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Objectives and Key Results

Driving Focus, Alignment, and Engagement with OKRs

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and Ben Lamorte

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Introduction

WHY WE WROTE THIS BOOK

Any company embarking on an OKRs implementation will realize very soon after the work begins that it is much more than a "measurement project." The ultimate goal is improved performance through the identification of objectives and key results that are refreshed frequently in order to ensure agility in a business world where the pace of change is ever accelerating. However, to achieve success with OKRs, there are numerous processes and tasks that must be seamlessly executed. Generating support and enthusiasm from executives, determining where to deploy OKRs, mastering the nuances of effective OKRs, connecting OKRs throughout the company, reporting results, capturing key learnings, and ingraining the methodology into the culture of the organization are just some of the requirements of an effective rollout.

As we write this, the OKRs field is still relatively nascent in terms of standard practices and proven procedures. It is an emerging discipline, and while implementations are growing by the day, and consultants and software providers are coming forward in attempts to plug knowledge gaps, no definitive how-to guide exists for organizations anxious to implement OKRs without falling prey to potential pitfalls that can derail this or any change effort. This book is our answer to that challenge. It was written to fill the void that currently exists between knowledge and practice. Organizations wishing to reap the benefits of OKRs must first be made aware of—and properly equipped to overcome—the challenges associated with an undertaking of this magnitude. Based on our global consulting experience with OKRs as well as the extensive research we've conducted, these pages will act as your comprehensive guide through the entire OKRs terrain. We're confident the tools and techniques profiled in this book will propel the success of those currently engaged with OKRs and compel more executives to launch OKRs programs in their own organizations. Before we outline how the book is organized, let us share with you our backgrounds and experience with the topic.

HOW WE GOT STARTED WITH OKRs

Ben

"When you go for a hike with your family, it's fine to just walk and enjoy the scenery, but when you're at work you need to be crystal clear about the destination. Otherwise you're wasting your time and the time of everyone who works with you."

Those words changed Ben's life. The source of that wisdom was former Oracle Chief Financial Officer Jeff Walker. Walker shared this advice with Ben in a personal conversation and later expanded on the principle in a keynote he delivered to a group of planning professionals in Palo Alto in 2011. During the talk Walker explained objectives and key results (OKRs). He discussed how businesses must outline their desired future in the form of objectives—aspirational and qualitative statements designed to move the organization forward in a desired direction. Each objective is then translated into an underlying set of measurable key results. If the objective asks, "What do we want to do?" the key result asks, "How will we know if we've met our objective?" Ben was immediately struck by the potential power of OKRs and sensed that the framework would become critical to his work, but at that point didn't know how it would manifest. He was soon to find out.

Ben was approached by an organization to assist them with a KPI (key performance indicators) project. He accepted the assignment and found himself eagerly awaiting the strategy document that was to be supplied by the company's CEO. When it arrived, Ben felt overwhelmed. The strategy slide decks and documents were stuffed with ideas and good intentions, but the materials contained a confusing mix of key pillars (corporate priorities), core values, and business metrics. Ben struggled with how to approach the project, and it wasn't until arriving at his hotel room the night before meeting with the CEO and CFO that he recalled the advice of Jeff Walker. With that in mind, Ben condensed the strategy document into a single page, translating the key pillars into objectives, and assigning key results to each. The next day, he used this organizing framework of OKRs to share his understanding of the organization's strategy. After his overview, the executives fell quiet and asked for a moment of privacy. Ben left the room convinced he had misinterpreted the strategy and would quickly be dispatched to the airport for the next plane home. Two minutes in the hallway felt like two hours, but when he was summoned back into the room he was relieved to see a smile on the face of the CEO, who said: "We want you to help us create this type of document for every business unit and department in the company!" After helping close to 50 teams at the company draft and refine their OKRs, and later witnessing their success with the method, Ben knew he had found his calling. Hundreds of hours coaching teams and managers later, here we are.

Paul

Paul has been working in the performance measurement and strategy execution space for close to two decades. He was introduced to the concepts through interactions with a company looking to improve its performance. In Paul's case, the company was in a fast-changing industry with nimble competitors emerging rapidly and customers demanding improved service with no price increases. A new strategy was created: one that if effectively implemented would deliver enhanced strategic skill sets across the company, see the overhaul of key business processes, drive value for customers, and ultimately produce breakthrough financial results. But could they make it happen? Key to their execution was the identification of measures they would use to hold themselves accountable for achieving each plank of the strategy. It took time, but by focusing on a core set of metrics to learn about what was, and was not, working with the strategy, the company ultimately delivered on its promises to customers, employees, and shareholders alike. The real "Aha" for Paul came in the form of employee surveys conducted before and after the development and use of strategic measurement. Beforehand, just a small percentage of employees said they understood the company's strategy and how they could contribute. However, after the use of strategic measurement, the percentage jumped nearly fivefold to a large majority of employees. Like Ben, Paul saw the value of applying measurement to strategy and set out to help organizations harness that power.

