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## Objectives and Key Results (OKR) – Hype or Potential?

Interview with Dr. Tobias Flinspach, lecturer at the University St. Gallen and partner at PMC – The Performance Management Company

by Alfred Biel

*The Interview Series of the Controller Magazin is a dialogue-based talk to work out and impart specialist knowledge and practical experience, but also opinions on and evaluations of controlling-related topics and questions. These interviews should provide guidance and inspire professionally. The 87th interview of our series of expert-interviews addresses a topic that is currently heavily discussed: Objectives and Key Results (OKR) – a new development and a new instrument. The focus here is on practical questions.*

**Biel:** Thank you very much, Dr. Flinspach, for being available for this dialogue. It is customary in our interview series to start with a personal

question. If one can follow the developments in controlling through reading and discussing the technical literature – as I have been able to for many years -, one develops a certain skepticism towards new trends, because one has already seen so many new approaches come and go. We can currently talk about an “OKR-wave”. Can you understand the caution towards developments that become the current interest very quickly?

**We can currently talk about an “OKR-wave”**

**Flinspach:** The **skepticism** is justified, in my view, because in the past years new con-

cepts promising to be a panacea have arisen again and again. As a rule, these have not been able to live up to the expectations placed on them.

**Biel:** Isn't the adoption of new concepts, methods and instruments a rather complex topic, where a lot of things must be considered, and rush jobs can therefore be problematic?

**Flinspach:** Yes, when introducing a new method, particular attention should be paid to the **compatibility to the leadership- and corporate culture**, and to the existing methods of management, like i.a. the budgeting. Thus, the potential of, for example, the Balanced Score-

card (BSC) was not even remotely raised in most organizations. When the method was currently “en vogue”, many companies have just introduced an additional scorecard. But the existing reportings, meeting-structures, budgets, remuneration systems, etc. were left unchanged. In the end nobody was really interested in the new concept in day-to-day life and the desired effect accordingly failed to appear. The optimal integration and coordination with the existing methods, processes and systems therefore constitutes a key factor for the success of new methods like the OKRs.

**Biel:** Do you see a high OKR-potential that warrants the current attention? What is special, what is unique about OKRs?

**Flinspach:** The **OKRs have tremendous potential** to shift the focus of the management system from the strongly backwards-oriented discussion about budget deviations to a forward- and action-oriented direction. The OKRs have a lasting chance, if the whole management system is coordinated. In short: supplementing the “classic” budget with OKRs falls short in my opinion. The desired agility will fail to appear.

**Biel:** The Silicon Valley is the source of the OKRs. Google and other major technological companies are associated with OKRs. This specific origin can spur on the attention and perception and therefore the hype too, but it can also be seen as a sign for inspiration and in doing so stand for innovative management. Under what economic conditions and circumstances are OKRs discussed there?

**Flinspach:** Companies are under **increasing pressure to adapt their business models and their strategy**. As a result, they are searching for new tools to be successful under the key words digitization, VUCA, etc. It seems natural to look to the Silicon Valley, and there they find OKRs at prominent and highly successful companies. Together with my colleagues I have just finished the German version of the book “Measure what matters” by John Doerr, the venture capital investor of i.a. Google.

**Biel:** If we take a look into the business press, we often find talk about orientation problems,

of both large and medium sized companies, sometimes also about a hectic pace and helplessness. What are the managers from Silicon Valley doing differently? How do they employ OKRs in this context?

**Flinspach:** In cooperation with managers from Silicon Valley it quickly becomes apparent that OKRs are a part of the leadership style and not just a method. A transformational leadership style conforms to the principles of OKRs a lot more. The manager is much rather a coach, supporter and sparring partner, than a controller and driver. Moreover, OKRs were introduced at Google in a very early phase by John Doerr. In this respect they could not clash with another, previously existing management system. In this context OKRs make a very large contribution to the strength of implementation and the adaptability of these companies. If they are implemented sustainably, OKRs have tremendous potential in traditional companies as well. This is clearly evident in some companies already.

**Biel:** Summarily OKRs consist of the basic components objectives and key results, or in other words targets and core results. Plus the four basic rules: 1.) focus on important goals, 2.) participation, 3.) transparency and 4.) evaluation. At first glance a coherent and systematic concept, that also seems relatively simple, right?

