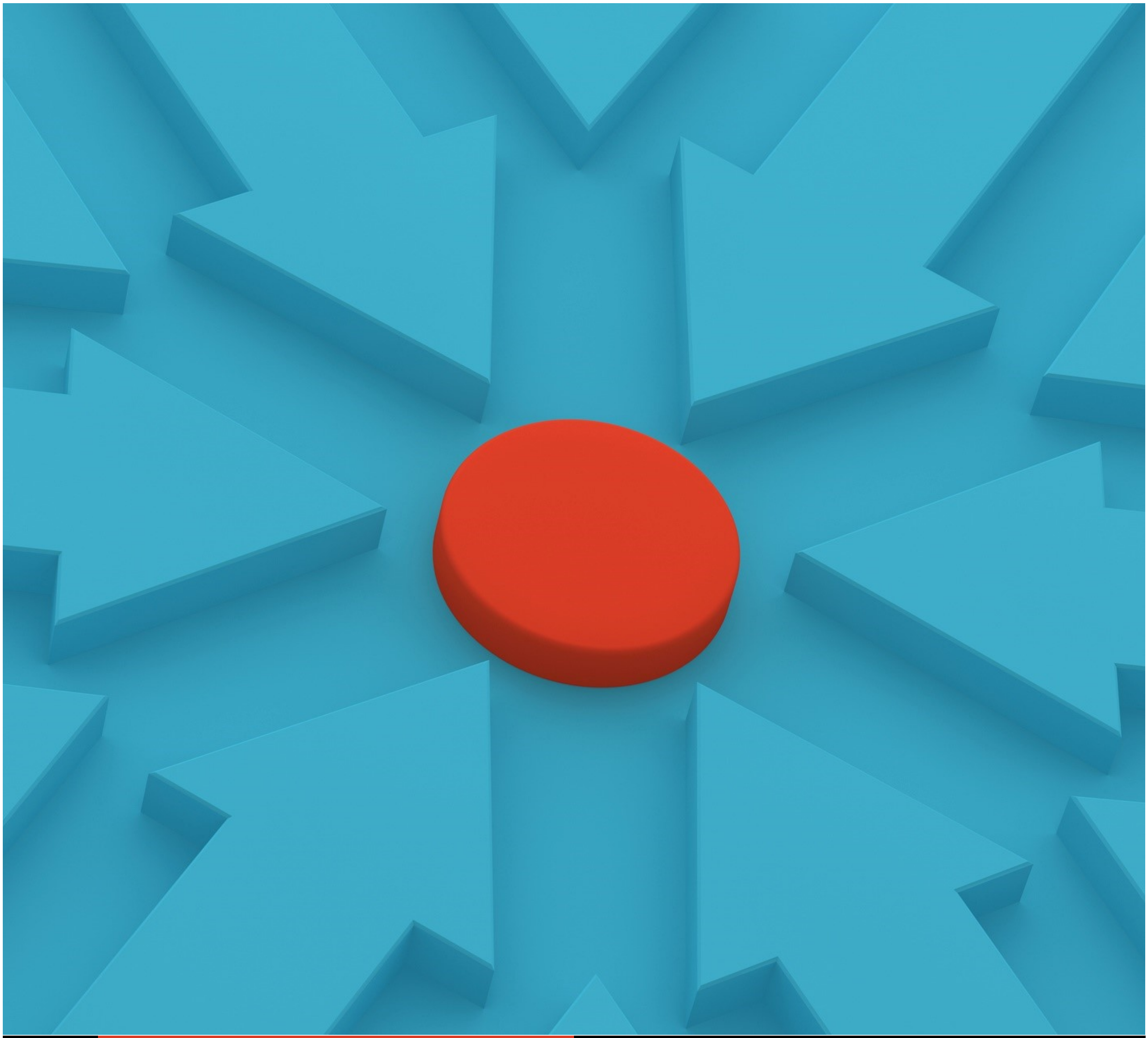
