ISSN No:-2456-2165

What are OKRs and KPIs and can they Coexist within an Organization?

Khalid T. Al Thinyan, Haitham Ghawji, Abdullah Al Shehri
Saudi Aramco

Abstract:- Like Key Performance Indicators (KPIs), Objectives and Key Results (OKRs) are becoming very popular in the field of performance management nowadays and many leading corporations are adopting this framework. The objective of this study is to explain the principles and techniques of KPIs and OKRs and to examine whether they can coexist within the organization or not.

Keywords*:- Performance Management, OKR, KPI.*

I. INTRODUCTION

Measuring business performance is a key to identify the growth rate of every company. Therefore, it is essential to know the current state of the improvements achieved and identify what contributed to or hindered that growth. However, with the existence of numerous performance measures to monitor and track, companies find it somehow difficult to identify which of these measures have the greatest impact to drive growth and create positive change within these companies. That's why in order to measure the right things, identifying the right key performance indicators (KPIs) and their targets is as important as setting your company's Objective Key Results (OKRs).

On the strategy management front, we always hear questions like "What is the difference between KPIs and OKRs?", "Which one is better, KPIs or OKRs?", "How do they work together?". There are no easy and straight forward answers to these questions as each approach has its pros and cons and it all depends on the organization's complexity and the overall strategy rhythm. In many organizations, both KPIs and OKRs may coexist as they complement each other within the overall strategic performance management system. [1]

Measuring an organization's performance is vital to ensuring the survivability and continuous growth of the organization. The reason is that performance measurement highlights the performance gaps between the current and projected performance and provides areas for improvements (AFIs), to close these gaps to achieve the expected results. There are many tools for performance measurement, such as Critical Incident Technique (John C. Flanagan), Management by Objective (MBO) (Peter Drucker), and Key Performance Indicators. With the emergence of the new performance evaluation framework, Objectives and Key Results (OKRs), this framework has increased in popularity and many leading companies have adopted it, such as Google, Amazon, Oracle, Adobe, LinkedIn, and many others. Nevertheless, many other companies believe that performance management cannot be measured with KPIs. This study focuses on the performance review and management under the concept of Key Performance Indicator (KPI) and Objectives and Key Results (OKRs) methods, which have been widely recognized and applied in many leading organizations. [2]

II. THEORY OF KEY PERFORMANCE INDICATORS (KPIS)

Key Performance Indicators (KPIs) are the critical (key) indicators of progress toward an intended result. KPIs provide a focus for strategic and operational improvement, create an analytical basis for decision making, and help focus attention on what matters most. [3]

Measurement is the first step that leads to control and improvement. Basically, and as stated by many experts in this field "if you can't measure something, you can't understand it. If you can't understand it, you can't control it. If you can't control it, you can't improve it". (H. James Harrington). Improvement in any organizational performance cannot happen unless management measures and manages strategic performance. The key to improved performance is to put in place strategic KPIs and targets at the objective level before defining initiatives and initiative measures. Once the KPIs have been selected and approved by the organizational management, clear and strong performance targets come next. Managers and Leaders of each organization shall understand four performance measurement terms to be used consistently with the team

Benchmark: Assessment, such as industry best practice.
Threshold: A specific level of performance that is believed either acceptable or unacceptable.
Baseline: The real performance period for the most recent reporting.
Target: The defined performance level the organization seeks for it. [1]

Overall, performance measures can be established within four major groups:

Input: Measures to track items in production.
Process: Measures to monitor the quality and efficiency.
Output: Measures to monitor what is done.

ISSN No:-2456-2165

Project: Measures answer questions about the status of deliverables and milestone progress related to important projects or initiatives.

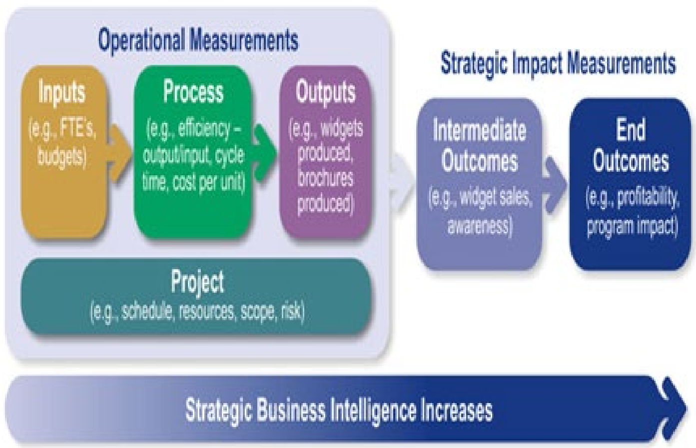

Fig (1) - KPIs Types [3]

Also, it is worth mentioning that KPIs should follow the **SMART** criteria, meaning that for a KPI to be used properly and offer meaningful data, the KPI should be Specific, Measurable, Achievable, Relevant, and Timebound. [3]

