THE BEGINNER'S GUIDE TO OKR

Felipe Castro

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Objectives and Key Results

Why I wrote this guide?

There are several guides to OKR. But they lack the solid foundations that will allow you to start at the beginning and will enable to to successfully adopt OKR.

I wrote this guide for first-time OKR users, but in my experience many long-time OKR users also find it valuable. Many of them lack the proper concepts to win with OKR.

My advice is that you should read this guide cover-to-cover, as each section builds upon the previous ones. Reading it from start to finish will help you understand how the different OKR building blocks fit together and why OKR has been successfully adopted by great companies such as Google, Spotify, Twitter, Airbnb and LinkedIn.

Felipe Castro

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What is OKR?

OKR (Objectives and Key Results) is a goal setting system used by Google and other companies. It is a simple approach to create alignment and engagement around measurable and ambitious goals.

The big difference from traditional planning methods? OKRs are frequently set, tracked, and re-evaluated – usually quarterly. OKR is a simple, fast-cadence process that engages each team's perspective and creativity.

OKR exists to create alignment and to set the cadence for the organization. The goal is to ensure everyone is going in the same direction, with clear priorities, in a constant rhythm.

OKR's original concept came from Intel and spread to other Silicon Valley companies. Google adopted OKR in 1999, during its first year. It supported Google's growth from 40 employees to more than 60,000 today.

Besides Google, other companies use OKR, including Spotify, Twitter, LinkedIn, and Airbnb.

But OKR is not only for digital companies. Walmart, Target, The Guardian, Dun and Bradstreet, and ING Bank are also using OKR.

Understanding the OKR Components

John Doerr is one of the most successful venture capitalists of all time. He started his career at Intel and went on to invest in companies such as Google and Amazon. Doerr, who introduced Google to OKR, has a formula for setting goals:

Doerr's Goal Formula
I will ______________________ as measured by _________________________.

A proper goal has to describe both what you will achieve and how you are going to measure its achievement. The key words here are "as measured by," since measurement is what makes a goal a goal. Without it, you do not have a goal, all you have is a desire.

Doerr's formula is the best way to explain the structure of an OKR:

I will (Objective) as measured by (this set of Key Results).

So, as the name implies, OKR has two components, the Objective and the Key Results:

Objectives are memorable qualitative descriptions of what you want to achieve. Objectives should be short, inspirational and engaging. An Objective should motivate and challenge the team

Key Results are a set of metrics that measure your progress towards the Objective. For each Objective, you should have a set of 2 to 5 Key Results. More than that and no one will remember them.

All Key Results have to be quantitative and measurable. As Marissa Mayer, a former Google's Vice President, said:

> “If it does not have a number, it is not a Key Result.”

Example One

First of all, we need an Objective. An example might be “Create an Awesome Customer Experience.” This sounds great, but how would you know if the experience is awesome? Remember, without measurement you don't have a goal.

That is why we need Key Results. How can we measure if we are providing an awesome customer experience? Net Promoter Score and Repurchase Rate would be two good options. Do our customers feel so good about dealing with us that they would recommend us and buy again?

But measuring NPS and repeat purchases alone can send the wrong message. It might encourage us to make the customer happy at any cost. Therefore, we can include a countermeasure such as Customer Acquisition Cost. We want to make our customers happy while keeping the costs under control.

The complete example would be:

Objective:

Create an Awesome Customer Experience

Key Results:

- Improve Net Promoter Score from X to Y.
- Increase Repurchase Rate from X to Y.
- Maintain Customer Acquisition cost under Y.

Example Two

Now consider a team that wants to increase the engagement with a digital service:

Objective:

Delight our customers

Key Results:

- Reduce revenue churn (cancellation) from X% to Y%.
- Increase Net Promoter Score from X to Y.
- Improve average weekly visits per active user from X to Y.
- Increase non-paid (organic) traffic to from X to Y.
- Improve engagement (users that complete a full profile) from X to Y.

Once more having a set of Key Results helps create a healthy, sustainable OKR. We want to increase the weekly visits, but we want it to be organic, not through an expansion of marketing spend.

Key Results are crucial. Most of all, they define what we mean by “Delight our customers.” A second team or company could use the same Objective with different Key Results.

What's unique about OKR?

There is not a single way to use OKR, each company or team can adapt and tweak it, creating different versions of it. But there are some core concepts:

Agile Goals

Instead of using annual static planning, OKR takes an agile approach. By using shorter goal cycles, companies can adapt and respond to change.

Simplicity

Using OKR is straightforward, and the OKRs themselves are easy to understand. Intel's original model set goals monthly, which required a lightweight process.
Companies that adopt OKR reduce the time spent setting goals from months to days. As a result, they invest their resources in achieving their goals and not on setting them.

