

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

employees had a line of sight to overall goals. In practice, that rarely occurred and eventually MBOs became the subject of substantial criticisms. However, those with keen business acumen saw the underlying power of Drucker's words and recognized the value inherent in the process. Enter Andy Grove.

A Silicon Valley legend, Andy Grove served as CEO of Intel Corporation from 1987 to 1998 and shepherded the company through its remarkable transformation from a manufacturer of memory chips into the planet's dominant supplier of microprocessors. An astute student of business, Grove recognized the latent power in the MBO system and inserted it as a key piece of his management philosophy at Intel. However, he made a number of modifications to the model, transforming it into the framework most of us would recognize today. In Grove's thinking, a successful MBO system need answer just two fundamental questions: (1) Where do I want to go (the objective) and (2) How will I pace myself to see if I am getting there?⁵ That second question, simple as it may seem, turned out to be revolutionary in launching the OKRs movement by attaching what would come to be known as a "key result" to an objective.

A guiding principle in Grove's use of objectives and key results was driving focus. As he put it:

Here, as elsewhere, we fall victim to our inability to say "no"—in this case, to too many objectives. We must realize—and act on the realization—that if we try to focus on everything, we focus on nothing. A few extremely well-chosen objectives impart a clear message about what we say "yes" to and what we say "no" to—which is what we must have if an MBO system is to work.⁶

He didn't stop at limiting the number of objectives, however. Grove modified the Drucker model in a number of important ways.

First, he suggested setting objectives and key results more frequently, recommending quarterly or in some cases monthly. This was in recognition of the fast pace of the industry in which he found himself, but also reflected the fundamental importance of adopting fast feedback into an organization's culture. Grove also insisted that objectives and key results not be considered a "legal document" binding employees to what they proposed and basing their performance review solely on their results. He believed OKRs should be just one input used to determine an employee's effectiveness.

Another important ingredient of success at Intel was ensuring OKR creation was a mix of top-down and bottom-up involvement. As noted earlier, Drucker assumed this mechanism in his rendering of the model, but many

organizations, fixed in a purely hierarchical mindset, abandoned it. Not so with Grove. He intuited the critical nature of employee involvement in fostering self-control and motivation.

Finally, Grove understood the importance of introducing the concept of stretch into OKRs. In his words:

When the need to stretch is not spontaneous, management needs to create an environment to foster it. In an MBO system, for example, objectives should be set at a point high enough so that even if the individual (or organization) pushes himself hard, he will still only have a 50-50 chance of making them. Output will tend to be greater when everybody strives for a level of achievement beyond his immediate grasp, even though trying means failure half the time. Such goal-setting is extremely important if what you want is peak performance from yourself and your subordinates.⁷

At this point in our story, we're just one degree of separation from Google and the OKRs boom we're witnessing today. John Doerr represents that link in the chain. Now a partner at the venerable Silicon Valley venture capital firm Kleiner Perkins Caulfield and Byers, Doerr started his career at Intel and enthusiastically soaked up the many management lessons Andy Grove was only too pleased to volunteer. Among them, of course, was objectives and key results. Doerr recognized the value and potential of the model and continues to share it with entrepreneurs to this day.

Two of his early students were Larry Page and Sergey Brin, who you may know as the founders of Google. Here's how John Doerr recalls the introduction of OKRs at Google:

Shortly after we invested, we had our board meetings around a ping pong table above the ice cream parlor on University Avenue, and Larry called an all-hands meeting because I'd shown him this OKR thing . . . I went through a slide presentation that I still have today . . . and Larry and Sergey—so smart, so aggressive, so ambitious, so interested in not just making but achieving moonshots, embraced the system and that was thirty or so people and to this day I think they're part of the culture, they're part of the DNA, at Google they're part of the language the actual words that you use. Larry embraced it for himself, for the company and he uses it as a tool to actually empower people. People think it's about accountability and it does achieve that as a byproduct. It's really a way to build a social contract in your organization that says I'm going to sign up to do this amazing stuff.⁸

From those modest beginnings at a board meeting above an ice cream parlor, the OKR model has become the performance management tool of choice throughout all of Google.

We live in a Google universe today. As an example of the behemoth's place in the business zeitgeist, if you were to type "Google" into the search bar on Amazon (books only) you'd get 17,882 results as of March 2016. If someone were to write a book sharing how often Google changes the paper towels in their restrooms it would most likely rocket to number one. Given their place in the popular culture you might assume that OKRs began their ascendance immediately upon Google's adoption of the program. However, it wasn't until 2013 and the release of a video by Google Ventures partner Rick Klau that the model and the movement really began to gain inexorable momentum.⁹ The Klau video has now been viewed over 300,000 times, and while that might not seem like an extraordinarily high number when sleeping-kitten videos easily attract millions of views, it is an achievement when you consider the program runs close to an hour and a half. That's a serious commitment, but one many organizations were willing to make in order to emulate the performance paradigm at Google.

As of today, OKRs have been embraced by thousands of organizations around the world. The nexus of OKR activity is often assumed to be Silicon Valley, with high profile companies like LinkedIn, Twitter, and Zynga serving as passionate proponents of the framework, but in reality, OKRs have been embraced by organizations large and small around the globe. What we've shared represents the life of OKRs to this point. We look forward to companies like yours contributing to the next phase of their development.



WHAT ARE OBJECTIVES AND KEY RESULTS (OKRs)?

Here is our definition:

OKRs is a critical thinking framework and ongoing discipline that seeks to ensure employees work together, focusing their efforts to make measurable contributions that drive the company forward.

