The Difference Between Key Performance Indicators (KPIs) and Critical Success Factors (CSFs) That a Manager Should Know

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The critical success factors (CSF) and Key Performance Indicators (KPI) are the useful tools applied to get a successful business. They collectively account for the business' control and growth.

- CSF is defined by Rockart [1] as the **critical areas** whose high performance or success is important, as they decide the success of an organization. These are actually the steps taken to succeed.
- KPIs on the other hand are defined as the **tools to measure** the performance of any organization they only indicate what the success rate or level is.

Unless their difference is properly understood the purpose of these techniques remains useless. So it is important for the manager of a company to make himself understand the scope of both, their limitations, their differences, their coexistence and all other comparable things. The purpose of this article is to solve the confusion of readers regarding these two techniques so that they can easily understand and employ these tools in order to grow his business. First we will look into the definition of these two and later we will point out the differences.

Critical success factors

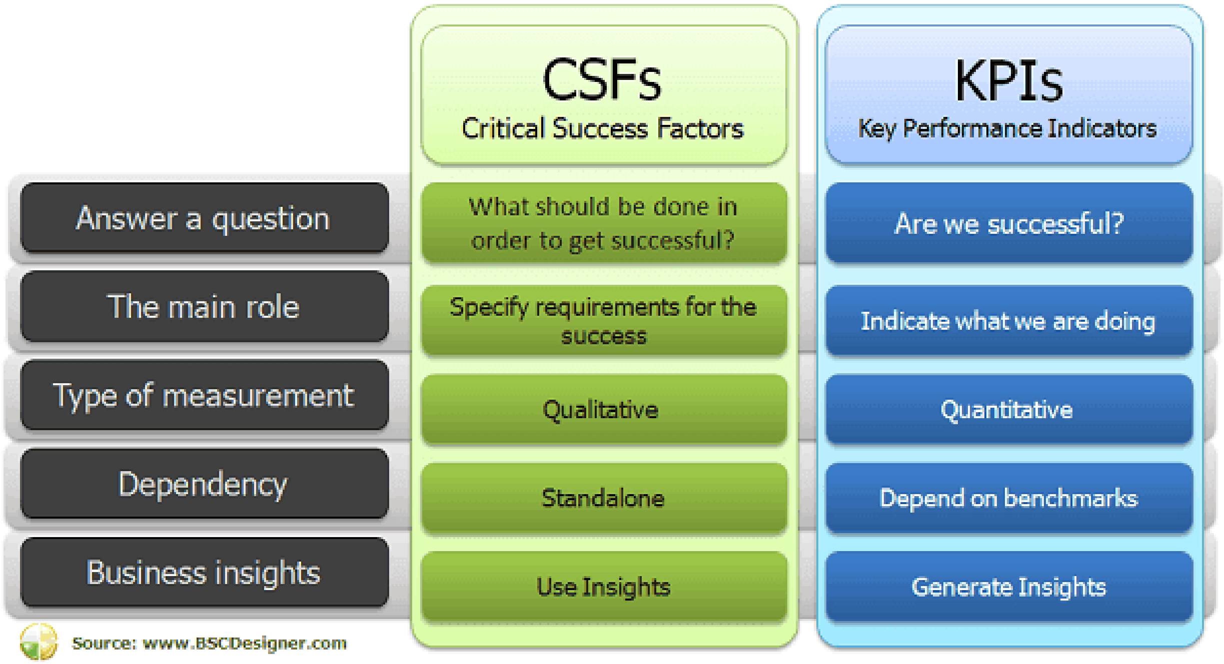
CSF can be defined as those particular areas or issues which are important to the success of an organization. To ensure the performance of an organization's special attention and concern should be given to these areas as they will decide the present and the future success of the organization (Boynton and Zmud, 1984 [2]). CSF is very important for accomplishment of goals and ambitions of an organization.

For example critical success factors may be related to money- like increased cash flow and profits or these may be related to customers- like their number increase and no of complaints or they might be development related as what should be done in order to improve the business? How to increase productivity? What new techniques should be developed to meet the demand of market? Or what new technology should be adopted? Things like these account for the success and hence they are called critical as they play a vital role in the performance of the business.