Transparency

The primary purpose of OKR is to create alignment in the organization. To do so, OKRs are public to all company levels — everyone has access to everyone else's OKRs. The CEO's OKRs usually are available on the Intranet.

Nested Cadences

OKR understands that strategy and tactics have different natural tempos since the latter tends to change much faster. To solve this, OKR adopts different rhythms:

- ➔ A strategic cadence with high-level, longer term OKRs for the company (usually annual).
- ➔ A tactical cadence with shorter term OKRs for the teams (usually quarterly).
- ➔ An operational cadence for tracking results and initiatives (usually weekly).

Bidirectional Goal Setting

Instead of using the traditional top-down cascading model that takes too much time and does not add value, OKR uses a market-based approach that is simultaneously bottom-up and top-down.

From the company's strategic OKRs, teams can understand how they can contribute to the overall strategy. In this process, around 60% of the tactical OKRs are set by the teams in alignment with the company goals and then contracted with the managers in a bubble-up approach.

This model creates engagement and a better understanding of the strategy while making the process simpler and faster.

Ambitious Goals

The philosophy behind OKR is that if the company is always reaching 100% of the goals, they are too easy.

Instead, OKR targets bold, ambitious goals. Besides aspirational objectives, OKR believes in enabling the team to set challenging goals. Goals that make the team rethink the way they work to reach peak performance.

Decoupling Rewards

Separating OKRs from compensation and promotions is crucial to enable ambitious goals. Employees need to know they will not lose money if they set ambitious goals. It is hard to set ambitious goals when you need the bonus to pay for your kids' college tuition.

OKR is a management tool, not an employee evaluation tool.

Tips for writing good OKRs

For Objectives:

- First of all, Objectives should be simple, short and easy to memorize. If you have to stop to breathe while reading your Objective, you are doing it wrong.

- Second, Objectives shouldn’t be boring. They can fit the organizational culture and be informal and fun. You can use slangs, internal jokes and even profanity – whatever fits your culture.

For Key Results:

- Separate metrics from tasks.
- Set few of them. Usually between 2 and 5 per objective.

What are the benefits of using OKR?

The main advantages of using OKR are:

Agility
Shorter goal cycles enable faster adjustments and better adaptation to change, increasing innovation and reducing risks and waste.

Alignment and cross-functional cooperation
The use of shared OKRs improves collaboration among different teams, solving interdependencies and unifying competing initiatives.

Reduced time for setting goals
OKR simplicity makes the goal setting process faster and easier, drastically reducing the time and resources spent on setting goals.

Clear communication
Transparency and simplicity enable the team to understand the goals and priorities of the organization as well as how each individual can contribute.

Employee engagement

OKR bottom-up approach for goal setting connects the employees with the company's objectives, increasing engagement.

Autonomy and accountability

Teams receive a clear direction and are free to choose how to achieve their OKRs. They become responsible for their objectives, with clear success criteria known to the whole company, creating mutual obligations.

Focus and discipline

The reduced number of goals creates focus in the organization and more disciplined efforts and initiatives.

Bolder goals

Decoupling OKRs from compensation and using stretch goals, even partially, enable the team to set ambitious, challenging goals.

Strategic vs. Tactical OKRs:

Nested Cadences

It is a common misconception that OKR only works with quarterly cycles, which was the model Google used until 2011. After retaking the CEO role at Google, Larry Page decided to adopt both annual and quarterly OKRs.

We can only speculate about what drove Page's decision, but most companies eventually discover that using short-term OKRs can cause teams to miss the big picture and focus only on what they can accomplish in three months.

Most mature OKR implementations understand that different goals have different rhythms as tactical goals tend to change much faster than strategic goals. So OKR decouples strategy and tactics by adopting a nested model, as I mentioned in the first section:

- A strategic cadence with high-level, longer term OKRs for the company, which are not set in stone. The organization should maintain a continuous conversation about strategy and review the company OKRs as necessary.
- A tactical cadence with shorter term OKRs for the teams.
- A follow-through cadence with regular check-ins for tracking results along the way.

Think of Strategic OKRs as high-level OKRs that would interest the board of directors - if you chose to show it to them.

A pattern I see in successful OKR adoptions is:

- ➔ Annual strategic OKRs for the company (and sometimes for very large departments and business units).
- ➔ Quarterly tactical OKRs for the teams, with a mid-quarter review.
- ➔ Weekly check-ins for tracking results.

Some organizations also set quarterly OKRs for the company, but I would not recommend that in the beginning.

Choosing your OKR Cadence

It is important to note that organizations can customize the cadences for their needs. For example, Spotify uses a strategic cycle of six months while its teams set OKRs every six weeks. It is an interesting story since they returned to OKR after trying to create its own approach.