We doubt anyone is going to put that on a t-shirt any time soon. But it's important to specifically define the model so that as you begin working with, and sharing it with your teams, you possess a shared understanding of what exactly you mean when you say "OKRs." One of the biggest problems we see when organizations launch any kind of a change program is simply terminology, or, more precisely, not being specific with their terminology.

Confusing your words can lead to the transmission of mixed signals to employees and result in less than desirable outcomes for the organization. Thus, it's imperative that you use consistent definitions for OKRs terms and concepts. We recommend that you employ what we outline in this book. However, in the end it really doesn't matter what you call the concepts—remember Shakespeare's admonition: "*What's in a name? That which we call a rose by any other name would smell as sweet.*" The key is using your chosen terms with unwavering consistency throughout the organization to ensure there is true consensus on the point, and the terms and concepts are communicated clearly to all stakeholders. Everyone has to be operating from the same playbook should you expect OKRs, or any new initiative, to be understood, accepted, and able to produce results. Back to our definition, let's break it down into more reasonable bite-sized chunks:

- *Critical-thinking framework:* The end in mind with OKRs is accelerating performance, but you don't get there simply by monitoring your results each quarter. In the preceding history lesson we introduced the work of Peter Drucker. One of our favorite "Drucker-isms" is this: "The most serious mistakes are not being made as a result of wrong answers. The truly dangerous thing is asking the wrong questions."¹⁰ When examining OKR results your challenge is to go beyond the numbers and, like a business anthropologist, dig deeper into what they're telling you so that you can unearth the stimulating questions that may lead to future breakthroughs. OKRs, when implemented with rigor and discipline, facilitate this model of critical thinking.
- *Ongoing discipline:* OKRs represent a commitment—of time and effort. Earlier, we warned against the danger of "set it and forget it" goal setting. To ensure you benefit from OKRs, you must commit to actually (as common sense as this sounds) using the model. That entails updating OKRs each quarter (or whatever cadence you choose), examining results carefully, and modifying your ongoing strategy and business model as necessary, based on results.
- *Ensure employees work together:* We've already noted the importance of cross-functional collaboration and the value of teams in creating organizational success. OKRs must be structured, and used, to maximize collaboration and alignment. One of the ways this is facilitated is through the inherent transparency of OKRs, which are shared widely so that everyone, from top to bottom, can see objectives and key results from throughout the organization.

- *Focusing their efforts:* OKRs are not, and should never be, considered a master checklist of tasks that need to be completed. The aim of the model is identifying the most critical business objectives and gauging accountability through quantitative key results. Strategy pundits are fond of noting that strategy is as much about what not to do as it is about what to do. So it is with OKRs. You must be disciplined in determining what makes the final cut.
- *Make measurable contributions:* As we'll explain shortly, key results are typically (and almost exclusively) quantitative in nature. Whenever possible, we want to avoid subjectivity and note with precision how the business is advancing based on achievement of our OKRs.
- *Drive the company forward:* The ultimate arbiter of success is achievement of your goals. Follow the advice on these pages and we're confident OKRs will light that path for you.

Now you can make six t-shirts! With the methodology sufficiently dissected, let's turn our attention to what comprises objectives and key results.



OBJECTIVES

An objective is a concise statement outlining a broad qualitative goal designed to propel the organization forward in a desired direction. Basically, it asks, "What do we want to do?" A well-worded objective is time-bound (doable in a quarter) and should inspire and capture the shared imagination of your team.

As an example, we're creating a series of collateral materials for this book, and one of our objectives this quarter is: "Design a compelling website that attracts people to OKRs." The objective is concise (just nine words), qualitative (no numbers here—that's the province of the key result), time-bound (we're confident we can create a design this quarter), and inspirational (it's exciting to engage our creativity in producing a site that people will find both helpful and aesthetically appealing).



KEY RESULTS

A key result is a quantitative statement that measures the achievement of a given objective. If the objective asks, "What do we want to do?" the key result

asks, “How will we know if we’ve met our objective?” In our previous definition, some may quibble with the use of the word *quantitative*, arguing that if a key result measures achievement, then by its very nature it’s quantitative. Point taken, but we want to err on the side of too much information here to ensure that you recognize the vital importance of stating your key results as numbers.

The challenge, and ultimately value, of key results is in forcing you to quantify what may appear to be vague or nebulous words in your objective. Using our example objective of “*Design a compelling website that attracts people to OKRs*,” we’re now committed to designating what we mean by “compelling” and “attracts.” As you’ll discover with your own key results, there are no given translations of words like *compelling* and *attracts* into numbers; you must determine what the words mean specifically to you in your unique business context. Here are our key results (most objectives will have between two and five key results—more on that later in the book).

- 20 percent of visitors return to the site in one week.
- 10 percent of visitors inquire about our training and consulting services.

The high-wire act you must balance with key results is making them difficult enough to force a good deal of intellectual sweat to achieve, but not so challenging as to demoralize your team because they appear impossible. In Exhibits 1.1, 1.2, and 1.3 you’ll find more examples of objectives and key results for corporate, team, and individual levels.

That’s all we’re going to say about the mechanics of OKRs for now. Which may leave you thinking, “*Hmm, this seems pretty easy; do I really need to read the rest of this book?*” The answer is yes, of course you do.

Many seemingly simple frameworks are actually “deceptively” simple. The basic principles can be grasped quickly, and thus there is a temptation to eschew further study in favor of diving in and working with the model. However, you do so at your significant peril. There are many subtleties and “finer points” to the OKR approach that must be mastered should you hope to garner the benefits promised by the system. For example, a short list of considerations (we’ll cover all these topics and more in the pages ahead) includes: Where to build your OKRs (corporate level or business unit), who will sponsor the implementation, choosing from the types of key results available, aligning OKRs with your strategy and vision, aligning cross-functional teams, reporting results to ensure rapid feedback and learning, and many more. So, please do strap yourself in and join us for the rest of this ride. We promise to make it as smooth a trip as we can.

