

**Independent Final Report**

**Innovation and Objectives and Key Results (OKRs).**

**A Case Study of How Structured Goal Setting**

**Can Lead to Innovation**

by

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## **Certification of Originality**

I, MYREN Marita (Student ID 52117629) hereby declare that the contents of this Independent Final Report are original and true, and have not been submitted at any other university or educational institution for the award of degree or diploma. All the information derived from other published or unpublished sources has been cited and acknowledged appropriately.

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## Summary

The purpose of this report is to investigate how leaders can influence innovation success through using the goal setting method of Objectives and Key Results (OKRs). This report will look at what the literature is saying about innovation, goal setting and leadership as well as organization structure and culture in order to connect innovation and goal setting together. It will look into what Objectives and Key Results (OKRs) are and how this method can be used as a management tool to improve innovation. There will be a part about the time frame of OKRs, a part about how this method is unique compared to other goal setting methods, and the disadvantages and common mistakes that can be found. After Objectives and Key Results (OKRs) have been introduced, this research will take a look at the methodology where it will be explained why case studies have been chosen and why secondary data is being used. This part also includes the theoretical framework that will be used and list three hypotheses in relation to that framework.

In this report, three case studies will be conducted where Intel, Google and Amazon's way of using the goal setting method Objectives and Key Results (OKRs) in their companies will be examined. First, this report will look briefly at the company history and how they were introduced to this goal setting method, then it will investigate how they are using it and if the companies can help support the theoretical framework. At the end there will be an analysis of the findings, a conclusion where it is found that goal setting can influence innovation. The hypotheses will be discussed and there is a part about the limitations of this study and further studies that should be conducted in this area.

**Keywords:** Leadership, innovation, innovation management, goal setting, objectives and key results

# **Chapter one: Introduction**

## **1.1 Introduction**

In this day and age, change is a huge part of a business with new technology popping up everywhere. The rapid development because of technological advancement have made it so that change has become a necessity for companies to be able to stay competitive, and a part of the way they do so is through innovation. Because many large companies have been successful with their goal setting methods, the intention of this report is to look at why they are successful and figure out what others can learn from their methods. In order to conduct the research, the research team has chosen to combine the two fields innovation and goal setting. Goal setting is said to make a person more focused on the task at hand, which is why it is important to examine if it can also make a company or a person more innovative. This report will concentrate on the goal setting method named Objectives and Key Results (OKRs), which is a preferred goal setting method at several big companies such as Intel, Google, Amazon and Facebook to mention a few. This method was first used in the late 1970's, but it is only after Google started using it in the 1990's that its popularity started to increase. Objectives and Key Results is a very simple goal setting method which can be used in small and large companies. The simplicity and popularity of the method is the reason why the author has chosen this goal setting method. The research questions of this report will be to examine how leaders are affected by organization culture and structure and if goal setting, through the OKR method, can lead to successful innovation.

## **Chapter two: Literature Review**

### **2.1 Literature Background**

As of today, there is not that much existing literature that combines goal setting and innovation, that is why the research team in this report will go into the literature on innovation and then into the literature on goal setting and in the end, will try to combine the two. Because of limited time, the most relevant literature and cases have been chosen for this report. However, that means there might be other literature out there that can contradict the findings that are listed below. As this report is about trying to find clues regarding if it is possible to manage innovation through goal setting, it is important to include literature that concentrates on innovation and that explains goal setting, and the forces behind this. Therefore, this literature review will start by looking at what innovation is and how innovation can be managed. After that comes a part that explains goal setting theory, and how goals are set and perceived by people. The innovation management part will show that leadership is one of the important factors in innovation and goalsetting, as well as organization culture and structure.

### **2.2 Innovation**

Innovation is a very old phenomenon, however in literature, innovation is a term that started appearing in the 1960's and the word itself holds a multitude of different definitions and approaches. That is why in this report, applying a very wide definition will best suit the purpose of what the research team wish to examine. The definition was made by the UK department of Trade and Industry which says that innovation is "the successful exploitation of new ideas" (DTI

1998). This definition best suits this report as it will explore to what terms goal setting can be used to invent and implement new ideas in processes, products and services in a company. According to Smith & Tushman (2005), innovation has become a crucial part for companies to stay competitive and become successful, especially with the world becoming more globalized and developing countries slowly entering markets all over the world that in turn leads to the competition becoming stronger. Likewise, Boer & Gertsen (2003) states that innovation is so essential that even if there are critical restraints on time and resources, innovation must take place.