### *The simple comprehensibility facilitates the rapid spread of the concept.*

**Flinspach:** Indeed, the major strength of the concept is the **simple comprehensibility, which certainly facilitates the rapid spread of the concept**. It immediately seems logical to split the usually rather vague strategic goals into concrete objectives and then systematically track their implementation. The OKRs work with transparent, rapid feedback, break the strategy down to the daily operations of the employees in a concrete and action-oriented way. They can co-determine their OKRs themselves. A participatory leadership style is therefore an essential prerequisite. In combination with the ambitious setting of the goals, maximum promotion of motivation can be achieved. Thus, it is in fact a very simple and coherent concept.

**Biel:** Is it really all sunshine and roses? No difficulties that get in the way of implementing an OKR-project?

**Flinspach:** Yes, I would like to note, that the simplicity and the holistic approach are also strengths of the BSC. It could never fully use its true potential in the companies. In that sense there is also the danger of introducing OKRs **without the necessary discipline**. And particularly because it seems so simple. It is not just another tool for transactionally-influenced inspectors to use for the centralized tracking of measures, whose savings can then be monitored. The coordination with the existing instruments, the leadership styles and the culture in the company regularly presents a challenge to the introduction.

**Biel:** So, simplicity and comprehensibility, which are frequently demanded by practitioners and scientists alike, are a strength and a weakness at the same time?

**Flinspach:** Complex systems for managing companies **frequently fail due to a lack of acceptance in the company**. The OKRs support the implementation of the strategy, which flounders in many companies centrally due to a lack of communication. Here simplicity and comprehensibility are a central asset of the method. On the other hand, this can lead to a certain carelessness in the introduction. Especially finding the right “flight altitude” when defining the OKRs is another challenge: they precisely are not long-term strategic (and frequently vague) goals, and at the same time they should not include mere (repetitive) tasks of the day-to-day business. The time period of “achievable in 3-6 months”, as well as the stipulation “connection to the strategy” can help to avoid these mistakes. The paradigm shift and the context-specific challenges in corporate management that arise from the introduction of the OKRs get underestimated in many cases.

**Biel:** I understand your statement to mean, that with systems and methods we should also pay attention to environment and context, as well as the characteristic atmosphere of the economy and the company. We have different megatrends, especially the digitization, live in

a “VUCA-world” (volatility, uncertainty, complexity and ambiguity). In short, a period of dynamic and change. The companies want and must be flexible and adaptable, frequently evidenced with the magic word “agile”. Does a concept like OKR not fit exactly into the current time and situation? Are OKRs a product of the times, caused by circumstances like e.g. rapid changes?

**Flinspach:** We have been living in times of change not just since the inception of the term “VUCA”. Companies have been having difficulties implementing new strategies for some time now, as a study from Mankins and Steel from 2005 shows. Many successful companies have improved and scaled their existing business models and strategies due to their management tools but have not really changed them. But the pressure to change has increased sharply and with it the awareness of the problem as well. OKRs are thus the era-specific answer to a problem that has existed for a while and is becoming increasingly virulent.

**Biel:** Let us please go one step deeper to a more fundamental level. Do our times also require an adaptation of the instruments and methods? What do you base, for instance, a market analysis on, if you do not know who will be a customer or competitor tomorrow?

**Flinspach:** As an organization you have to ask yourself today: **Do we believe in absolute predictability in our business?** In a way the OKRs represent a departure from the belief in

absolute predictability. That means one tries, not to plan detailed measures one year in advance. The OKRs set up to **4 or 5 qualitative goals** (“What do we want to achieve?”) and 2 to 3 key results each (“How do we want to achieve the target”). After a short cycle of usually 3 months the progress towards the goal is measured and evaluated. The rapid feedback from the evaluation of the key results is used to adjust the OKRs and continue.

**Biel:** In your opinion, is this approach consequently more adaptable to changed circumstances and more flexible during decisions?

**Flinspach:** Well, OKRs are not a fixed master plan, but rather support continuous learning and adapting. Through the principle of participation, which you mentioned previously, not all OKRs are specified top-down. As a rule of thumb, **at least 50% of the OKRs should be set bottom-up**. This decentralization of the measures boosts the speed of the implementation and needs a certain culture of trust. What this means is trust in the abilities of the employees in the decentralized positions, who can adequately implement the strategic directions on their own. This requires the specification of certain guidelines with a sufficient decision-making scope and decentralized decision-making power. Increasing trust and the decentralized empowerment therefore increases the speed, because decisions don’t have to go through the entire decision-making chain up to executive board level. Abridged: **“trust equals speed”**.

**Biel:** Please allow me to follow up: if we detach ourselves from the specific current environment, can this method become permanently embedded in corporate management? You work with the OKRs in various functions. What does the expert in you say?