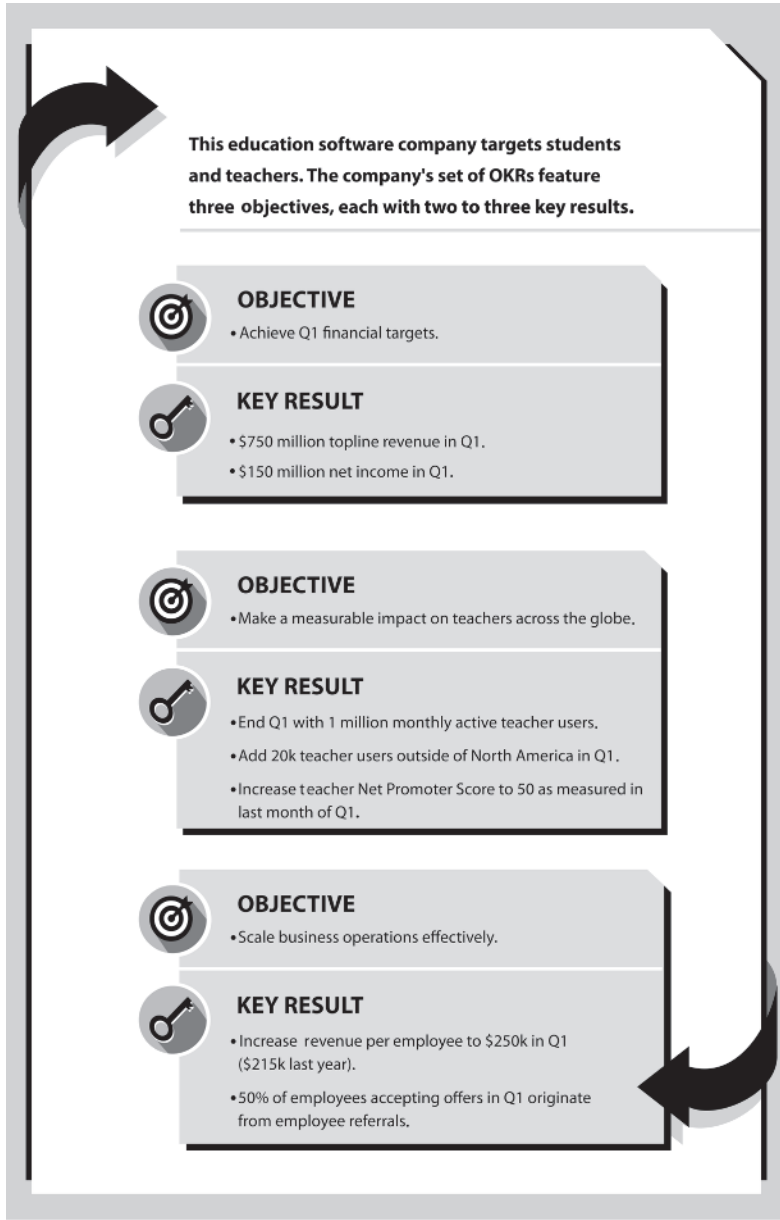


EXHIBIT 1.1 Examples of Company-Level OKRs

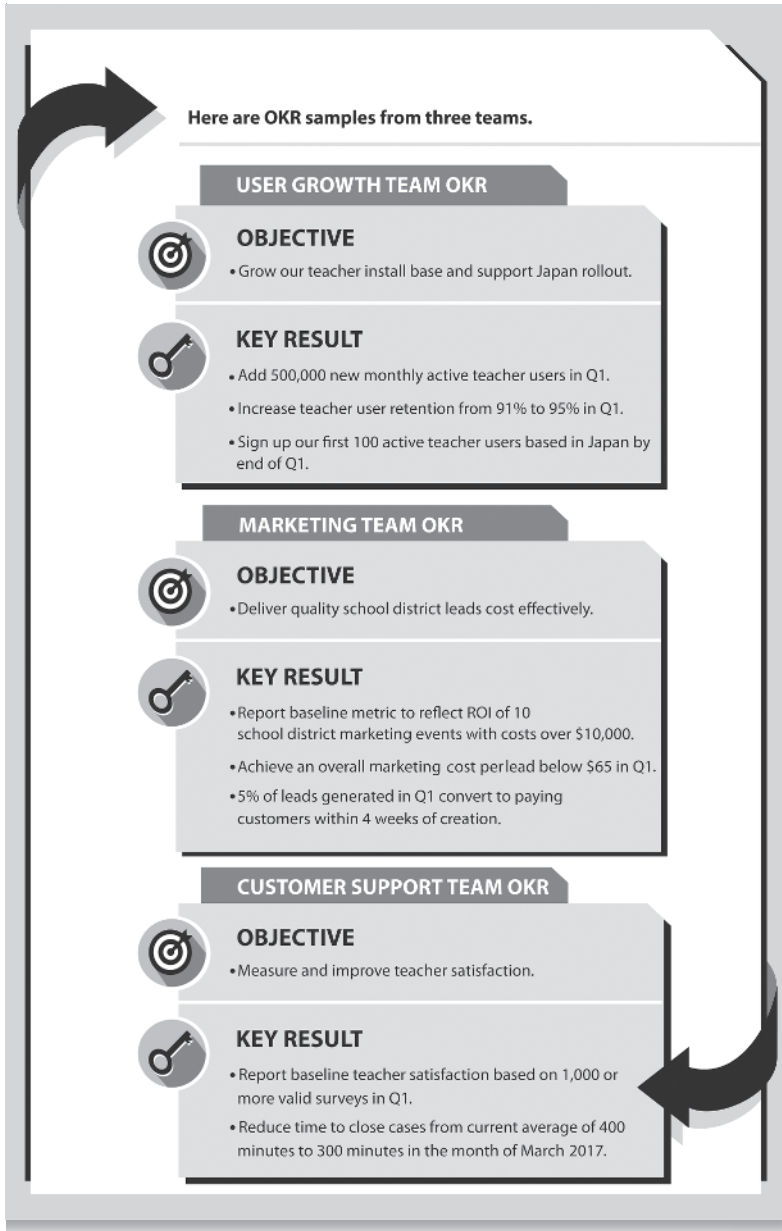


EXHIBIT 1.2 Examples of Team-Level OKRs

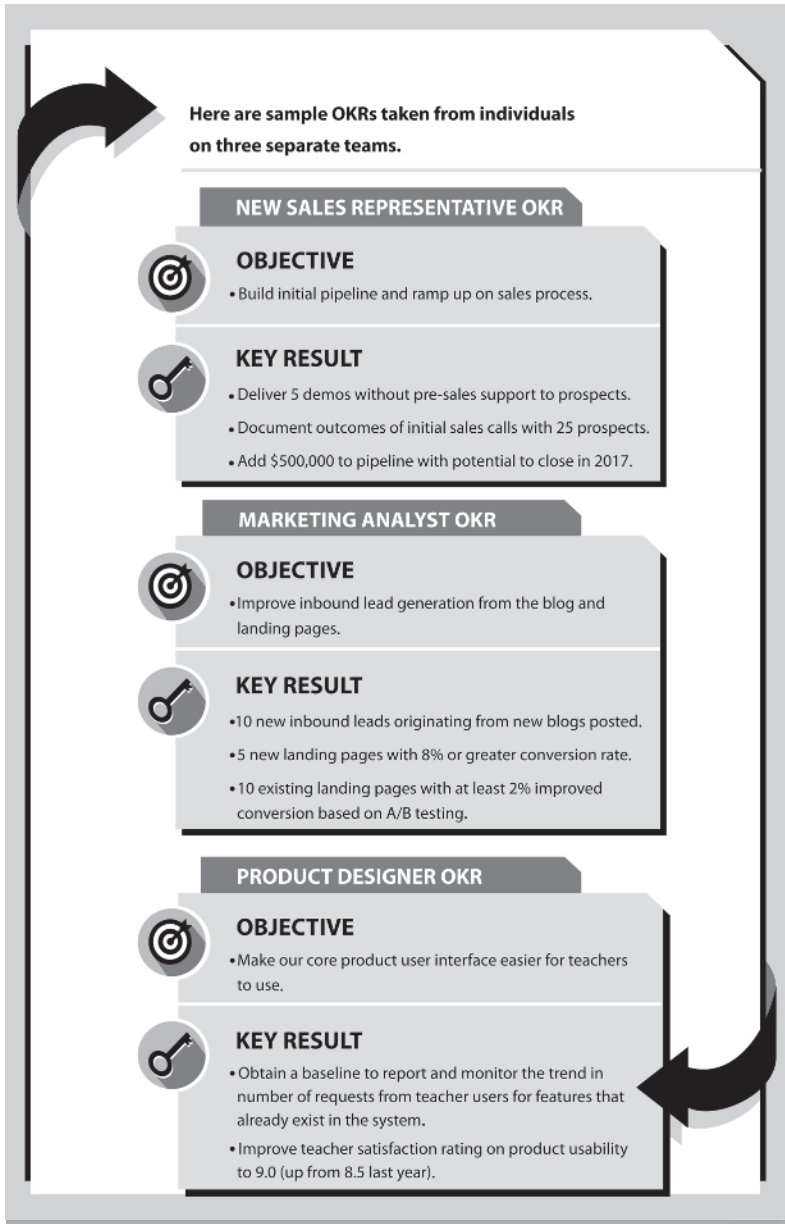


EXHIBIT 1.3 Examples of Individual-Level OKRs



ORGANIZATIONAL CHALLENGES, AND WHY YOU NEED OKRs

In the process of writing this book, we conducted an extensive amount of research, which translates primarily into an abundance of reading—books, white papers, articles, blog posts, and so on. They all differ based on their unique subject matter, but the one common denominator amongst virtually all of them can be found within the opening sentence or two. Invariably, the case is made that we live in the most volatile of times. The very foundations of our corporate thinking are challenged, forcing us to swiftly extend the frontiers of knowledge to stay one short step ahead of the change monster bearing down upon us. With this book, we wanted to do something a little different by allowing you to breathe a little deeper as we begin our journey together, because in some ways economic life, at least in the developed world, is actually less turbulent than it's ever been. In the United States, for example, the volatility of gross domestic product (GDP) growth decreased from 3 percent in the period of 1946 to 1968 to just 1.2 percent from 1985 to 2006. Both inflation and corporate profit growth also saw similar reductions in volatility during the period.¹¹ Today's technological wonders can make our heads spin, but they're really no more destabilizing than the advent of railroads, telephones, automobiles, mass production, or radio were in their day.

So we can all exhale just a bit: It still takes the planet 24 hours to complete one full rotation. But, here's the bad news, or more appropriately the reality—and the opportunity, should you choose to seize it—the pace of change both within companies and in entire industries is accelerating at a rapid, dare we say unprecedented, pace. As just one example of many, consider adoption rates on smartphones. In June 2007, the first touchscreen operated iPhones were offered for sale, followed shortly thereafter by Android-powered phones. As a category smartphones rocketed from 10 percent market penetration to 40 percent, faster than any other consumer technology in history.¹² And thank goodness for smartphones, huh? What else would we do every 4.3 minutes if we couldn't look at our phones? That's right, we—and by that, we mean the collective we: Paul, Ben, you, and everyone else on the planet—check our phones an average of two-hundred and twenty-one times a day.