Key performance indicators

Parmenter [3] defines KPIs as a collection of events or action that play an important role in the success of organizations of today and tomorrow. A KPI a is clear-cut instrument to quantify and qualify the tactical goals of an institute depending on its priorities. Indicators are actually the ways to judge or access the performance or measure the success of a company but they don't show how to improve or don't provide the ways to achieve success. They are as the name says 'indicators' which only indicate. A KPI is used to measure performance, but CSF helps us find the areas which are to be improved so that the success is ensured.

Differences between KPI and CSF



It is very important for the leader of any organization to know the differences and details of these two techniques. The differences between Key performance indicator and critical success factor which the Head/owner/leader/manager should know are as follows:

- The **CSF is the cause** of your success or what is required for the success but **KPIs are the effects** of your action, which means that they indicate what you are doing, not what should be done. CSF can be defined as 'what should be done in order to get successful?' and KPI is defined as 'are we successful?'
- **CSFs are taken to be general** for all kinds of business like profits, leadership, mature assessment, correctly distributed responsibilities and role of people, systematization of each process, definite goal or rightful implementation of improvement plan etc., but **KPIs** are not so much general, rather they **are set according to the priorities of a particular organization** like for a financial organization finances are concerned, in educational institutions indicators are related to the standard of studies or other things related to students.
- **KPIs are usually quantitative**, i.e. in the form of a ratio or percentage values while **CSFs are more of qualitative** nature like 'what makes customers satisfied?' it can't be measured, but it can only be discussed or analyzed.
- KPIs are somewhat dependent, they alone are no use, but **require some other data to be compared** to in order to analyze the performance while CSF clearly **indicate what is to be done** in order to succeed or what issues should be taken under the company's effort. This is why Munro [4] considers CSF to be a reliable source.

> *CSF can be used by the managers to improve the performance as Anderson [5] observed. But **CSF is actually themselves composed of one or two KPIs**. The information obtained from KPIs is used by CSF to develop itself.*

- **CSFs change in a cyclic way** depending on the needs of customers or the environment but **KPIs are timely**, as they are measured again and again on a timely basis. They don't change usually but sometimes can be changed when an organization sets up a new goal.
- Some people like Davis [6. G.B. Davis, 'Comment on The Critical Success Factor for Obtaining Management Information Requirements in Article by John. F Rockart' MISD quaternary, September 1979.] consider CSF as an inappropriate method of analysis. Also the **CSF is difficult to attain** as compared to the KPI which can be obtained very easily.

Which is to be preferred?

A line can't be drawn between the two as they are dependent on each other. After setting a vision and its strategies, the next step is to find critical success factors which are to decide what should be done to achieve the goal? After that the success rate is measured or performance is monitored which tell us how much are we close or far from the goal? KPIs don't actually improve performance themselves; they just tell us if we have to improve or not or if the goal is achieved.

Critical success factor on the other hand design strategies and guide us how to. CSF is a technique which is also used externally by the customers to judge how the company is proceeding but KPI is used internally by one's own organization which makes CSF common, general and sometimes universal. So CSF designing is more crucial to the performance of the company and the managers should give them quite much of their time.

A practical example: CSFs and KPIs on a strategy map

Let's take a company's customer support service as an example. Anyone will agree that a good customer support service is a must.

> *A success factor in this case can be formulated as: "a company needs to provide reliable customer support service."*

Testing success factor with lagging indicator

While this sounds logical, we can never be sure about the importance of this factor for the business strategy of a particular company. A company might already have a good customer service, and the bigger issue might be the quality of a product. In this sense *critical success factor*, is also a *hypothesis* that business managers need to test. This hypothesis can be confirmed or rejected with a help of a respective lagging indicator, for example "*Customer Satisfaction Index, %*."

Treating CSF as a business hypothesis actually means that we can:

- Map success factors on a strategy map, and
- Group them into strategic themes.

