KPI Vs OKR: What's The Difference?



In order to grow and flourish, every organization needs tools it can use to set goals, monitor performance, and measure success. Modern businesses often rely on two related but different methods: *key performance indicators* (KPIs) and *objective* (and) *key results* (OKRs).

These two terms often appear in close proximity, but they're not interchangeable. Taking the time to understand the difference between KPIs vs OKRs can help you put both to use more effectively to improve performance and help your business meet its goals for value, growth, and competitive strength.

KPI vs. OKR—an Overview

With performance management being top-of-mind for many organizations as the global economy begins its recovery from the COVID-19 global pandemic, the topic of OKRs vs KPIs is nearly unavoidable. But while these acronyms both absolutely help companies optimize both their goal management and performance management, they have their own distinct applications.

OKRs

"Objective and key results" is a basic concept connecting a specific goal or particular outcome (the objective) to key results. The concept of using an OKR framework originated with Intel's Andrew Grove, who wrote about them in his book, *High Output Management.*

Grove's model posited two questions, the answers to which established the OKR:

1. **"Where do I want to go?**", with the answer being a "what" that reveals the objective, and;
2. **"How will I measure my progress?"**, answered with benchmarks (key results) used to monitor progress.

Google's John Doerr, having worked with Grove at Intel, would later bring OKRs to the search engine giant, where they are still used today.

Because they should be readily quantifiable (and for clarity's sake), key results are generally expressed as numbers.

They are also:

- Attached to a specific timeline.
- Ambitiously difficult, but not impossible, to achieve.
- "Big picture" goals meant to promote substantial and swift growth, innovation, etc.
- Few in number and highly focused on outcomes.

An OKR example might look something like this:

Objective: Improve SERP results for our website by 30% in 2021.

- **Key Result 1:** Secure 15 or more incoming links from reputable, relevant sites.
- **Key Result 2:** Perform on-page optimization for all existing site content by Q3 2021.
- **Key Result 3:** Reduce website loading speed by 20% by the end of Q2 2021.

KPIs

Key performance indicators are metrics used to monitor and evaluate the relative success of a given process, project, team member, or organization over a fixed time period.

They are also:

- Used to provide guidance for resource distribution.
- Linked to specific strategic objectives.
- Measured against specific targets.
- Highly detailed and greater in number than OKRs, but still limited to the fewest number required to provide useful metrics.

Note that some KPIs may turn out to be the same as the key results within an

OKR. For this reason, KPIs may be considered detailed tools used within the more general framework of the OKR.

A list of KPI examples used in different areas of a business might include:

- Sales per employee (Sales)
- Employee attrition and retention (Human resources)
- Average invoice processing time (Procurement/Accounts Payable)
- Customer acquisition rate (Sales)
- Customer lifetime value (Sales)
- New customers from social media campaigns (Marketing Team)

When considering both OKRs and KPIs, it's important to remember their shared focus: *key* results and *key* performance indicators. These tools yield the best results when their focus is limited to those factors that have the greatest impact on the particular activity, project, process, etc. being considered.

> *It's important to craft motivational, specific objectives, because they're meant to help your entire organization set and stay the course, even when the going gets tough.*

Creating Your Own OKRs

Companies like Google, Amazon, Spotify and LinkedIn use OKRs to set ambitious goals and empower their organizations to achieve them. That said, you don't have to be a globe-spanning household name to take advantage of OKRs; small businesses and startups can benefit from the same goal-setting and quantitative analysis that powers their behemoth brethren.

1. Write an Objective

Good OKRs begin with a clear vision, expressed in an inspiring way. They're detailed, tied to a specific time period, and anything but boring.

When you're writing your own objectives, consider:

- Does this objective move the company forward in some way? Bigger market share, higher profits, exclusive rights to a particular good or

service, etc.?
- Is the objective bound to a specific time period? (e.g., annual, quarterly)
- Is the objective empowering and inspiring to our team?
- Does the objective support the company's larger vision for success?

It's important to craft motivational, specific objectives, because they're meant to help your entire organization set and stay the course, even when the going gets tough.

Consider Company X, a small appliance manufacturer. They want to break out in a crowded and competitive market with a new and exclusive product, and so they set their objective as:

Create and begin selling the first self-buttering toaster in 2021.

This objective is specific, time-based, and helps support the company's stated goal of establishing competitive advantage via new products while *also* helping to inspire the company's staff to innovate and explore new technologies as they pursue the objective.

2. Specify Key Results

Think of key results as the rungs in the ladder of your objective. If you complete them all, you'll make it to the top and complete your objective.