Let's start by looking at a number of key challenges all modern organizations face. Some of the topics may be familiar to you, whereas others represent the very latest research and organizational thinking. While each of these is significant in its own right, we're confident an objectives and key

results (OKRs) implementation will put you in good stead in overcoming all potential obstacles, paving the way for you to thrive despite the roadblocks our ever-changing global business market puts in front of you.

Executing Strategy

In a recent survey, more than 400 global leaders identified exceptional execution as the number one challenge facing business leaders in Asia, Europe, and the United States. Execution topped a list of some 80 items, including innovation, geopolitical instability, and top-line growth (which we'll discuss later in this section).¹³ As noted above, this was a recent survey, but the findings aren't surprising or novel, as execution has been front and center on the radar screens of executives for years, primarily as a result of frustratingly low execution percentages around the globe. Estimates vary, but most peg the rate of successful execution at a best case of 25 to 35 percent, while less optimistic pundits propose a stunningly low 10 percent.

Organizations spend thousands of hours meticulously crafting strategic plans they feel will vault them past their competition, and the rewards of turning strategy into action are certainly enviable indeed. One study suggested a 35 percent improvement in the quality of strategy implementation for the average firm was associated with a 30 percent improvement in shareholder value.¹⁴ Given the substantial treasure at the end of the execution rainbow, it's not surprising that firms would focus their attention on it, and feel the costly sting of frustration when execution eludes most of them.

Why is execution so difficult to attain in practice? Researchers and authors Sull, Homkes, and Sull offer five myths of execution that shed significant light on the subject:

- *Myth One: Execution equals alignment:* A practically unassailable truth in business ideology is the value of generating alignment: more colloquially, having everyone row in the same direction. The idea of creating alignment through shared objectives has been advocated by revered thinkers (see, for example, the work of Peter Drucker mentioned earlier) and corporate titans alike for decades. Alignment in itself is undoubtedly a worthy goal; however, the problem often lies in how organizations go about creating it. For many firms the process, while well intentioned, quickly devolves into a top-down exercise in which senior executives offer a number of seemingly critical objectives and force them into the organization with little regard for how they will be translated at lower levels. Execution suffers in these

cases because individual business units and departments create objectives that align with the high level objectives from above, but neglect to consider other groups within the firm. Most work today is cross-functional in nature (as we'll discuss later in this section), and forced cascading often obscures this fact by creating silos that act solely in their own best interests.

- *Myth Two: Execution means sticking to the plan:* Perhaps the former heavy-weight boxing champion of the world, Mike Tyson, said it best when he offered this nugget regarding his opponents' strategy when facing him: "*Everyone has a plan until they get punched in the mouth.*"¹⁵ The punch line (pun intended): Strategic plans don't always survive contact with the real world that is your business. Part of the typical strategic planning process at most firms involves the creation of a portfolio of strategic initiatives aimed at ensuring the strategy's success. These initiatives entail the allocation of human and financial resources and once set in place, firms are often loath to alter them in any way. In order to execute strategy, companies must be agile in their approach: constantly sensing changes in the environment and making sometimes subtle and other times large-scale modifications to their strategy as a result. This also means having the flexibility of shifting both personnel and financial resources to take advantage of emerging opportunities. Those with a fixed mindset, unwilling to alter plans seemingly set in stone, will pay a heavy execution penalty.
- *Myth Three: Communication equals understanding:* Given today's access to simple and cost-effective modes of electronic communication, even the smallest of companies can lavish significant communication on their employees. And they do! Not only via electronic means, in fact senior leaders in most organizations spend substantial face time communicating strategic directives. Sadly, the message rarely sinks in. In one survey of managers from 250 companies around the globe, only half could name even their company's most important objective.¹⁶ While that may seem a demoralizingly low number, other studies have suggested even poorer recognition of company priorities. One survey found that only one in seven people, a scant 15 percent, could name one of their company's most important goals.¹⁷ Although many possible explanations for this lack of comprehension exist, one we witness frequently is the proclivity of organizations to bury their employees in jargon. It's not uncommon for a company to have core values, strategic priorities, mission statements, vision statements, codes of conduct, core competencies, and a dozen other potential candidates for a fun game of buzzword bingo. Employees are

understandably confused, don't know what matters and truly warrants their focus, and thus pay little attention to *any* of it!

- *Myth Four: A performance culture drives execution:* If asked to describe competition in their industries today, most executives would likely reach for adjectives such as: fierce, intense, and brutal. The margin for error is slim, and thus a relentless drive toward a performance culture would seem to make great sense when attempting to distinguish yourself from rivals. In some cases, however, performance is so prized a virtue that failure in any form is completely anathema and avoided at any and all costs. “Mistakes” and missteps are hidden from view, the blame game is played with great zeal, and the organization quickly falls behind. As with most things, balance must be adhered to when it comes to shaping a culture. While performance is important, organizations would do well to also value agility, teamwork, collaboration, and calculated risk-taking. Driving execution is dependent on frank discussions of so-called failures, which in reality are really data points to be studied, learned from, and improved upon in the future.
- *Myth Five: Execution should be driven from the top:* We're all aware of the visionary CEO who, through sheer force of will and utter brilliance, can guide a company through even the most perilous of corporate journeys. But they are few and far between, and probably more myth than reality. In practice, vesting exclusive execution power in the hands of the CEO will most likely result in poorer performance, manifested by slow decision making—thus possibly missing key opportunities as they arise—and the escalation of often petty conflicts that waste scarce executive time. The responsibility for execution must be distributed throughout the enterprise, which, of course, requires that you properly negotiate the hurdles present in the previous four myths.

