WHITEPAPER: ETW MANAGEMENT SERIES

OKRs versus KPIs versus MBOs

What are they, and which one is best for your business?

DECODING THE DIFFERENT TOOLS

There are a great number of ways you may choose to manage your business. Some companies rely on KPIs or OKRs to keep track of their goals, while others choose to enlist the practice of MBOs, or maybe a combination of these. It is important to understand the differences between these tools and methodologies before deciding which to utilize in your organization. Let's begin with OKRs.

First of all, what does OKR stand for?
OBJECTIVES AND KEY RESULTS

The OKR framework is ultimately made up of two pieces. Your company objectives are what you are looking to accomplish. The Key Results focus on what you are going to do to achieve those objectives. Key Results also serve as your tool for measurement–i.e. If you do not meet an Objective, what went wrong, or fell below plan according to your Key Results?

Now let's take a look at KPI–
KEY PERFORMANCE INDICATORS

KPIs are essentially your metrics. When you are looking at KPIs, you will likely see numbers, charts and graphs.. All KPIs are directly measurable. They are a means of measuring how well an individual, team or organization is performing against their goals according to the numbers.

Last but not least, what is MBO?
MANAGEMENT BY OBJECTIVES

Rather than being a piece of the management practice, as are OKRs and KPIs, Management by Objectives is the management practice itself which aligns objectives with subsequent goals, and subgoals throughout the organization. Managing by objectives helps you to set employee objectives that are strategically aligned to the overall objectives of the organization.

KPIs: Leading & Lagging Indicators

All KPIs will fall into one of two categories: leading or lagging indicators.

Lagging indicators *are those that are very easy to measure. They are the actual output numbers we look back on and learn from. For example, when measuring the success of a sales team you may consider Quarterly Sales Revenue as one of your lagging indicators. Easily measurable, and will indicate how the sales team performed over the quarter.*

Leading indicators *are those that contribute to the success of the lagging indicators. Going back to our example for lagging indicators, there are a number of contributing KPIs that could be associated with Quarterly Sales Revenue–daily outbound calls or proposals sent for example. These are your leading KPIs.*

WHICH ONE DO I USE?

Now that we understand the difference between the different tools/methodologies, we can examine which one, or combination of them, fit best with a customer's process, methodology and current state. What benefits does each tool carry, and which benefits would provide the most value to your organization?

First it is important to understand that it is possible to have some overlap between these tools. For example, a company that is using OKRs may also be using KPIs in their Key Results. How would this happen? The example below demonstrates the elements of an OKR and where a KPI would also factor in.

Objective:

- Grow our sales in the Western Region in Q2

Key Results:

1. Develop new relationships with 20 new prospects in Q2
2. Double sales revenue in the Western Region in Q2
3. Implement incentives program to increase focus in Western Region

KPIs from above:

1. Number of new prospects
2. Sales Revenue

You'll notice the third Key Result does not have an explicit KPI attached to it. KPIs are essentially interchangeable for the term "metric" and are treated as such in the example above. The third key result is not specific enough to tie a KPI to it–it will simply be accomplished, or not. It does not need a specific metric to measure a successful outcome.

BENEFITS OF KPIs

Again, we can think of the term *KPI* as being interchangeable with the term *metric*. Metrics are the hard numbers that give context to the success or failure of your business. By using KPIs as your primary tool for your management operating system, you will have a clear picture of where your business' shortcomings and successes are, and you will have the numbers to prove it. This is only true however if you are choosing the right KPIs.

Use the list of questions below to help determine whether are not you are on the path to choosing valuable and effective KPIs.

1. Are my KPIs aligned with my overall strategic goals for the company?

You should have different KPIs for different teams, departments and management levels. Be sure to also avoid KPIs that are too generic. The purpose of a KPI is to help drive the success of YOUR business, so make it specific enough to have an impact.

2. Are these KPIs realistic?

An easy way to assess this question is to consider the data points and resources that would be needed to reach the KPI. Consider new processes that would need to be in place, and whether or not the time spent on those processes is realistic for those directly tied to the KPI. Ultimately, you must determine whether the time put into it, will be worth the potential return.

3. If we could only pick X number of KPIs, would this one make the cut?

Be deliberate with your choices, and prioritize KPIs that will benefit the company as a whole. By determining which KPIs are truly important early on, you will have less maintenance in the long-run.

4. Is this within our control?

A good KPI has to be something that you can be actively working on. If your business realistically can not change it, why is it a measure of your success?

