Comparative Study of OKR and KPI
Hao ZHOU*, Yu-Ling HEa
Business School, Sichuan University, Chengdu, P.R. China, 610064
*zhouhao@scu.edu.cn, ahyling_sc@stu.scu.edu.cn

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Abstract. OKR (objectives and key results) is popular in field of performance management recently, and is adopted by many leading companies. In this study, we compared OKR with KPI (key performance indicators), one famous traditional performance appraisal tool. The characteristics of OKR and its operation mechanism were analyzed; the advantages and disadvantages of KPI and OKR were concluded. In addition, the similarity and difference between OKR and KPI were explored.

Introduction
With the development of the times, enterprises are gradually breaking the boundary barriers and customer experience has become mainstream in the market, and the talents have become the most important strategic resources in the new era. In the context of the new era, human resource workers choose scientific and effective performance tools for performance management, which will play a positive role in arousing the enthusiasm of people and improving the efficiency of enterprises.

Performance measurement is a fundamental principle of management. Performance measurement is important because it identifies performance gaps between current and expected performance and provides a way to narrow the gap. There are so many tools for performance appraisal, including Critical incident method (John C. Flanagan & Baras, 1954), management by objective (Peter Drucker, 1954), key performance indicators, balanced score-card and 360-degree comprehensive assessment, electronic performance monitoring and so on. What’s more, with the development of the times, new performance appraisal tools, such as Objectives and Key Results (OKRs), are gradually emerging.

With OKR in Google, Oracle, LinkedIn and other companies having achieved great success in the innovation-driven era of change, China's human resources also want to abandon using KPI, and many companies such as Uber and Baidu are following the example of OKR in Google. However, some people point out that Chinese enterprises can’t manage performance well without KPIs. Jack Ma sticks to the position of the KPI and believes that the ideal without a KPI is empty idea. So, what are the characteristics of these two performance appraisal tools, and what the differences between them are, need to be urgently studied.

Theoretical Review of Key Performance Indicators
Key performance indicators (KPI), which were produced in the UK, is a kind of performance appraisal tools. KPIs evaluate the success of an organization or of a particular activity (such as projects, programs, products and other initiatives). It simplifies the evaluation of performance to the evaluation criteria of key indicators. KPI have to follow the SMART criteria.

The study of KPI has been around since the 1940, and most scholars agree that only those who have been assessed will be executed. In particular, metrics used in performance dashboards are typically named key performance indicators because they measure how well the organization or individual performs against predefined goals and targets. KPIs focus employees’ attention on the tasks and processes that executives deem most critical to the success of the business. In detail, Eckerson proposed that there were two major types of KPIs: leading and lagging indicators. Harold R. Kerzner believes that if the purpose of setting up an assessment is to increase the benefit, the KPI must reflect the controlled factors and the KPI only measures a portion of the targets.
Theoretical Review of Objectives and Key Results

OKRs stands for Objectives and Key Results. It is a framework for defining and tracking objectives and their results. Its main goal is to define the "goals" of the company and the team, and to define the measurable "key results" of each goal implementation. One book defines OKR as "a critical thinking framework and ongoing discipline aimed to ensuring employees work together to focus on measurable contributions.” OKRs can be shared across the organization so that teams have visibility into goals throughout the organization, helping to align and focus effort. Now, OKRs have become increasingly popular as a tool for organizations to drive focus, alignment, engagement, and execution.

The implementation of OKRs can be simply divided into four steps: the first step is to set goals, including the monthly/quarterly/annual goals of the company, department and employees. The objective is a qualitative goal within a period of time. The second step is to determine the key results for each target. The key result is to measure whether specific target requirements have been met at the end of the period. The third step is to implement the established plan. The fourth step is regular feedback. Each assessment cycle should assess the goal completion and feedback in time, then make appropriate adjustments based on the evaluation results, and determine the OKR implementation plan for the next cycle.

The Relationship between KPI and OKR

Advantages and Disadvantages of KPI

As a mature performance appraisal tool, KPIs have the following advantages:

1) KPIs are intrinsically linked to the firm's strategic goals and are used to help managers assess whether they have achieved their goals in their efforts towards these goals.

2) KPIs are actionable and limited. Having too many (and too complex) KPIs can be time and resource consuming. The assessment of key performance simplifies the assessment process and can save the organization's manpower and material resources.

3) KPIs can effectively identify the changes in the external environment of critical performance, which is helpful to identify the possible problems in the business and correct them in time.

4) Focus on doing useful and important things can achieve the optimal allocation of resources and play to the strengths of everyone.

5) It is made from top to bottom, so as to ensure the consistency of employee performance and organizational performance, and achieve long-term development.

6) KPIs can effectively connect superior and subordinate, and combine internal performance with external value, which reflects the concept of customer-centered service.

One of the theoretical foundations of KPI is the Pareto Principle, which is to concentrate 80% of resources on 20% of key indicators. Therefore, it will inevitably ignore some things that we consider ourselves unimportant, for example:

1) Employees always do what the performance assessment tested. KPI’s overemphasis on some indicators makes it easy to ignore some new market factors.

2) In practice, overseeing key performance indicators can prove expensive or difficult for organizations. Some indicators, such as employee satisfaction, may be impossible to quantify.

3) KPIs require time, effort and employee buy-in to live up to their high expectations, but in fact, there is no clear indication on "who uses what" and "how to use". Lack of communication makes it difficult for KPI to achieve final organizational goals effectively.

4) Measures deemed important by one area may not be considered important by others.