### **2.3 Innovation management**

Park, Kim and Krishna (2014) tested three different management strategies and how they made an impact on organization-employee relationship. In addition, they researched how the organization-employee relationship could lead to improved motivation in employee innovation. Research and development are the common way of innovating, but innovation can additionally come through employees as they in their everyday work find issues which existing procedures, services and products. When employees come up with new, innovative ideas such as this, it is called intrapreneurship. If an organization can motivate the employee to partake in intrapreneurship, new ventures can rise from within. The three strategies the researchers used to test this was managerial receptiveness, employee empowerment and communication symmetry. The strategy where leaders are supportive by practicing open interactions with his or her subordinates are called managerial receptiveness. These leaders value contributions from employees and are good at setting appropriate goals. The employee empowerment strategy concerned sharing information about organizational performance and giving employees more

responsibility, such as letting them make important decisions in order for them to take ownership of their own job. Empowered employees appeared to be more satisfied with their workplace and supportive of the organizations' goals. As reported by Zhang & Bartol (2010), employees would devote themselves to the workplace, put in more effort, dedicate more resources and create more alternatives for the sake of solving work related issues and in general be more creative when they believed that they had a meaningful job, that they were empowered and that they had the abilities needed to accomplish the tasks at hand. Park et.al (2014) could conclude that empowerment of employees did have a significant impact on intrapreneurship in an organization as it promoted the employees' psychological ownership of the organization which improved organization-employee relationships. The last strategy, communication symmetry, requires creating an environment where honest and open communication can take place. This would promote a participative culture where both parties understand each other's point of view when communicating, both parties focus on building long-term relationships, and employees have favourable circumstances for dialogue and discussion on problems.

In the innovation management measurement review done by Adams, Bessant & Phelps (2006) they discuss how a company can measure how they are managing the innovations they are implementing as one of the issues that companies are struggling with is measuring the actual innovation they are doing. Adams et.al (2006) came up with a framework that consists of seven categories in which companies can measure their innovation management progress. The categories they mentioned in where innovation management can be measured are 1. innovation inputs such as human capital, physical and financial resources and tools, 2. knowledge management which means generation of ideas, flow of information and knowledge repository, 3. innovation strategy

consisting of strategic orientation and strategic leadership, 4. organization culture and structure, 5. portfolio management such as the balance between risk and return and optimal tool use, 6. project management which involves project efficiency, tools, communication and collaboration and lastly 7. commercialization consisting of market testing, marketing and sales and marketing research. The categories are important as they offer a way for managers to evaluate at what level of innovation their company is at, what areas has to be improved, and investigate if innovation is at all integrated throughout the company. Adams et.al (2006) could conclude that successful management of the innovation process and the surrounding factors did relate to the competitive innovative success of the organization.

## **2.4 Goal setting theory**

Goal setting is also a relatively new research field in science, with the first reports on this subject starting to appear in the late 1960's, but only really took off after 2000. Goal setting theory is rooted in psychology which can make it a more subjective topic as compared to innovation. When talking about "goals", this refers to wanting specific outcomes to happen in the future as setting goals suggests that one is unhappy with the current position and wish to reach a different position in the future (Locke & Latham, 2006). Goal setting theory is considered to be an "open" theory which basically means that when new discoveries are made, they are added to the theory. The theory of goal setting was inductively developed over a 25-year period and formed by about 400 field and laboratory studies in the industrial/organizational psychology (Locke & Latham, 1990). In those studies, it was found that harder and clearer goals lead to a higher level of task performance as compared to easy or unclear, abstract goals such as the expression to "do one's

best". It was proven to be a positive, linear correlation between the difficulty of goals and performance of one's task based on if a person would commit to the goal that he or she has set, has the essential abilities needed to reach the goal, and does not have other conflicting goals.

Locke & Latham (2006) lists eight categories of studies in goal theory that have advanced the theory and these eight categories are goal choice, learning goals, framing, affect, group goals, goals and traits, macro-level goals and goals and subconscious priming. Learning goals are goals that help someone gain knowledge or skills to perform a task and these types of goals are thought to strengthen metacognition. In surroundings where there is a lack of structure and management, metacognition is an important factor that helps a person in devising, track and evaluate their own goals and the progress they are making towards achieving them. Framing is a concept in psychology that involves comparing positive versus negative. It was found in study done by Drach-Zahavy and Erez (2002) that if a person has a negative view on a situation such as seeing it as a threat and focusing on failure, they had lower performance than a person who had a positive view and saw the situation as a challenge in which they focused on success and the rewards of putting in the effort. Group goals are goals set for a group of people, though one problem that can occur in these situations is conflicting goals. Nevertheless, group goals can enhance the performance of a group and better the team spirit as it improves knowledge sharing when members strive to achieve their goals. A study done by DeShon, Kozlowski, Schmidt, Milner & Wiechmann (2004) revealed that giving feedback to a group as a whole, resulted in more focus on the group's performance, whereas individual feedback made people focus only on their own performance. The

category goals and traits indicate that people have certain traits that makes an impact on the kind of goals they set, such as what has already been discussed above.

