Qulture.Rocks

THE DEFINITIVE GUIDE TO OKRs.

The Ultimate Guide to OKRs by Qulture.Rocks

How Objectives and Key-Results can help your company build a culture of excellence and achievement.

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This book is for sale at
http://leanpub.com/theultimateguidetookrs

This version was published on 2016-04-01

ISBN 978-0-9904575-7-2

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To my partners Chris, Fred, Caio, João, and Felipe.

Contents

TL;DR

OKRs are an acronym for Objectives and Key Results. Objectives are high-level, qualitative goals. Key-Results are specific, SMART goals that support the Objective. When we say support, we mean Key-Results should include metrics that trully translate Objective accomplishment.

Some pundits use a very simple statement: We will achieve ________ as measured by ____, ____, *and* ________. The first space is filled by your Objective, and the second to fourth are filled by Key-Results. Let's use an example to illustrate our definition:

Objective

- Increase the profitability of the company

(Since OKRs belong to cycles, if they don't have a "date" stamp to them, you should automatically assume the goals should be completed before the end of the cycle.)

Key Results

- Increase revenues by 10%

- Reduce costs by 3%
- Maintain general, and administrative expenses nominally constant

As you can see, the Objective is a bold goal, specific, time bound, but still achievable (as opposed to doubling my profit in a month).

Key results are the actual targets, as measured by KPIs, that will really acid test Objective achievement. They are what, in MBOs, we know by “goals”. As you can see, I’ve used Andy Grove’s method of Key-Results breakdown: using KRs as milestones for goal achievement. There are other possible approaches. Some people defend that Objectives have to be qualitative, whereas Key-Results have to be quantitative.

Introduction

If we come to think about it, there's a blurred line that separates a job description, a goal, and standard operating procedures.

Job descriptions would be fine by themselves if we substituted humans with robots, and robots were always pre-programmed with job descriptions and a manual of standard operating procedures: they would perform their jobs and responsibilities perfectly, capped only by the machines mechanical/processing limitations. But it turns out there are many tasks we haven't figured how to program robots to do better than us, yet. We humans are very good at having common sense, and transferring knowledge from one set of applications to another; at figuring out weird patterns; and at coming up with novel solutions to problems.

With this set of amazing skills comes also some limitations at performing and sustaining performance at our fullest potential, two problems that are closely related to our - unique? - faculty: volition. That could happen because a lack of challenge (related to our frontal cortex) or a lack of purpose - the "why" of what we're doing it. If we're supplied only with job descriptions, we may forget them, or lose our motivation to perform it at our best. We may even lose track of what “best” means.

Goals come in to fill this need. They help us find a sense of purpose when we properly participate in their setting, but also by linking our responsibilities at tasks’ outcomes to greater outcomes, like the success of the group we work in/with; they provide us with a challenge to constantly perform at our best; they provide gratification when we reach them, which reinforces the cycle.

OKRs are basically goals: an old staple of business management, rebranded, repurposed, and tweaked to 21st century necessities of companies and professionals.

A Brief History of OKRs

OKRs are an old staple of business management, rebranded, repurposed, and tweaked to 21st century necessities of companies and professionals.

It all started with the fathers of management, Taylor, Ford, and the sorts, who began facing business like a science. How so? They figured they could measure outcomes, and then formulate hypotheses as to how they could improve these outcomes. The main outcomes back then were productivity, as measured by output per employee. These guys figured out optimum work schedules, break times, and lightning arrangements for factories. They also started streamlining production, adding specialization to the factory floor. These practices all brought incredible, tangible improvements.

In the 50s, a fellow named Peter Drucker, who's believed to be the greatest management guru that ever lived, figured out that adding goals to managers could be a great thing. Not only they had to improve their outcomes, as Taylor and Ford had, but they also had to aim at specific target outcomes from time to time. Drucker called this framework Management by Objectives, or MBO, a concept introduced in his seminal book The Practice of Management.

Since the introduction of MBOs, practically every modern Fortune 500 company practices some sort of goal setting. It's proven to bring better results than not having goals . Some companies set them once a year; some companies set them twice a year. A number of them tie variable compensation to reaching your goals, and another number of them perform some sort of performance review based on these goals and results. The term OKRs was introduced by Andy Grove, a de facto cofounder of Intel (he joined the company on the day of its incorporation, but is not listed as a cofounder,) and its former CEO, in his great management book High Output Management . Grove didn't bring any transformational insight to MBOs, but spoke about appending key-results to goals, and calling goals objectives. But making key-results an integral part of the MBO process is very important: it brings clarity to how goals can and should be attained, and makes this "how" evident and transparent to everybody.

In Grove's view, key-results had to be chronological milestones that took professionals in the direction of reaching their goals: a one-year goal could be broken down into 12 monthly key-results, or 4 quarterly key-results. He treated them specifically as “milestones.” That use was attuned to Intel’s 80s reality: a large company, already on the top of its game, looking to translate its strategic planning into actionable goals and milestones for the whole organization.