Focusing action plan with leading indicator

Unfortunately neither success factor, nor lagging indicator won't give us an answer about how exactly a perfect customer support service should work. After a short study on the Internet one can find out that these days that customers are very sensitive to the speed of support. That's why company's managers might introduce a new *leading indicator – "Time to answer customer support query."*

A respective action plan can be added to the leading indicator. For example, a company might want to:

- Train its support staff, and
- Improve a product's knowledge base.

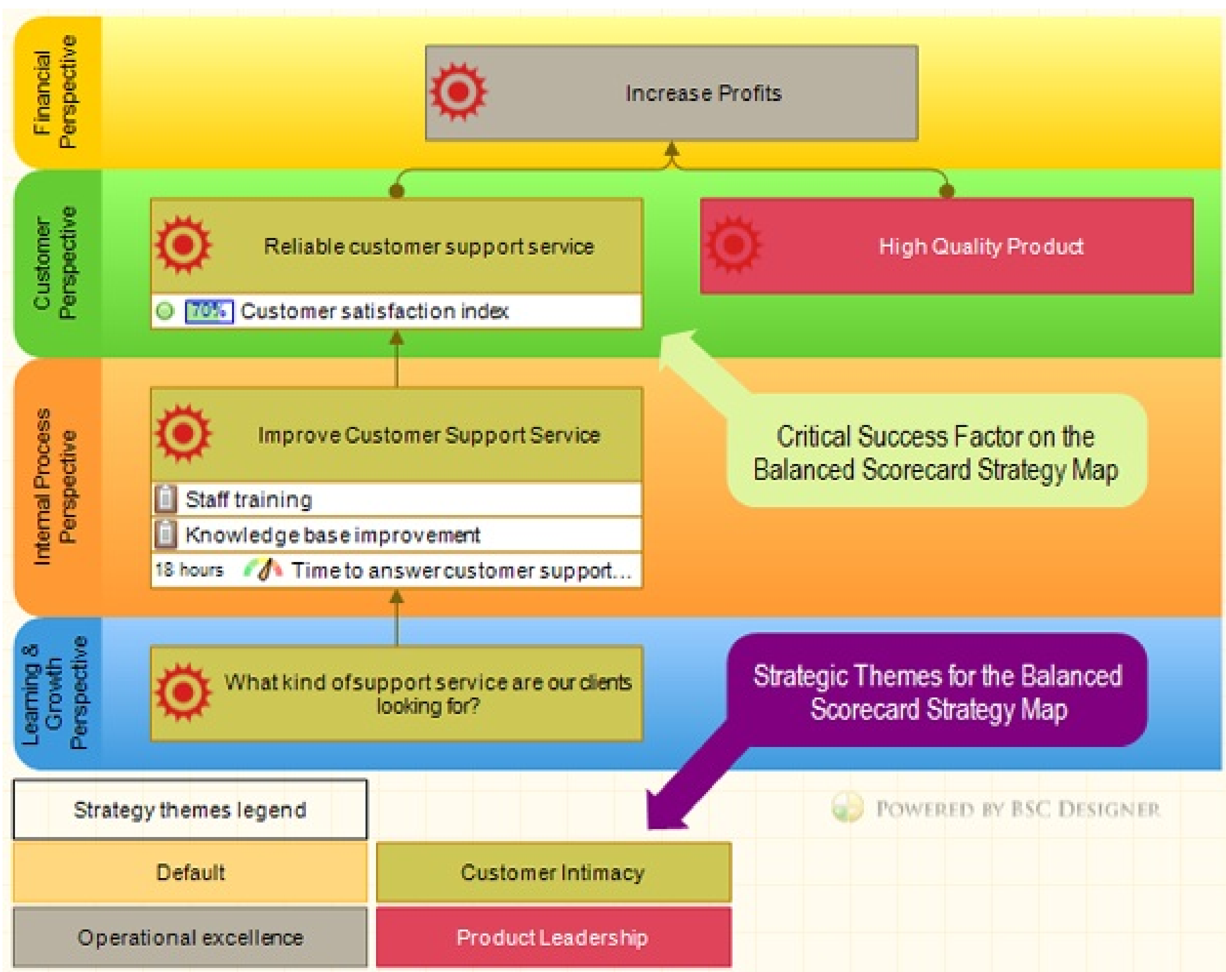
Using CSF and indicators together

Here we have the final model:

1. CSF (our business hypothesis): "Provide reliable customer support service."
2. Leading Indicator: "Time to answer customer support query, number of hours."
3. Action plan: "Staff training; knowledge base improvement."
4. Lagging Indicator: "Customer satisfaction index, %."