In order to establish how goals are being set, this report will look at a report written by Lee, Sheldon and Turban (2003) where they conduct a study to explain how performance and satisfaction are affected by personality traits as shown in figure 1 below. From this study, it became apparent that certain personality traits alter the ways people regulate themselves while working towards their goals. The authors use three different personality characteristics which are; the autonomy orientation, the control orientation, and the amotivated orientation. These personality traits are theorized to be the starting point for the ways people conduct themselves when working towards their goals, as they influence people's perceptions of themselves and their environment across different life domains. The disposition to pay attention and act on environmental cues for free choice of behaviour is the autonomy orientation, and in this orientation, people make their choices based on internal needs and desires. There are several positive elements connected to this orientation, such as internal locus of control, self-esteem and self-awareness and people motivated by this orientation are often less bored at work. The control orientation refers to an awareness of information related to constraints which means that people in this orientation often tries to meet the expectations of authority figures or the society around them. They generally find themselves controlled by others and become motivated by external rewards such as grades, money or fame. The amotivated orientation is associated with low self-esteem, depression, a tendency to devalue themselves and their achievements etc. Those who find themselves in this orientation is usually overly sensitive to signals that can indicate their own incompetence, and they regularly feel incapable of controlling extrinsic circumstances and occurrences, and their own emotional state.

Lee et.al (2003) goes on to explain what kind of goal setting patterns that these three orientations often have. People in the autonomy orientation mostly fixate on mastery goals that allow them to develop skills and master tasks. They are driven by internal rewards and find enjoyment in working towards their goals and attain a high level of satisfaction when the goals are reached. Because they are motivated by internal rewards, they often set higher goals and have a high mental focus where they absorb themselves in work for the sake of achieving their goals. In the control orientation, depending on how constrained they perceive themselves, people find themselves motivated by mostly external but also internal rewards. However, the internal awards can be different than those of the autonomy orientation as consequently, people in this orientation are motivated by rewards such as money, praise or avoiding punishment. They find themselves striving to appease authority figures such as parents and superiors or the society around them, and recurrently, sets goals that are based on performance. Such an orientation can lead to better mental concentration and enjoyment, but goals can from time to time be performance avoiding as people in controlling environments are not being rewarded for good work, but rather being punished for failure. Nevertheless, controlling environments are not just negative as being sensitive to external expectations helps motivating people to exhibit competence and channel their energy into more difficult goals. The amotivated orientation is the one that has the most negative effect on goal setting as people perceive themselves as not good enough to achieve anything. Setting easy goals in order to achieve them is a recurring happenstance in this orientation and in the study, it was found to correlate negatively with both goal level and mental focus. Lee et.al. (2003) concluded their findings by saying that leaders may be able to shape the behaviour of their employees, through training and coaching, in order to move them towards a more autonomy-oriented mindset.