Some readers may be familiar with Paul through his work and books on the Balanced Scorecard, a popular framework that translates strategy into objectives, measures, targets, and strategic initiatives, using four distinct yet related perspectives of performance: financial, customer, internal processes, and learning and growth. The framework has been embraced by legions of organizations around the globe, and while it is unquestionably effective, many companies have struggled in implementing, and fully maximizing the benefits of, the scorecard model. One of the chief issues organizations raise is the model's increasing complexity. The Scorecard's taxonomy has swollen over the years since its founding in the early 1990s, and many experts have layered on increasingly convoluted schematics that have added even more moving parts to what was originally conceived as an easy-to-apply approach to measuring an organization's strategy. The end result is that, for many organizations, despite its benefits the Balanced Scorecard appears too cumbersome to be rolled out to an entire organization, one comprised of teams yearning for simple, yet powerful methods to ensure their work is focused on what matters most and leads to the execution of the company's strategy. Enter OKRs.

Paul was searching for a "lighter-weight" system that would still provide the very real benefits desired by his clients who wished to extract the most value from their strategies. He discovered OKRs through his research and quickly learned of the work Ben was doing in the field. The two met and bonded over their mutual desire to help improve organizational performance and the belief that OKRs, while seemingly simple, can deliver outsized value to any company wishing to improve focus, drive alignment, and improve engagement. They began working together with clients in 2015.

HOW THE BOOK IS ORGANIZED

Objectives and Key Results is composed of seven chapters. The first six will lead you through an OKRs implementation in more or less chronological order, while the final chapter showcases the work of a number of global organizations currently benefiting from OKRs.

In the opening chapter we share the history of OKRs, followed by definitions and examples of both objectives and key results. Modern organizations face many crucial challenges that OKRs are well-suited to overcome. The chapter explores some of the more pressing topics. Chapter 1 concludes with an overview of the many benefits of OKRs. Before you can implement OKRs, you must ensure your organization is ready to embark on the journey ahead. Chapter 2 explores how to prepare for the creation and use of OKRs. The first question posed is, "Why are you implementing OKRs?" The critical topic of executive sponsorship is discussed, including how to gain sponsorship. Considerations on where to develop OKRs are presented, followed by a comprehensive plan for developing OKRs. The chapter concludes by defining the strategic context for OKRs using a mission, vision, and strategy. In order for OKRs to deliver benefits, they must be crafted with care and possess a number of key characteristics. Chapter 3 outlines how to create effective OKRs. Types of key results are examined, followed by a discussion of health metrics, and the scoring of OKRs. The chapter ends with a review of our CRAFT (create, refine, align, finalize, and transmit) process for creating OKRs.

OKRs must be created throughout the organization in order to drive engagement, accountability, and focus. We call this "connecting OKRs," and it is the subject of Chapter 4. Processes and tips for connecting OKRs both vertically and horizontally across the organization are explored. To gain the maximum value from OKRs, they must be regularly monitored both during, and at the conclusion of, each cycle. Chapter 5 explores the cycle of OKRs reviews and how software can enable OKR success. The OKR review cycle consists of three primary mechanisms, each of which is discussed: Monday meetings, mid-quarter check-ins, and quarterly reviews. The second half of the chapter examines the use of software in the implementation and management of OKRs. To ensure the long-term success of OKRs, they must be ingrained into the culture of the organization. Chapter 6 examines how to make OKRs sustainable. Many companies will consider OKRs a "project," but that is a mistake. The chapter opens by arguing why you should consider OKRs an ongoing process. Any company using OKRs must determine whether to link them to performance reviews and/or incentive compensation. These potential links are explored in detail in the chapter, with pros, cons, and recommendations. The chapter concludes with the top 10 issues to consider before, during, and after creating OKRs and analyzes how and if to leverage consultants for your OKRs implementation.

Chapter 7 shares the stories of six global organizations currently using OKRs to great advantage. Profiled in the chapter are: Zalando, Flipkart, Sears Holdings, TaxSlayer, GoNoodle, and CareerBuilder. We're confident you'll both enjoy and learn from the reflections offered by these exceptional and innovative organizations.

Companies at any stage of OKRs development will benefit from the advice offered in this book. Those launching OKRs efforts will, of course, derive benefits from the detailed tools and techniques guiding them from initial design to the creation of a robust management system. Those organizations that currently employ OKRs will also benefit from a review of the topics presented here. The processes and exercises chronicled can serve as a checkpoint or audit of their own program to ensure it is operating at peak effectiveness. And for those of you who are currently utilizing another form of strategic management system, we invite you to consider the many advantages offered by OKRs. Wherever you are on your OKRs journey, we thank you for allowing us to serve as your guides.

