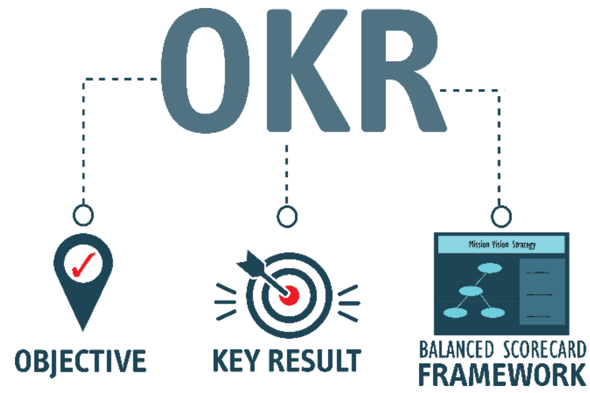
Using OKRs with Balanced Scorecard

By David Wilsey

Chief Executive Officer



Organizations that implement OKRs need a strategy management system to guide OKR alignment.

The use of Objectives and Key Results (OKRs) as a goal-setting tool has increased significantly in recent years thanks to the high-profile use by many technology companies. It is exciting to see so many organizations embrace the principles that we have been teaching for years, even if it is with a methodology other than Balanced Scorecard.

As with seemingly everything today, social media discussions have fallen into debates about whether the Balanced Scorecard or OKR methodology is better. But comparing OKRs and Balanced Scorecard is like comparing a stove with a grill. They are two tools designed for a similar purpose. They have different strengths that a skilled "cook" can manage to produce the best outcome. Balanced Scorecard is best used to communicate and execute strategy at the organization level while OKRs are great for motivating individuals to set and achieve goals. Balanced Scorecards implemented without the agile execution principles that underly OKRs can be sluggish and OKRs designed without an organizing strategy framework like Balanced Scorecard can be chaotic and directionless.

What is OKR?

OKR is a goal framework closely associated with tech companies such as Spotify, Twitter, Airbnb and LinkedIn, and also used by companies such as Walmart, Anheuser-Busch, Target, Gap, GE, Dun and Bradstreet, and ING Bank. Originally developed at Intel, it is most often linked to Google's growth from startup to tech behemoth.

The OKR model is heralded for its simplicity. There are **Objectives**, which qualitatively capture what you are trying to achieve, and **Key Results**, which measure progress towards the objective. John Doerr, a venture capitalist most associated with the advent of OKRs at Intel and Google, teaches that OKRs should be developed with a simple formula of I will <Objective> as measured by <Key Results>. For each objective, there should have 2-5 key results. OKRs are set on an individual and team/shared basis and frequently reevaluated – usually with a regular quarterly cadence.

What is the Balanced Scorecard?

The Balanced Scorecard is a strategic planning and management system that organizations use to communicate strategy, create alignment, prioritize, and improve strategic performance across different perspectives. When developed using a disciplined framework like *Nine Steps to Success*™, it connects the dots between big picture strategy elements such as mission (our purpose), vision (what we aspire for), core values (what we believe in), strategic focus areas (themes, results and/or goals) and the more operational elements such as objectives, measures (or Key Performance Indicators), targets (our desired level of performance), and initiatives (projects that help you reach your targets).

Benefits of OKRs

OKR practitioners claim that traditional planning methods are too slow to keep up with a changing world and that the OKR model is a lightweight and agile way to increase engagement, alignment and action. As the strategic environment changes, OKRs can be immediately updated in a way that traditional plans cannot, a feature that is especially useful for those in the tech industry. OKRs are typically not "cascaded" top-down like Balanced Scorecard and other strategy models, a practice that OKR and Agile design enthusiasts claim is cumbersome and reminiscent of "waterfall" design approaches that makes strategic adaptation nearly impossible. OKRs are instead developed simultaneously at all levels. In theory, alignment is organically managed bidirectionally over time, but that brings me to the challenges of this model.

OKR Pitfalls: A Lack of Discipline Breeds Chaos

There is not one single thought leader in the OKR field, so the generally accepted principles of the methodology are being developed through crowd-sourced evolution. As a result, there is very little discipline in terms of how the method is utilized. This can result in wild variations in effectiveness. Bad habits abound, from treating OKRs as a to-do list, to creating long laundry lists of trivial metrics, to failing to bother to update the OKRs over time. Organizations without a shared vision or defined strategy can end up with silos within the organization aiming for different outcomes or using different implementation approaches. Some OKR consultants and authors seem to encourage results that are not measures at all but are instead milestone targets or to-do activities. And the emphasis on moving on after hitting a quarterly milestone target encourages a quota mentality that will often miss the mark in terms of sustainable change. This free-for-all approach might work at Google and is openly encouraged by some in the community. But as Felipe Castro notes in his fantastic "Romantic View of OKR" musings[1] , this is bad advice. Most organizations need structure. Employees defining measures at lower levels want to know that their work is aligned with the desired strategic outcomes of the organization and are often left pleading for a framework with which to connect.

[1] https://felipecastro.com/en/okr-cycle/

Why OKRs Won't Replace Your Balanced Scorecard

Organizations that implement OKRs need a strategy management system to guide OKR alignment. A strategy management system is used by organizations to set priorities, focus energy and resources toward agreed-upon goals, and assess and adjust the organization's direction in response to a changing environment. Effective strategic planning articulates not only where an organization is going and the actions needed to make progress, but also how it will know if it is successful. Strategy designed and executed in the Balanced Scorecard format helps break down intangible strategic vision into specific, actionable steps, get everyone focused on strategy, and achieve tangible performance results. The use of a Balanced Scorecard-based Strategy Map (see Figure 1) helps to visualize the cause-effect logic of strategy so that employees can understand that objectives are not disparate activities but instead form a cause-effect story about how the organization is creating value.

