

A Brief Discussion on Improving Process Performance Management by Drawing on the Concept of OKR

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Abstract: As an advanced objective management tool, OKR has become increasingly popular among Chinese enterprises influenced by the successful implementation of benchmarking enterprises. However, the internal implementation of OKR is rather difficult, and most enterprises fail to promote it effectively. This paper aims to study how to integrate OKR with traditional performance management tools and draw on some successful practices of OKR to improve the performance management level of enterprises.

Keywords: OKR; KPI; Process Management; Performance Objectives; Action Plan

1. Introduction

An entrepreneur engaged in the processing and production of leisure food attended some courses on OKR (Objectives and Key Results) outside and vigorously promoted and implemented it in his enterprise after returning. After months of tossing and investing a lot of time and energy, he gave up within half a year. Why do entrepreneurs have a soft spot for the management tool of OKR, yet few succeed? This paper deeply analyzes the reasons and puts forward ideas for improving performance management by drawing on the concept of OKR.

2. Comparative Analysis of OKR and Traditional Performance Management Methods

OKR is an effective objective management tool, founded by Intel Corporation of the United States and later introduced and developed by Google. In China, many high-tech enterprises, such as ByteDance and Alibaba, have achieved good results by adopting OKR. Why do many enterprises abandon traditional performance appraisal methods and choose OKR in the digital economy era? An important reason is that OKR

pays more attention to process management. The following is a comparative explanation of several common performance tools.

KPI (Key Performance Indicator): It is a tool for strong assessment. Objectives are usually set from top to bottom, and the finalized objectives often lack challenge after repeated gaming between superiors and subordinates. In addition, KPI reflects performance results, which are usually summarized and counted after the fact, and assessed after comparison with objectives. Therefore, KPI ignores the process management of objectives. For example, the objective of the sales department: to increase sales performance by 10%. After setting the indicator, the enterprise does not disassemble how to achieve the objective or formulate an action plan to realize the performance objective.

BSC (Balanced Scorecard): To a certain extent, it can decompose the company's strategic objectives into four aspects: finance, customers, internal operations, learning and growth. However, this decomposition is rigid and incomplete. Many enterprises, after correlating and decomposing financial indicators into operational indicators, do not further decompose operational indicators into sub-objectives or formulate specific measures to achieve the objectives. The simply decomposed objectives and indicators are also mainly assessed after the fact.

OKR: It emphasizes the connection between O (Objective) and KR (Key Result). Generally, one O corresponds to several KRs (that is, the completion of several KRs can ensure the realization of O). Meanwhile, the KR of the superior can be transformed into the O of the subordinate. Through layered decomposition and tracking, feedback and improvement of each KR and O, the realization of the company's objectives is supported and no longer an empty promise.

3. Analysis of the Difficulties in the Implementation of OKR

Since OKR has unique advantages in process management, why do many manufacturing enterprises deviate from the right path in its implementation? In fact, it is difficult for traditional labor-intensive manufacturing industries to directly adopt this method, mainly for the following reasons:

3.1 The Implementation of OKR Requires a Corporate Culture Encouraging Innovation

Enterprises should have a grand vision widely recognized by employees, which can stimulate employees' fighting spirit and challenge spirit and enhance their internal drive. In addition, enterprises are required to have a corporate culture atmosphere encouraging innovation and a relatively loose innovation environment, enabling employees to dare to try and challenge based on the company's objectives and personal interests, and tolerate failure or incomplete achievement of objectives.

3.2 The Implementation of OKR Requires a Clear Strategy

OKR objectives are not mandatory and are formulated independently by employees, but personal objectives should still focus on the organizational development strategy; otherwise, they will deviate from the theme and be useless to enterprise operation and management. Generally, there should be at least a clear market strategy and technology development strategy that have been widely promoted and recognized by all staff.

3.3 The Organization Needs to Be Flat and Extensively Implement the Project System

OKR objectives are challenging and usually require team assistance to complete. The project system can support the realization of OKR. Good project management practices in enterprises can strengthen the implementation of the OKR system. Companies should provide human, financial and material support and full authorization for project teams.