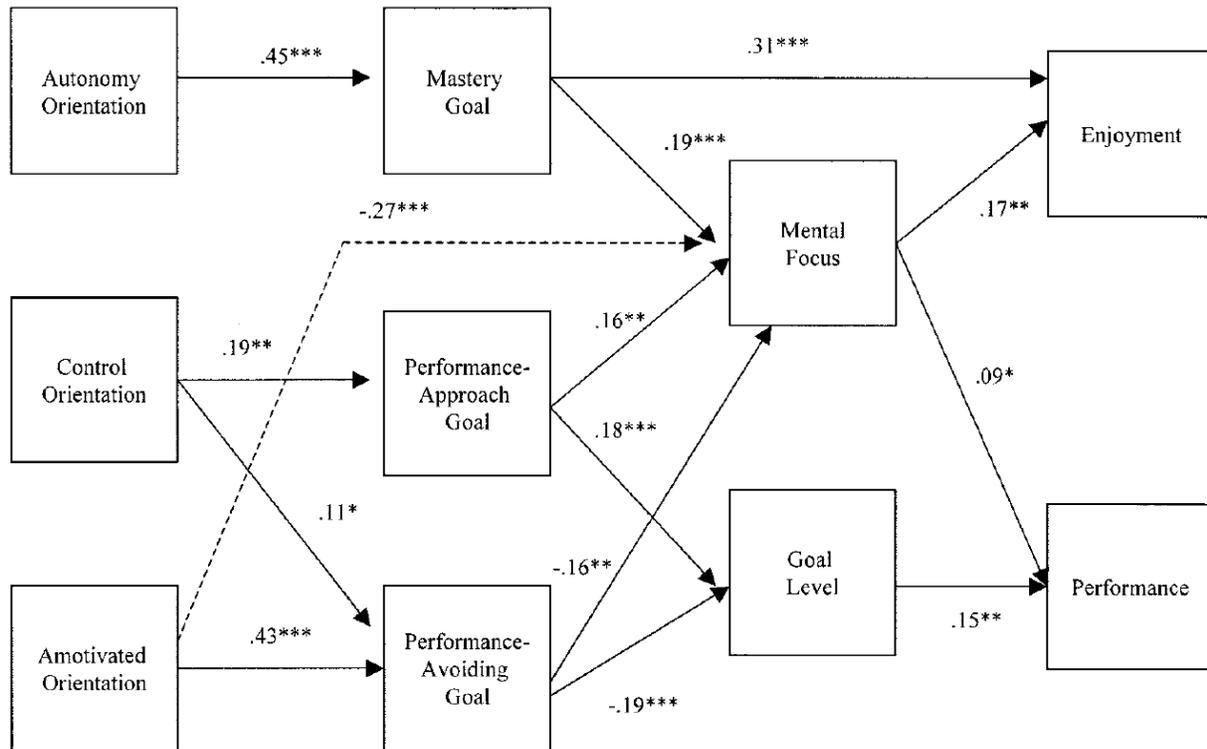


Figure 1: Findings from how personality characteristics, goal orientation, mental focus, goal difficulty, and work correlates. Source: Lee et.al. (2003), p.262.

## 2.5 Leadership

Innovation leadership studies have just recently started to emerge. Scholars have argued that in order to improve innovative performance, innovation requires a supportive environment (Zuraik & Kelly, 2019). These researchers recently released a report on the leaders' role in managing innovation through CEO transformational leadership, as it was previously very unclear how leadership and innovation climate was related. There are many obstacles in managing innovation, but the drivers often remain elusive and they wished to clarify if leadership was one of those drivers. In the report, the authors, demonstrates how CEO transformational leadership

impacts innovation. The first problem they tackle, is one about short-term, exploitation focus versus long-term, exploration focus on innovation. Leaders have a tendency of focusing on exploitation as it is more measurable, has lower risk and uncertainty, and is profitable in the short term, whereas exploration has a higher risk and more uncertainty. If a company wishes to aim for more exploitation innovation production, they can hire and train leaders at CEO level for transformational leadership. On the other hand, if a company wishes to aim for an exploration innovation production, they need to focus on cultivating the transformation leadership of the CEO, as well as creating a more innovative climate in order to support innovation.

Zuraik et.al (2019) raises the concept of innovation climate. Innovation climate is the perceived characteristics by employees, directly or indirectly, which influence their motivation and work behavior. Climate is seen as an essential element in the innovation process when it is supportive of creativity, rewards success, and allows for mistakes to be made without punishment. Climate is easier to change than the organization culture, as climate is perceived and culture is routines, traditions etc. which has been built up through time and takes time and substantial effort to change or evolve. The research team claims that leaders can indirectly influence innovative behavior and performance through creating a supportive climate. A climate can be changed through building teams, empowering employees, adding frameworks and tools to make it easier for people to be creative, opening communication channels to make it easier to advance new ideas, and encourage risk-taking, feedback and collaborations across teams and departments. At the end, they conclude that leaders who practice a transformational leadership style, do have an indirect and direct effect on innovation, but they also suggest that leaders need to balance a focus between exploitation and exploration innovation in order to foster innovation in the future.

