

Peter Rathsmann

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PETER RATHSMANN

Peter Rathsmann has been a vehement advocate of the “self-responsibility” principle in leadership and cooperation structures for quite some time. That is why he is particularly happy when he increasingly meets teams and managers in companies who enthusiastically report on how effectively they work with personal responsibility for their KPIs. He sees OKRs as a wonderful opportunity to reconcile target and performance focus with the elements of a New Work culture: Autonomy, an iterative approach, and transparency are the basis for high-performance collaboration. In his opinion, the key to the success of the OKR approach is for the self-responsibility for KPIs to remain decoupled from monetary incentives and remuneration models.

Objectives and Key Results

Currently, there is a management innovation rolling towards us that goes by the name of “Objectives and Key Results” (OKRs). It is too soon to say whether its impact will be as similarly transformative as “Management by Objectives (MBO),” developed by Peter Drucker in the sixties, or Kaplan and Nortons’ “Balanced Scorecard” (BSC) in the nineties.

The question (about the transformative energy) is pretty relevant, because a new theory of management could be a stronger factor for a company’s USP, and hence its success, than many innovations at the product level.

In this context, it should be borne in mind that the continuing march of digitalization has led to the development of an almost bewildering proliferation of concepts and prototypes, some completely new, some variations on (or further developments of), established practices. For this reason, we consider it presumptuous to claim that we know which approach will prevail.

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What are OKRs?

The OKR concept is a structured process in which objectives are extrapolated from the strategy (or also strategic beliefs) and then concrete results are formulated. In the process, the focus is placed on two questions:

WHAT DO WE WANT TO ACHIEVE
AND WHY?
OBJECTIVES

These Objectives describe WHAT is to be achieved. At the same time, they are intended to provide meaning and inspiration, and so also answer the WHY question.

HOW CAN WE MEASURE
THE ACHIEVEMENT OF OUR GOALS?
KEY RESULTS

The Key Results describe HOW the goal is to be achieved. They are measurable, time-bound, and verifiable. Google's former Vice President, Marissa Mayer said: "If it does not have a number, it is not a Key Result."

For OKRs, it does not initially matter what type of goal it is: a business goal (for example, "achieving quality leadership"), a team goal (for example, "acquiring the three largest domestic trading partners for our product") or an individual goal (for example "getting to know the most important representatives of the following three companies").

OKRs are usually defined for a period of one quarter, less often for a whole year. Unless otherwise specified, the method is limited to a period of three months. The OKRs are defined at the start of the quarter and evaluated at the end of the same quarter.

What criteria are to be considered?

To ensure that Objectives and Key Results work, the Objectives that are formulated must be ambitious and outside the comfort zone. Objectives should therefore intentionally cause a slight feeling of discomfort and prompt a break-away from familiar patterns of thought and action. At the same time, they should be ambitious enough to make 100% goal achievement an impossible task. For OKR purposes, a good goal is one that enables an achievement rate of 60 – 70%. Google considers an 80% goal achievement rate as outstanding.

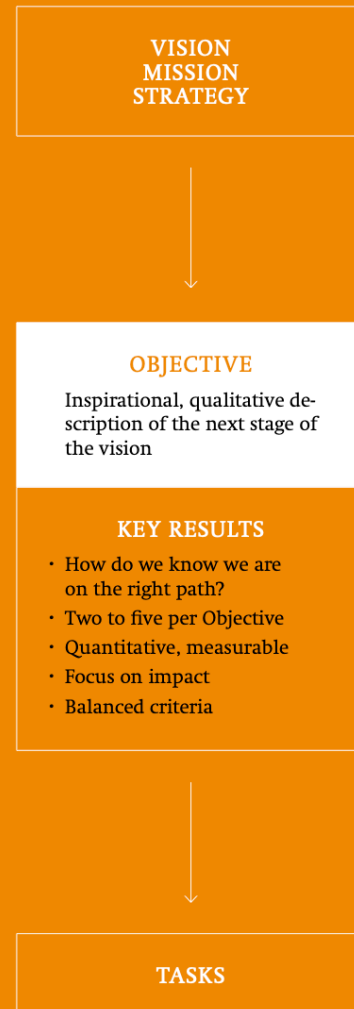
Much lower achievement rates are not sanctioned, but serve as sources of learning and are used to revise the next round of OKR planning:

ARE WE STILL ON THE RIGHT PATH?
WHICH OF OUR PREVIOUS ASSUMPTIONS HAVE
BEEN CONFIRMED, AND WHICH HAVE NOT?
WHAT DOES THIS MEAN FOR THE NEXT QUARTER?

At this point, it is important to know that OKRs are not used for performance appraisal, and hence not as the basis for bonuses or promotion. This quite significantly sets them apart from the "Management by Objectives" concept or the use of performance management agreements.

KEY

RESULTS



What can OKRs look like in practice?

An OKR could be quite specifically formulated as follows:

OBJECTIVES

In the first quarter of 2019, we will gain a foothold in the market by significantly increasing sales of product Y.

KEY RESULTS

Through our promotional campaign, we will achieve a net reach of 500,000 contacts.

We will expand our sales to Austria, where we will acquire 20 dealers for our product range.

We will implement a two-month discount campaign and sell 50,000 units.

We will gain 10 new cooperation partners.

Who developed the OKR concept?