Some companies are adopting shorter cadences for OKR, as Salim Ismail, founding executive director of Singularity University, wrote in his book, Exponential Organizations:

Many [organizations] are now implementing high-frequency OKRs – that is, a target per week, month or quarter for each individual or team

Most teams that are trying to set monthly OKRs are using OKR as a to-do list. When teams use OKR to measure value, as we will see in the following sections, the quarterly cadence makes sense since you need time to develop initiatives, measure their impact and iterate.

As a general rule, the shorter the cadence, the smaller the OKR-setting overhead needs to be. And the longer the cadence, the lower the business uncertainty needs to be.

So to adopt shorter cycles, you have to make sure you have a streamlined process for developing the OKRs in place, or you will be spending too much time setting goals.

On the other hand, if your business deals with uncertainty or your market changes too quickly, longer OKR cycles will not help you.

If you are starting with OKR, I recommend using a quarterly tactical cadence with a mid-quarter review. That will enable you to learn and adapt your model. Most organizations can work with this cadence.

Start with Unified Cadences

In Silicon Valley, some mature companies have distinct cadences for different functions. For example, some companies set annual OKRs for the sales team while using quarterly OKRs for engineering and product teams.

I recommend starting with the same cadences for everyone since it reduces complexity. The best approach is to have an incremental rollout, beginning with a simpler model and evolving it as you learn.

If you want to try to set different cadences inside your organization eventually, you should try to maximize the number of “synchronization opportunities.” For example, having one team use a 4-month cadence while the rest of the company uses three months means teams will only sync once a year which could drastically affect alignment.

OKRs do not Cascade

In traditional organizations, goals cascade. It seems it is just something that they do. Goals start at the top and then cascade down. That is very common. And flawed.

What are the characteristics of a cascade (or waterfall)?

It's a top-down, one-way, irreversible flow, with no feedback cycles that ends crashing on the rocks. Everything an agile, innovative organization does not want to be.

The cascading model is a residue of a command & control mindset in which decisions simply flow downwards from the top. We have to stop using top-down analogies. Words and images are powerful and help shape the culture of organizations.

Although cascading goals is an improvement over the previous approaches, it takes way too much time. As James Harvey wrote:

> “[The traditional model] is a top-down approach and often takes too long to achieve alignment. Direct reports are often dependent on the completion of their supervisor's goals before they can begin building their own goal plan.”

I have seen global corporations in which the goal setting process takes 4-6 months. Not only it is a massive waste of resources, but it also leaves employees without clear goals for almost half the year.

There has to be a better way.

Bidirectional Goal Setting

As Laszlo Bock, Google's former VP of People Operations wrote in his book Work Rules!:

> On the topic of goals, the academic research agrees with your intuition: Having goals improves performance. Spending hours cascading goals up and down the company, 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 all 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. So far, so good!

That is why I created Castro's First Rule of OKRs:

OKRs never Cascade.
OKRs Align.

OKRs should be set in a parallel process in which teams define OKRs that are linked to the organization objectives and validated by managers, in a process that is simultaneously bottom-up and top-down.

From the company OKRs, the teams can get a clear direction and understand how they can contribute to reaching those OKRs.

Each team then defines a set of tactical OKRs for the quarter that contribute to the strategic OKRs and that roughly align with them. Teams' OKRs don't have to be 100% aligned with the company's OKRs since they may also choose to include a local OKR.

Creating Tactical OKRs

When creating their Tactical OKRs, each team has to answer two questions:

- ➔ How can we contribute to the Strategic OKRs?
- ➔ Which of the Key Results included in the Strategic OKRs may we impact?

Tactical Key Results can be:

- A slice of the company OKR (Ex: *The company will sell 100, my team will sell 20*).
- Hypotheses or bets about how to contribute to the Strategic OKRs (Ex: *We will reduce the number of customer complaints because we believe it will increase the repurchase rate*).

Teams may have “local” OKRs, but most of the OKRs should contribute to the Strategic OKRs.

There is a rule of thumb is that around 60% of the OKRs should be defined by the team, bottom-up, meaning that the managers also have a say on what the OKRs are.

In my experience, if you have a healthy environment tracking this percentage is hard. Usually, the team develops a draft for the OKRs and then there is a conversation with the managers. The company may also choose to standardize a few OKRs between similar teams (i.e. every product team has to increase customer engagement).

Success criteria and types of Key Results

What is Success?

Every organization, every team, every project needs a clear definition of success. We all need a definition of what it means to be successful.

But success means different things to different people. If I asked your team what success looks like for your company, I would probably get one different answer for each team member.

When used correctly, OKR helps teams and organizations define shared success criteria. They establish clear, measurable criteria for reaching success.

OKR not only makes sure the criteria exist but that those criteria are *shared*, transparent and communicated to other teams, employees and even outside partners.