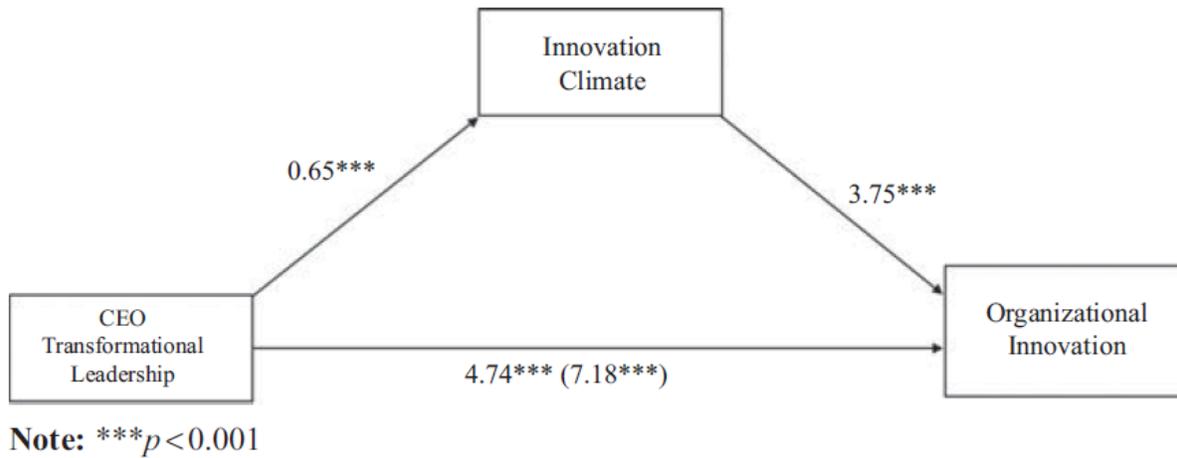


Figure 2: Transformational leadership’s direct and indirect effect on organizational innovation.

Source: Zuraik et.al (2019).

Supportive leadership has been found to be positively related with creativeness amongst employees while controlling leadership had the opposite effect (Amabile, Schatzel, Moneta, & Kramer, 2004). Likewise, Afsar, Badir and Khan (2015) conducted a study regarding innovation trust and found that employees would create more innovative ideas when they could trust their managers and co-workers support. They could make a connection between innovative work behaviour and employees when managers concentrated on person-organization fit and employees were well selected in the hiring stages. This means that leaders need to start in the hiring phases when they want innovation in their company in order to find people who has the same values as the organization. Employees were more likely to display innovative work behaviour when their personality, knowledge, skills and abilities match the requirements of the job they are performing and the organization they are working for (Afsar et.al, 2015).

## **2.6 Organizational culture and structure**

An organizational culture can be said to be the shared fundamental beliefs, values, assumptions, routines and traditions that contribute to the environment and the way a company conducts business. In the review regarding organizational culture and innovation done by Büschgens, Bausch, & Balkin (2013), it was determined that the optimized culture trait for an organization to be innovative was the developmental culture. This specific trait involved a preference for goals directed towards growth and acquisition, a focus on flexibility and willingness to adapt to change by having an external orientation. Such an organization would accumulate knowledge through resource acquisitions but also learn from interactions with customers, suppliers, research institutes and competitors. These organizations have a tolerance for risk and will encourage employees to create new ideas in order to deal with uncertainties and seizing new chances in the market. They could also conclude that a flatter structure in an organization would better contribute to the flexibility and innovation success whereas a very hierarchical structure could be detrimental to innovation. Another study done by Antoncic (2007) concluded that open communication, control mechanisms, and organizational and management support were organizational characteristics that could contribute to more creative and innovative employees. Organizational culture has grown over time and will therefore be time consuming and require a lot of effort to change. However, it is possible as mentioned by Zuraik et.al (2019), that CEOs can influence the climate, and over time, the culture of the organization by concentrating on explorative innovation.

## **2.7 Innovation and goal setting**

As mentioned earlier, innovation has become crucial for companies to stay ahead of competition and be successful in their respective areas. The article by Stetler & Magnusson (2014) looks at how goal setting can be used to achieve innovation as goal setting has already proven to be effective on performance and work motivation. Leaders can use goal setting in order ensure both explorative and exploitative innovation. Brun & Saetre (2009) discuss how ambiguous goals can further innovation as it leaves more room for interpretation and that employees will get more committed when they are allowed more flexibility than they are with clearer and instruction-based goals. Stetler et.al (2014) found through their research that goals used for exploitative activities were positively related to clarity and increased idea implementation, while explorative activities were positively related to ambiguity and generation of more novel ideas. They also discussed how some scholars argue that stretch goals can be exploited in order to change the ways that solutions are found. The reason behind this is that difficult or almost impossible goals creates a need for higher-level learning and will force people to discard their old ways of solving problems and seek new ways of thinking. When there are two different tasks at hand and the goals for each task are conflicting, it will lead to one task being negatively affected. Because of this, it is important to revise conflicting goals and make sure that one task will not suffer on behalf of the other which is one of the bigger problems that companies will have to overcome in order to keep the quality of their innovative activities up. Companies need to learn how to manage a dual perspective with both exploratory and exploitative activities even though it is very difficult to combine management models for both short- and long-term activities (Stetler et.al, 2014).