Another Grove tweak to MBOs was his belief that goals (objectives) and key-results had to be set in a bottom-up process, from the employee up, so as to bring buy-in and empowerment to the process. Before that, companies would shove goals down the organization, from the Board to the CEO, down to VPs, and so on. Grove enabled employees to set their goals according to a broad guidance from the company, to be then calibrated with direct managers.

Last, but not least, Grove insisted that OKRs be aggressive, meaning – very – hard to achieve, what he called “stretched.” He went further along, and instituted 70% as the new 100%, meaning that achieving 70% of your goals was as good as hitting them, since they were purposely baked very hard .

In the late 90s, OKRs spread out to other Silicon Valley companies, through the inspiration of Jon Doerr, a partner of Kleiner Perkins Caufield Byers, one of the world’s foremost venture capital firms. Doerr had worked for Intel under Grove’s leadership, and got acquainted with its use of OKRs, later thinking it could be adapted to other companies of KP's portfolio. That's how Google, and later on Zynga, became fierce advocates of OKRs, tweaking the tool to their specific needs.

But what made Google's version of OKRs different from Intel's? Not much. Google shortened – a lot – the OKR cycle, making it a quarterly process. That means the company, its senior executives, and basically every employee, sets his or hers objectives and corresponding key-results quarterly, a practice more attuned to the incredibly fast-paced reality of web 2.0 technology companies. Google enforced Grove's position that goals should not be cascaded down the organization in a top-down manner, and greatly expanded upon it, according to Laszlo Bock, its SVP of People Operations:

"Having goals improves performance. Spending hours cascading goals up and down the organization, however, does not. It takes way too much time and it's too hard to make sure all the goals line up. We have a market-based approach, where over time our goals converge, because the top OKRs are known and everyone else's OKRs are visible. Teams that are grossly out of alignment stand out, and the few major initiatives that touch everyone are easy enough to manage directly."

That means at Google, everyone's OKRs are set by themselves, and made public via its intranet. Google ensures that individual OKRs are aligned with its own through a mix of supervisor oversight, peer pressure, and psychology.

A bit of goal-setting science

(Or, the goal of having goals.)

Goal-setting has historically been used in the corporate world for two main purposes:

- To motivate employees (efficiency)
- To assess their performance

Let me explain this: HR common sense has always said that goals motivate employees towards achieving better results. Goal achievement, on the other hand, has historically been used as a proxy for performance: if I've hit 100% of my goals, it must mean I'm a good performer. But we thought it made sense to briefly review goal-setting theory, or GST. We think HR professionals deserve to have this widespread practice correctly understood with a theoretical basis, because there is more to it than just these two axes of purpose.

According to GST, ˆfoo3[1] goals serve three main pur-

[1]MarionEberly,DongLiu,TerenceMitchell,ThomasLee; AttributionsandEmotionsasMediatorsand/orModeratorsintheGoal-StrivingProcess

poses:

Focus

Presuming that goals have been come up with according to the company's long, medium, and short-term strategies, according to myriad methodologies like BSC, Hoshin Kanri, etc, goals help the company focus effort, attention, and energy on what's relevant, relative to what's not relevant. According to Johnson, Chang, and Lord (2006), "goals direct individuals' attention to goal-relevant activities and away from goal-irrelevant activities." It is proven that "individuals cognitively and behaviorally pay more attention to a task that is associated with a goal than to a task that is not."

Effort

Another very important purpose of goals is to increase the level of effort that people exert at work. It is also proven that "goals energise and generate effort toward goal accomplishment. The higher the goal, the more the effort exerted." This is a tricky equation: too hard a goal, and, as you'll see in a bit, employees get demotivated; too easy a goal, and employees will also get demotivated. In sum, there's a right amount of hard, which pushes people to challenge themselves, but within a reasonable chance of achievement, that optimizes performance, which links us to

Persistence

Persistence is probably the trickiest thing to get right when setting goals: The right ones produce high effort input for longer periods of time, but the wrong ones can really wreak havoc: "large negative discrepancies may lead to a withdrawal of effort when individuals are discouraged and perceive low likelihood of future goal attainment." (Carver & Scheier, 1998). As we'll see, there are derivative factors that influence persistence towards goals.

Getting goals right

When GST researchers goal efficacy, a lot of attention is given to how individuals relate to their goals, and especially, to hitting and not hitting their goals. When there are negative gaps, or when individuals perform below their goals, they seek to attribute the reasons as to why goals haven't been met ("When individuals face negative goal-performance discrepancies, they will likely consider the reasons why they are behind., which systematically determines their subsequent behaviors."), and different reasons mean different impacts on how these same individuals take on their future goals: "attributions therefore are an important motivational mechanism that may explain under what circumstances individuals persist in goal pursuit or adjust their goal levels ˆfoo4[2]."