However, your key results shouldn't just be a "honey do" list. They're meant to be metrics, similar to (and sometimes identical to!) KPIs, providing concrete feedback on how well your organization is reaching its stated objective.

Key results should be:

- Critical to the successful completion of the objective.
- Specific and detailed.
- Measurable and quantifiable using numbers.
- Difficult but achievable within the scope of the objective.
- Instanced, rather than recurring.

In pursuing its development of the self-buttering toaster, they might specify key results such as:

- **Key Result 1:** Assemble a team of the top 3 appliance designers, top five appliance engineers and top 2 food scientists.
- **Key Result 2:** Create a prototype self-buttering toaster that can safely store butter (or comparable spread) and apply it to hot toast while maintaining food, hygiene, and electrical standards.
- **Key Result 3:** Keep product cost at or below $45 US.
- **Key Result 4:** Have the legal team to secure the necessary patents, licenses, and approvals to sell the product in 10 European nations and the United States.
- **Key Result 5:** Obtain 3,000 pre-orders each quarter from a purpose-built landing page.

Try to keep your key results to five or fewer in order to maximize the benefits and minimize distractions.

3. Create Your OKR

Revisiting Grove's original format for OKRs, we can assemble a "what and how" for our self-buttering toaster like so:

"Company X will create and begin selling the first self-buttering toaster in 2021 as measured by:

- Assembling a team of the top 3 appliance designers, top five appliance engineers and top 2 food scientists;
- Creating a prototype self-buttering toaster that can safely store butter (or comparable spread) and apply it to hot toast while maintaining food, hygiene, and electrical standards;
- Keeping product cost at or below $45 US;
- Having our legal team secure the necessary patents, licenses, and approvals to sell the product in 10 European nations and the United States; and
- Obtaining 3,000 pre-orders from a purpose-built landing page."

Each of these key results could be the responsibility of specific teams working under the aegis of the project manager. So, for example, KR1—assembling the team of experts and scientists—would likely be the responsibility of an HR team, while KR3—keeping the product cost at or below $45 US—would be handled by a

business team or combination product development/business team.

Remember, good OKRs sound compelling and get your listeners excited to see the final outcome.

Note: If you're creating OKRs within a multi-level organization, begin with a "Master" OKR for the C-suite and then develop subordinate OKRs across the organization as required.

Creating Your Own KPIs

Less grand in scope but no less important than OKRs, KPIs are the backbone of effective iterative improvement. Like OKRs, they should be ambitious but still realistic. Unlike OKRs, they are designed exclusively for utility rather than providing inspiration.
KPIs can be used to inform key results for OKRs.

KPIs are made up of four parts:

- **Measurement:** the quantity (or, more rarely, quality) being measured. Examples include average customer spend per transaction, website traffic compared to last quarter, customer satisfaction ratings, etc.
- **Target:** the benchmark for performance, quality, etc. you hope to achieve. Examples include 90% touchless invoice processing, 10% sales increase, 5k increase in website visits from social media links, etc.
- **Data Source:** the origin of the data being measured. Examples include databases, Google Analytics, project management software, customer relationship management (CRM) software, etc. Generally, speaking, the more relevant data you have available, the more accurate and useful your KPIs will be.
- **Frequency:** how often the KPI is evaluated. This could be weekly, monthly, quarterly, annually, etc. Frequency should be carefully considered, based on how often the measure changes, the practicality of evaluating the metric for each given time period, and data accessibility. A reseller offering low-priced retail goods will check their sales data much more frequently than a company who sells custom-built luxury vehicles, for example.

You can craft your own KPIs using this simple formula:

(Target) as reported by (Data Source), measured every (Frequency)

Returning our attention to Company X and their miraculous self-buttering toaster, we can begin to identify a few of the KPIs that might be used in optimizing processes to achieve the key results supporting the key results and overall objective.

- Secure 1,000 monthly pre-orders as reported by onsite sales data, measured every month. (Supporting KR5)
- Reduce annual materials costs for heating elements by 15%, as reported by procurement software, measured every quarter. (Supporting KR3)
- Increase monthly social media mentions of the product by 10%, as reported by the marketing team, measured weekly. (Supporting KR5)
- Secure product patent and licensing for at least one country each month, as reported by the legal team, measured monthly (Supporting KR4)

Look Beyond OKRs vs KPIs and Embrace the Value of Both

Healthy and successful businesses have practices in place that help them achieve both short-term and long-term goal management. Use the right KPIs to support the key results in your OKR framework, and you can easily set specific, measurable, and achievable goals—driven by processes and metrics you can improve over time.

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