The shared success criteria concept is critical when setting OKRs. We always have to ask ourselves: are those Key Results describing what success looks like?

Don’t turn your OKRs into a task list

Imagine a hamster in its cage, running nonstop on its wheel but never actually moving. Is that how you feel about your company or your team? Lots of work, lots of effort, but never getting anywhere?

Who is considered successful in your company? Those who work long hours, not sleeping, working on weekends, or those who deliver actual results? Do you want a team of hamsters – with lots of effort that get you nowhere – or people that produce results?

When setting your OKRs, try to evaluate:

- ➔ Do you measure effort or results?
- ➔ Are your OKRs focused on your objective or on the means to get there?

There are two basic types of Key Results:

1. Activity-based Key Results

Measure the completion of tasks and activities or the delivery of project milestones or deliverables.

Examples of Activity-based Key Results are:

- ➔ Release beta version of the product.
- ➔ Launch a monetizing tab.
- ➔ Create a new training program.
- ➔ Develop a new lead generation campaign.

Activity-based Key Results usually start with verbs such as *launch, create, develop, deliver, build, make, implement, define, release, test, prepare* and *plan*.

2. Value-based Key Results

Measure the delivery of value to the organization or its customers. Value-based Key Results measure the *outcomes of successful activities*.

The example Key Results from the first section are all Value-based:

- ➔ Improve Net Promoter Score from X to Y.
- ➔ Increase Repurchase Rate from X to Y.
- ➔ Maintain Customer Acquisition cost under Y.
- ➔ Reduce revenue churn (cancellation) from X% to Y%.
- ➔ Increase Net Promoter Score from X to Y.
- ➔ Improve average weekly visits per active user from X to Y.
- ➔ Increase non-paid (organic) traffic to from X to Y.
- ➔ Improve engagement (users that complete a full profile) from X to Y.

The typical structure of a Value-based Key Result is:

Increase/Reduce ABC-metric from X to Y

Where X is the *baseline* (where we begin) and Y is the *target* (what we want to achieve).

Using the "from X to Y" model is better than writing a percentual change because it conveys more information. Compare the two options below:

A) Increase NPS by 20%.
B) Increase NPS from 40 to 48.

Option A can be confusing since it's hard to tell how ambitious the target is. Are we talking about increasing NPS from 5 to 6 or 40 to 48?

Other options for Value-based Key Results can be:

- Maintain ABC-metric in X (*When we want to sustain one metric*).
- Reach Y on ABC-metric (*When we are doing something new*).

A Value-based Key Result does not have to be a measure of the end objective of the company (i.e. revenue, profits or EBITDA), but it can be a component of a metric that has a correlation to generating value.

Below is a list of examples of Activity-based Key Results and the equivalent Value-based Key Results.

Activity-based Key Results	Value-cased Key Results
Create engagement program	→ Improve employee engagement from X to Y
Develop 3 new landing pages	→ Generate Y MQLs (Marketing Qualified Leads). → Increase lead conversion from X to Y. → Reduce CAC (Customer Acquisition Cost) from X to Y
Launch new product	→ Reach Y Daily Active Users of the free version. → Achieve Y% conversion rate from free to paid users. → Achieve a Net Promoter Score of Y%.

OKRs should be Value-based

As we mentioned before, *when used correctly*, OKRs define success criteria for an organization. OKRs should determine whether a person or a team achieved success. But to do that, OKRs cannot be based on activities for three main reasons:

1. We want a results-focused culture, and not one focused on tasks.

2. If you did all your tasks and nothing improved, that is not success.

Success is improving something: customers are more satisfied, sales are higher, costs have been reduced. If you did all your tasks, but they got you nowhere, that is not success.

OKR author and thought leader Christina Wodtke has a great tweet about "success":

Success is not checking a box.
Success is having an impact.

So in spite of the "Project Management Triangle," the fact is that delivering a project on time, on scope and on budget is not enough. The project must be delivered successfully – meaning that the objectives that motivated the project in the first place have to be reached.

3. Your action plan is just a series of hypotheses

The Lean Startup methodology taught us that an idea is just a non-validated hypothesis. In the same way, in the real world, we don't know if our action plan will improve our results or add value to the organization. The action plan is just a hypothesis, so you cannot attach your OKRs to a non-validated bet.

When setting OKRs, focus on the destination, not on the means to get there.

Objectives, Key Results, and Initiatives

When focusing on Value, we need to separate the OKRs from the activities and tasks that we plan on doing to achieve the OKRs. This leaves us with three components:

- **Objectives:** What we want to achieve.
- **Key Results:** How are we going to measure our progress?
- **Initiatives:** What we are going to do to reach our OKR: projects, tasks or activities.

It is important to understand that we still need to track the delivery of the initiatives. Without them, we will not achieve our OKRs. But initiatives are just bets and have to change if the numbers aren't improving.