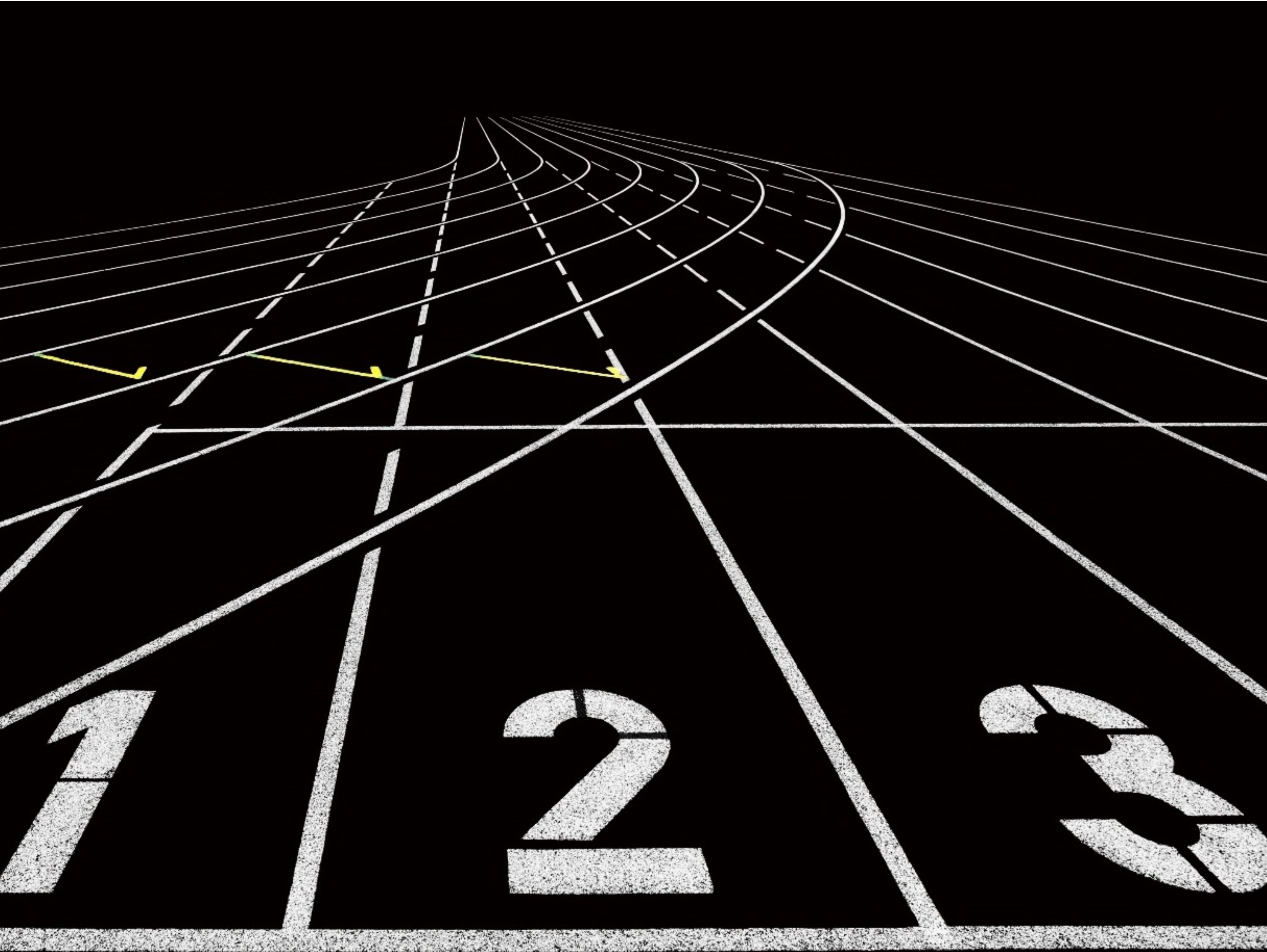