Here's a list of the main attribution mechanisms, and how these may affect future goal-setting:

- Internal (self) and external (locus of causality)

If I think I've hit goals because of my own competency, I'll set higher goals in the future, whereas if I think I've not hit goals because of my own incompetence to do so, I'll try to set lower goals in the future

- Stable and unstable

Additionally, if I think the reason I haven't hit my goals is not going to change (stable), I'll try to set lower goals, whereas if I think the reason I haven't hit my goals was a one off, I'll set higher goals. So if I think it was my lack of effort, it'll be better than if I think it was my lack of competence, with is more stable.: "when individuals perceive the cause of the failure or negative goal-performance to be stable and this likely to remain the same in the future, they will

[2] Lowertheirgoals/sandbag

likely expect the outcome (i.e.m failure to reach their goal) to recur."

- Controllable (under the person's control) and uncontrollable

"If people believe that causes for failure are controllable, they will provably continue or renew their effort and commitment to their original goal, but be less likely to do so if the cause of a negative discrepancy or failure is perceived to be due to uncontrollable causes"

- Higher goals/purpose

"When making an internal attribution for goal failure, an individual may be more likely to continue goal pursuit when the goal contributes significantly to a highly valued superordinate goal. The individual may be more likely to revise the goal downward when the goal is tangential to the superordinate goal's accomplishment"

OKRs and Hoshin Kanri

We believe that Objectives and Key-Results can be best implemented if used in tandem with many learnings from the Japanese Hoshin Kanri discipline, the strategic planning portion of TQM, or Total Quality Management. Actually, if we dig into Hoshin Kanri studies, we may think we're reading present-day praise for OKRs. In Hoshin Kanri,

- Senior executives set company-wide goals and CEO goals
- Goals are then unfolded to the next level down throughout the organization via discussions between the parties involved
- The practice is believed to encourage deep and meaningful bottom-up participation in goal-setting

Results-orientation

Goals should be tied to KPIs whenever possible. KPIs provide the means against which progress towards goals is measured in the organization. KPIs, or Key-Performance Indicators, can be Lagging and Leading indicators of results.

Lagging indicators are easy to measure (e.g., sales, production output, miles, gold medals) but very difficult to influence and manage. Leading indicators, on the other hand, are harder to measure, but can be managed and influenced before they materialize into results (e.g., sales calls, meetings done, prospects opened, hours trained).

Whenever possible, goals should focus on results, as opposed to efforts or means to achieving results. Sales are the most intuitive example of a results-oriented KPI to base a goal upon. Therefore, sales teams have an easy time setting results-oriented goals.

Even though goals should be generally based on lagging, results indicators, they should be mixed and matched with the right effort-goals (those based on leading indicators) to ensure that the organization learns how to best achieve goals, and that it remains capable of achieving goals in the future.

A great example is profit. Profit may be the ultimate results-oriented KPI on which to base goals upon. But if increasing current year profit is the sole goal of an organization, it runs the risk of, for example, jeopardizing its ability to generate future profits by not balancing this goal with other, effort goals, based on leading KPIs that ensure future sustainability. Therefore, at the top level, your company should mix profitability goals (or sales goals, if you're a startup) with effort-based goals, such as maintaining a baseline Net Promoter Score with customers.

MBOs x OKRs

OKRs look basically like goals to me. What's the big fuss about them? Great point. OKRs are no big deal: a tweak to the MBOs framework. Here're some of the differences between regular goals and OKRs:

- Shorter cycles: OKRs are set and reset in shorter cycles, from monthly to quarterly.
- More transparency: OKRs are usually public within a company. Since they are less directly tied to compensation (see below), publicizing OKRs is less of a problem.
- Bottom-up: OKR are set in a more bottom-up way. In MBOs, goals tend to be cascaded down the organization in a formal, rigid matter. Adding every individual goal in the company in thesis adds up to the company's goals. OKRs are more flexible: employees are encouraged to set their OKRs themselves in alignment with higher goals (like their team's, or the company's), and then check them in with their managers.
- Moonshots: OKRs are achieved when their 70% hit. So, you ask, 70% is the new 100%? Not really.

The idea is that if you aim higher, you'll reach higher. So the % of completion means less than the actual results achieved.

- OKRs are less directly linked to compensation: in hard-core meritocratic organizations, goal achievement is basis for variable compensation. If you achieve 100% of goals, you make Y times your monthly/annual salary. (Some companies may even compose this formula with company-wide triggers), that may increase or decrease payout. But that may lead to sandbagging throughout the organization – setting low goals so that you hit them and make your bonus. Therefore, the % of completion doesn't matter in OKRs, but the actual results achieved. (In MBOs, the quotient (% of completion of a goal) is what matters, or a proxy for results).

Criticism

Most of the literature available out there about OKRs doesn't help eager professionals to learn how to implement them. One of the leading companies uses: "Put a man on the moon by the end of next decade" as an example of an Objective. I know, I know. It's figurative. But it's also confusing. That's clearly not an Objective for OKR purposes. It's not something achievable in a 3-month, or even 1-year cycle. It's more of a multi-year company-wide Objective . What we call a Dream, or a Mission (We'll get to those very bold, long-term goals in a second, when I introduce you to the concept of a Dream, that'll turn OKRs into DOKRs).