Paul R. Niven and Ben Lamorte
San Diego and San Anselmo, California, May 2016

Acknowledgments

THIS BOOK IS PRIMARILY CONCERNED with connecting goals to the larger strategic picture and focusing on what is most important. Therefore, it's only fitting that we begin by recognizing the many people who contributed to this book, ensuring that we remained strategic and focused on what matters most in relating the story of OKRs. We've been exceedingly fortunate to enjoy the support of clients, colleagues, friends, and family. Outlined below are some of the many people we've been honored to work with and learn from—individuals whose lessons and insights helped shape this book.

We'd like to thank John Doerr, a leading Silicon Valley investor, for recognizing the power and potential of OKRs and introducing the concept to Google. We extend a shout-out to Rick Klau for creating the Google Ventures workshop video detailing how Google uses OKRs, and who was kind enough to take time to discuss OKRs with us. Thanks to Sid Ghatak, Jennie Lindeman Fimbres, Craig Heldman, Bobby Wilson, and the entire Metrics360 team. What began as an exercise in key performance indicators quickly evolved into the OKRs project that got us started. We'd like to thank our early OKR coaching clients who took the time to provide extensive feedback after OKR coaching sessions. These early clients include Terrell Chafin and Ken Heaps of Latham & Watkins, Richard Kip at University of California Santa Barbara, Chris Mason and Holly Engler at Sears Holdings Corporation, and Gary Mynchenberg of ZIN Technologies who hosted one of our first OKR workshops in Cleveland, Ohio. Our first International OKRs project took us to Berlin where we enjoyed many nights along the Spree River, collaborating with the team at Zalando. We'd like to thank Christoph Lange, Robert Gentz, Frauke von Polier, Maren Kroll, Katrin Mueller, Rami Sowan, Steven Bianchi, Edouard Yendell, and all the Zalandos who sat through our full-day OKRs Expert Training sessions. Thank you Willem-Jan Jansen and Grant Bryce of eBay Classified Group for connecting us to the Kijiji team in Toronto. We are indebted to John Herbold, Scott McQuigg, and the GoNoodle team for proving that it is in fact possible to launch a successful OKRs project across an entire organization in just a few weeks! We thank Devin Sherman, Brian Rhodes, Scott Rhodes, Thomas Sherrouse, and the TaxSlayer team for their southern hospitality and putting in the extra work to draft OKRs prior to our workshops in Georgia. We'd like to thank Sonia Madan for setting up our memorable OKRs workshop with Roger Fugett and the early OKR adopters at CareerBuilder along with Sabrina Pickeral and Andy Krupit for coordinating workshops in Chicago and Atlanta where CareerBuilder somehow managed to learn about OKRs and create drafts for roughly 30 teams in just a few days!

Although we cannot name every client, we do want to acknowledge some clients who often came to our minds as we developed material for this book, including Reiko Imai of ShopStyle, Jim Ricitelli, Thomas Spoonholtz, and Brian Elbogen at FirstREX, Alicia Raymond at OfferPop, Ben and Moisey Uretsky at Digital Ocean, and Roger Corn from OpenX.

In addition to these clients, we've benefited tremendously from the relationships and input from colleagues and friends. Vincent Drucker didn't simply provide us with guidance about what his father, Peter Drucker, might have had to say about OKRs, his mentoring forced us to carefully consider long-term planning at the team level in addition to the company level. In addition, Vincent reinforced our belief that OKRs should be framed positively and enabled us to expand OKR scoring by balancing the stretch concept with a commitment level. Conversations with OKRs experts around the world, especially Christina Wodtke, Felipe Castro, and Dan Montgomery, inspired us over numerous discussions regarding the theory and implementation of OKRs. Thanks to Kris Duggan and Paul Reeves at BetterWorks for giving Ben the opportunity to contribute to some of the early OKR training materials, hosting Goal Summit, and introducing us to Donald Sull. We'd like to thank other software vendors in the OKRs space, including Henrik-Jan Van der Pol, founder of Perdoo, and Chris Pieper of Alliance Enterprises, for their passion and commitment to ensuring OKRs can be connected and made visible throughout an entire organization. Other business partners and friends that have been instrumental in our thinking include Jay Forbes from MTS, Greg Foster of Vizen LLC, Sandy Richardson of Collaborative Strategy, Joe Clark of Prana Business, and Tor Inge Vasshus of Corporater. Finally, we would like to thank our parents, Bev and Jean Niven (posthumously), and Mario and Suellen Lamorte, for their love and support.

To my wife, Lois, for always believing in me
and offering the inspiration to reach
beyond the limits of what I think is possible.
-P.N.

To my wife, Ariana, for the limitless, unconditional love and
for encouraging me to focus on my dreams.
-B.L.