MAKING THE CASE FOR OKR

WHITE PAPER

Nikhil K Maini
Founder & Managing Director – OKR International
01 Nov. 2020

OKR INTERNATIONAL www.okrinternational.com



INTRODUCTION

Let me begin by making a case for OKRs. In the wake of October 2015, Jeff Immelt (CEO of GE), in his interview with McKinsey Publishing said, “In the digital age, sitting down once a year to do anything is weird, is just bizarre.” Given what we deem is critical to succeed in the marketplace of today and the future (Purposeful Organisation, Agile Leadership, Culture, Empathy and Digitization), we need to create an organisational ecosystem that befits such needs. Relying on systems that were created for customers and market conditions that are no longer valid, is sheer stupidity. So, how do OKRs become a relevant fix here? Let us examine what organisations need today, quite desperately in fact, to sustain themselves and grow. In my conversation with forty-five CEOs and CXO leaders, entrepreneurs of start-ups and scale-up organisations, the following factors have emerged as key mandates for organisational success. We will assess how OKRs enable each of them in detail.

Converting Strategy to Execution, quickly

Planning is good but plans a useless. Unless organisations develop a robust mechanism to align their resources in creating execution excellence, failure is certain. Traditional goal setting and execution systems have relied heavily on mechanistic and outdated systems that are not only defunct but also no longer yield results. The sad part is most business leaders remain unaware of alternatives. In a landscape where businesses are experiencing change at an exponential rate, their responses to these changes remain sluggish. This renders businesses feeling vulnerable while it impacts their top-lines and bottom-lines.

The inability of companies to be agile enough to respond in time to the changes in the external marketplace is one of the biggest, yet most unattended to, factors responsible for decline in business health and longevity. So, what leads to this sluggishness, really? Many organisations set goals as part of their "Annual Operating Plans", and mesh that with an annual performance management cycle. Employee performance is rated using Bell Curves and the workforce is force-ranked to fit into a rating scale at the end of the year. Author Nassim Nicholas Taleb in his book titled 'The Black Swan' beautifully points out how he believes the bell curve to be the *great intellectual fraud* (GIF). The thing is, when you rate 70% of your workforce as mediocre (3 rating), they start behaving that way.

OKRs on the other hand are ideally meant to be de-linked with performance reward strategies and are set on a quarterly basis. This allows teams and individuals to assess changes in the marketplace, pivot in time and more importantly learn how to 'fail fast'. OKR is fast emerging as one of the top tools for goal setting and strategy execution around the world. OKRs are the creamy layer that help companies mobilise their resources using a framework of regular measurement and progress reviews to enable implementation of various strategic and tactical agendas quite rapidly. Refining the archaic annual cycles to more frequent quarterly cycles allows organisations to pivot well in time and respond to changing consumer and competitor activities.

More Focus on Priority

With a growing number of companies trying to compete in the marketplace, everything seems to be a priority at work. What the business chooses not to do, is as important – if not more, than otherwise. This is hugely connected to the purpose, vision, mission, and values of an organisation. These allow leaders to make decisions during a dilemma. Prioritisation provides a certain clarity which is necessary before you can move forward, and by focusing in on what really matters, it provides you with a sense of direction. Well, what do you do once you have clarity? Clarity allows you to invest your finite resources by putting your money where your mouth is. I am constantly reminded of the Pareto Principles a.k.a, the 80-20 rule. Leaders need to drive their businesses by focusing on those 20% goals that give them 80% results. The creamy layer, which we like to call OKRs.

OKRs provide you with a solid framework to focus on what matters most – your priorities. This enables organisations to execute those priorities with nimble footedness and agility. Clearly, leadership readiness and buy-in continues to be the key to success. The ultimate goal of OKRs is to help companies and/or teams prioritise goals and make decisions on how to use various organisational resources - especially their people, time, and money - towards achieving those common goals.