## 2.8 Summary of Literature Review

This report positions the definition made by the UK department of Trade and Industry that says innovation is “the successful exploitation of new ideas” (DTI 1998) at the center. Managerial receptiveness, employee empowerment and communication symmetry are all innovation management strategies that can be applied to an organization in order to encourage innovative activities (Park et.al, 2014). Innovation can be measured through the categories 1. Innovation inputs, 2. knowledge management, 3. innovation strategy, 4. organization culture and structure, 5. portfolio management, 6. project management, and 7. commercialization (Adams et.al, 2006). Goal setting theory is rooted in psychology which can make it a more subjective topic as compared to innovation. When talking about “goals”, this refers to wanting specific outcomes to happen in the future as setting goals suggests that one is unhappy with the current position and wish to reach a different position in the future (Locke & Latham, 2006). It has been found by Locke & Latham (1990) that hard, more specific goals lead to a higher level of task performance as compared to easy or vague, abstract goals such as the expression to “do one’s best”. Lee, Sheldon and Turban (2003) explain how performance and satisfaction are affected by personality traits. From this study, it became apparent that certain personality traits alter the ways people regulate themselves while working towards their goals. However, leaders might be able to influence these personality traits and steer employees towards a more autonomy orientated trait.

Zuraik & Kelly (2019) recently released a report on the leaders’ role in managing innovation through CEO transformational leadership. In the report, the authors, demonstrates how CEO transformational leadership impacts innovation directly and indirectly by creating a good innovation climate. They also state how leaders need to balance short-term, exploitation focus

versus long-term, exploration focus in relation to innovation. Supportive leadership has been found to be positively related with creativeness amongst employees while controlling leadership had the opposite effect (Amabile, Schatzel, Moneta, & Kramer, 2004). Likewise, Afsar, Badir and Khan (2015) conducted a study regarding innovation trust and found that employees would create more innovative ideas when they could trust their managers and co-workers support. In the review done by Büschgens, Bausch, & Balkin (2013), it was determined that the optimized culture trait for an organization to be innovative was the developmental culture. Another study done by Antoncic (2007) concluded that open communication, control mechanisms, and organizational and management support were organizational characteristics that could contribute to more creative and innovative employees. Brun & Saetre (2009) discuss how ambiguous goals can further innovation as it leaves more room for interpretation and that employees will get more committed when they are allowed more flexibility than they are with clearer and instruction-based goals. However, ambiguous goals will only work well in a developmental organization, whereas clear goals work well in a more controlled and hierarchical organization.

## **Chapter Three: Introduction to Objectives and Key Results (OKRs)**

### **3.1 Objectives and Key Results Background**

Objective and Key Results, hereafter called OKRs, is a goal setting method that was first implemented at Intel in the late 1970's, by the CEO at that time, Andy Grove. This goal setting method is split into two categories, the objectives, and the key results. The thought behind the OKR method is that it should be very simple and measurable. Doerr (2018b) explains the starting point of this method, what OKRs are and how to set them in his recently released book "Measure What Matters". The objective will show the direction you want to go with your goal, it will show WHAT you want to achieve. To be ideal, the objective should be ambitious to the point where you might not reach it, it has to be meaningful, concrete and action oriented. Objectives should be short, inspirational, and provide motivation and challenge to the organization, team or individual working on them. If the objective is too long to memorize, it has been set in the wrong way. Key results are the means of going in that direction, HOW you aim at reaching your objective. Key results have to be measurable for the OKR method to work, they can also be a bit difficult to reach. If you complete your key results a 100% every quarter, they were probably too easy. On the other hand, achieving even just partial completion of the key results must lead to achieving the objective even if it means only to a certain percentage. The OKR method provide clear goals, but the methods on how to reach the goals are up for interpretation.

One of the main points of the OKR method is to stay focused on your goals, that is why when setting OKRs there should be about 3-5 Objectives, and each Objective should have 3-5 measurable Key Results each. Castro (2018a) specifies that in order to stay focused, it is important

not to set too many Objectives and Key Results. OKRs are not supposed to be a to-do list, but rather shine a spotlight on the top priorities for the period it was set in. He also explains that OKRs should not be tied to compensation for the very reason that OKRs are a management tool and not a tool that should be used for employee evaluation. One of the thoughts behind OKRs is that it should inspire people to work harder and take risks, however it is known that the goals might not be reached every period. Tying OKRs to compensation would work against that and people would start setting their OKRs lower in order to reach them each period, and in turn, the hard work and risk taking would be dampened.