Furthermore, Bernard Marr proposes that there were two major types of KPIs, Leading and Lagging Indicators. Leading indicators are like a crystal ball and are metrics that could help you predict the future. Lagging indicators are often the same as the metrics for your company's goals and targets. They are often, but not always, very similar across businesses regardless of the industry. They tell you what happened, such as your revenue and profit numbers, and tend to be easy to identify and measure. [5]

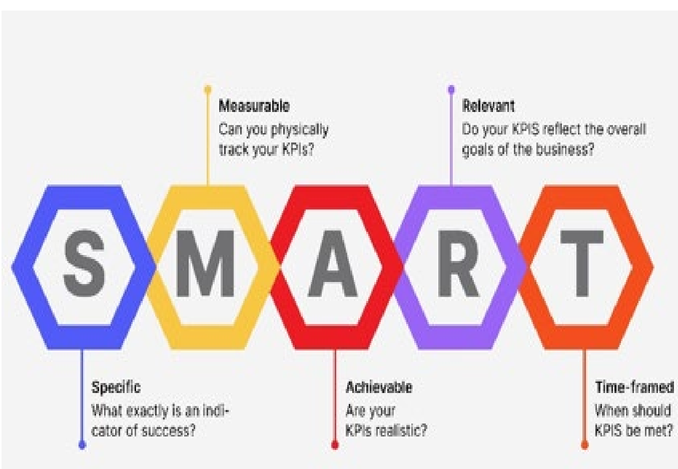

Fig (2) – SMART KPIs [4]

III. THEORY OF OBJECTIVES AND KEY RESULTS (OKR)

OKR comprise a goal-setting framework that helps companies establish “objectives” along with the measurable “key results” that support the achievement of each objective. OKR within the corporation are used mainly to accomplish three goals; to communicate desired outcomes throughout the organization, to focus on the most important areas that need improvement, and to deliver valuable results for the business. OKR framework has become the most popular goal-setting system, utilized by numerous successful organizations around the globe. [6]

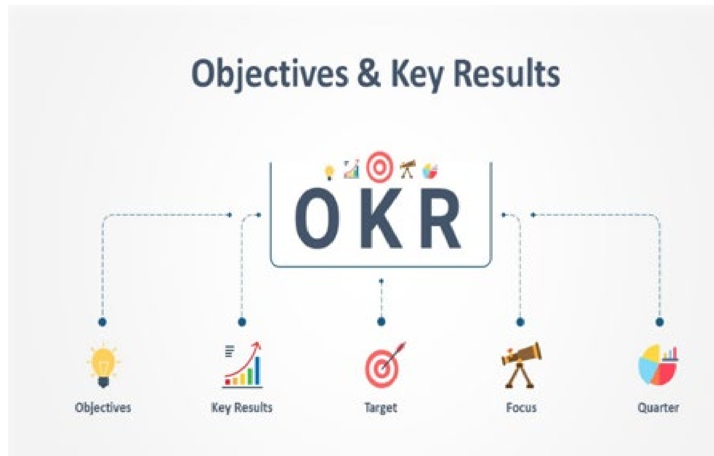

Fig 3 – OKR [7]

There are several definitions of OKR. Paul R. Niven and Ben Lamorte define OKR as “The critical thinking framework and ongoing discipline that seeks to ensure employees work together, focusing their efforts to make contributions that drive the company forward.” According to Andy Grove who developed OKR and introduced it to Intel during his tenure there (1970), the OKR performance system is centered around two main questions that are essential for effective goal-setting; namely “Where do I want to go” (What is my objective?) and “How will I pace myself to see if I am getting there? (How will I track my progress?) (Lamorte & Niven, 2016, p.26). [8][9]

Grove’s view on effective goal-setting is characterized in the OKR framework by the fact it is centered around its namesake Objectives and Key Results. Objectives are defined by Lamorte & Niven (2016, p.30) as “concise statements outlining a broad qualitative goal designed to propel the organization forward in the desired direction.” Whereas the authors define Key Results as “quantitative statements that measure the achievement of a given objective.” Doerr who introduced the idea of OKRs to Google, explained how OKR works: The objective is what I want to have accomplished. The key results are how I’m going to get it done. The objectives are typically long-lived. They’re bold and aspirational. The key results are aggressive, but always measurable, time-bound, and limited in number. He also describes Objectives and Key Results as being the Yin and Yang of goal setting. He notes that Key Results are required to make Objectives actionable and that Objectives are able to provide meaning and purpose to Key Results. [10]

As explained by Radonic (2017), the OKR system involves four steps: identify the objective, key result, actions, and insight. He added that key objectives should be set quarterly and evaluated quarterly, in which OKRs could be changed from a quarter-based setting to a six-month period of setting and assessing objectives [11]. He further described 10 major directions when setting OKRs according to John Doerr:
First: Objectives should be inspirational and motivational, and should clarify how the accomplishment of the objective will lead the company.
Second: Goals should be ambitious to get accomplished.
Third: Organizations should stimulate highly productive and effective employees through OKRs.
Fourth: It is necessary to have only 4-6 objectives due to the focus factor, and 3-5 key results as a monitoring tool for objectives.
Fifth: Key results must be measurable, time-oriented, and specific.
Sixth: Determine the responsible unit or person for each of the objectives and key results.
Seventh: OKRs should be set quarterly or semi-annual regarding the size of the company.
Eighth: It is recommended to set a reward for achieving high performances and to further motivate
employees to accomplish higher results each month.
Ninth: The goals should be set by a bottom-up concept.
Tenth: OKRs should be transparent to every organization's hierarchy levels. [12]

VI. OKRS & KPIS: HOW THEY COMPARE AND WORK TOGETHER

OKRs are not a replacement for KPIs or any other established management practice. It is important to learn the principles and where they fit in your organization. OKRs are a useful addition to your organization's KPIs as they help encourage prioritization, focus, and action; as the mixture between both will connect the dots between the actions you are managing and the impact you are trying to achieve.