Greater alignment of Goals and Efforts

I was consulting for a DTH (Direct to Home) Television company that set out to transform the culture of their organisation, circa 2008. The CEO and his executive team comprised 'hero leaders' that came from ivy league business schools. While there was immense knowledge, commercial intelligence, and experience within that team, I noticed that the team struggled with alignment. I also reckon, that each so called 'hero leader' ended up achieving and over-achieving their annual targets (while operating from their ivory towers). However, the company continued to be in the red. Now this is illogical, isn't it? How can departments achieve their targets, yet the company fails to grow and be profitable. Well, its not an isolated example, this one. Very many organisations world over suffer from this malady – which I like to call, a 'systemic disconnect'.

You cannot build a vehicle by assembling it using the best engine from one company, the best transmission from another, the best computer chip from yet another vehicle manufacturer and so on. If the parts are unable to speak with each other, they are useless. If you do try assembling a vehicle like that, it will not even start, leave alone move an inch. For the system to work optimally, the sub-systems must work sub-optimally. Systemic thinking is built on this premise. However, there is one more condition that needs to be satisfied here. The subsystems also need to be correlated with each other in a way that creates interdependencies between them – quite like how gears in a machine fit into each other.

For a team/organisation (system) to work, heroes do not necessarily help make the cut. The FIFA world cup final was a great example of how Germany won against Argentina even though a substantial part of the world was rooting for Messi. Quite similarly, a lot of football clubs spend millions buying players but still end up losing simply due to player compatibility issues. If supply chain is unable to produce enough volumes or quantity of products in time, higher sales numbers may not necessarily do anything by themselves. If the procurement team of a cell phone company is unable to make enough chips available on time, the product development team's goals of rolling out unprecedented number of products in the marketplace will remain unachievable.

The goals of the sales team within the realms of OKRs, for example, would not belong to the sales team alone – just as well, for all other factions of the organisation. One the other hand, if it is a small organisation running OKRs in a lean hierarchical setup, it is the overall organisational goals that drive what team members decide as their own OKRs.

OKRs and its very framework enhances systemic thinking. It encourages leaders to convert their strategy in annuals goals and then further break those goals into quarterly ones. In doing so, it becomes critical for teams and sub-teams to align themselves to the overall goals and purpose of the organisation. One also gets to see true alignment when there is a healthy amalgamation of top-down, bottom-up and cross alignment between teams or members. All working towards the same goals. The result? A well-oiled engine generating great value for the organisation.

Need for Value Creation

Employees showing up at the workplace, working endlessly to complete tasks and then being completely clueless about why they even did them in the first place, is quite common. It not only disengages employees as it leaves them demotivated, it also does nothing much in terms value creation. Employees world over are seeking more autonomy and empowerment in getting work done. Autonomy is the freedom to act independently while empowerment is the granting of decision-making powers to someone. That being said, autonomy and empowerment are means to an end – the end being achievement of goals. These goals are dictated (ideally should be) by the vision, mission, values, purpose, and the strategy of the organisation. So how is all this connected to 'value creation' and OKRs?

Let's take the example of John who was asked conduct 10 interviews per day as part of his role within the recruitment team of an HR department. While Jane on the other hand had a different goal - to hire and onboard 2 key positions in the next 3 months. I would now ask you to think what John would be experiencing as he shows up to work every day. John's focus will remain on completing 10 interviews daily. Jane, on the other hand, would be more focused on the final outcome – thus allowing her to take charge of the results and own the job.

OKRs, especially the Key Results, get defined in ways that help create more autonomy and empowerment. Well-crafted Key Results are outcome (value) based and not effort (activity) based. The right Key Results (outcome based) support the achievement of an Objective, thereby empowering employees, and teams to work out how best they should be achieving them. They get to choose the projects, tasks and activities that eventually lead to achieving the right outcome (value) desired. And that's not it! Employees are now compelled to look beyond the otherwise narrowly defined tasks in their attempt to ultimately create results. We will see how this works in greater detail in the next few chapters.