Organizing to Meet New Realities

It's no secret that the demographics of the global workforce are changing dramatically, becoming simultaneously younger and older, as well as more diverse. Millennials, those born between the early 1980s and early 2000s, now account for half of the workforce, and that percentage is increasing rapidly. Their career desires have been well-documented: an environment that promises constant learning, a work experience that offers meaning and purpose, and a dynamic and rewarding career path. At the other end of the age spectrum are the baby boomer generation, an enormous cohort

whose numbers are decreasing, but who still retain immense organizational knowledge and capabilities. Many baby boomers are now working into their 70s and even 80s, while facing the challenges of new roles as mentors, coaches, and subordinates of younger colleagues. Finally, given the globalization of modern business, our workforces exhibit more gender and cultural diversity.

Given these and myriad other forces conspiring to challenge leaders, many organizations are altering their structures from the traditional, hierarchical, and functional models to flexible and interconnected teams. In Deloitte's *2016 Human Capital Report*, 92 percent of respondents rated organizational design as a top priority, while nearly half (45 percent) state their companies are either in the middle of a restructuring or planning one.¹⁸

To visualize the change in design taking place, it may be helpful to think of your favorite movie. Virtually all films are created by individuals and small teams of experts (writers, producers, set designers, cinematographers, costume designers, etc.) that band together during the production and then move on to new assignments once the film is complete. We're witnessing something very similar in corporations: Networks of teams are formed to tackle specific business problems, and once the challenge has been successively resolved, the team disbands and its members are reassigned to other squads. The challenges these teams take on are directly aligned with the overall objectives of the firm, thus ensuring a link to execution. We feel that OKRs are very well suited to this growing trend in organizational thinking, and will discuss our rationale in the benefits section.

The Challenge of Sustaining Growth

"Grow or Die" is a much-repeated mantra throughout corporate conference rooms here in the United States, and around the world. Ask executives to name their top priorities and, in addition to execution as we chronicled above, you're sure to hear the word *growth* spring enthusiastically from their lips. In fact, estimates suggest that over 90 percent of strategic plans aspire to growing revenue. The idea of growth is very enticing, not only because in many cases corporate survival depends on it but also because most executives are extremely sanguine when it comes to the growth prospects facing their firms. In one survey of 377 executives, respondents saw opportunities everywhere: 50 percent cited "tremendous opportunity" in the North American market, 65 percent in Europe, and more than 85 percent in Asia.¹⁹

It's great to be optimistic, but often painful when reality rears its pragmatic head (think of that punch from Mike Tyson). Despite the opportunities

for growth that executives around the globe wish to seize upon, very few firms are able to sustain profitable growth in the long (or even medium) term. In the decade ending in 2010, just 9 percent of companies in one study achieved even a modest rate of growth (5.5 percent) while also earning their cost of capital. Another study of this important topic obtained very consistent results: Only 8 percent of nearly 5,000 companies in the sample grew their revenues by at least 5 percent year after year.²⁰

What causes so many organizations to stumble, or perhaps more fittingly, collapse, along the road to growth? Interestingly, as already noted, it's not a lack of opportunity that forestalls the potential of growth. Actually, when asked, more than 75 percent of executives will cite factors relating to organizational effectiveness, such as: excess complexity (recall our discussion in the execution section regarding the overwhelming number of concepts employees are subjected to and expected to comprehend), risk-averse cultures (possibly due to an overwhelming focus on performance as we documented), and difficulty achieving sufficient focus. OKRs can assist you in overcoming each of these difficulties.

The Threat of Disruption

Interested in starting a new company? Here's a sobering statistic that just may dampen your enthusiasm: Recent research suggests that the expected life of a new American company is on the order of six years.²¹ That doesn't give you much time to make an impact. And even if you are fortunate enough to beat the odds of survival, just keeping your head above water may be challenging because you'll most likely be under the constant threat of disruption.

When most of us think of disruption, innovative firms like Uber or Airbnb come quickly to mind. However, strictly speaking, Uber, for example, is not a disruptive innovation. Disruption describes a process whereby a smaller player with fewer resources is able to successfully challenge established incumbent businesses. They do so by targeting overlooked segments, offering more suitable functionality (frequently at a lower price). Incumbents typically ignore this move, and eventually new entrants move upmarket delivering the performance customers require, while preserving the advantages (chiefly lower cost) that drove their early success.²² Technically, Uber did neither of these, but that certainly hasn't stopped it from forever altering the taxi industry.

Rather than disruption, we could term the changes Uber and others are employing as "business model innovations," but regardless of the terminology employed the fact remains, there are hungry (nay, starving) companies that you've never heard of, who are at this very moment plotting to steal your market

share. No industry is immune to this assault. Take shipping companies. They face a very unanticipated threat: 3D printing. As more manufacturers have the option to print parts and products in finished form onsite, shipments by air, sea, and roadway will plummet. It is estimated that as much as 41 percent of the air cargo business, 37 percent of ocean container shipments, and 25 percent of truck deliveries are vulnerable to 3D printing.²³ Given the undeniable threat, it's vital that organizations embrace agility and possess the ability to swiftly modify their business model based on new information. Once again, we believe OKRs will prove beneficial in this task.

Employee Engagement

The business press is replete with stories relating the “war for talent” among corporations striving to stock their ranks with the best, brightest, and most highly engaged employees. It's a simple fact that no organization can succeed without skilled and motivated teams working in alignment with overall objectives. Of all the adjectives appearing in the last two sentences the one that has the greatest hold on executive attention is engagement. To put it bluntly, we're currently facing an engagement crisis.