OKRs provide the missing link between ambition and reality. They help break out of the status quo and take the business into new territory. If the organization has a big dream, or an inspiring goal, OKRs must be adopted to take the organization there.

KPIs measure the success, output, quantity, or quality of an ongoing process or activity. They measure processes or activities already in place.

Let's look at OKRs and KPIs as a metaphor. Imagine your organization is a car and you're driving that car towards a destination (your Mission and Vision). Your KPIs are what you'll find on your car's dashboard, like the fuel gauge and engine temperature gauge. They prevent the engine from overheating and make sure you won't run out of gas, which are all things that you'll constantly need to watch. OKRs are like your roadmap, they'll guide you to your destination. OKRs are temporary, they'll change from time to time. Once you've passed a landmark towards your destination, you'll focus on the next one. [13]

IV. CONCLUSION

The "OKRs vs KPIs" concept includes two frameworks that have totally different intents and logic behind them. Key Performance Indicators and Objectives and Key Results coexist very well and they can be used both in the business but for completely different purposes. OKRs are used for goal-setting and improving the business, while KPIs are used for monitoring general business performance. Many companies have switched to OKRs after following the success stories of companies that use OKRs in terms of their seamless execution and outcomes. Google, for an example, with the rigorous implementation of OKRs, has grown to be the most visited web site in the world with a whopping 70% of browser market. Its OKRs implementation focused on making OKRs accessible to all employees, opting for big and aspirational goals rather than incremental and using color-coding to grade their OKR outcomes to track performance. Another successful company, LinkedIn, has grown to be the top recruiting job applicants and professional networking, having 774+ million members worldwide. They achieved this by having OKRs to be Time-Bound, to always keep everyone alert and leaves no space for slacking, by having quarterly stretch goals and by allocating specific hours for weekly and monthly meetings.

OKR is a great, all-in-one tool to execute business and personal goals. Many companies are catching up with implementing OKR to maximize growth. Stellar performance is not accidental and it takes great effort to execute objectives. OKR is a great and simple tool out there for anyone to take advantage of. So, if companies want to emerge as a top player they should follow the success stories of companies who use OKRs. [14]

REFERENCES

[1]. Association for Strategic Planning: https://www.strategyassociation.org/blogpost/1921222/368216/OKRs-vs-KPIs-Sponsored-Content
[2]. Comparative Study of OKR and KPI, Hao ZHOU*, Yu-Ling HE, Business School, Sichuan University, Chengdu, P.R. China, 610064, zhouhao@scu.edu.cn, hyling_sc@stu.scu.edu.cn
[3]. https://kpi.org/

ISSN No:-2456-2165

[4]. Main Software Development Metrics and KPIs | Mad Devs Blog
[5]. Bernard Marr, What's The Difference Between Lagging And Leading Indicator? https://www.forbes.com/sites/bernardmarr/2020/10/23/whats-the-difference-between-lagging-and-leading indicator/?sh=6045638e5009
[6]. Weekdone Academy https://weekdone.com/okr-comparison/okr-vs-kpi
[7]. OKR's – what are they and how can they help your organisation? - Rencai (rencaigroup.com)
[8]. Beaussart, Adrien. *Elements leading to successful implementations of Objectives and Key Results (OKR) goal-setting systems.* Louvain School of Management, Université catholique de Louvain, 2021. Prom. Vanderborght, Vincent. http://hdl.handle.net/2078.1/thesis:31402
[9]. Objectives and Key Results: Driving Focus, Alignment, and Engagement with OKRs. Niven, P. R., & Lamorte, B. (2016).
[10]. Harvard Business Review: How VC John Doerr Sets (and Achieves) Goals https://hbr.org/2018/05/how-vc-john-doerr-sets-and-achieves-goals
[11]. Experimental research on employee performance review using knowledge management oriented OKRs approach in comparison to KPI approach, Wiraiwan Kanket http://dspace.bu.ac.th/jspui/handle/123456789/4066
[12]. Radonic, M. (2017). OKR system as the reference for personal and organizational objectives. http://esmsj.upit.ro/ESMSJ%20vol%207(2)%20pentru%20Denis%20pe%20site/PAPER%206.pdf
[13]. OKR vs. KPI: How they compare and work together https://www.perdoo.com/resources/okr-vs-kpi/
[14]. Top Companies Who Uses OKRs and Their Success Stories https://www.peoplebox.ai/blog/who-uses-okrs/