To help achieve this understanding goal, we would kindly suggest you to limit your objectives to the cycle length you prefer to adopt. Start out with shorter cycles, so you can correct, iterate, and learn by doing.

Another great source of confusion is that examples tend to mix a number of different taxonomies:

Four different approaches to understanding OKRs

	A	B	C	D
Objectives	Qualitative	Goal	Whole	What you want
Key-Results	Quantitative	Measurable Results	Parts	How you'll do it

Table 1: Four different approaches to understanding OKRs

4 OKR Approaches

We believe in the school of thought that defends that Key-Results should be results whenever possible, as opposed to parts of a whole, chronological milestones, or a plan of action. This is what wrong OKRs look like (according to the Results approach):

Objective

- Learn how to cook the basics by September 1st

Key Results

- Buy and read “The 4-Hour Chef” by Tim Ferriss by June
- Enroll at a cooking 101 course at the local community center by July
- Cook dinner for parents and siblings by August 15th
- Ace cooking knife work by September 1st

This example is great: if you achieve each of the 4 goals, does it mean you’ve “learned how to cook”? Not necessarily. These Key-Results are tasks, that at best can be thought of being highly correlated to knowing how to cook, but that do not ensure that the Objective was achieved.

OKRs and Strategic Planning

Even though in today's ultra fast-paced world multi-year strategic planning may sound ludicrous, a company still has to have a vision of what the future will look like, against which to plan - and steer itself - even if that means recalibrating these plans often. In an OKR-using company, we propose a system where OKRs are set in two concurrent cycles:

- Yearly OKRs: set at company level, the yearly OKRs are what should be achieved in the current year, to drive the company closer to its long-term vision (Dream, as you'll see below)
- Quarterly OKRs: set at company, team, and sometimes individual levels, the quarterly OKRs are the tactical progress that should be made by the company to drive it closer to its yearly goals

Dreams + OKRs

The long-term vision of the company should be simplified into a Dream, which, in Google's case, means to “organize the world’s information and make it universally accessible and useful.” This Dream should serve as a guiding star to the company’s most important decisions, and a stepping stone for every cycle of OKR setting, be it yearly or quarterly.

Dreams should be, as put by Jim Collins, author of *Good to Great*, Big, Hairy, and Audacious Goals. They should be very aggressive, tied to the company’s greater purpose. As Jorge Paulo Lemann, a Brazilian entrepreneur, and currently the biggest individual shareholder in companies like Anheuser-Busch InBev, Burger King, and Heinz Kraft, says, “you have to dream very big dreams, because big dreams and small dreams take the same amount of effort.” Google’s Larry Page and Eric Schmidt say the same, as well as Amazon’s Jeff Bezos. Henry Ford’s famous quote goes that way to: had he not thought of making cars a mass-market product, people would still be riding their horses to work.

The Ongoing Unfolding Process

Unfolding is the process through which Dreams become Objectives. If you think about it, Objectives stand to Dreams just as Key Results stand to Objectives . If we go on unfolding our first dream from last example, we’ll get the following goal tree, that’s got objectives for the next six months:

Dream:

- Become the largest SaaS company in Latin America

Objectives for the Year

- Be ready for Series A (a)
- Have a top-notch product ready for the large enterprise (b)
- Create and iterate a Sales Machine (c)

Objectives for the Quarter

- Raise a series-seed round (a)
- Have a pilot running with at least one large enterprise (b)
- Book at least U$ 50k in sales with a hired salesperson (c)

Key-Results:

- U$ 100k in MRR (a)

- Generate 200 leads within our Ideal Customer Profile (a)
- Create 5 high-quality user success cases (a)
- Have all users using mobile website (b)
- Put first layer of gamification features to work for engagement testing (b)
- Create full suite of notifications/logistics (b)
- Implement at least 80% of roadmap-coherent user feedback (b)
- Hire first SDR to generate at least 150 leads by quarter-end (c)
- Have a proven ICP to reach U$ 1 mio MRR (c)

As you can see, each Objective is consistent with the Dream we've cascaded, and each Key-Result is consistent with the Objective we've cascaded. That's why I've labeled each with a letter (a, b, and c) at the end of every item, to make the relationships more evident. There really isn't any rocket science to it. On the other hand, I'm sure some sort of OKR method is surely helping Elon Musk and SpaceX find their way to Mars.