Delivering an initiative is not enough. We must fulfill it successfully.

Nobody works on initiatives as a hobby. Behind every initiative is a desire to improve one or more metrics. So, instead of tracking the delivery of a project, we should measure the indicators that motivated it in the first place.

Migrating from Activities to Value-based OKRs

When teams start with Value-based OKRs, it is common for them to get stuck listing activities as Key Results.

To convert those activities into value, think about what would be the consequences of being successful with this task. What would be the desired outcomes?

Some teams find this simple tool to be useful to identify the desired results, especially when first dealing with value-based OKRs:

If we are successful with *(this initiative)*, we will
(Key Result #1)
(Key Result #2)
(Key Result #3)
...

Example:
If we are successful with *the new campaign*, we will
Increase NPS from 29 to 31%
Reduce churn from 3.2 to 2.7%

You can also create an OKR to measure if a high-priority initiative will be delivered successfully:

Successfully migrate the platform

- ➔ Reduce infrastructure costs from X to Y.
- ➔ Maintain availability during migration in 99,99%.
- ➔ Maintain revenue of $ X.

How ambitious should your OKRs be?

Ambitious goals are so important that Google's "Ten things we know to be true." mentions them directly:

> "We set ourselves goals we know we can't reach yet because we know that by stretching to meet them we can get further than we expected."

Ambitious goals are also called stretch goals. But what exactly is a stretch goal?

The stretching analogy

Let's think about the characteristics of stretching:

- While you are stretching, it feels uncomfortable, even slightly painful. Stretching takes you out of your comfort zone;
- Stretching may be uncomfortable while doing it, but it makes you feel good afterward;

- The whole idea of stretching is to try to reach a place that you know you can't reach. You have to keep trying to reach your feet even though you know you can't reach it;
- After stretching regularly, you start to reach farther than you could if you haven't been stretching. You may still not be able to reach your feet, but now you can reach places that you couldn't reach before;
- Although stretching is supposed to feel uncomfortable, you shouldn't strain a muscle. You should not try to go so far as to harm you. You can try to be as Jean Claude Van Damme but take your time.

How this applies to goal setting?

When you think about this analogy, you can say that stretch goals are goals that:

- Take you out of your comfort zone;
- Make you go after targets that you think you can't reach (at least not yet);
- Make you achieve things you couldn't do before;
- Should be hard but not as hard as to harm (or demotivate) you.

Think of stretch goals as goals that are so hard that make the team rethink the way they work, ask hard questions and have the difficult conversations that have been avoided. Stretch goals make teams wonder how far they can go.

In fact, in a meta study of 35 years of empirical research, goal-setting theory pioneers Edwin Locke and Gary Latham found scientific evidence that shows that "the highest or most difficult goals produced the highest levels of effort and performance."

As Larry Page wrote in the foreword for How Google Works, making people think big is hard, and bold goals are key:

> [Teams] tend to assume that things are impossible, rather than... figuring out what's actually possible. It's why we've put so much energy into hiring independent thinkers at Google, and setting big goals.

Is 70% the new 100%?

In his now classic video presenting OKRs, Rick Klau mentions that:
Objectives are ambitious, and should feel somewhat uncomfortable.

The "sweet spot" for an OKR grade is .6 — .7; if someone consistently gets 1.0, their OKRs aren't ambitious enough. If you get 1s, you're not crushing it, you're sandbagging.

Klau's statement led to some questioning that "if 70% is the accepted result, isn't 70 the new 100?".

This issue only happens if the team is not stretching. Allowing the 70% as the target would be like only touching your leg without trying to reach your feet – i.e. not stretching at all. The whole idea of a stretch goal is to keep trying to reach the 100%, even though you know that most of the time you won't reach it.

Moonshots vs. Roofshots

The type of OKRs that Klau is describing is called “Moonshots.” In practice, there is also a second type of OKR, the “Roofshots.” The table below explains both:

Moonshots	Roofshots
➔ Stretch goals. ➔ Just beyond the threshold of what seems possible. ➔ Success means achieving 60-70%	➔ Goals that are hard but achievable. ➔ Success means achieving 100%.

Moonshots are a foundational building block of OKR, but they require a lot of organizational maturity. In my experience, moonshots can cause a few issues:

They can demotivate the team
People like to beat goals. Only achieving 60% of the OKRs can demotivate a lot of them, especially in the beginning.

Lack of accountability and commitment
Moonshots can be misinterpreted by some, creating a culture in which you don’t have to reach your goals: “Hey, it doesn’t matter. It’s just a stretch goal”.

Alignment issues
Especially when using activity-based Key Results, moonshots can cause alignment issues between interdependent teams. One team needs something from another but the second one is unable to deliver it since it was a stretch.

