Combining OKRs and KPIs

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> "How do I combine OKRs with KPIs?"

Probably the question I get asked most often about OKRs. And the one that makes me groan the most.

> "What is the difference between OKRs and KPIs?"

Probably the question I get asked second most often. And the one that tires me the most.

Figure 1: Typical company dashboard

Why do I dislike these questions? Well, please hear me out on this, because the answer depends on how "KPI" is interpreted and implemented in your organization. While everyone agrees that KPI stands for *key performance indicator* (and OKR for *objective and key result*) little else seems to be agreed on.

I hate to appear evasive, but one answer does not fit all, in order to answer the question. That is to say, they mean different things to different people in different places. (And if you still think I'm being evasive, or want a quick answer, look ahead to the decision tree, then maybe come back and read the whole essay.)

What do you mean "KPI" ?

It was Dragon Jojic who challenged me to give a full answer the question of how KPIs and OKRs work together back in 2023. It took me months to answer, the more I looked into the question the more questions I found, and the longer the answer became. I might publish that another time. This is the simplified version, a better answer.

I initially assumed that I could find the original book or journal article were KPI were described. But, it doesn't exist. That is not to say there aren't definitions of KPI and books written on the subject but they don't necessarily say the same thing. The lack a foundational KPI text might be why interpretation varies so much.

The expression seems to have just arisen in management talk and stuck. So while everyone can agree a KPI is a number, and an important number, there is no commonly agreed definition. Nor is there a common definition of how KPIs are used and the processes, if any, that surround them.

In my quest to properly answer the question I have found a couple of sources very useful. First "The Balanced Score- card—Measures That Drive Performance" (Kaplan and Norton 1992) which sets out the *Balanced Scorecard* (BSC). While the original BSC article does not mention KPIs the "scores" it describes have KPI characteristics and many subsequent authors do consider the scorecard as showing KPIs.

Second, David Parmenter's "Key Performance Indicators"(Parmenter 2020) was not the first, nor the last book on KPIs. It is detailed and authoritative, Parmenter describes what a KPI is in detail and puts a structure and process around them. I have considered this book as the authority on what a KPI should be. If your organization is using KPIs, or proposing to use, then make sure you know the authoritative source. Without an agreed "single source of truth" it might be hard to get agreement.

Of course, I have drawn on my own understanding of OKRs too. For more information consult my own Succeeding with OKRs in Agile(Kelly 2023).

Drawing on these sources, my own and others' experience, and what I have learned from those asking the questions, I will start by setting out three types of KPI. Then I can answer to the original question.

Informal KPIs (Type 1)

Teams and companies talk about KPIs and many numbers are called *Key Performance Indicators* but there is no agreement on what the important, *key*, KPIs are. Nor is there any definition what a so-called KPI actually measures or how it is measured and calculated. Consequently there are many *informal KPIs*.

Worse the increasing use of dashboards is means KPIs are proliferating. Increasingly the term is just applied to any old metric that somebody wants to aggrandise and stick on a dashboard.

If you are using informal KPIs like this then go right ahead and use OKRs. Hopefully OKRs will, in time, help bring order to your KPIs.

Targeted KPIs (Type 2)

The second type of KPI are Formal and Targeted. Here there are a recognised limited number of well defined KPIs. Not only does the company set targets for KPI measurement but they may well draw up action plans to achieve those targets.

While many companies are undoubtedly using many informal KPIs there are very few who are using this style of formal KPIs.

This scenario David Parmenter describes and reference. If your company is following a difference prescription some of what follows might need adjusting.

Parmenter describes them, KPIs aren't actually significantly different from OKRs. If this style of KPI is working well then why add OKRs? You need to understand why you would use both because they overlap. Adding OKRs may simply increase costs and bureaucracy, at worst OKRs might set up conflicting goals.

Targeting

There is one important difference in the way KPIs target outcomes and OKRs target outcomes. With a KPI the outcome is to changed a KPI value. The desired outcome and the measurement of the desired outcome are the same thing: a different KPI value.

Conversely, the objective statement in an OKR can target anything. The objective states the desire outcome while the key results specify the targeted numbers. I aim to have descriptive objectives and confine numbers to key results.