BENEFITS OF OKRs

OKRs are clearly favored as they have gained popularity in recent years. It is the method originally implemented by Intel, and now widely used by Google. OKRs give you a big picture look at what you are trying to accomplish–or at least a bigger picture than you would have with KPIs as those tend to focus on the numbers. OKRs require you to set a primary objective, and develop Key Results based off of that objective. They are created with a single goal in mind, and map out the stepping stones needed to get there.

Setting your OKRs require that you follow a few best practices to get the most out of them. First, you have to think of your objective as a goal, and goals come with their own set of best practices–think, SMART. Your objective needs to follow the SMART goal-setting practice of being specific, measurable, attainable, relevant, and time-bound. Once you have your objective set, you can begin to create a list of action items necessary to get to the Key Results.

OKRs encourage weekly check-ins, quarterly review/optimization of current OKRs, and cascading OKRs throughout the organization. For a company that values transparency, and clear ties from individual, to team, to company-wide objectives, OKRs may fit quite nicely into your business practices.

BENEFITS OF MBOs

MBOs will certainly be the broadest practice we will examine. Rather than a tool or single metric, MBOs is the practice of cascading goals and sub-goals throughout the entire organization. Every goal is tied to a plan or sub-plan above it, and every sub-goal is tied to a goal. At the top level, you will have your company plan, then your top company objectives are created based off of that plan. Your overall plan may have many sub-plans, that come with their own set of goals and objectives. This cascade continues all the way through the organization from the goals of the CEO to senior executives, managers and front-line employees.

The key benefit to employing this methodology is the comprehensive view it provides. This view is not just a benefit to the CEO or top executives. Team leaders clearly see how their team's performance fits into the top-line goals of the organization, and if there is a problem this system allows them to see where and how this may have come about.

It gives context to the metrics to provide a complete overview of the business performance goals and results.

THE BACKBONE OF YOUR MOS

Before deciding to fully commit to any of these methodologies, organizations must take the time to consider their desired results, and how they measure success. Whichever tool you choose will provide the backbone of your Management Operating System (MOS) so you should be sure to pick one that will provide the best long-term solution.

DEFINING MANAGEMENT OPERATING SYSTEM (MOS):

An MOS is a standardized process to manage the accomplishment of corporate and strategic goals and culture all the way to front-line employees.

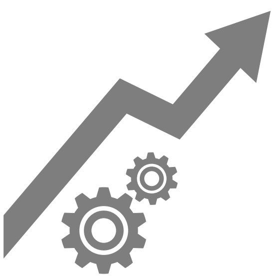
- The MOS includes a communications plan, a series of evaluation-related activities and ensures that employee evaluations will align employee performance to the organization's culture, strategy and requirements. The MOS can be as simple or complex as either the organization or individual managers desire.

The tools and/or methodology you choose will feed directly into your MOS to create the daily, weekly, or quarterly (etc.) processes, goals and procedures that your organization puts into practice. Understanding how these tools and processes will work together to impact your business is vital to successful execution and positive results.

One important distinction—the MOS referenced here is not any form of technology application. It is the *process and procedures* used to execute on your corporate strategy. The technology application you choose to organize all of these tools is not your MOS. There are a number of applications you may choose from for this purpose, and it will of course impact how you organize your tools and present your MOS, but the technology is not and should not be the main driver behind your best practices and methodologies.

THE TECHNOLOGY IS NOT THE DECISION MAKER

In deciding which goal-setting methodology to choose, there are many factors to consider. Maybe you are mainly wanting to focus on forward-looking goals with a growth mindset–in that case, KPIs may be your best bet. Perhaps you are simply trying to refine your MOS and day-to-day processes to encourage more specific goals and task oriented teams–OKRs would then be a good option. Again, the one thing that should not factor into your decision is the technology. Why use a platform that forces you into one chosen methodology when your business is ever-changing?



> The goal of ETW has never been to box our clients into any one methodology. Embrace what works for you.

With ETW you can choose any combination of KPI tracking, OKRs, SMART Goals, 4DX or any other methodology you can think of. Use one of them, none of them or all of them. The platform will still conform to your individual company needs.

As a company, we at ETW use our own software, and happen to employ an MBO approach. However, the software application was developed with an understanding that every company is different in their approach to goal-setting. The ETW application was intentionally created to be flexible enough to adapt to any methodology.

We want your organization to embrace whichever methodology best integrates with your MOS and makes the most sense for your business–the technology should be secondary.

About ETW

ETW provides a platform to track, evaluate and measure employee performance against the major objectives of the organization. Easily execute and translate long-term strategy into clear, actionable goals. With ETW you can effectively communicate the company's roadmap to success and engage everyone throughout the organization with that roadmap. Using ETW your organization can connect employees to strategy and culture to drive sustainable winning results.

If you would like to set up a demo with our leadership team, please email info@etw.com