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eBook

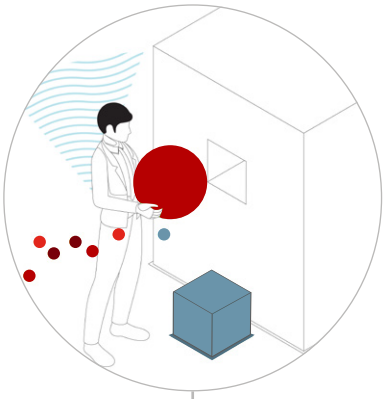
How technology teams can thrive with flow-based OKRs

In a 2020 article, Harvard Business Review called OKRs one of the "most popular frameworks for teams looking to plan and measure the success of their work." And while their popularity remains unchallenged, many traditional enterprises experience challenges when they try to translate their strategic high-level objectives into key results for technology teams. This e-book will offer some context for business and technology leaders who want to implement OKRs as part of their digital transformation strategy. Through the topics listed below, it will cover the full spectrum, beginning with an introduction and concluding with practical advice for rolling out this framework.

- OKRs: An Introduction
- OKRs > Renamed KPIs?
- Changing How We Work
- Toolkit: OKRs + Value Stream Management
- Practical Advice for Effective OKRs
- Conclusion

1

OKRs: An Introduction



OKRs were pioneered and popularized by Silicon Valley companies, but have become increasingly widespread among tech and non-tech companies alike. In October 2021, Microsoft acquired OKR vendor Ally.io and plans to make that OKR technology part of their Viva employee-experience platform. By 2027, the OKR software market is projected to grow by 13.73% CAGR to reach $1946.88M. A quick Google search for "OKRs" brings up a lengthy list of how-to articles, books, podcasts and videos.

Felipe Castro, OKR trainer, speaker, and author said in a recent podcast that OKRs made sense to digital natives because their approach to product management was inherently cross-functional and integrated; OKRs support a world where product managers build features based on business or customer needs, and then continually iterate based on market feedback.

The challenge arose once OKRs left the technology sector, where traditional enterprises underestimated the effort it took to implement them. Despite their deceptive simplicity, OKRs aren't magic; they require structural, foundational change. As Castro so aptly states, "you can't simply take a part of how Google works and apply it to your company and become Google."

While technology executives are enthusiastic about OKRs as the vehicle for digital transformation, they are not a silver bullet to overcome what Tasktop CEO Mik Kersten describes as "decades of muscle memory in a project-based model – including funding, staffing, and success metrics."

> You can't simply take a part of how Google works, apply it to your company and become Google."
>
> Felipe Castro on OKRs

1

In the traditional, project operating model, IT teams were viewed as call centers and order takers who had work thrown over to them and no visibility or feedback loop to the business. Agile and DevOps transformations focused on accelerating parts of the software development lifecycle, but without a connection to strategic goals they simply shifted bottlenecks upstream or downstream, to the detriment of strategic improvement.

If OKRs alone cannot address the problems created by misaligned priorities, conflicting datasets, complex and heterogeneous infrastructure, excessive tech debt, and inefficient delivery processes – what's a leader to do?

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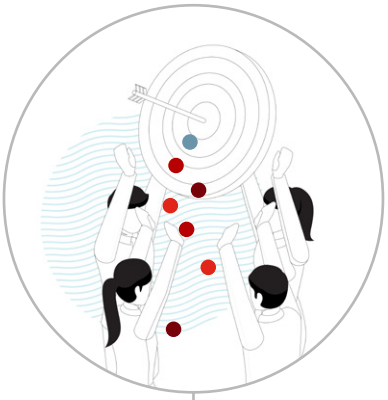
OKRs > Renamed KPIs?



When it comes to business-IT planning, the need for alignment is clear. Demands for digital products and features skyrocketed in response to the remote economy in 2020-2021, with the U.S. Bureau of Labor Statistics estimating that demand for software developers is expected to rise by 22% between 2019 to 2029.

