OKRS AND MBOS: WHAT'S THE DIFFERENCE?

By Sam Prince

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OKRs and MBOs: What's the difference?

Early on in *Measure What Matters*, John Doerr writes about "MBOs", or "Management by Objectives." MBOs were the brainchild of Peter Drucker, who, like Andy Grove, left the autocratic upheavals of 20th century Europe for the more cooperative environs of California. In 1954, Drucker's The Practice of Management was published, which presented the framework for his complete MBO system.

MBOs were a powerful blow to the early-twentieth-century forefathers of management theory, notably Frederick Winslow Taylor and Henry Ford. While these two men held the view that most successful organizations were authoritarian, Drucker's earthshaking approach was built on human nature: When people help choose a course of action, they are more likely to see it through.

Hewlett Packard was one of the early adopters of MBOs and helped popularize them as the "H-P Way." They were very successful at first, but eventually, the problems of MBOs began to show. Still, MBOs provided Andy Grove a basis for his eventual OKR system—which he reverentially dubbed "iMBOs", for Intel Management by Objectives.

To avoid confusion, we'll refer to iMBOs as OKRs as we answer these questions:

— What's the main difference between OKRs and MBOs?

— How often are MBOs set?

— What kind of goals are set with MBOs?

— Are MBOs still practiced?

— If I have more questions, where should I send them?

What's the main difference between OKRs and MBOs?

An objective is a public statement on what you want your team to accomplish. Key results explain how it will be measured and reached. Objectives are meaningful and practical. Key results are specific and measurable. OKRs can be created in a flat, bottom-up, or top-down approach. For scoring, they are only graded with a "complete" or "incomplete."

MBOs, on the other hand, focus on defining what you want to achieve. There is no KR portion. Performance measurement is flexible and open. MBOs are also private, with the goal being set between an employee and manager in a strictly top-down fashion. This is due to the fact that MBOs are tied to compensation.

John Doerr puts it this way: "[Most organizations] get the objectives right. But translating those into key results that, that are really action oriented and measurable and verifiable is an important thing to do to achieve those missions. And you always want to do that in a way that doesn't stifle the creativity or the passion of the people who are so involved."

MBOs	OKRs
"What"	"What" and "How"
Annual	Quarterly or Monthly
Private or Siloed	Public and Transparent
Top-down	Bottom-up or Sideways (-50%)
Tied to Compensation	Mostly Divorced from Compensation
Risk-averse	Aggressive and Aspirational

How often are MBOs set? Are they tied to annual performance reviews?

MBOs are typically practiced in an annual cycle, while OKRs are typically quarterly. An annual MBO check-in is synchronous with a performance review.

Because MBOs are tied to compensation, they run the risk of bringing skewed results. As Laszlo Bock, Senior Vice President of People Operations at Google from 2006 to 2016, said in an interview with WhatMatters.com, "When you add incentives/bonuses, you have a short-term increase in productivity, but if the bonus goes down, people check out."

What kind of goals are set with MBOs?

MBOs are, by nature, pragmatic and risk-averse.

Alternatively, OKRs are committed but also audacious, aggressive, and aspirational. They inherently have an "okay to fail" mentality, provided the "how" is transparent and collectively committed. This is in stark contrast to MBOs, which are sanctioned free for alls of "get there any way you can." They are very individualistic.

OKRs, on the other hand, are a qualitative and quantitative agreement across teams and organizations. And while they are generally economic and efficiency-oriented, OKRs can also be cultural and personal, too.

Are MBOs still practiced?

MBOs are still practiced—but are going out of fashion. Even their creator, Drucker, soured on them. MBOs, he said, were "just another tool" and "not the great cure for management inefficiency."

If I have more questions, where should I send them?

We love questions! For anything OKR-related, reach out to hello@whatmatters.com.

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