For example, using KPIs a shop wishing to improve customer satisfaction would set a target like:

> Customer satisfaction KPI score increases by 10% (from 15 out of 20 to 16.5)

While a shop using OKRs would say:

> Objective: Improved customer satisfaction
>
> Key result: Customer satisfaction score increased by 10% (from 15 out of 20 to 16.5)

On the face of it this makes the OKR more complicated, or at least more wordly. However, the KPI is placing the metric at the centre of attention. Conversely the OKR is highlighting the desired outcome and then setting out the measurement criteria.

One the one hand the KPI target is simple and therefore more focused. On the other hand the OKR spells out the real desired outcome. Both have their advantages and it might well come down to a matter of preference as to which is used.

Of course, the KPI could always be reworded to read: "Increase customer satisfaction showing a KPI score increases by 10% (from 15 out of 20 to 16.5)". In which case, the KPI has become almost the same thing as the OKR.

Ad aside: Seven characteristics

In *Key Performance Indicators* David Parmeter say of KPIs: "[focus] on the aspects of organizational performance that are the most critical for the current and future success of the organization".

On his website Parmeter sets out severn characteristics of KPIs:

1. All KPIs are Non-Financial (not expressed in dollars, Yen, Pounds, Euro etc)
2. All KPIs are measured frequently (e.g., 24 by 7, daily, or weekly)
3. All KPIs have the CEO's attention
4. All KPIs are clear and concise (All staff understand the measure and what corrective action is required)
5. All KPIs can be tied to a team (A team will accept responsibility, and can take action to improve the KPI)
6. All KPIs have a significant impact on one or more of the organization's critical success factors
7. All KPIs have a limited dark side (the unintended negative consequence)

Key results are often specific to the team and the work in hand. Thus the key results of OKRs need not abide by this list: key results might use financial measures, measured frequency might be less regular and the CEO may be unaware of some KR measures. This is because .

Monitor KPIs (Type 3)

Figure 2: KPIs monitor vital signs

Finally, the third type of KPIs are my preferred sort. This style of KPIs is closer to Kaplan and Norton's *Balanced Scorecard*(Kaplan and Norton 1992) approach style. Here KPIs are well defined but they are not targeted directly.

Rather, KPIs are used to monitor the organisation and check it is moving in the right direction and not getting out of balance.

This model is akin to hospital monitoring instruments. The instruments tell you patient heart rate and blood pressure but have no control over those measurements.

OKRs are the start to change those measurements. OKRs focus on change and action. They are used by individuals and teams plan and align. You don't say "Lets target lower blood pressure" you say "Lets target a healthier diet" or "Reduced stress." That in turn reduced the KPI.

For example, to stick with the healthcare example. An OKR does not make lower blood pressure the objective, that might be one of the key results but the objective is broader and, hopefully, inspiring:

> Objective: Improved health through improved diet
>
> Key results:
>
> 1. Blood pressure reduced to within guidelines (90/60 mmHg and 120/80 mmHg)
> 2. Weight reduction of 2kg over one month

By agreeing, and sharing, the objective and measurement, actions across time and people can consistently focus on advancing towards a common point.

Kaplan and Norton make a similar claim: when KPIs are well defined, and all decision makers understand that definition then better result. More importantly decision are consistent.

Combining OKRs and KPIs

The first thing to do is to decide what type of KPIs you have.

If you have many informal KPIs (type 1) then go ahead and implement OKRs as I describe. Your KPIs are too informal and lack agreement to be useful for organisation change.

You might, in addition, reduce the number of KPIs in circulation and formalise those that remain. Next you could create a dashboard to report on the broader health of the organization. Such a dashboard might resemble a Balanced Score Card, you might call it a Balanced Dashboard. While BSC have been around for a few decades they are still popular with many managers.

If you have formal and targeted KPIs (type 2), especially if you are following Parmenter's prescription, then don't bother with OKRs. You are using KPIs in an OKR like fashion so there is little point. Adding OKRs would add complexity, cost and potential conflict. Of course, if you feel your KPIs are not working then either fix them or replace them completely with OKRs.