5) Innovation is hard to come by when KPI is implemented. It is based on the prediction of key activities in the future. However, these activities don’t happen and no one can predict the final result. Therefore, if KPI is implemented without a corresponding incentive mechanism, innovation is very difficult to produce.

6) Key performance indicators can also lead to perverse incentives and unintended consequences as a result of employees working to the specific measurements at the expense of the actual quality or value of their work. It is easy to forget the original intention of the examination.
7) KPI is not a panacea, and sometimes KPI reviews can backfire. In addition, some activities can’t be quantified, so that the resulting performance indicators are hard pressed to achieve the desired results.

**Advantages and Disadvantages of OKR**

OKR as a rising star in performance appraisal tools; its strength lies in these aspects:

1) OKR focuses on what matters most. What’s more, OKRs demand that you isolate the most fundamental priorities and dedicate your focus to that limited subset of potential variables involved in running any company.

2) The scores of OKR is not directly linked to performance, but only for reference. Through OKR, employees are willing to do things that they think are good for the organization, and it can also spark new thinking that leads to previously unconsidered levels of success.

3) OKRs are not a top-down exercise with goals handed down—it is reflecting a mix of top-down and bottom-up goal setting, which can increase the time between upper and lower levels to communicate with each other. Both of them discuss many times about the goal and the key result and finally make it together.

4) In a firm, it’s imperative that teams have visibility into other teams’ performance goals. OKRs encourage this transparency of the whole organization, which can improve employees' perception of fairness and motivate staff to improve their personal performance.

5) One an individual level, OKRs will reflect a mix of personal growth ambitions and contribution to the company.

However, there are possible disadvantages as well. They are presented next.

First, OKRs require high quality of employees, which need high responsibility and creativity for employees to meet the requirements. However, it is difficult for the general staff to meet the requirements. Second, the management ability and style of leadership of managers are challenged; some styles, such as authoritarian leadership, are not suitable for this kind of management model. Third, OKRs may lead to lack of teamwork. Individuals may focus too much on their own OKRs rather than the team-level OKRs. Fourth, the implementation cost of OKR is too high for small enterprises to afford.

When using OKR as a performance management tool, managers also need to take into account that while OKR is not for appraisal purposes, is it possible to complete all performance management only by evaluating the completion value of the target, how long the assessment cycle is set, calculating whether the target completion value is scientific, and so on.

**The Similarity between KPI and OKR**

In order to better performance management, performance appraisal tools emerge endlessly –OKR and KPI are just two of them. No matter which performance appraisal tool, its ultimate goal is to achieve the strategic objectives of the organization, to realize the profit of the enterprise, and to create value. Being no exception, OKR and KPI have the same ultimate goal. OKR and KPI are derived from organizational strategies and pointed toward organizational goals. Managers want to use these tools to ensure the consistency of individual performance, team performance and organizational performance.

In addition, the key indicators highlighted in KPI and key results emphasized in OKR are similar. For example, the behavior in OKR can be understood as the key behavior for success of the target, which is similar to the definition of KPI; as for KPI, it also has a target value, but its goal has a broader range than OKR's. Furthermore, the quantitative requirements for both tools are derived from quantification of key activities in terms of whether or not the KPIs are streamlined, while the OKR target is preferably between 5 and 6. No more than 5 key results for each target are appropriate. The operative word both in KPI and OKR are “key” because every KPI and OKR should be related to a specific outcome. What’s more, both OKR and KPI require the controllability of management. When implementing OKR and KPI, there are necessary monitoring measures to determine whether employees are moving forward in the expected track. Proper and effective process management is conducive to reducing the risk of enterprises. In addition, KPI and OKR
both are a form of communication. As such, they abide by the same rules and best-practices as any other form of communication. Succinct, clear and relevant information is much more likely to be absorbed and acted upon.

The Difference between OKR and KPI

In actual use, KPI pays more attention to how to quantify employee performance and presents it in a digital way. The results are directly linked to employee benefits, such as salary, bonus and so on. In this case, employees are apt to be driven by interests, put the cart before the horse, ignore the strategic guiding role of KPI, and reveal the phenomenon of excessive pursuit of digital indicators. OKR is essentially a target decomposition tool, which does not conflict with the employees’ direct interest, and is more used to evaluate the completion of the target. OKR also has quantitative indicators, but it is focused only on key results, which can promote better achievement of goals, so employees are motivated and willing to improve performance.

OKR has two characteristics: transparency and negotiation. Transparency allows employees to participate in the company’s affairs, understand the criteria and progress of the assessment, and facilitate self-reflection and mutual supervision. Negotiation allows employees to understand the purpose and strategic goals of the company. OKR is like a beacon on the career path for employees, pointing them in the right direction. KPI is formed from top to bottom; only a few managers participate in the development of KPI, not all of them are clear and specific. Using KPI, it is easy to take them out of context or encounter a misunderstanding. At the end, it can only be far away from the original intention.

Most OKRs originate bottoms-up so teams and individuals own their goals; however, KPI is made directly by the superior, and the staff only need to do it in accordance with the rules. There is a good example in the manufacturing of a product: using the KPI assessment method is the standard production line, has a fixed mold, simple operation and low operation cost, so it’s easy to be a copycat of tools to play to the strengths in the introduction of enterprises. OKR is the mass customization production process; in a certain standard, it can change according to the output and the needs of customers and the market. After adaption, it is not the same as the product, but retains its core idea to not only meet the production standard, but can also adapt to the changing needs. OKR allows employees to adjust their personal goals on the basis of maintaining the organization's overall goals. However, the indicators in KPI can’t be adjusted in time according to the needs of employees and changes in the market.

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References


