view organisational performance from four perspectives; financial, customer, internal business process and learning and growth.

In recent years, the renewed focus on customers and process quality has caused many organisations to track and communicate non-financial measures such as customer satisfaction and complaints, product and process defect levels, and missed delivery dates. In France, companies have developed and used for more than two decades, the Tableau de Bord, a dashboard of key indicators of organisational success. The Tableau de Bord is designed to help employees "pilot" the organisation by identifying critical success factors, especially those that can be measured as physical variables [Lebas, 1994: 478].

3.5 SUMMARY

In this chapter the nature and extent of critical success factors were discussed and it was concluded that critical success factors can originate from outside the organisation, for example, from the external environment and industry or from the internal processes of the organisation. Critical success factors can be events, conditions, circumstances, activities, characteristics, capabilities or competences that really hold the key to organizational success. From the literature review it was apparent that the organisation must identify the factors that are critical for success and not just the general ones. It is natural to think “that all are important; we have to have good products and service; we have to satisfy our customers; we need good staff; we should keep costs down and more”. Those are make-or-break considerations that apply to all businesses. But each organisation is unique and must exploit those success factors that allow them to survive and beat the competition.

The relationship between critical success factors and competences were explored and it was found that critical success factors were underpinned by core competences in the organisation. It was concluded that for the purposes of this study, core competences will be considered as an integral part of critical success factors. Although certain criticisms were noted on the identification of critical success factors, it is a widely accepted and proven approach used for strategy formulation.

Critical success factors should be measured so that their measures can drive performance toward the achievement of the organisation’s objectives. Research shows that measures in the past remain mainly anchored in a financial accounting model [Elliot, 1992: 62]. This financial accounting model should, however, be expanded to incorporate the valuation of a company’s intangible and intellectual assets. Kaplan and Norton [1996: 8] developed “balanced scorecard measures” in which financial measures of past performance are complemented by measures of the drivers of future performance.

- - - o O o - - -