Contents

CHAPTER ONE

Introduction to OKRs

THE HISTORY OF OKRs

We're fans of the BBC television show *Connections*, which premiered way back in 1978, and was later reprised in 1994 and 1997. The program demonstrated how major discoveries, scientific breakthroughs, and historical events were "*built from one another successively in an interconnected way to bring about particular aspects of modern technology*."[1] What the show made clear is that there is a long and interesting history behind virtually everything. So it is with OKRs. While we think of the model as relatively new—most of us would pin its origination to Google's adoption in the 1990s—it is actually the result of a successive number of frameworks, approaches, and philosophies whose lineage we can track back well over a hundred years. At the turn of the twentieth century, organizations were much enamored with the work of Frederick Winslow Taylor, a pioneer in the nascent field of Scientific Management. Taylor was among the first to apply scientific rigor to the field of management, demonstrating how such an approach could vastly improve both efficiency and productivity.

In another development, in the 1920s, researchers discovered what would later be termed "The Hawthorne Effect." At a factory (Hawthorne Works) outside of Chicago, investigators examined the impact of light on employee performance. The studies suggested that productivity improved when lighting increased. However, it was later determined the changes were most likely the result of increased motivation due to interest being shown to employees. While these and many other advancements were casting a light on how companies could enhance productivity through monitoring discrete activities, for the most part employees themselves were an afterthought. That all changed, however, with the work of Peter Drucker.

Considered by most people (ourselves included) to be the father of management thinking, Peter Drucker set the standard for management philosophy and the theoretical foundations of the modern business corporation. Many of his more than 30 books are considered classics in the field. It is one book, his 1954 release, *The Practice of Management*, which is of particular significance to those of us interested in OKRs. In the text, Drucker tells the story of three stonecutters who were asked what they were doing. "*I am making a living*" was the response of the first cutter. The second continued hammering as he answered, "*I am doing the best job of stonecutting in the entire country*." Finally, the third answered confidently, "*I am building a cathedral*."[2] The third person is clearly connected to an overall aspirational vision, while the first is focused almost exclusively on providing a fair day's work for a fair day's pay. Drucker's primary concern was with the second stonecutter, the individual focused on functional expertise, in this case being the best stonecutter in the county. Of course, exceptional workmanship is something to be esteemed and will always be important in carrying out any task, but it must be related to the overall goals of the business.

Drucker feared that in many instances, modern managers were not measuring performance by its contribution to the company, but by their own criteria of professional success. He writes, "This danger will be greatly intensified by the technological changes now underway. The number of highly educated specialists working in the business enterprise is bound to increase tremendously . . . the new technology will demand closer coordination between specialists."[3] Did we mention he wrote this in 1954! Prescient as always, Drucker recognized the surge in specialized roles that were to become the hallmark of the modern corporation, and sensed immediately the danger that change posed should these specialists be focused on individual achievement rather than the goals of the enterprise.

In response to this challenge, Drucker proposed a system termed *management by objectives*, or MBO. He introduces the framework this way:

> Each manager, from the "big boss" down to the production foreman or the chief clerk, needs clearly spelled-out objectives. These objectives should lay out what performance the man's own managerial unit is supposed to produce. They should lay out what contribution he and his unit are expected to make to help other units obtain their objectives. Finally, they should spell out what contribution the manager can expect from other units toward the attainment of his own objectives. . . . These objectives should always derive from the goals of the business.[4]

Readers will forgive Drucker's exclusive use of the masculine pronouns; again, he was writing this in the 1950s. He went on to suggest that objectives be keyed to both short- and long-range considerations and that they contain both tangible business goals and intangible objectives for organizational development, worker performance, attitude, and public responsibility. This last point is yet another example of Drucker's considerable foresight. It would be another four decades before the inclusion of intangible "assets" was formally included in a corporate performance management system (the *Balanced Scorecard*).

Already somewhat of a renowned management guru, Drucker's words carried significant weight in the boardrooms of corporate America and thus resonated with executives, who then raced to create MBO systems within their firms. Unfortunately, as is often the case with any type of managerial or organizational change intervention, implementations varied widely in form, often straying far afield from Drucker's original intentions for the model. Perhaps the biggest mistake committed by firms eager to gain the benefits offered by MBOs was transforming what was originally envisioned as a highly participative event into a top-down bureaucratic exercise in which senior managers shoved objectives down into the corporation with little regard of how they would be executed. Many also damaged the integrity of the model by making it a static exercise, often setting objectives on an annual basis, despite the fact that even 50 years ago businesses faced pressure to react quickly to market and environmental changes. But, rather than adopt a more frequent cadence, when it came to objective setting most companies chose the "Set it and forget it" pattern we so often see in organizations to this day.

Drucker's expectation was that organizations would use MBOs to foster cross-functional cooperation, spur individual innovation, and ensure all