**Flinspach:** I would not be dealing intensely with the topic, if I would not see the lasting potential for corporate management. In particular for companies in traditional sectors as well, which find themselves exposed to a tremendous pressure to change.

**Biel:** But how can one recognize this potential, you and others talk about? Can you convince us with an example?

**Flinspach:** Recently a CFO of a large automotive manufacturer complained: we spent hours discussing changed planning parameters and deviations from the budget. But nobody tells me, what we must do differently in the future to improve the situation. That is exactly what OKRs aim for and that is also where their great potential lies. Within our management approach St. Galler Performance Management Model (SPMM.ch), we describe the **development from a command and control-based approach to controlling towards a self-controlling approach**. This addresses the changed requirements from the perspective of a lack of predictability, changing customer needs and the leadership style. In the restructuring of the performance management system, OKRs are a method for greater focus on the implementation of measures in the sense of a rolling planning of measures. In this respect OKRs must be integrated into the whole performance management system, and must not stand to the side, separate from the established budgeting. Otherwise it is obvious which approach will prevail in the end.

**Biel:** Are OKRs “just” another approach to put the defined strategy into concrete practice? How do OKRs differ summarily from existing management methods? The approach is reminiscent of the MbO-concept (Management by Objectives) by Peter Drucker? How “new” are OKRs really?

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**Flinspach:** The OKRs are indeed an adaption of the MbO-concept from Peter Drucker and not really new. The main difference is the shorter temporal rhythm for the rapid feedback and the focus on fewer objectives. Unlike the common practice for MbOs, OKRs are not linked to the remuneration system. Many studies show, **that the extrinsic motivation** through individual ex ante objectives leads to negative effects like the repression of intrinsic motivation. But this is necessary to encourage cognitively challenging tasks. Extrinsic motivation is suited for repetitive tasks, but it is particularly creative tasks that ought to be encouraged nowadays.

**Biel:** Companies frequently fail when it comes to implementing their strategy. What are the reasons? We have made a lot of methodological progress after all, for example, performance management is a field that universities and colleges, consultancies and companies work on intensively?

**Flinspach:** It initially comes as a surprise, that **companies still fail to implement their strategies to this day**, even though performance management in the sense of the orientation of the organization towards the strategy systematically addresses these topics. The development of the right strategy will always remain a kind of art, but its implementation is just disciplined work in the end. This work is breaking down the strategy to the daily operations. The focus of the OKRs is on the implementation and quick adjustment, and thus indeed bridges the gap between the strategic targets (temporal orientation around 3 years) and the day-to-day business. In this respect classic instruments like the BSC can ensure the strategic orientation and the OKRs ensure the flexibility of the implementation ... on the last meters of the strategy implementation so to speak.

**Biel:** Please let us get back to our starting point from another perspective and ask ourselves the question of the company-specific suitability. Start-up-companies or technology companies like Google, Intel and other OKR-users have a certain structure and composition after all, that distinguishes them from e.g. a regular engineering company. Are OKRs only suitable for spe-

cial companies, or are they applicable to and usable for – more or less – all companies?

### *The implementation is not “plug and play”*

**Flinspach:** In my view, OKRs are applicable to “traditional” companies like engineering or automotive as well. But the implementation is not **“plug and play”**, on the contrary, OKRs have to be adapted to the respective context. This includes the volatility of the sector, the business model, the previously mentioned company-cultural components, as well as the interaction with the existing management tools, decision-making competencies and the leadership style.

**Biel:** But what can OKRs accomplish differently or better than conventional approaches? And where do the limits and problems of this approach lie?

**Flinspach:** In my opinion, OKRs can certainly not replace the function of the investment budget or the project planning in an engineering company. But they can **supplement** a rolling financial planning with **rolling planning of mea-**

**asures.** Thus, the extremely valuable paradigms behind OKRs can be transferred to the context of traditional companies and industries – and ultimately make them more flexible and stronger in implementation. A 1:1 transfer from Silicon Valley companies is certainly not recommended.

**Biel:** From your statements a further question follows almost inevitably. Do OKRs also fit in with an existing controlling concept – or do the approaches intersect and overlay each other? Are OKRs accordingly more of an addition and enhancement of the current toolkit or rather an alternative with extensive adjustments of the present management concept? In other words: does the introduction of OKRs require a large project?