That is why roofshots exist and are used by several teams inside Google, usually mixed with moonshots. One approach I like is setting one moonshot key result per OKR – the others are all roofshots.

I strongly recommend that you start by using roofshots only. To develop a results-focused culture, begin by focusing on beating goals. Afterward, when the culture is more mature, you can evolve to moonshots to start questioning how far the organization can go.

Creating Alignment

OKR is first and foremost an alignment tool. But alignment can only happen when teams have structured conversations with each other to set priorities and solve interdependencies.

Creating OKRs in isolation, without talking to others, is a widespread mistake. It usually prevents the team from achieving their OKRs by:

- Setting OKRs that are not feasible, since they are not a priority for the necessary groups;
- Defining OKRs that are overly optimistic due to the time needed by a third party to deliver a required action (the other party will either take too long or will start it too late to move the needle during the quarter).

To avoid this mistake, OKR uses three different alignment mechanisms: Transparency, Shared OKRs, and 360° Alignment.

Transparency

OKRs are visible to all company levels — everyone has access to everyone else's OKRs and current results. If you have a top-secret Key Result, it may be kept private, but the vast majority of your OKRs should be public.

Transparency increases alignment since if one area of the business is not aligned with the others, it can be quickly noticed by the other teams and fixed.

Shared OKRs

Shared OKRs are the most effective tool to create alignment between multiple teams or functions. In a shared OKR, two or more teams share the same OKR, but each team has different initiatives.

Instead of splitting a single goal among teams and have them set separate OKRs – which can lead to teams losing sight of the real objective – a single shared OKR is created among the teams.

The shared OKR creates a virtual team that meets regularly to sync progress and track results and initiatives for the duration of the shared OKR

For example, imagine that a product team wants to launch a new product and needs that the platform team develops new features while the business development team signs content deals with partners.

Objective:
Successfully launch Acme product

Key Results:
- Reach 500,000 Daily Active Users of the free version;
- Achieve 5% conversion rate from free to paid users;
- Achieve a Net Promoter Score of 35%;
- Less than 5 critical or blocker bugs reported;
- Achieve at least 40% revenue share with 5 of the target content partners.

Instead of having 3 different goals that could be individually achieved without generating the desired business result, this single OKR is shared between teams. Each team has different initiatives, but they all share the same OKR – the same definition of success.

For the duration of this OKR, all three areas that will meet regularly to track progress.

360° Alignment

One of the problems of the cascading model is that it is focused on vertical alignment – making sure your goals are aligned with your boss's goals and with her boss's goals – which can create silos.

OKR focuses on 360° Alignment - top, down, and sideways - eliminating silos and addressing interdependencies.

Teams can solve interdependencies by having structured conversations with each other to create 360° alignment. If a team needs something from another, they can discuss it and set shared OKRs priorities or even delay the initiative for the next quarter.

Tracking Results with the Weekly Check-in

Don’t let your OKRs turn into New Year's resolutions. You have to make them part of the work routine of each team by using the Weekly OKR Check-ins.

The Check-in is a short ceremony for tracking results. The idea is not to increase the managerial overhead or to add more meetings but to make existing meetings more productive and even to merge or eliminate some of them.

Check-ins should happen every week. Having monthly meetings to track results is intuitive when you have annual goals, but since you are using quarterly OKRs, you should also have more frequent Check-ins.

They should be short and limited to one hour or less. I have worked with dozens of executive teams, and they all managed to keep it under one hour - usually around 30 to 40 minutes. Teams check-ins tend to be shorter, with some teams doing 15-minute stand-up Check-ins.

Weekly Check-ins are probably the most powerful tool to make OKRs a part of the company culture.

Having the right mindset during the Check-in is critical:

- **Improving OKRs vs. putting out fires:** Several teams have regular staff meetings, but they are usually dedicated to putting out fires and not on improving results. The Check-in reverses that: we will begin by measuring our OKRs.
- **Focused on improving results and not on giving excuses:** The Check-in should be about how we are going to improve our OKRs and not about listing all the explanations for the disappointing results that may eventually occur.

Forget "Scoring"

A common approach to OKR includes the practice of *scoring*, where you give grades to each Key Result at the end of the quarter. Scores usually range between 0 and 1.0, with expected values being around 0.6 and 0.7 in average.

My experience is that scoring has several problems:

- By defining OKRs at the beginning of the quarter and scoring them only at the end, you are setting yourself for failure. Without a regular cadence of measurement and follow-through, the numbers will not improve. The Check-ins create that.
- Most teams find the scoring process to be confusing since it can be extremely subjective ("What is a 0.5?").
- If you define the scores in advance, meaning you agree in the beginning of the quarter on what is a 0.3, a 0.7, and so on, you will increase complexity by 3x to 5x. For each Key Result, you will have to set three to five achievement levels, which is not a recipe for simplicity.
- Scoring brings almost no benefits if you are using Value-based Key Results.