3.4 The Implementation of OKR Has Relatively High Requirements for Employee Quality

It should be specially noted that the OKR evaluation results are not used as the basis for employee performance appraisal or salary

payment, weakening material rewards and punishments and attaching importance to spiritual incentives. Therefore, it has very high requirements for employees' abilities and qualities. Employees should dare to challenge, pay attention to cooperation, pursue respect and self-actualization in personal value (in line with Maslow's hierarchy of needs, entering the high-level demand stage), and consciously and spontaneously complete work tasks. In addition, it also has high requirements for team objective management skills, constantly putting forward and achieving objectives in accordance with the PDCA cycle.

However, most enterprises, especially those in traditional industries, fail to meet the above requirements in terms of bosses' cognitive level, organizational structure design and employees' status. Enterprises should be cautious in promoting OKR practice and evaluate it in combination with their own reality. Most enterprises in China are still deeply engaged in traditional industries with a relatively stable market environment. Providing high-quality, efficient and low-cost products and services remains the decisive factor for enterprise success. Therefore, KPI assessment is still an essential incentive mechanism and tool for survival of the fittest in enterprises.

4. Optimizing KPI Assessment with OKR Process Control Thinking

Undoubtedly, performance results need process support. Since the OKR management method cannot be simply copied, can we combine the process management characteristics of OKR with the traditional KPI performance management tool to achieve a 1+1>2 effect? Research shows that it is entirely possible to apply the essence of OKR to daily performance management with KPI assessment as the core. The key is to do the following well:

4.1 Complete the Gradual Decomposition of KPI Indicators and Formulate Action Plans

OKR emphasizes the layered decomposition of O and KR, which is the basic idea of objective management and not unique to OKR. Many management tools have similar logic, such as strategy map, value tree, fishbone diagram, 5WHY, etc. Therefore, KPI assessment should not only focus on results or be wise after the event, but plan in advance, decompose objectives from strategy to the company's annual

business objectives and indicators, from top management to grass-roots positions, and from results to processes.

Step 1: Complete the horizontal decomposition of strategy. Strategy is highly focused and refined. To achieve strategic objectives, it is necessary to identify Key Success Factors (KSF) for strategy achievement, which can be gradually extracted from four aspects of the Balanced Scorecard (financial perspective, customer perspective, internal operation perspective, learning and growth perspective). Generally, these four aspects cover all aspects of enterprise operation, with different focuses according to different strategies. After extracting KSF,

strategic KPIs should be derived from each dimension, that is, KSF should be indexed.

Step 2: Complete the vertical decomposition of strategy. Strategy is a medium and long-term development plan, usually at least 3-5 years. The realization of strategic objectives cannot be achieved overnight. Therefore, key success factors and strategic KPIs should be decomposed into annual objectives, which is the process of formulating the company's annual business objectives. The annual business plan is a link connecting strategy with daily operation and also an important indicator of the company's annual KPI, as shown in Figure 1.