But, as more and more companies try to adopt an outcome-based management model, technology leaders and CIOs have discovered that connecting strategy to IT's daily work is more difficult than it seems, particularly when it comes to measuring the value of software delivery. So they inadvertently end up doing something far easier. They rename their existing KPIs to OKRs.

2

Castro cautions against this approach though, as he recounts an example of the failed attempt of a large bank that decided to use OKRs alone to change their entire business model. For many years, the bank used a KPI dashboard but decided to "implement OKRs" as part of their digital transformation. The attempt was entirely unsuccessful because the extent of the change was to rename the existing KPI dashboard to "OKRs" and display exactly the same set of metrics.

In his 2021 keynote at DevOps Enterprise Summit (DOES), Kersten describes similar pitfalls in the shift from project to product. Many organizations rename old behaviors but continue to micromanage teams and use Waterfall planning methodologies, tracking activities and dates instead of value or flow.

In reality, OKRs are only one of several popular constructs that purport to tackle the problem of aligning strategy to quantifiable metrics. As David Spinks states in his book The Business of Belonging (Spinks, 2021)), "All strategic frameworks aim to take a big, nebulous goal and make it more specific. They all do this with three elements:

1) The goal you're trying to achieve.

2) The measures that will tell you if you've achieved that goal.

3) The actions you'll take in order to achieve the goal."[1]

What is common to these models is a focus on outcomes instead of activity, which marks a significant behavioral change for traditional enterprises. Outcome-based measurements will be useful only as part of an overall shift away from traditional project-based thinking to a product-based operating models more emblematic of the digital natives who pioneered OKRs. Organizations must make this essential commitment to successfully incorporate OKRs into their pattern of working.

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1. Spinks, David. "The Fundamentals of Community Strategy." Essay. In The Business of Belonging How to Make Community Your Competitive Advantage. Hoboken, NJ: Wiley, 2021

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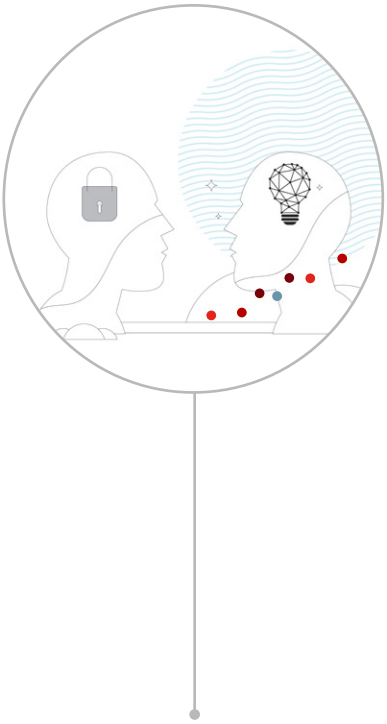
Changing how we work



Felipe Castro encapsulates the challenge faced by so many enterprises who try to use OKRs as a singular change agent when he says, "We have a tendency of trying to force new tools to our habits instead of actually leaning into the new possibilities of the new tools and changing how we work. Adopting OKRs is never the goal. The goal is to improve performance by changing how you work. If you're not changing how you work, you're missing the point,"

For a change of this scope to be successful, leaders – technology and business – must set the efforts in motion. They possess both the influence and the authority to break through old patterns and drive new levels of planning, budgeting, and connection. They are also the team who set strategic objectives.

Whether an enterprise can achieve these objectives will hinge on its ability to execute effectively, which is determined by the speed, quality, and efficiency of flow through end-to-end value streams that stretch from customer need to business outcome.

Hence it is the combination of value stream management (VSM) and OKRs that will enable the movement from project to product and give leaders the common perspective they need to measure and execute their digital transformation.