**Flinspach:** John Doerr argued based on his background, that OKRs constitute the central management instrument. But he also emphasizes that they should be strongly adjusted to the specific context. For traditional companies I see the chance **for OKRs as an addition to the existing toolkit.** Here – as I said – great care must be taken to ensure that these are not conflicting. So, the introduction is not necessarily a

#### Info box

**Extract from the review in the 229th literature forum of the Controller Magazin (2/2019) – translated from American English i.a. with the participation of Dr. Tobias Flinspach**

##### The Title

Doerr, John: OKR Objectives & Key Results: Wie Sie Ziele, auf die es wirklich ankommt, entwickeln, messen und umsetzen. München: Vahlen 2008 -254 pages, card cover, 24,90€

##### About the Book

The author, John Doerr, is a member of the American Academy of Arts and Sciences was a member on the Council on Jobs and Competitiveness during the presidency of Barack Obama. He is considered an important venture capitalist. “With this book you are holding the manual to statistically based management in the 21st century in your hands”, as is stated and claimed in the foreword to the German edition.

##### The Topics (abridged)

Focusing and committing to priorities – orienting and connecting for team-work – tracking responsibility – the Google Chrome story – continuous performance management – culture and culture changes.

##### The Review (extract)

This book describes a management system, whose main features and elements are “objectives” and “key results”. An “objective” within the meaning of this publication is a goal and explains what is supposed to be achieved. According to the author “key results” are core results, they provide a scale and simultaneously monitor how you reach the objective.

big project, but it requires the commitment of the acting people and the consideration of the context-specific factors.

**Biel:** Can you illustrate this situation to us using an example?

**Flinspach:** At Barmenia Versicherungen we were able to introduce OKRs as a small pilot in the customer service department. Care was taken that the method fit in with the existing instruments, and so it was a success almost immediately. Now the gradual roll-out in the organization is taking place. In the foreword to our book the founder of Google, Larry Page, writes: "Take OKRs as a blueprint and make them yours..." The OKRs were strongly adapted and shaped during the implementation together with the employees, by now they are not even called OKRs in-house anymore.

**Biel:** For management concepts to be successful and effective, certain preconditions and requirements usually have to be met. The OKRs are tied to four central principles (focus, participation, transparency and evaluation). This constellation raises the question, whether OKRs set clear preconditions for the company culture. Can OKRs even be used in a meaningful way with a classic management style and distinguish themselves through success?

**Flinspach:** In principle you have three management levers in an organization: 1. Structure and strategy, 2. Processes and systems, 3. Motivation and culture. The performance management addresses the processes and systems and cannot be viewed in isolation from the other levers. For a leadership style characterized by

"command and control" and an insufficient culture of trust, OKRs are certainly not the right approach. If there is long-lasting commitment in the corporate management, then an adjustment of the processes and systems can support the desired change in culture.

**Biel:** And here once again the request for a short example that can substantiate your statements.

**Flinspach:** Gladly. Together with the Liechtenstein tool manufacturer HILTI we were able to observe this effect quite well during our long-lasting cooperation within the framework of HILTI Labs. The desired cultural change towards increased entrepreneurship in the organization was only able to occur because of the adjustment of the performance management system.

**Biel:** What final advice do you want to give our readers?

**Flinspach: Beyond the hype OKRs are a very valuable approach.** This requires an adaption to the company-specific context and **profoundly influences the management process.** Make sure, that the approach really has the full support of the corporate management and adapt the approach to your context. You usually only have one chance to introduce a new method. If you miss your shot the method is usually quickly considered "burned". The OKRs represent a big chance for faster and more effective strategy implementation, even in traditional companies, and encourages the motivation and creativity of the employees. So we should use this chance!

**Biel:** Let me summarize your fascinating explanations in short theses and thereby also condense the insights and impulses from this interview for further discussions:

#### OKRs

- Are generally not an entirely new concept, and instead build on earlier approaches like the MbO-approach of the great management thinker Peter Drucker;
- Help to implement a defined strategy;
- Must both fit into and with the company and be well coordinated, this particularly includes the cultural components and existing management instruments, the leadership style, but also the business-model specific framework;
- Require a well-established culture of trust, learning and motivation;
- Are based on a fairly simple and comprehensible concept;
- Take a decentralized measure and action-oriented approach;
- Signify a general tendency to depart from the belief in absolute predictability of the business;
- Embody a self-controlling approach, a philosophy based on command and control is not compatible with OKRs;
- Are an addition and enhancement, but by no means a replacement of classic controlling.

In conclusion I like to thank you, Dr. Flinspach, very much - in the name of our readers, the publisher and my colleagues from the editorial office as well – for sharing your knowledge, various insights and valuable impulses. Personally, I would like to thank you for the pleasant and cooperative collaboration. ■