Finally, using OKRs for change and action in the context of a BSC style KPI dashboard (type 3) is entirely logical. In fact I would say it is my preferred option. Here OKRs are used in organisational units (divisions, teams, tribes, squads) for delivery in the near future. In parallel, KPIs are used to keep the organization itself in a healthy place.

Some of the measurements used for key results might well be the same as the KPIs on the dashboard but not all. Teams pursing OKRs may define specific key results which relate to the specific task in hand. If the OKR is successful then, in time, the KPIs will improve too.

Sorting the key from the also ran

If you, like many others, find yourself inundated with KPIs then it helps to divide and conquer. Also most by definition, key indicators are key, there cannot be too many of them: if you have 50 KPIs then how many of them are *truly key*? As David Parmenter points out "It is a myth to consider all performance measures to be KPIs."

Just because something is a performance measurement does not mean it is a key performance measurement. Most likely a bit of thinking can split up the multitude of KPIs into those which are truly *key*, and those which are just *performance indicators*.

You might start by drawing up a ranking: which KPI is the most important? which the second? and which are low down the list? For example, a shop might consider average items per sale as key while total number of shop visitors is secondary.

Taking this a step further one can divide KPIs into several groups, in addition to "key" indicators you might have "Secondary" and even "Transient" indicators associated with particular projects or initiatives.

Name	Abbreviation	Number	Well defined?	Longevity
Key	KPI	Few	Yes	Long
Secondary	SPI	Many	Probably not	Maybe

Name	Abbreviation	Number	Well defined?	Longevity
Transient	TPI	Limited	Preferably	Short

Tracking and dashboards

If KPIs are going to be useful they need to be tracked. In the digital age it makes sense to automated as far as possible and present the results as a dashboard.

A fully automated, real-time, dashboard might be expensive to create and probably isn't needed at every company. My local coffee shop probably doesn't need to know how many coffees it is serving per minute in real time, but an end-of-day summary of sales and stock levels would be useful.

Over frequent monitoring of OKRs is not necessary, and, in my mind, might even be counter productive. Still, measurements need to be timely for decision making. OKRs are action oriented, monitoring them frequently while the action is being taken might get in the way.

For example, if a store need to be closed for a week to be refurbished (in order to meet an objective is to increase sales) then it is possible sales will fall. Frequent monitoring might get in the way.

(Of course, if closing stores during refurbishment is going to be a genuine problem then it might be best to write that constraint into the key results. Then the delivery team can look for a suitable solution.)

The answer

The decision tree in figure 3 summarises the answer to the original question, "How do I combine KPIs and OKRs?" I'm almost agnostic about which is the best position to be in.

However, if you have type 1 KPIs (informal, poorly defined, and possibly too many) then there is a great opportunity to move to a better position. As things stand the KPI system is weak and OKRs can be applied. Yet, that raises the possibility of confusion so I'd rather rectify it.

Type 2 KPIs, with improvement action plans, are so close to OKRs that I really question why both are needed. So before you add OKRs to the mix, understand what you think is missing. Then you might decide to modify your