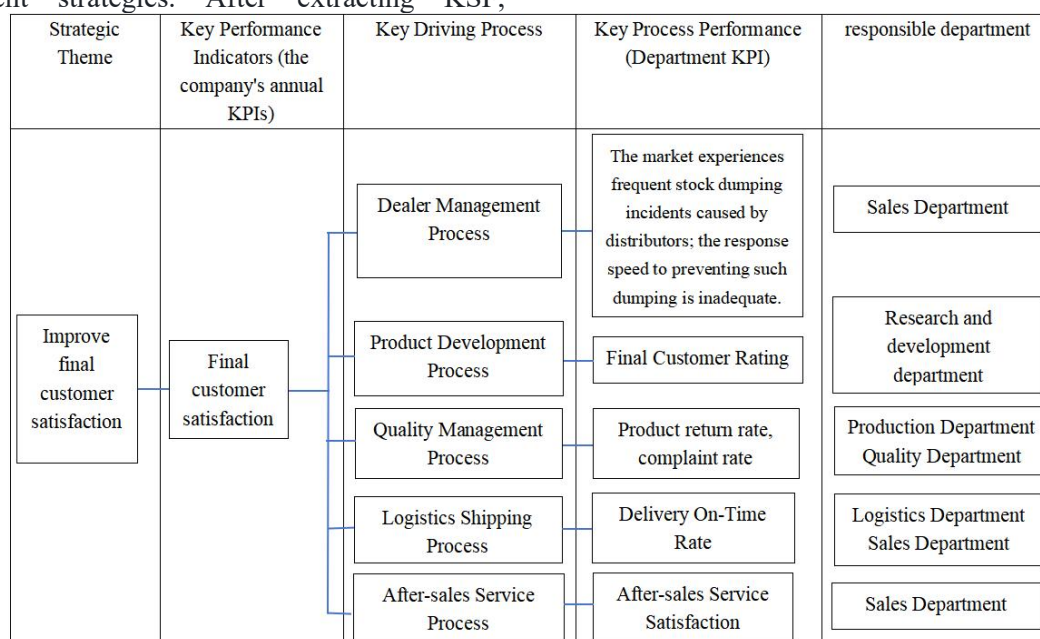


Figure 1. Formulation of the Company's Annual Business Objectives

Step 3: Complete the departmental decomposition of the annual business plan (KPI). The achievement of any objective is affected by various factors and requires the joint efforts of different departments. When all departments make efforts from different dimensions, the company's annual objectives can naturally be achieved. However, the decomposition process is relatively complex and time-consuming. Many companies fail to grasp the process because they lack experience and skills in decomposing the company's annual objectives downward. The following is a brief explanation with the value tree model.

In terms of objective setting, basic objectives and challenging objectives can be set. Basic objectives are based on the company's basic requirements for a department or position. If not achieved, performance points can be deducted or

penalties imposed in accordance with assessment rules. In addition, a higher-level objective can be set, which is not necessarily an increase in basic objectives, but a project that needs breakthroughs but is difficult based on strategy and the future. No points will be deducted for failing to complete challenging objectives, and extra points will be given for completion.

Step 4: Formulate action plans. After determining departmental KPIs, each department should formulate action plans for different stages and reasonably set work plans and process evaluation indicators to ensure the achievement of KPIs. Measures should be as comprehensive as possible and directly related to indicators (in principle, the completion of corresponding effective actions will inevitably lead to the achievement of departmental performance indicators). At this time, action measures are the

focus of quarterly and monthly process management of each department, similar to decomposing O into different KRs in OKR. The difference is that in OKR, O is usually a qualitative objective with great challenge, while KPI objectives are usually quantitative and achievable through efforts.

The KPI objective of the production department: increase the one-time inspection pass rate of products to 99.5%:

Measure 1: Optimize the production line to increase the product first-pass yield by 2%;

Measure 2: Strengthen production management to reduce man-made quality accidents by 30%;

Measure 3: Organize 2 skill trainings and competitions to cultivate 30% multi-skilled employees.

Through the above process of gradual indicator decomposition and implementation, we can promote the achievement of Objective O through the key results (KR) of action measures, promote process improvement through the achievement of departmental O, and then ensure the achievement of the company's overall KPI. Furthermore, it can effectively promote the realization of the company's strategic objectives.

4.2 Conduct Process Tracking and Feedback, and Continuously Optimize Action Plans

To do a good job in performance process management, it is necessary to timely track, collect, feedback and summarize process results. Once it is found that the implementation effect of action measures is poor and cannot support departmental KPI indicators, timely correction and adjustment of action plans are required. Therefore, continuous communication and feedback are essential in process management, which is a basic link in the performance management cycle. KPI assessment also needs continuous summary and improvement, but more attention is paid to communication, feedback, summary and improvement in the implementation of OKR. Through various meeting mechanisms such as weekly meetings, monthly meetings and quarterly communication meetings, responsible units focus on reviewing work progress, putting forward difficulties and adjustments, seeking support and cooperation, formulating improvement plans and conducting work reviews when reporting work. Superiors provide assistance through continuous comment and guidance, support, recognition and

encouragement, while peers learn from each other, assist each other, comment and praise to create a good atmosphere.