Another representation of the unfolding process can be viewed in the diagram below:

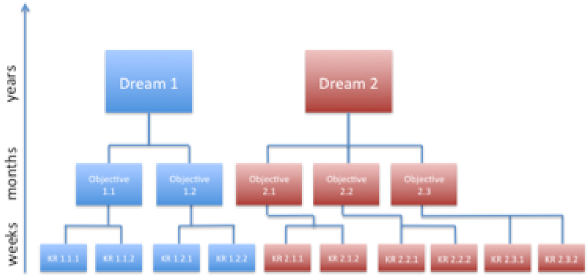

Figure 1: DOKR® cascading

DOKR Cascading

Criticism to unfolding OKRs

"Having goals improves performance. Spending hours cascading goals up and down the organization, however, does not. It takes way too much time and it's too hard to make sure all the goals line up. We have a market-based approach, where over time our goals converge, because the top OKRs are known and everyone else's OKRs are visible. Teams that are grossly out of alignment stand out, and the few major initiatives that touch everyone are easy enough to manage directly."

- Laszlo Bock, VP People Operations, Google

Experts preach that there is no need for a rigid, top-down unfolding process to take place in OKRs (as opposed to MBOs). They believe having company-wide OKRs, as well as upper management OKRs, widely publicized would naturally drive people to align their OKRs to the company's larger goals, so that time is more efficiently spent in other activities.

We at Qulture.Rocks believe that it is optimal to start practicing OKRs in a very relaxed manner (mostly bottom-up) which will, as expected, produce a very wide dispersion of OKR quality across the organization. The second step, as people gain more maturity and comfort with the process, would be to insert top-down cascaded OKRs into the equation, which help educate people as to how their own OKRs should contribute to the company's goals and greater strategy. Depending on the maturity level of the company, management can then revert back to a more bottom-up OKR setting process as people gain a mature understanding of how their OKRs contribute to the company's.

Anyways, all serious adopters of OKRs we know off *do* cascade yearly company-wide goals into quarterly company-wide goals, and these into the CEOs and VPs goals, and from VPs down to most of the important teams and squads on the organization.

How goals contribute up

Goals can be unfolded in two ways: A and B. Until you've reached a point where unfolding is not necessary, it is very important to train employees on how exactly their activities contribute to the company's goals, and teaching them about A and B-types of contributions really helps in a mathematical sense.

A-type unfolding

In A-type unfolding, a goal is unfolded down to the next hierarchical level down the organization with the same KPIs and measurements of the original, upper goal. What changes is the amount of the goal that is attributed to each person. An example may help:

VP Sales Key-Result for the quarter: U$ 100k in sales

- Director Sales 1 Key-Result for the quarter: U$ 50k in sales
- Director Sales 2 Key-Result for the quarter: U$ 30k in sales

- Director Sales 3 Key-Result for the quarter: U$ 20k in sales

As you can see, all second-tier goals (the directors') add up to the first-tier goal (the VP's). The KPIs are all the same (sales). So each director has a "direct share" of the VP's goal.

B-type unfolding

In B-type unfolding, a goal is broken down into it's components to the next hierarchical level down the organization with different KPIs and measurements of the original, upper goal. So everything changes. Another example:

CEO Key-Result for the quarter: 10 percentage points growth in profit margin

- VP Sales Key-Result for the quarter: U$ 100k in sales
- VP Marketing Key-Result for the quarter: 5% price increases without negative volume impact
- VP Production Key-Result for the quarter: 15% cost reduction in all manufacturing lines
- VP Finance Key-Result for the quarter: 5% reduction in financial expenses

As you can see, the CEO's goal was unfolded down to the VP's, but was broken down to each VP's area of accountability and responsibility. If all VP's hit their goals, the CEO will have hit his goal, but they aren't the same as in the A-type example above.

If your people will really understand how their OKRs contribute to the company's OKRs, strategy, and vision, it is important that they understand, mathematically, or even casuistically, how this happens. It is management's responsibility to teach people how this happens as the level of OKR maturity of the company grows.

Who should set individual OKRs?

This is a very delicate subject. Some OKR coaches, like Felipe Castro, founder of Lean Performance, defend that multi-discipline teams should have only team OKRs, and not individual OKRs, since finding individual accountability/ownership of results and KPIs is very difficult.

For example, let's think about an e-commerce company that has a team composed of designers, engineers, and product managers tackling the e-store's conversion rates. One of the projects is to reduce the drop-out rates of customers in the shopping cart section. This team's Objective is clear: *Improve conversion rates.* One of their key-results will surely be *Reduce cart drop-out rates by 5%*. How can this team goal be further divided, or unfolded, to the different members of the team?

Easy: the designer's goals is going to be to think of different colors to A/B test buttons. Engineers will then implement these changes. The product manager will talk to customer. Etc. But these are not results. These are tasks, and tasks should not be goals. They aren't ends. They're means to an end. Now you know the argument against individual goals in multi-discipline teams.