That is why my recommendation is: forget scoring. Use Value-based Key Results and *just measure them*. It will be simpler for the teams, and it will drastically reduce the time spent setting OKRs.

The Check-in Structure

I have had the opportunity to coach hundreds of Check-ins. After experimenting with different approaches, I discovered that the best model for the Check-in includes four elements, described in the 2x2 matrix below:

OKR Progress	**Confidence Levels**
What changed in the Key Results since the last Check-in?	With the information we have today, how confident are we that we will reach each Key Result?
Impediments	**Initiatives**
What is slowing down the team?	What are we going to do to improve results?

During the Check-in, the team goes through each element for each Key Result:

OKR Progress

The Check-in starts with data. What is the current measure of that Key Result? What changed since the last Check-in?

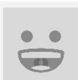
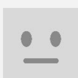
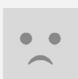
Confidence Levels

If the OKR progress is the quantitative aspect of the Check-in, the confidence levels bring the qualitative aspect. What is not in the data?

For example, is there an important initiative running late or a key client about to cancel? Maybe one of our hypotheses has been invalidated?

To set the confidence level, the team has to answer the following question: *Considering the information we have today, how confident are we that we will reach each KR*?

Some companies use a 1 to 10 scale to set the confidence levels, but in my experience, it can be as confusing as scoring the Key Results. I recommend adopting three levels, either using colors (Green, Yellow, Red) or emoticons (Happy, Concerned, Sad).

Confidence Level		**Description**
		We expect to reach it.
		There is a risk we will not reach it, but we believe we can do it.
		We do not believe we will reach it unless we take a new approach.

Two tips about the confidence levels:

- What matters is the conversation: all members of the team should discuss them. The confidence levels are an excellent alignment technique that will also allow you to assess the engagement of each team member quickly.

- Red (or "sad") does not mean the team should give up. It means the team *should change their approach*.

Impediments

What is slowing the team? Is there an external factor that, if solved, could improve results?

For example, does the team need better tools or is an initiative from another team delayed?

Initiatives

What are we going to do to improve results?

Remember that standing still does not work as the Check-ins are not just about measuring numbers. You have to do something to improve your Key Results. Or, as Donald G. Reinertsen wrote:

> "If measuring alone solved problems, buying a scale would make you lose weight."

A Typical OKR Cycle

A common OKR cycle would be:

1. At the beginning of the year, the company defines a set of high-level strategic OKRs – preferably with input from the team.

It is important to understand that the high-level strategic OKRs for the organization should not be set by the top executives in isolation, without inputs from the team. In his article titled Should You Build Strategy Like You Build Software?, Keith R. McFarland describes a model to create a more refined and execution-ready strategy:

Since people at many levels of an organization make daily tradeoffs that impact the company's strategic success, the process needs to be designed to tap into ideas from all corners of the organization – more than just the top executives.

2. The executive team then validates the company OKRs, gathering feedback from the team.

3. Teams develop their Tactical OKRs using the bidirectional approach described above.

4. Teams map interdependencies and ensure alignment with other teams and initiatives.

5. Teams have weekly check-ins to track results and initiatives.

6. For companies using quarterly OKRs, it is common to review the OKRs halfway down the quarter during a mid-term OKR review.

7. At the end of the cycle, you can have a quick retrospective/lessons learned and start over.

The simplest way to conduct a retrospective is the start-stop-continue format. In this model, each team member is asked to identify specific things that the team should: Start doing / Stop doing / Continue doing.

OKRs that haven't been achieved in the previous cycle are re-evaluated so they can be included in the next quarter or discarded if they are no longer necessary.

Some companies view the Objective as a "vision" that the company and teams will pursue over time, so Objectives may rollover from one quarter to the next. For example, an Objective such as "Delight our Customers" is something that a company could use over several quarters, creating new Key Results at each tactical cycle.

Even some of the Key Results themselves can be the same over time, just changing the targets. Metrics such as Revenue and Net Promoter Score tend to be present in almost all quarters of all companies that I have seen. But the value drivers that each team will use to improve those metrics will change over time.

Why you should separate OKR and compensation

OKR is a management tool, not an employee evaluation tool. As such, a second tenet of the OKR framework is to separate OKRs from compensation and promotions.

As Intel's Andy Grove wrote:

> [OKR] is not a legal document upon which to base a performance review, but should be just one input used to determine how well an individual is doing.

Rick Klau wrote:

> OKRs are not synonymous with employee evaluations. OKRs are about the company's goals and how each employee contributes to those goals. Performance evaluations –which are entirely about evaluating how an employee performed in a given period – should be independent of their OKRs.