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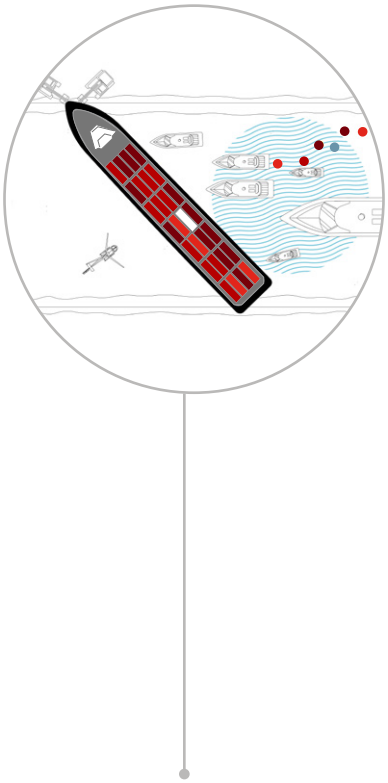
Toolkit: OKRs + Value Stream Management



The value of VSM to measure end-to-end flow becomes more clear once you imagine flow blocked.

In March 2021, the Ever Given ran aground in the Suez Canal, blocking the flow of container traffic for six days, with estimated losses of $9.6 billion per day. The financial implications of bottlenecks and delays in software delivery can be similarly catastrophic for any business.

Therefore, a complete toolkit for organizational change encompasses value stream management to measure flow and identify constraints combined with OKRs to set and track goals.

Together, they provide visibility, a common language, and a tactical tool to measure incremental progress. Darrell Fernandes is the Head of Product Technology at TIAA, a financial services company that services six million members and manages $1.4 trillion in assets. He states, "Software has been such a dark art for so long. One of the most important things we've done [with VSM] is to create a common language."

The language that unites business and technology leaders is expressed through Flow Metrics which measure the rate of business value delivery for software products through the lens of your internal or external customers.

Flow Metrics center around the principle that all software-related work – design, development, and delivery – must create value for the business:

- **Flow Velocity:** Is value delivery accelerating?
- **Flow Efficiency:** Is waste decreasing in our processes?
- **Flow Time:** Is time-to-value getting shorter?
- **Flow Load:** Are we balancing demand vs. capacity?
- **Flow Distribution:** Are we investing in line with business priorities?

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4

Taken one step further, the Flow Framework® uses Flow Metrics to link activity in the software delivery life cycle to corresponding business results such as: **value** (revenue contributions), **cost** (expenses related to operating the value stream), **quality** (the reliability of the product), and **happiness** (the engagement level of the teams doing the work).

This combination offers enterprises a view into both leading and lagging indicators against their progress. **Business metrics** track the lagging indicator of value stream outcomes and **Flow Metrics** track the leading indicator of value stream improvement.

With defined goals and established value streams, enterprises can build meaningful, outcome-based OKRs that allow product and engineering teams to stay connected to their customers and to measure their contribution to outcomes, not merely their ability to deploy quickly.

In isolation, none of these approaches will be entirely successful. According to Fernandes, "These are all tools. If you show up with a saw and the job is to frame the house, that's okay, because you do have to cut some wood. But without a hammer, it's going to be a long day."

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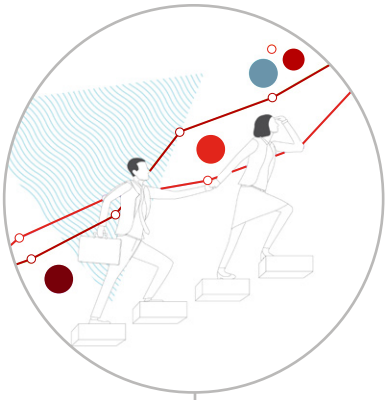
Practical Advice for Effective OKRs



A thoughtfully constructed OKR that is rooted in concrete, measurable Flow Metrics and linked to a product value stream keeps teams focused on customer outcomes instead of activity-based outputs. It articulates the shared understanding between business leaders, technology leaders, and contributing teams of the ways in which tactical work contributes to the enterprise's strategic investment.