Before we present the litany of statistics to bolster this point, let's define the term, because there is much confusion about what engagement is and is not. First, what it's not. Engagement does not represent employee happiness and it's much bigger than employee satisfaction. Kevin Kruse, author of *Engagement 2.0*, defines engagement as the emotional commitment an employee has to the organization and its goals.²⁴ This emotional commitment means engaged employees actually care about their work and the company. They don't work just for a salary, or for a promotion to the next rung on the ladder, but work passionately on behalf of the organization's goals. When employees care—when they are truly engaged—they use discretionary effort.

Here's a simple, but telling, example we observed at a client organization. We were scheduled to meet with the CEO of a small fast-food chain in Southern California. The meeting location was one of its restaurants, and we arrived quite early. None of the employees knew who we were, so there was certainly no incentive for them to try and impress us in any way. At one point, we noticed an employee rushing across the floor towards the door. Our first thought was that someone had attempted to leave without paying, but in fact we were wrong. As he approached the door the employee bent over and picked up a discarded napkin. He placed it in the trash and went back behind the counter to assist the next customer. You could say he was simply doing his job, but again, no one

was watching. He could have easily left the trash on the floor, but he took the discretionary step of leaving his station to keep the restaurant clean.

Unfortunately, the engagement numbers in the United States and around the world are dismally low—Gallup reports only 13 percent of the global workforce is highly engaged. In the United States, the number is about 30 percent. And this produces a real penalty—by some estimates, low engagement costs \$17,000 per employee per year in lost productivity, absenteeism, and so on. Seventeen thousand doesn't sound that big, so let's amplify it by extrapolating that to the entire U.S. workforce. We're then looking at approximately \$450 billion to \$550 billion in lost productivity each year. But we believe there may be an even bigger cost—the inability to contribute effectively to strategy execution. Disengaged employees are not willing to expend the discretionary effort necessary to sense new opportunities, take calculated risks, or propose business model innovations that may keep their firms ahead of rivals.

The good news is that organizations recognize what is at stake in this battle, and have significantly expanded efforts to enhance engagement. Annual employee satisfaction and engagement surveys are being phased out, replaced by employee listening tools such as pulse surveys, anonymous social tools, and perhaps most importantly regular check-ins with, and feedback from, managers.²⁵

We've laid out some considerable challenges on the previous pages. Fortunately, as we've alluded to, OKRs can assist in overcoming these hurdles, and launch you on a trajectory of sustained success. Let's look at some of the many benefits of the OKRs approach.



BENEFITS OF OKRs

The very act of instituting and utilizing a formal measurement and monitoring practice is beneficial, as evidenced by a recent study of 30,000 U.S. businesses conducted by the U.S. Census Bureau's Center for Economic Studies. According to the authors, companies that had structured management practices focused on performance monitoring and targets had significantly better financial results than those that didn't use such measures.²⁶ So simply putting an OKRs program in place is upping your odds of fiscal success. The rewards to your bottom line will justifiably please you, the board, and your bean counters, but outlined next are a number of additional, also critical, benefits you can expect from a well-constructed OKRs implementation.

OKRs Are Easy to Understand—Increasing Buy-in and Use

Here in California, where we live, there is a very popular burger restaurant called In-N-Out. If you've ever had the pleasure of savoring their offerings, which are absolutely a cut above most fast food, your mouth is probably watering as you read this. One of the many reasons In-N-Out has captured such a frenzied base of raving fans is the simplicity of the menu, which consists of burgers, fries, shakes, and beverages. That's it. Not like many restaurants, whose menu boards are so crammed with items you need 20/15 vision just to read them.

Consider OKRs the “In-N-Out of managing your performance.” One of the biggest benefits the framework features is its sheer simplicity, and that begins with the taxonomy. Basically just three words: objectives and key results. Other approaches to managing performance and executing strategy are awash in jargon, which has the potential to confuse employees already under siege from missions, visions, core values, and KPIs, as we noted when discussing execution myth three (Communication equals understanding).

We've worked with clients who, after just a short introductory training session, are immediately using the terms correctly and creating meaningful objectives and key results. Again, as noted in the previous section, there is much more to the model, and we'll cover it all in depth, but in order to have your team buy into and support any program a critical first step is mastery of the vocabulary. OKRs make that easy. Here's how Rick Klau of Google Ventures describes it:

When OKRs are working well in your company, it's as if everyone has acquired fluency in a new language. Every employee is familiar with a common vocabulary, and understands how this vocabulary describes what's most important to the company (and what's not). After just a couple of quarters relying on OKRs to set and manage goals, people inside a company develop three distinct superpowers: the ability to predict the future, the ability for the company's founders or CEO to be a part of every important discussion, even (especially) when they're not there, and the ability to say no.²⁷

A Shorter Cadence Fosters Agility and Change-Readiness

While there is room for customization with every implementation, most OKRs practitioners will set goals quarterly. This frequent establishment of priorities is vital. As the pace of change within, and outside, businesses accelerates,

it's essential that new information be captured, analyzed, and transformed into knowledge that can be used to innovate and potentially alter the strategy or business plan. Doing so is immensely difficult if you're setting just annual goals—There is such a lag between the inciting incident that may have the potential to rock your business to the core, and your reaction to that event, that you're left completely flat footed and unprepared.

Frequent goal setting also establishes a discipline within the organization that may be lacking. Learning, and making proactive decisions, is incumbent upon regular, focused reviews of what is taking place in your company and its surrounding environmental milieu. By updating your OKRs each quarter, you're building an organizational muscle that will become stronger with use, allowing you to be ready for the inevitable forces of change and disruption.