Another idea behind the OKR goal setting method is alignment and this is done through transparency, communication and shared OKRs. Having a transparency and open communication in the organization makes it so that everyone can see each other's OKRs and align their goals compared to others (Castro, 2018a). The company will have a few OKRs and then it is important that every department have OKRs that align with the overall company OKR. Team OKRs will align with department and company OKRs, and every employee will have OKRs that align with the team, department and company OKRs. That way, everyone in the company will be working towards the same goal, they can see each other's goals and how far everyone has reached their goals. However, this alignment does not just cover the vertical part but also the horizontal part of a company. Maybe one team in one department discover that they are working towards the same OKR as another team in another department. When this discovery is made, those two teams can come together and collaborate in working towards their OKR.

To show what OKRs look like, let us have a look at an example: O: Implement the usage of OKRs in the company. KR 1: Have a meeting with all teams to introduce OKRs and the OKR software. KR 2: Get to know the software system and how to configure it. KR 3: Have everyone update their first OKRs into the software within the first two weeks.

### **3.2 Time Frame of OKR**

There is an optimal OKR cycle and timing for how they should be set. Before the beginning of each new year, around November, a set of annual and first quarter OKRs for the company should be set. This is done by the top executives, but they create the OKRs out from feedback that are given by employees. Right before the year starts, the company-wide OKRs for the first year and first quarter should be communicated out to the employees. At the beginning of January, teams should set their own OKRs and communicate these throughout the company, and a few days into January, the individual employees do the same. Along the way it is important to always track the progress of how far everyone has gotten with their OKRs for example by holding weekly meetings. In between February and March, the brainstorming session for next quarters OKRs begin. At the end of March, everyone will look at their OKRs, evaluate how well they did and score their OKRs. At the same time, the OKRs for the next quarter is set and communicated. This cycle repeats itself every quarter and every year for the company (Doerr, 2019).

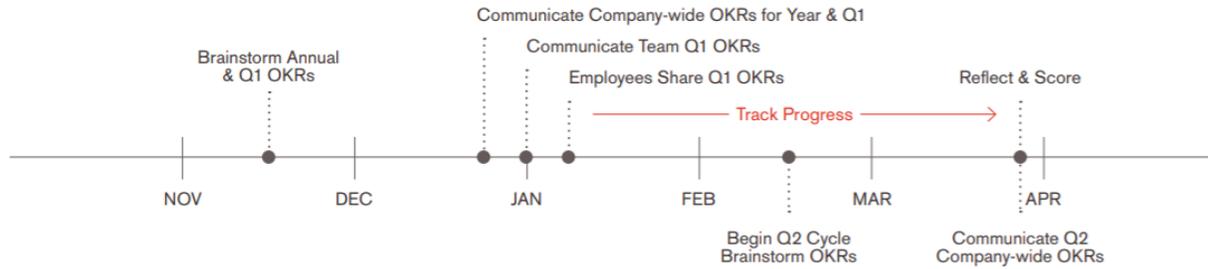


Figure 3: The OKR timeline. Source: Doerr (2019)

### 3.3 Uniqueness Compared to Other Methods

There are several differences that separates the OKR method from other goal setting methods. Castro (2018a) lists several of the elements that are unique to the OKR method which are first and foremost the grouping as one O has several KR's which are all measurable and has a set time frame. OKRs are simple and easy to use, they limit the amount of goals to focus on and because of the quarterly time frame, they are very agile and can be adjusted according to internal or external change that might occur. OKRs can be set annually, quarterly and weekly depending on the preferences of the company, some even set 6 month and 6-week OKRs, which makes this goal setting method very flexible as it can be adapted to the company's preference.

OKRs link the company, departments, teams and individual employees through communication and transparency whereas in other companies, one department might not have any idea what other departments are working on. Another thing that separates OKRs from other goal setting methods is the difficulty of the goals, as they should be challenging but not impossible to reach which is the reason why they are not tied to any salary and bonuses, as that would work

against the purpose of this goal setting method. OKRs do not follow the traditional bottom-down direction and are often set through communication between teams and executives.