5

There are three key steps for organizations to take in order to ensure their OKRs are more than renamed waterfall performance management techniques.

First, understand the starting point.

Before any change can occur, the first objective must be to measure baseline flow and establish the organization's current speed and efficiency.

Measuring large-scale product delivery across a complex array of technologies and distributed workflows requires a VSM solution that collects data from all contributors, components and departments and measures flow: speed, velocity, load and efficiency. Without a baseline, committing to new objectives will be impossible. For example, how can teams affect customer Net Promotor Scores if the people tasked with delivering key features are overloaded, or drowning in defects and outages?

With baseline flow as the objective, a corresponding key result could be as simple as setting a target percentage of value streams that measure flow. Then, the goal becomes iterative, with an eye to improving that percentage quarter over quarter until all value streams in the organization are included.

Second, improve flow in service of outcomes.

Once baselined, enterprises can begin using OKRs to improve flow in specific areas to achieve a business outcome related to value, cost, quality, or happiness. Current Flow Metrics and analytics will help create valid hypotheses and inform where to apply resources.

For example, if an overall objective is to improve time-to-market, an associated key result could be to reduce Flow Time by 10%. If improving product reliability is a strategic objective, a key result could be to reduce the number of defects, as measured by Flow Distribution.

Key results will be unique to each organization depending upon their overarching goals, but OKRs can act as the translator between these strategic objectives and the measurable day-to-day work of the teams delivering to market.

Third, incorporate fast feedback.

Organizations must incorporate the fast feedback loop that is intrinsic to successful OKRs. The digital natives who pioneered them

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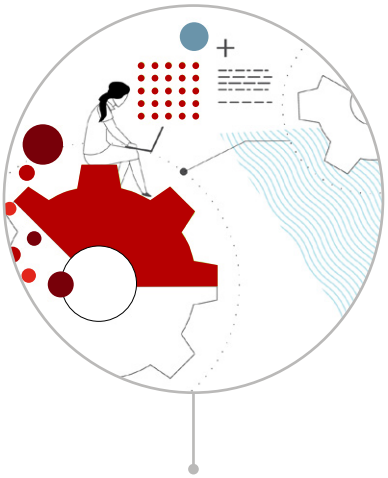
understood that learning and iteration were crucial to success and intentionally created a quarterly cadence. This timeframe synchronizes with typical budget cycles and ensures that if experiments fail, teams can course-correct quickly.

According to Castro, OKRs "will be imperfect in the beginning". However, using a combination of value stream management and Flow Metrics, organizations can create the conditions and structures that connect technology teams to the organization's strategy. With a shared understanding of the destination, the journey can begin.