The story behind the origins of OKRs is one of many that took place in Silicon Valley and came to the fore during the early years of the digital economy.

When the investor John Doerr acquired a stake – for a quite considerable sum – in a company founded by two IT scientists who had dropped out of Stanford, this was considered a high-stakes gamble. John Doerr joined the supervisory board of the company and then attempted to secure his investment by, among other things, acting in an advisory capacity to the young, inexperienced startup.

It was the time when the company was no longer operating from a garage on Santa Margarita Avenue in Menlo Park, but from rooms above an ice-cream parlor in Palo Alto – which were also soon to become too small. Nevertheless, the founders had already staked their claim. They wanted to “organize the world’s information and make it universally accessible and useful.”

As it soon turned out, this was a highly inspiring and successful vision. What was missing, however, were the actionable steps to get there.

For the rapidly growing number of employees, however, it seemed urgently necessary to create a system for specifying and tracking achievements. One that was simple, transparent and did not need too much management involvement, that is, one that could be implemented with a high degree of autonomy and enable the entire organization to align itself to the vision of its founders.

Building on his experience at Intel and Sun Microsystems, Doerr developed the OKR method. The rest is history. Today, OKR is deeply rooted in Google's culture and OKRs are as much a part of the data in each employee's address book as email addresses or telephone numbers. This story probably played a not inconsiderable role in the rapid spread of OKRs.

WARNING

Narrow focus, unethical behavior, greater appetite for risk, reduced cooperation and lower intrinsic motivation can trigger systemic problems in organizations.

Be careful when you apply objectives in your organization!

What is new about OKRs?

	MbO Management by Objectives	OKRs Objectives and Key Results
LEADERSHIP	DELEGATION AND REVIEW Planning, steering and monitoring of objectives and paths	CLARIFICATION OF DIRECTION AND SUPPORT Development and communication of corporate alignment; support for self-organized goal achievement
COORDINATION	TOP DOWN Along company hierarchy lines	TOP DOWN, BOTTOM UP, MULTI-DIRECTIONAL From customer/market to internal processes
COLLABORATION	FUNCTIONAL AREAS AND BOUNDARIES "Target-focused" employees concentrate on clearly demarcated areas of responsibility, usually within the functional logic of the hierarchy	VALUE CHAIN Goals and tasks can be coordinated across all functions on a situational basis
TIME HORIZON	ANNUAL Medium-term planning and acceptance of static environments, high degree of calculability	QUARTERLY Enabling of iteration to adapt to changing environmental conditions
COMMUNICATION	REPORTING AND STEERING Reporting structures for reviewing and updating tasks	TRANSPARENCY AND COLLABORATION Open dialog on OKRs, self-responsibility and feedback between the parties

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What does successful management innovation need?

What, however, probably has also contributed to its spread is that OKRs possess what the American management theorist Gary Hamel describes in his classic book “The Future of Management” as key to successful management innovations:

SIMPLICITY

The concept must be simple, so that it can be rolled out at many levels of the company in the shortest possible time without excessive effort in terms of communication and training and does not get bogged down in day-to-day operations.

ADAPTABILITY

It must be possible and permitted to adapt the concept to different conditions, business models, and stakeholders in the various business units of the company.

TOPICALITY

The innovation must consistently question old paradigms and incorporate current developments in the economy or society.

Why do we think OKRs are interesting?

The principles behind the method and the wide variety of possibilities for its integration in companies are also the reason why we at Process One find OKRs interesting. The impression we have gained is that OKRs can be easily implemented in “classically” organized companies in several respects: in practical terms, because there is no need for complicated infrastructure; OKRs for one period can fit on one sheet of paper.

Due to their flexibility, OKRs can be easily adapted to the different leadership cultures of organizations. They can be used both top down and bottom up.

In most cases, companies opt for an approach that is somewhere in the middle: OKRs are collaboratively developed in the teams with the involvement of senior managers.

In the process, senior management can continuously decide how much autonomy is permitted. A good mix of Objectives is 40% top down and 60% bottom up. What is important for both directions is that OKRs are agreed by all parties involved. That is, the OKRs are not unilaterally defined or determined. They are negotiated and are the responsibility of both employees and management.

In this environment, teams and employees find the ideal space for experimentation and learning in which they can improve their own alignment through self-defined goals and reviews. With a view to achieving their goals, they continuously monitor the benefits of the work they perform. This is both the core and the goal of OKRs.

Moreover, use of the method almost always leads to greater transparency (whether through internal wikis or OKR weeklys, or other formats) and hence also improves the company’s feedback culture. In turn, the two aspects together have a positive impact on how they prioritize the work they perform. This also creates clarity about all the things that do not need to be done and hence also do not need to be allocated resources.

Eventually, the iterative approach established through the quarterly cycle gradually becomes a matter of course. And this in turn increases the probability that the company and its employees will successfully stay *on course* in rapidly changing environments.

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Once a quarter, we report on topics relating to the world of business, the economy, and society that we find of relevance to our work as consultants. These are topics which are ideal for exploring contexts that are both complex and not easy to grasp and, therefore, in our experience, need to be addressed in greater depth. Ultimately, the way in which we address the topics says a lot about how we see ourselves: as curious, unbiased consultants who are committed to making an impact.

To find out more,
please visit our website

process-one.de

You can also read more insights
into current themes of leadership
and management at

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