More Interdependencies and Alignment

An organisation is an ecosystem of interdependent parts. These parts are required to work in ways so as to enable the system to work seamlessly to fulfil the goals of the organisation. When sub-systems work in opaque silos, it disables employees from contributing to the goals of the company in meaningful ways.

I am reminded of this telecom company that achieved 65% sales through indirect third-party sales channels. Incidentally, they also contributed to nearly 80% of the overall customer complaints thereby resulting in heavy customer churn rates. The service excellence team were at their wits end, providing band-aid solutions while the sales and services heads never saw eye-to-eye on matters. Such problems in alignment are far too many. One of the most frequent reasons cited by sponsors for turning to OKRs, in my work so far, is the need to increase collaboration and alignment within the organisation.

Rapid changes in the marketplace and consumer demands coupled with increased use of technology has made organisational operations a complex one. The need to have a system where changes in one faction of the organisation (and its impact) can been seen instantaneously in other related factions is becoming a critical success factor for being agile. Since OKR encourages transparency and alignment along with unison in goal setting and implementation effort, such a framework becomes a mandate. Within its framework, OKRs require top-down, bottom-up and cross team alignment before implementation begins. This ensures everyone in the system is pooling in their resources toward that one big hairy audacious goal. And since OKRs are meant to be transparent, members also get to see real time changes in one place and how they affect other teams, thus allowing everyone to constantly align and re-align on a regular basis.

Rapid Innovation

Apple, Alphabet (Google), Amazon, Microsoft, and Samsung, in the order of appearance, have been ranked the top 5 most innovative companies in 2020 by Boston Consulting Group. What do they have in common? It's their ability to generate value through constant disruption (read as innovation). Innovation is a key factor that propels organisations from one S-Curve to another. It enables companies to create USPs, increase productivity, beat competitors, retain customers, and overall generate value and growth.

When key decisions get made by corner offices leaving aside the collective intelligence of its 'executing workforce', innovation takes a beating. Teams operating in silos, lack of transparency, inability of leaders to mobilise their collective workforce intelligence and poor alignment of goals all contribute to this. In an environment so ineffective, no wonder innovation remains but a dream.

OKR thus becomes the 'go-to' framework that ignites a truly agile system whilst acting as the conduit for cultural transformation within any team or organisation. Rapid experimentation of initiatives within the realm of OKRs, a 'fail-fast' mindset, psychological safety to take calculated risks, collaboration, learning and continual sprints in the product, services and operational segments all add up to creating an environment where innovation thrives.

Employee Engagement & Ownership

Disengaged employees are a growing concern for companies across the world. So, let's assess what causes employees at work to be disengaged. The list is quite long. Poor leadership, lack of autonomy and empowerment, little or no professional growth, lack of personal development, et al.

However, in my work on employee engagement and organisation culture over the last 2 decades, I have found that a major cause is the inability of employees to see how their work contributes to achieving the overall goals of the organisation. I like to call this 'Job Significance'. When one is unable to see the overall impact of one's contribution, it leaves professionals feeling disillusioned about their work.

By sheer virtue of its inherent design, OKRs are meant to create a culture of top-down and bottom-up communication. While the top-down design enables the strategic and tactical intent, the bottom-up approach brings grounded experience, executional intelligence, and clear contribution from people in teams. Through transparent alignment and involvement of employees across the board, higher levels of engagement and ownership is created.

Conclusion

By now you may have noticed how these elements not only work as causal factors for organisations to perish, but also act as change levers in making them thrive and grow. You will also notice that these factors are interrelated to each other. OKR helps organisations build agility, enhance interdependencies, increase levels of innovation, and create more ownership and engagement from its employees. OKRs are also, therefore, the automatic choice for businesses that want to gear up to create a (PACED) **P**urposeful Organisation, **A**gile Leadership, **C**ulture, **E**mpathy and **D**igitisation led company.