Conclusion



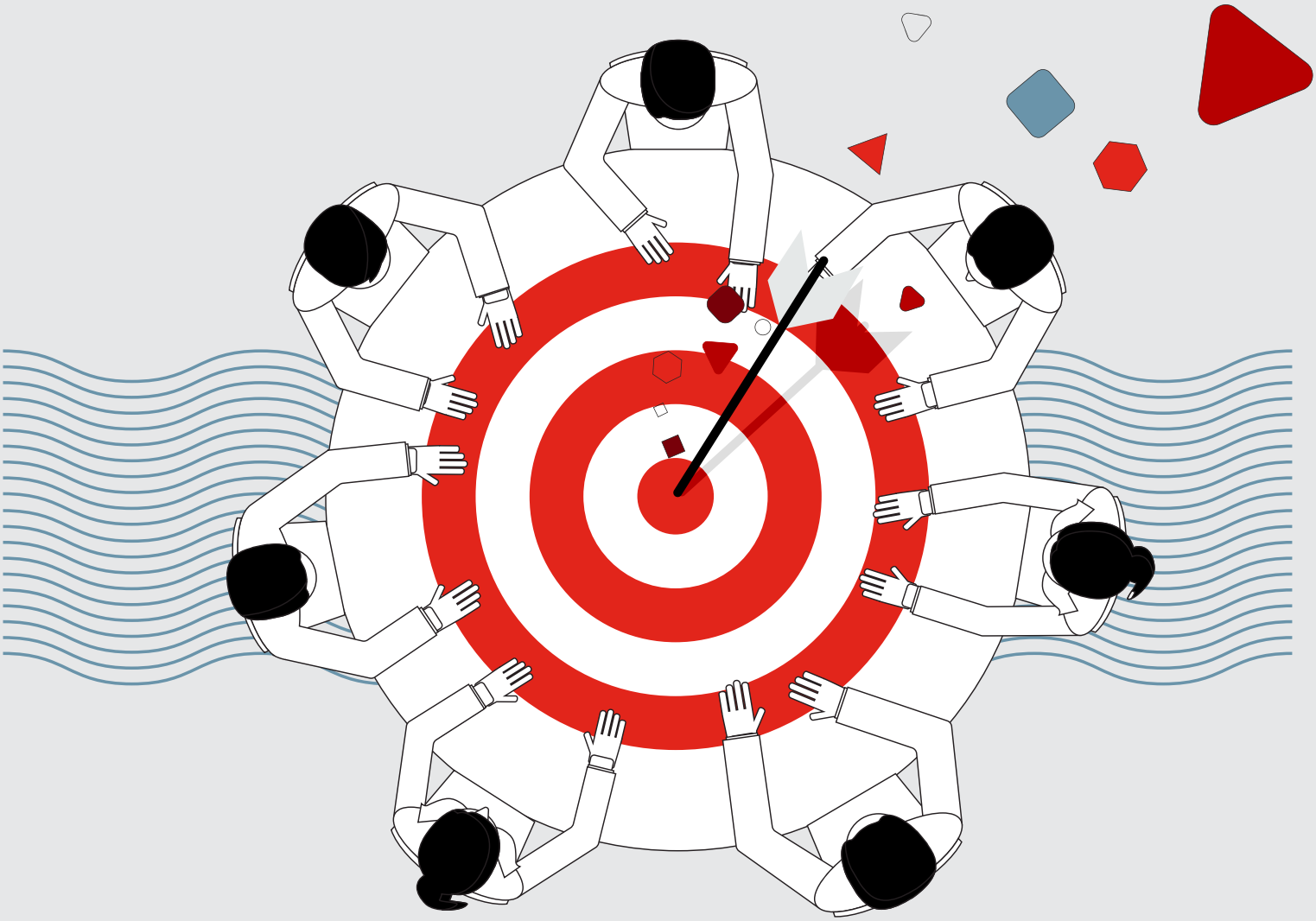
From the outside, software delivery appears to be linear, but in reality, it is a complex flow network of processes that encompass planning, design, and communication. Without unifying principles, it can become disconnected from the strategic goals it needs to support.

Business leaders can set clear objectives, but their technology counterparts need to be able to convert those high-level goals into meaningful work.

As per Gartner® "For the IT organization, the process of forming OKRs provides a mechanism to engage with all other teams, explore the outcomes that IT needs to accomplish and negotiate the all-important IT contribution to the strategic goals".[2] Combined with value stream management and Flow Metrics, leaders have a complete toolkit to facilitate their digital transformations.

Without unifying principles, software delivery can become disconnected from strategic goals.

2. Gartner, Everything CIOs Need to Know About OKRs, Irving Tyler, Christie Struckman, Andy Roswell-Jones, Owen Chen, 31 January 2022.



Discover More

- Mik + One podcast with Felipe Castro
- Webinar: Effective OKRs Focusing on outcomes and finding flow
- Project to Product Maturity Assessment
- Output-based OKR vs. Outcome- based OKR for a Product Organization

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