Exercise: Completing the unfolding process

You should now start unfolding your dreams into Objectives that you want to accomplish in the next several months. Every dream should be cascaded into 3 to 5 Objectives, that must be, remember, BSMAT (The original acronym is SMART, and stands for Specific, Measurable, Attainable, Relevant, and Temporal. But I think Bold is just as – or even more – important than the others, and must be included. Relevant, to me, is self-evident, so doesn't deserve a coveted spot at the acronym. And Temporal is weird, so I've swapped it for Time-bound. After spending five minutes trying to come up with a nice-sounding acronym, I gave up. BSMAT it is. If you have a better idea, shoot me an email at kiko@qulture.rocks):

- Bold
- Specific
- Measurable
- Attainable
- Time-bound

Now write them down: three to five Objectives that you want to achieve in the next 3 to 12 months, and that, most importantly, will lead you to achieving one of your dreams:

Objectives	1________	2________	3________	4________	5________
Key Results					
1					
2					
3					
4					
5					

Table 3: Objective>Key Results Cascading Worksheet

Table 2: Dream>Objective Cascading Worksheet

Now for each Objective, you should break down three to five key results you must achieve in the next few months, that will lead you, either as milestones or parts of a whole, to achieving your objectives (remember, this table is only an inspiration for you to brainstorm your dreams, objectives, and key-results). I'll supply a better table for you at the appendix, for complete organization, as well as a Google Sheet available for download:

Dreams	1_________	2_________	3_________
Objectives			
1			
2			
3			
4			
5			

Table 2: Dream>Objective Cascading Worksheet

Table 3: Objective>Key Results Cascading Worksheet

The OKR cadence

More important than setting goals are the rituals that form the OKR cadence, or what we'll call monitoring. Monitoring is where the rubber meets the road. It's where the benefits of OKRs (enhanced performance, a high delivery bar, more alignment, learning, etc) come to life and produce better company-wide results.

Learning from goals

The first, most important part of goal monitoring is learning from the goals. It is very important that the organization foster a learning culture for goal and KPI monitoring, so that nobody is afraid of breaking "bad" news, like a below-target leading indicator that may be managed up in time for goal-achievement. In Dean Spitzer's *Transforming Performance Measurement*, the author explains:

"One of the major reasons why performance measurement is seldom able to deliver on its positive potential is because it is almost never properly "socialised," that is, built ***in a positive way*** *into the social fabric of the organization. It is this building of a positive environ-*

ment for performance measurement that I believe is the missing link between basic, workmanlike performance measurement and the truly transformational kind."

But what's wrong with the way we currently measure and learn from goals, if we've been grown accustomed to gradings and scores in school and sports? Dean Spitzer summaries it neatly:

"Why is the attitude toward measurement ***at work*** *so different - ranging from ambivalence to outright hostility? Because too many people are accustomed to measurement's negative side, especially the judgment that tends to follow it - too much traditional performance measurement has been seen as 'the reward for the few, punishment for the many, and a search for the guilty.'"*

The first part of building this learning culture into your culture is to know the types of cases that will be discussed for learning purposes, and which I've reproduced below from Vicente Falconi's Hoshin Kanri book:

Goal Completion Analysis

Action Plans

Basically, for every goal, there should be an action plan that outlines what will be done, and by whom, in order for that goal to be met. To find out what the action plan is, the team T> must convene, and brainstorm possible solutions to the “problem” at hand, either through 5-Whys, a Fishbone Diagram, or other problem-solving techniques. Once a number of contributing T> causes - and possible attack fronts - are found, the team decides on which to tackle based on Pareto’s principle, which 20% of activities will produce 80% of the results required.

The analysis table basically groups goals in two axes:

- wether the goal was surpassed, met or not met, and
- wether the action plan was executed or not

Therefore, we’re able to analyze, basically, if a goal was met or not “on purpose” or by “chance”. Here’s how to handle the 6 possible cases:

- **Case 1: Actions were executed according to plan, but goal was not met**. In this case, either the plan was wrong, or there was some new variable affecting the problem that appeared after the plan was made. The team has to either learn why the plan was wrong in the first place, or to tweak the plan for the next cycle taking the new variable into account.
- **Case 2: Actions were not executed according to plan, and goal was not met**. It is important to understand why the plan was not executed. If there were impeding factors that were preventing the plan from being executed, the team must understand why these weren't neutralized with new actions or alternative paths of action.
- **Case 3: Actions were executed according to plan, and goal was met**. Even when goals are met, teams must thoroughly analyze the achievements, and evaluate if they were met in great part because of the action plan, or because of external factors. Which external factors were these? Why weren't they foreseen? The team must understand the whys behind each answer.
- **Case 4: Actions were not executed according to plan, and goal was met**. Again, it's important to understand which unforeseen factors contributed to the goal, and why they weren't

foreseen. It's also important to understand why the action plan was not executed. It will hardly have been a conscious effort to not execute the plan.

- **Case 5**: **Actions were executed according to plan, and the goal was surpassed**.
- Case 6: [][][]

Five Whys

The Five Whys are a method to get to the root cause of a problem. When people stay at the first layer of a problem (the first "why") they tend to overlook the real root cause. Therefore, the tool is to ask Why five subsequent times (or as many times as needed) until the final root cause of a problem is found.