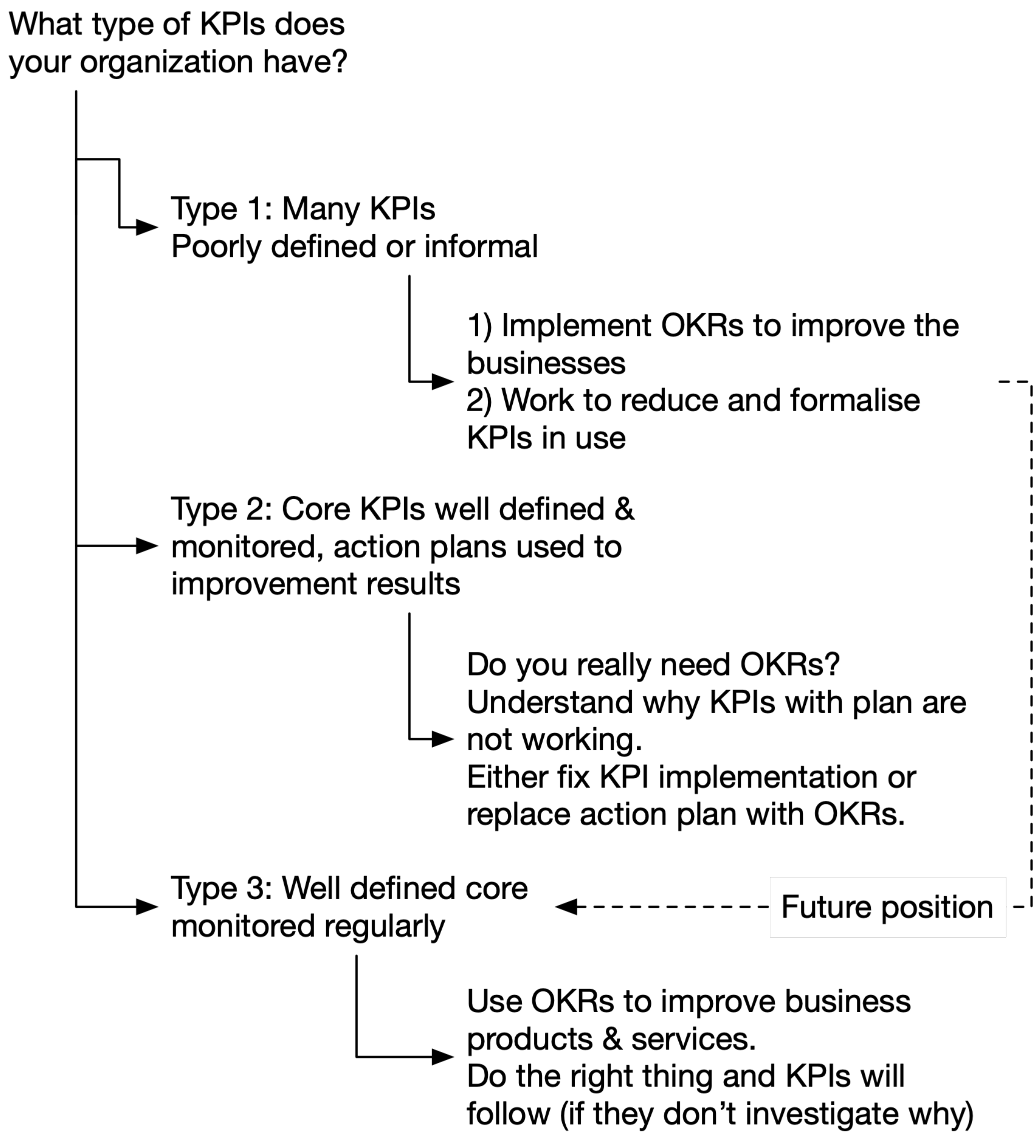

Figure 3: Decision tree for combining KPIs and OKRs

KPI based process or adopt OKRs. One option could even be to reposition KPIs as a BSC style dashboard and drive change with OKRs.

As is probably obvious by now, type 3 OKRs are my preferred solution. Perhaps this is because the original BSC solution has so much to commend it. That said, companies using BSC have encountered problems, often because there are too many line items (KPIs) on the scorecard to balance.

While you could transition from type 1 or type 2 KPIs to type 3 KPIs with OKRs, and even if I might prefer this model, there is no reasons to have all everything. Using OKRs, or KPIs, or BSC as a routine part of management practice will probably make you a better company, it should improve operations and help employees understand what is important.

Conclusion

The key to combining OKRs and KPIs is to understand your KPIs and how you are using them. Once you understand your KPIs then you can decide if you need OKRs or whether you KPIs are already doing the job. When KPIs are fulfilling a health monitoring role then adding OKRs to bring more action makes sense.

Still, some things are always true.

Fewer KPIs are better than many: seek to ensure that your KPIs really are *key* and eliminate ones that aren't.

KPIs need to be defined and defined in such a way that staff can understand them. If KPIs are going to be improved, or even just maintained, then it is important that everyone understand where they come from.

Once you have your truly key, well defined, performance indicators, they need to be calculated, tracked and monitored at a cadence that fits with your businesses.

References

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