OKRS AND MBOS: WHAT'S THE DIFFERENCE?

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INTRODUCTION

OKRs and MBOs: What's the difference?

Management by Objectives (MBOs) and <u>Objective and Key</u> <u>Results</u> (OKRs) are two popular goal-setting systems for high performance teams. They are also similar because OKRs evolved from MBOs. Like MBOs, OKRs are a framework for setting strategic goals. Both MBOs and OKRs involve writing an <u>internal</u> <u>statement of outcomes</u> that an organization wants to achieve. MBO goal-setting focuses on the what, while <u>OKRs go one step</u> <u>further</u> than MBOs by including a set of measures of progress. Beyond structure, other major differences include: degree of autonomy, process for reviews, and how frequently and quickly goals change.

This article explores MBO, the differences between MBO and OKR, the benefits of OKRs versus MBOs and why OKRs are better than MBOs for audacious goal setting.

We answer these questions:

- What is MBO?
- What is an example of an MBO?
- What is an OKR?
- What are the differences between MBOs and OKRs?
- What are some advantages of OKRs over MBOs?
- How do I bring OKRs to my team?

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Quick reference:

		Management By Objectives (MBOs)	Objectives and Key Results (OKRs)	
FOCUS	•	"What"	"What " and "How"	
CADENCE	Ē	Annual	Quarterly or Monthly	
ACCESS	6	Private or Siloed	Public and Transparent	
DIRECTION	. .	Top-down	Bottom-up and Sideways	
COMPENSATION	\$	Tied to Compensation	Mostly Divorced from Compensation	
ASPIRATION		Risk-averse	Aggressive and Aspirational	

What is MBO?

MBO is a popular goal-setting practice where top leadership decides and directs the organization's objectives for a cycle. A typical MBO cycle lasts 12-months. In the MBO goal system, leaders set objectives for every employee below them for the cycle. However, employees have autonomy to align tasks to fulfill their benchmarks. Achieving the target is expected in an MBO goal cycle, so an employee's performance evaluation, bonuses and increased compensation are often tied to the objective's success.

How does the MBO process work?

The first step of the MBO process is for individual departments to form objectives that support top-line organizational goals. In the MBO process, managers decide what an employee's individual contribution for the cycle is.

What is an example of an MBO?

Here are some common MBO goals.

- Increase group sales by 10%.
- Develop an annual customer service plan.
- Raise \$2 million in funding for online expansion.
- Increase debt collection by 15%.

Unlike OKRs, MBOs do not always provide context about why the Objective is important, and there are no added qualifiers for what progress looks like. Using the example MBOs above, the OKR version might look like this:

- Gain the largest market share in our region by selling more group licenses.
- Customer service is so excellent that most customers purchase from us again.
- Validate product-market fit, as measured by raising \$2 million from investors.
- Improve our cash-flow through efficient debt-collection.

With OKRs, Objectives are paired with a set of <u>Key Results</u> that precisely define how everyone will know that the Objective has been achieved.

What is an OKR?

An OKR is an acronym for Objectives and Key Results. OKRs evolved from the MBO goal setting method after Andy Grove adapted Intel's MBO process in the 1970s. OKRs more clearly outline how the company defines success. Objectives describe what is to be done, and the Key Results describe how progress will be tracked. Every Objective is accompanied by 3-5 key results. While Objectives tend to be qualitative, Key Results must be measurable. OKRs will change a few times each year, typically every quarter.

Here's an example of an OKR from <u>Allbirds</u>, a popular clothing company known for their sustainable footwear. Their mission is to "make better things in a better way."

One top-line OKR is for their shoes to be carbon neutral. As one step toward that goal, they wrote this OKR:



While teams and employees still have a lot of autonomy to decide how to achieve the Key Results, everyone at the company is working toward a common set of measures of success.

What are the differences between MBOs and OKRs?

There are 7 main differences between MBO and OKRs.

MBOs are risk averse; OKRs are aspirational.

 Typically, MBOs are more risk-averse and pragmatic than OKR. With OKRs, there is a "dare to fail" attitude that favors innovation and stretching beyond existing capabilities. Since MBOs tie goal completion to compensation, employees take fewer risks. In contrast, OKRs are not tied to compensation, as some failure is expected.

MBO goals focus on the 'what'; OKRs connect the 'what' AND the 'how'

Unlike OKRs, the MBO strategy states objectives without defining milestones of progress along the way. OKRs are made of two components: The Objectives, and a set of key results to achieve them. Strong OKRs also <u>connect</u> <u>(what' and 'how' with the 'why.'</u>

3. MBO goals are Private and OKRs are Public

In the MBO system, objectives are more about individual performance. Conversations about goals are private between a manager and the objective's owner. <u>OKRs are visible to everyone in the organization</u>. Transparency encourages teams to work together so that Key Results (KRs) align and <u>conflicts are addressed quickly</u>. MBOs are more closely tied with Human Resources than OKRs since MBO performance directly influences compensation.

4. Annual MBO goal cycle vs. OKRs quarterly goal cycles

MBOs are reviewed annually while most <u>OKRs have</u> guarterly cycles.

As a result, MBOs are not tracked as frequently as OKRs. Changes may be harder to make in an MBO goal cycle. The faster pace of a quarterly OKR cycle offers more opportunities to adapt over the course of a year.

MBOs are Top Down only; OKRs go Bottom-Up too.

5. MBOs are dictated by executives to employees, with less bottom-up feedback than OKRs.

OKRs are more collaborative. At least half of an organization's <u>OKRs are inspired by top-line goals</u>, rather than dictated by managers.

6. MBOs are tied to Compensation; OKRs aren't.

MBOs are commonly tied to salaries and bonuses. <u>OKRs</u> <u>divorce compensation from objectives</u> to encourage innovation. The MBO annual performance review factors into individual compensation. OKRs emphasize collective goals.

7. MBOs are often quantitative; OKRs balance quantitative with qualitative success.

MBOs do not outline parameters of success, only the final outcome. When an MBO is only a quantitative outcome, there can be unintended consequences, such as the infamous Ford Pinto recall. OKRs recognize that success is often more than a number, and encourages Key Results to pair quantitative success with qualitative success.

Advantages of OKRs over MBOs

OKRS are better than MBO if:

- Your organization wants to focus its overall efforts. An OKR cycle starts with the question, What is most important for the next three months? OKRs help leaders give their teams both a compass and a baseline for assessment.
- A company wants to align day-to-day activities to the organization's company-wide vision. OKRs break long term goals into shorter term achievements. They help companies like <u>Pinterest</u> keep work on longer term goals top of mind.
- You want to promote innovative thinking. OKRs push organizations and employees to strive further than they thought possible.
- Success has more than one factor. By pairing quantitative Key Results with qualitative Key Result, OKRs protect against the harm caused by "success at any cost."

How do I bring OKRs to my team?

Present OKR goal setting clearly and comprehensively. Share success stories of other companies that use OKRs. Express not only the <u>benefits</u> of a company-wide OKR framework, but also include how it will specifically meet the unique needs, demands, and challenges of your team.

Develop a maximum of 5-7 objectives with 3-5 key results. In our experience, fewer works better. Try crafting 2-3 objectives. Then pair them with 3-5 key results.

Though MBO have been around longer, the OKR framework has advantages of flexibility and stretch discipline. MBOs are great at managing toward a specific target.

Want to learn more about using KPIs to achieve ambitious goals? Take our <u>OKR 101 course</u> or sign up for our <u>Audacious</u> <u>newsletter</u>.



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