Finally, recent evidence suggests that more frequent goal setting has a positive impact on financial results. Deloitte reports that companies that set quarterly goals were nearly four times more likely to be in the top quartile of performers.²⁸

OKRs Demand Focus on What Matters Most

Perhaps the scarcest resource in any company is employee mindshare. Think of the intense competition vying for a chunk of that real estate in today's 24/7 world: company goals, unit goals, individual achievement goals, the meeting you're late and unprepared for, industry trends, career concerns, family issues, social media, the score from last night's game, and so on. No doubt we live in a world of excess access, to everything. But one thing that must rise above the cacophony of competing voices is knowledge and understanding of what's most important for the company (and each employee's contribution to that) right now. OKRs demand that you isolate just the most fundamental priorities and dedicate your focus to that limited subset of potential variables involved in running any company.

When Dick Costolo, former CEO of Twitter, was asked what he learned from Google that he applied to Twitter he answered: "The thing I saw at Google that I definitely have applied at Twitter are OKRs—objectives and key results. Those are a great way to help everyone in the company understand what's important and how you're going to measure what's important. It's essentially a great way to communicate strategy and how you're going to measure strategy."²⁹

As an executive or manager, you're faced with a constant barrage of choices that can be summed up in two words: yes or no? Do we build a new factory offshore? Do we hire that star engineer with the bad reputation? Do we

green-light the new marketing campaign? There is a ceaseless procession of questions that must be answered in the affirmative or negative. By putting a spotlight on your absolute priorities, you're winning on two fronts: identifying what matters most, and by default, providing yourself with the appropriate ammunition to say no to the many initiatives that, while tempting, are not in line with your goals.

Transparency Promotes Cross-Functional Alignment

Earlier in the chapter we discussed how organizations are redesigning the way work gets done by vesting small teams with the authority and challenge of overcoming specific problems, and then disbanding once the task has been completed. Regardless of the business problem a team is trying to solve, it's a virtual guarantee that a potential solution does not reside with just one team, but does in fact depend on the cooperation of another group (or groups) within the firm. Therefore, in our networked world it's imperative that teams have visibility into other teams' performance goals. OKRs encourage this transparency throughout the organization.

An effective OKR program works on several levels: There are corporate-level objectives and key results in place. Departments or business units (your structure or nomenclature may differ) have OKRs, and individuals may have OKRs. The composition of OKRs at each level is not confined to their provincial interests. On the contrary, a well-developed set of OKRs should include objectives and key results that foster (and demonstrate) collaboration with other teams on whom you rely, or conversely, rely on you to drive results. OKRs should ideally be transparent throughout the organization, meaning everyone is able to see what others are measuring and provide feedback and input. This transparency fuels collaboration, alignment, and ultimately, the execution of strategy.

OKRs Facilitate Focused Conversation and Drive Engagement

There is an oft-quoted career adage that says people don't leave companies, they leave managers. This has been accepted human resources wisdom for quite some time, and companies have, naturally, attempted to remedy the situation by crafting leadership development programs, offering sensitivity training, and engaging in 360-degree feedback. These and other interventions have been designed to improve the employee-manager relationship and mitigate the risk of talent heading out the door. There's just one problem. The old adage isn't

true, at least not according to a survey of over 7,000 LinkedIn members across five countries.

According to the respondents, the primary reason for playing the free agent card is lack of advancement opportunities. Three times as many people cited that rationale over a poor relationship with their supervisor as cause for leaving.³⁰ The good news for OKRs users is that whether people are tempted to start circulating resumes because of a sour relationship with a supervisor or because they see no upward mobility in the company, using OKRs can reduce the likelihood of either.

OKRs are not a top-down exercise with goals handed down, as if on stone tablets, to lower-level units and departments who are expected to dutifully execute, regardless of their opinion. In fact, an important distinction of this model is its focus on inclusivity. It is expected that individuals will have a legitimate say in the objectives and key results chosen, reflecting a mix of top-down and bottom-up goal setting. Having the opportunity to meaningfully contribute to what you will be held accountable for goes a long way in enhancing engagement. And later, when results are tabulated, the chance to engage in a meaningful discussion, conducted in a spirit of inquiry, also boosts morale and demonstrates to superiors an employee's readiness for the next level on the corporate ladder. This phenomenon has been demonstrated at Sears Holding, where OKRs have been in place since 2014. Employees who use OKRs are three and a half times more likely to be promoted.³¹

OKRs Promote Visionary Thinking

Carol Dweck is a Stanford professor known for her work on motivation, and more specifically, mindset. She posits that people can be divided into two camps. Some individuals believe their success is a result of innate ability, and are said to have a “fixed” mindset. Others feel success is a result of hard work, tenacity, and determination. They are said to possess a “growth” mindset. Fixed mindset individuals fear failure because they feel it's an assault on their basic abilities, while those with a growth mindset embrace failure, recognizing it as a simple data point, and an opportunity for learning and improvement.

In our experience working with clients around the globe, and being somewhat liberal in our use of the concept, organizations may be similarly classified using this distinction. Those who “suffer” from a fixed mindset will often forgo opportunities that involve risk, motivated primarily by a fear of failure. Whereas, other organizations, embodying the growth paradigm, relish failure, embracing a spirit of fail fast and learn quickly. We believe that in order



EXHIBIT 1.4 Why OKRs?

to compete in today's global economy it is incumbent upon all companies to adopt a growth mindset, and doing so means stepping out of any predefined comfort zone and creating audacious goals. Any OKRs that simply mimic the status quo are not only going to be ineffective, but will likely alienate talented employees looking for meaning and purpose in their work. Objectives and key results are meant to stretch the organization, challenging your teams to fundamentally rethink the way work gets done. The benefits of OKRs are summarized in Exhibit 1.4.

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