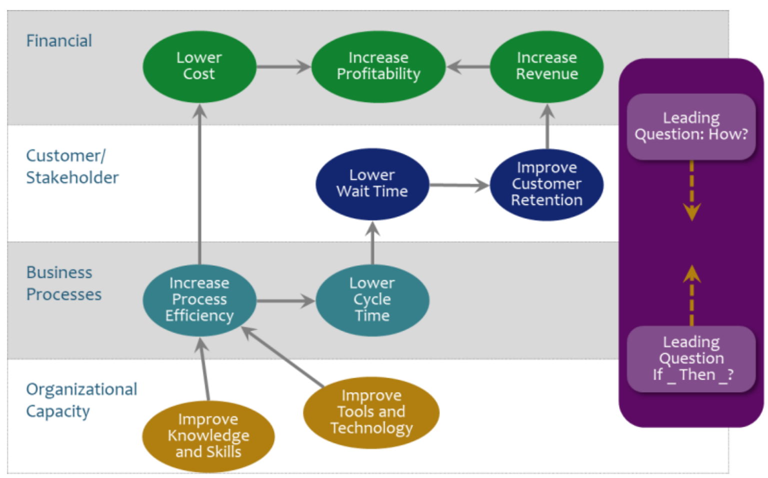


Figure 1: Strategy Maps Visualize the Cause-Effect Relationship Between Objectives

Using OKRs and Balanced Scorecard Together

Using OKRs to manage employee activities and accomplishments seems like a healthy step forward for most of the organizations, but only if those activities and accomplishments are aligned with shared vision and strategy. Luckily it is easy to use the two frameworks together, adding to Balanced Scorecard the principles that make OKRs so effective, such as a regular cadence of iterative strategy adjustment and a focus on individual accountability, target setting and action planning.

To take advantage of the strengths of both tools, Balanced Scorecard should be used to frame and operationalize high level strategy. Mission, Vision, Values, Goals, Objectives, Measure, Targets and Initiatives should all be organized and aligned so that individuals and teams creating their OKRs understand what the organization is trying to accomplish. Alignment is created by connecting Objectives at each level (see Figure 2) and is managed in an iterative, bidirectional manner.

Conclusion

OKRs are not a replacement for Balanced Scorecard or any other established management practice. Just like when other flavor-of-the-month methodologies come and go, the key is to learn the principles that make the new tool appealing and integrate those principles where they fit for your organization. OKRs are a useful addition to the strategy management tool chest, as they help encourage prioritization, focus, and action. Just beware of implementing them without a strategy management system that articulates at a high level what the organization is trying to achieve, connects the dots from the actions you are managing and the impact you are trying to achieve, and imposes a disciplined methodology/lexicon.

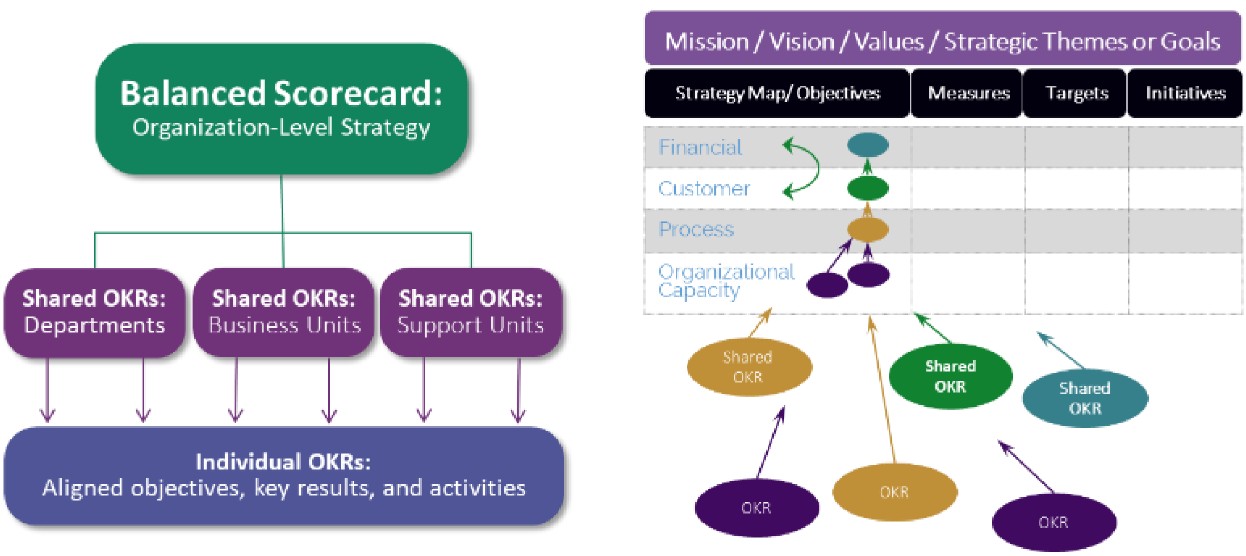


Figure 2: Alignment of OKRs With Balanced Scorecard

David Wilsey is the Chief Operating Officer of Strategy Management Group (SMG) who is an experienced strategic planning and performance measurement specialist that works with organizations to improve strategic performance by helping them systematically design and execute strategy, increase employee focus on strategy and results, develop meaningful performance measurements / KPIs, develop consensus around strategy, prioritize more effectively, and improve use of performance management technology. David can be reached at BSI's website www.balancedscorecard.org.

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