In our example:

Q: Sales fell by 10%. Why? *A*: Because of the demonstration. *Q*: Why the demonstration affected sales? *A*: Because some streets were closed, and our trucks couldn't reach merchants. *Q*: Why didn't we use smaller trucks to deliver goods on that day? *A*: Because we don't own them.

There! You've reached the root cause of the sales drop, which is much more subtle and specific than merely blaming the demonstrations.

The **root cause** often makes an action plan to solve the problem obvious. In this case, the suggestion is to buy a smaller truck for use during the demonstrations scheduled for the next month. If sales are maintained after the experiment, the company then adopts a new standard: having smaller trucks for those events.

The fishbone graph

The fishbone graph (also called an Ishikawa Diagram, or Cause-and-Effect diagram) is nothing more than a way to plot possible causes after the Five Whys reasoning, to clear up the thought process of all the involved parties. Let's plot our example in a fishbone graph:

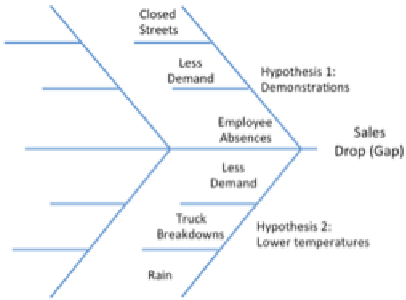

Figure 14: Fishbone graph application
Source: Vicente Falconi, author.

Figure 14: Fishbone graph application

Mondays: problem-solving meetings

Every monday you should gather your team to discuss OKR progress. The idea is to discuss % of attainment of every Key-Result, then discuss the outlook for every Key-Result, then to go over what's the game plan of critical tasks that will help the team walk toward each Key-Result, and lastly, problem-solve every Key-Result that has a negative outlook.

Problem-solving is a critical skill to be dominated, because it creates the right mindset towards a high-performance culture. The idea is to understand what's happening, and not point fingers and find blame. So it is very important to not discourage people, by humiliating them or criticizing them, if they publicly aknowledge that a Key-Result is on negative outlook. The right path to be taken is to have the group brainstorm ideas, remove roadblocks, and find solutions that will enhance the person's or team's ability to improve the Key-Result's outlook.

This is very similar to Alan Mulally's working together method. He ensured no messengers were shot at Boeing, so that bad news could flow freely, and problems could be promptly solved with the help of the group. He liked to say you can't manage a secret.

Two powerful tools to guide your team through problem-solving are the **5 Whys**, and the **Fishbone Diagram**:

Fridays: Time to celebrate

According to Cristian Wodtke, author of *Radical Focus*, a book about implementing OKRs as a way to drive, er, radical focus in startups, Fridays should hold a sacred time to celebrate. No problem solving, no KPI monitoring, whatsoever: just celebrating the accomplishments of the week, in a way that really enforces progress. Celebrating, and giving positive reinforcement, is crucial, and should never be forgotten or overlooked.

Grading OKRs

There's some discussion around how OKRs must be "graded". The Google approach is to keep it incredibly simple, and grade OKR completion with only 5 possible levels, which are agreed upon by the company as a all-encompassing rule for OKR grading:

- 0.0: No progress made
- 0.3: Small progress made (what's accomplishable with minimal effort)
- 0.5: Reasonable progress (what's accomplishable with considerable effort)
- 0.7: Expected progress made (what's accomplishable with expected effort - as we discussed before, 0.7, or 70%, is Google's 100%)
- 1.0: Amazing progress made (more than was expected)

This grading scale invites considerable subjectivity, and adds considerable burden on the backs of HR professionals and managers, that have to "calibrate" OKR achievement just like performance reviews.

Another way to grade OKR achievement, a much more precise one, is to measure it based on actual progress made: if the goal was to reduce customer churn from 10% per month to 5% per month, and churn at the end of the cycle was 5%, 100% of the OKR was achieved (of course, if churn at the end of the cycle was 10%, 0% progress was made, and so on, and so forth). An OKR may also be binary, like a partnership deal: the deal was either completed or not, and therefore, the OKR can be either 100% or 0%.

If you're investing in a results-oriented, high-performance culture, monitoring KPIs is a must, and therefore, OKRs should be based on KPIs. That will ease the OKR grading process by a lot.

Troubleshooting

OKR efforts fail for a myriad reasons. Here we'll discuss a number of them, and help you steer away from trouble.

Not doing it gradually

OKRs should be implemented gradually:

- From less goals to more goals
- From company goals to individual goals
- From shorter cycles to quarters

If you try too many things at once, like unfolding 5 Objectives from the company all the way down to the individuals in an anual cycle, it will most certainly fail. People won't know what the f%ˆ& it is all about, won't remember their goals, won't monitor them, etc etc etc. It is very important that the company get the cadence of goals right. And that means warming up the engines gradually, enforcing the right rituals, and creating habits. Actually, OKRs are an amazing example of a corporate habit.

So start out with one company-wide Objective and three or four key results in a one-month cycle. That's it. See how it goes, learn from the process, and repeat. After three months, cascade company-wide goals down to teams. Again, one objective per team, cascaded from the company's goals. Three more monthly cycles. And so on and so forth.