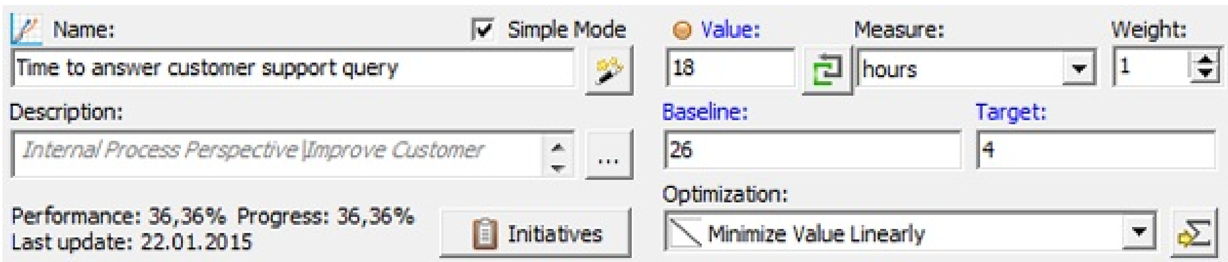
Software automation for CSFs

I guess by now all this might sound complicated and one can imagine that controlling various success factors is a tough task. It is actually not, if we use some automation software. The example below demonstrates how one can add a CSF on the Balanced Scorecard strategy map using BSC Designer.



The CSF "*Reliable customer support service"* was mapped in the "Customer Perspective" of the Balanced Scorecard, and it was also added to the "Customer Intimacy" strategic theme. It has a lagging indicator – *"Customer satisfaction index"* associated with it.

In the “Internal Business Processes” we have mapped “Improve Customer Support Service” business goal, which is monitored by the leading indicator “Time to answer customer support query.” For sure, the optimization method for this indicator needs to be set to “Minimize value linearly.”



There are also two initiatives aligned with “Improve Customer Support Service” – “Staff training” and “Knowledge base improvement.” In the real project they need to be linked to some detailed documents.

You can download the discussed example and try it with your own data.

Conclusion

It is very important for the leader of an organization to know the accurate differences between the two techniques. Both are very important and play a significant role in the development of an organization. When properly used they can create wonders to the performance of any kind of organization. Knowing the difference is important for a manager, as spending the rightful time on both is very necessary. Knowing the differences, you get you know what your priorities are and what should be done about it. These techniques should be applied as assessment tools and the success is always promising.

Covert separate pieces of information about Key Performance Indicators into new skills and actionable knowledge. Join "KPIs Training and Certification" by BSC Designer to learn our time-proven KPI system and get a lifetime access to the KPI training knowledge base.

More about KPI Training

References

1. ^ Rockart, John F., “Chief Executives Define Their Own Data Needs,” Harvard Business Review, March-April 1979, p. 85.
2. ^ Boynton, A.C., and Zmud, R.W. 1984. “An Assessment of Critical Success Factors,” Sloan Management Review (25:4), pp. 17-27.
3. ^ Parmenter D, 2007, Key Performance Indicators (KPI): Developing, Implementing and Using Winning KPIs, Wiley, John & Sons, Incorporated, Pub. Date: January 2007, pp.3
4. ^ M.C Munro ‘An Opinion… Comment on Critical Success Factor Work’, September 1983, pp 67-68.
5. ^ C.R. Anderson, Management: Skills, Functions and Organization Performance (Dubuque IA William C. Brown Co., 1984)

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