However, in the KPI performance management of many enterprises, there is only post-event performance assessment, lack of process management and internal communication and coordination mechanism. Work meetings are only held to assign work, and process tracking and feedback are ignored. At the assessment node, assessment is conducted directly based on indicator results. Even after assessment, there is a lack of communication between assessors and assessed persons.

Therefore, any performance management model including KPI can draw on the OKR model to establish an internal performance communication and feedback mechanism, and improve performance and achieve objectives through continuous PDCA cycles. First, it is necessary to improve the rules of regular meetings and strengthen communication and feedback through various work meetings. Generally, grass-roots departments are required to hold at least one regular meeting every week, and the company at least one regular meeting every month. In addition, it is necessary to establish meeting mechanisms such as quarterly communication meetings, semi-annual review meetings and annual summary meetings. In addition, as a department supervisor or enterprise leader, it is necessary to improve coaching ability, effectively use various communication mechanisms, provide timely guidance, correct deviations, offer support and encourage employees.

4.3 Scientifically Design the Assessment Cycle and Salary Payment Method

KPI is a strong assessment management tool that directly applies assessment results to salary, while OKR evaluation results cannot be directly applied to salary, which is a significant difference between the two. However, in traditional industries, especially labor-intensive enterprises, if assessment results are not applied to salary and rewards and punishments are not implemented through performance assessment, an important management tool will be lost, leading to disorder. Therefore, KPI assessment cannot be easily abandoned in such enterprises. The reason why OKR weakens the direct connection with salary payment is that OKR focuses on the process. Once process measures

and plan evaluation are included in salary, it will inevitably lead to bargaining and conservative passivity in process decomposition and action plan formulation, resulting in indicators being directly issued by superiors and losing the initiative of grass-roots employees. KPI assessment indicators are basic objectives directly decomposed from top to bottom from the company's strategic objectives and annual business plans. Even if the assessed person passively accepts them, it will not affect the implementation of assessment. How to distinguish result assessment from process assessment and introduce the concept of OKR into KPI assessment requires scientific design of assessment cycle, assessment content and performance salary standards.

Firstly, KPI is a performance result indicator, and the evaluation cycle of KPI should be annual or semi-annual. Quarterly and monthly evaluations can be conducted on process performance indicators, but only as a basis for performance improvement and can be used for spiritual rewards. Quarterly and monthly assessments focus on employee behavior indicators, or negative list items, that is, assessing wrong behaviors such as violating rules and disciplines, not abiding by management systems and business processes, or serious dereliction of duty, and deducting performance salary.

Secondly, in performance salary design, focus should be placed on annual payment. In floating salary, increase the proportion of annual performance salary (which can be prepaid monthly) and reduce the proportion of monthly performance salary, that is, strengthen annual assessment and salary payment, and weaken process assessment.

5. Conclusion

Enterprises can systematically integrate the process management thinking and communication feedback mechanism of OKR into the KPI framework to realize the coordination of "result assessment" and "process management", thereby improving strategic execution. The specific integration paths include:

1) Deepen objective decomposition and action planning: Draw on the decomposition logic of OKR, use tools such as strategy maps and value trees to extend KPIs from result indicators to process action plans to ensure the support for

objective implementation.

2) Strengthen process tracking and continuous feedback: Establish regular (weekly/monthly/quarterly) performance communication and review meeting mechanisms, shift the management focus from "post-event assessment" to "in-process coaching and improvement", and create an atmosphere of continuous optimization.

3) Optimize assessment and incentive design: Distinguish result assessment from process evaluation, focus strong assessment (closely linked to salary) on annual/semi-annual KPI results, and use monthly/quarterly process indicators and action plan completion more for performance improvement, spiritual incentives and resource support. This can stimulate employees' initiative and creativity in the process while maintaining incentive rigidity.

In summary, as the most widely used performance management tool, KPI is still necessary and feasible for most enterprises. Starting from the above three aspects, strengthening process management in methods, weakening the application of process assessment in mechanisms, and rewarding performance based on annual results can achieve certain effects of OKR without abandoning KPI assessment. For most enterprises in China at the present stage, this combination is more practical than simply abandoning KPI assessment and switching to OKR.

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