Setting too many OKRs

One of the best things about OKRs is that they are conducive of hard focus. By shortening goal-setting cycles, it is possible to reduce the amount of goals being pursued in each cycle, so as to increase focus.

The total number of Os + KRs of any single entity should (or dare I say must) not exceed a person's fingers. More than that, and they won't even be remembered. And because Objectives are groups goals (Key Results) thematically, there shouldn't be more than 3 general priorities in an employee's head at each cycle.

Let's see a practical example of Fred the Product Manager's OKRs for the 1st quarter of 2016:

Objective 1 + Improve engagement across the recurrent billing product

Key Results + Increase unique page views by 15% + Increase average time spent on each page in 5%

Objective 2 + Generate high level of customer satisfaction

Key Results + NPS > 8 with > 90% of customers responding

Objective 3 + Roll out new features

Key Results + Have credit card reconciliation feature rolled out and used by at least 4 customers on a daily basis

As you can see, Fred has three things he has to focus on this quarter:

- Engagement
- Customer satisfaction
- New reconciliation feature

These priorities are backed by 4 key results, that support them. That's highly manageable, and highly rememberable without the aid of systems and spreadsheets. As Marcel Telles, former CEO of AmBev (now SAB Miller + Anheuser Busch InBev) says, "goals have to fit in the fingers of one hand". We've extended the number of fingers a bit to fit OKRs :)

Not monitoring OKRs

Goals have absolutely no reason to be if they are not monitored. Accountability is key: employees have to be the owners of their OKRs, and goal attainment should be monitored and discussed on an ongoing basis. There are a number of reasons for that:

- By discussing the WHYs of every goal, the organization learns what works and doesn't work. What good is there in knowing that someone hit his goals, if he or she doesn't know what specific course of action lead to the results being evaluated?
- Constant monitoring shows that the **organization** cares about the OKRs. Many companies spend time and effort setting OKRs, only to not talk about them until the end of the cycle. If the company's not monitoring its goals, teams, managers, and employees, will not monitor their goals. So that's something that has to be lead by example, from the top down. Company-wide OKRs should be monitored at all-hands meetings; team OKRs should be monitored at team meetings. Never skip an OKR monitoring meeting: zero tolerance. Just like it worked for public security in NYC, it will work for your high-performance culture.

OKRs that are either too aggressive or too easy

There's scientific evidence (Locke) that harder goals produce better performance. That's why there's a lot of talk about setting stretch goals. Carlos Britto, de CEO of AB InBev, says optimum goals should be "the ones you know 80% how to hit. The other 20% will be learned along the way." Science also suggest that goals should be achievable. Setting goals that are too hard frustrates people (that have to believe they can reach them).

Locke and Latham say:

"Nothing breeds success like success. Conversely, nothing causes feelings of despair like perpetual failure. A primary purpose of goal setting is to increase the motivation level of the individual. But goal setting can have precisely the opposite effect, if it produces a yardstick that constantly makes the individual feel inadequate. Consequently, the supervisor must be on the lookout for unrealistic goals and be prepared to change them when necessary."

Too aggressive goals

One of the most common mistakes first-time OKR adopting companies make is setting too many stretch goals to start with. Since many don't have a firm grasp of KPI levels due to the ever-changing nature of startup companies, they try too err on the aggressive side, by fear of not challenging workers, and lured by "roofshots", "moonshots", and the like. Needless to say, goal-setting's first impression is terrible, OKRs' image is tarnished, and people start thinking that not hitting goals is the norm, or worse, they drop the practice altogether.

The right way to do this is to set conservative OKRs to start with: levels that are not a stretch, but not easy as well, and which OKR owners are highly confident can be achieved. After a few cycles of most goals been met, the company can start slowly stretching goals, in an ongoing fine-tuning process.

After a high maturity level is reached with the goal-setting practice (think the company, as a whole, hits 70 to 80% of goals, misses 10%, and surpasses 10% consistently), people should start having the freedom to set one truly stretched goal per cycle, but not really more than that.

Google, the world's most famous OKR practicing company, sends mixed signals in that sense: it preaches, basically, that 70% is the aim (although Google's VP of People Operations disagrees with us, it essentially sets 70% as the new 100% of achievement). Its leaders believe that systematically setting harder goals (or aiming for 100%) company-wide will yield better overall performance. We think that in practice people will consider 70% the new 100%, and therefore the effect will be neutralized. If it didn't, as science also suggests, people would become systematically frustrated and would be leaving Google in troves.

Too easy goals

Alternatively, goals can't be too easy. Research points that easy goals bring low motivation and energy levels, for the lack of challenge they present workers:

"One of the most consistent findings concerning the level of goal difficulty is that when goals are set too low, people often achieve them, but subsequent motivation and energy levels typically flag, and the goals are usually not exceeded by very much."

You can't set too aggressive goals, but you also can't set too easy goals. It's a fine line.