This approach is very different than the traditional model, which is showing signs of aging. A study by Willis Towers Watson showed that regular pay for performance tools are not effective at driving improved individual performance, nor at rewarding it:

- ➔ Only 20% of employers in North America say merit pay is effective at driving higher levels of individual performance at their organization;
- ➔ Employers give short-term incentives low marks. Only half say short-term incentives are effective at driving higher levels of individual performance, and even fewer (47%) say that these incentives are effective at differentiating pay based on individual performance.

The tale of two bonuses

There once was an organization that had two employees on the same team: Paul and Mary.

- ➔ Paul was smart, focused and delivered results. But he was driven by monetary rewards and was always trying to figure out how to make more money.
- ➔ Mary was also smart and focused, but she was driven by her achievements. She believed that if she delivered, money would follow.

The organization used a simplified bonus formula, connecting goals to rewards:

Bonus paid = *ƒ*(% of goals achieved * salary grade)

This formula means that the size of the bonus was a function of the employee salary grade and the percentage of goals that the employee achieved.

And then, the following happened:

- ➔ Paul achieved 110% of an easy goal that he successfully reduced after several rounds of negotiation with his managers;
- ➔ Mary achieved 80% of an ambitious, going way beyond anyone in the company thought was possible. A real moonshot.

Who deserved the higher bonus? Mary, of course. But who got the bigger bonus in the end? Paul.

This tale is a classic example of a perverse incentive. Our incentive system is, for all practical purposes, rewarding the inappropriate behavior.

We are all Paul and Mary

Everyone has a bit of Paul and Mary inside. Your incentive system should work for real people in real life. And even if you have a team full of Marys, why would you have a system that incentivizes something you do not want to happen?

If you want to create a culture in which setting stretch goals is the norm, you should think about dropping the formula-based (or tightly coupled) model for both bonuses and promotions.

What's the alternative?

The alternative is to adopt a system in which the achievement of goals is input to the performance evaluation process, in which bonuses and promotions are defined. In this model compensation and goals are loosely coupled.

The performance evaluation considers not only the percentage of the goals achieved but also the goals themselves: the difficulty and the impact on the business. Think about it as the Difficulty Score in gymnastics: you get more points for performing routines that are more difficult.

"But this is too subjective"

One of the common complaints about this model is that it is "subjective" while the formula-based model is "objective."

The problem is that using a formula at the end of a process does not make it objective. People simply think it is objective because all they can see is a bit of math:

- Several companies around the world use, at least sometimes, spot bonuses or discretionary bonuses to compensate or complement the bonus policy. Both are 100% arbitrary, following subjective rules;
- Calculating the bonus based on who has the best negotiating skills to reduce the goals is "subjective";
- Project/resource allocation is arbitrary. Sometimes the organization needs somebody to turn around a troubled project, which may hurt his/her bonus in the short run – which is usually compensated by spot bonuses.

As with moonshots, I strongly recommend that you don't adopt this model in the beginning. Do not change your compensation model before having a stable and mature OKR capability in your organization.

And how about sales quotas?

Sales teams are different since the result is easier to measure. You can attach compensation to a sales quota, but you should avoid any model that rewards employees that negotiate a reduction in the quota.

Common OKR mistakes

Those are the most common mistakes we encounter in OKR implementations, starting with the most basic ones:

- Setting non-measurable Key Results: Remember John Doerr’s formula. Every Key Result has to be measurable.
- Too many OKRs or Key Results: OKR is not a laundry list of everything you do. It is a representation of your top priorities. Less is more here.
- Including tasks as Key Results: A Key Result is not something that you do. It is the successful outcome of what you did.
- Setting OKRs top-down: OKRs do not cascade. Trust your team and help them understand how they can contribute.
- Creating OKRs in silos: Teams have to talk to each other when setting OKRs, otherwise achieving alignment will be impossible.
- “Set it and Forget it”: Don’t treat your OKRs as new year’s resolutions. OKR has to be part of the culture of your organization and has to be tracked at a regular cadence.

- Including OKRs in a compensation formula: OKR is not an employee evaluation tool. OKR is a management tool.

- Trying to copy Google blindly: There is not a single way to adopt OKR. Even inside Google different teams use OKR in a variety of ways. Understand the principles involved and adapt your implementation to your organization.

What's Next?

Now that you have read The Beginner's Guide to OKR, there are a few things that you can do:

➔ **Send me your questions or comments**

I would love to hear from you. You can follow me on Twitter @meetfelipe or email me at info@felipecastro.com.

➔ **Learn how to customize OKR for your company**

OKR is not a one size fits all approach. You should think of it as a set of customizable building blocks that you can leverage to transform how your company uses goals.

Download this paper to learn how to adapt the OKR model to your particular context and culture.

➔ **Download more OKR resources**

Get OKR templates, cheat sheets and more at my resources page.