### **3.4 Disadvantages and Common Mistakes in the OKR Method**

The OKR method is not without its flaws and there are some disadvantages and mistakes that are commonly found when people try to use this method. One of the disadvantages is that the key results have to be measurable which can be difficult for some organizations and many mistakenly set key results that cannot be measured. When using the OKR method, do not set too many objectives or key results as it will spread resources and focus, and finding a good balance between attainable and challenging can be difficult at first. This method can take a few tries in order to get it right. OKRs are supposed to show your top priorities, it is not a to-do list but the results of what has been done. OKRs have to be set in plenum and not just by the top management, setting OKRs without proper communication between teams, departments and management both beforehand and during execution will not make the company more aligned. OKRs have to be integrated into the company and be properly used for them to have any value. Just setting OKRs and forgetting about them will not make a change, which is why this method need strong leaders to set examples and advocate for it. Some have mistakenly used OKRs in their evaluation of employees, this is a common mistake and works against the purpose of the OKR method. There are several ways of using OKRs, just copying Intel or Google will not ensure success, their ways of using OKRs is not universal which is why it is important to find a way that suits the organization they are being implemented in (Castro 2018a).

## **Chapter Four: Methodology**

### **4.1 Methodology**

This report will make use of a qualitative research method. The research team will conduct a comparative case study between three companies, Intel, Google and Amazon and explore how they use OKRs in their organizations. The reason for choosing these three cases to study is that these three companies are all well known for being innovative and they are all known to be using the goal setting method of Objectives and Key Results. The aim is to do a comparison in order to see how they are using OKRs and assess what we can learn from them. Data gathering will be done through a collection of secondary data that already exists on the companies due to limited time and because studying these companies in person is extremely difficult considering location, access, and the sheer size of the organizations.

### **4.2 Theoretical Framework**

The relevant literature also acts as a basis for the theoretical framework that this report will work around. The framework is shown below in Figure 3. This framework continues to build on the framework made by Zuraik et.al (2019) and the thought behind it is that in an organization, there is already an existing organizational culture and organizational structure in which leaders are either hired into, or trained up through. Leaders then use goal setting as a tool to directly reach innovative success, or indirectly by setting goals that will improve the innovation climate to advance innovation success. This framework only works in an existing organization. If it is a new start-up company, the founders would be the ones to form the organization culture and structure

based on what kind of company they want to build. In the cases chosen below, the companies all existed before goal setting came into the picture though two of the companies were very young. That is why this framework applies to this report. In order to investigate if this framework is correct and if it can be applied to existing organizations, we will conduct a case study in chapter five.

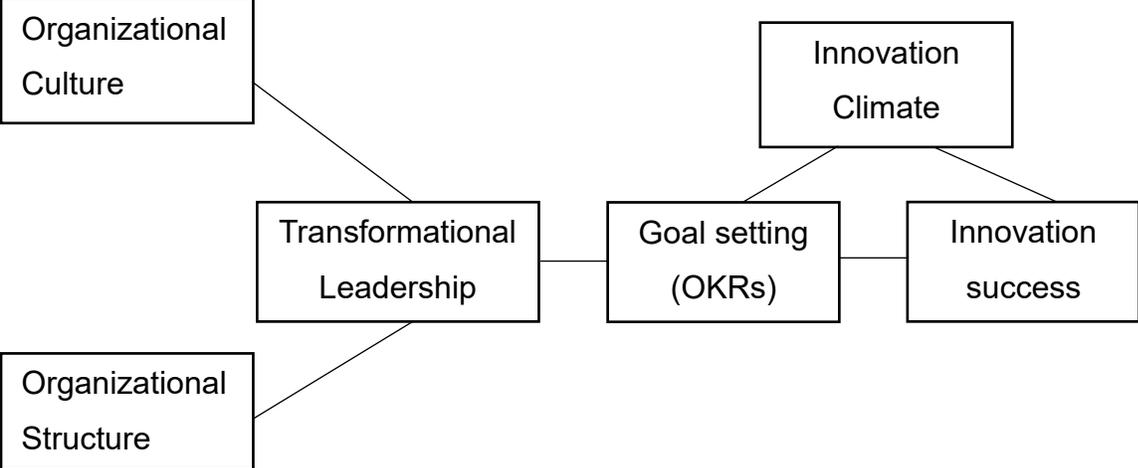


Figure 3: Theoretical framework

### **4.3 Hypothesis**

The below hypotheses have been formed by going through the relevant literature on innovation and by making the conceptual framework as shown above.

H1: Transformational leadership is strengthened by organizational culture and structure.

H2: Transformational leadership can use goal setting through the OKR method in order to directly influence innovation success.

H3: Transformational leadership can indirectly influence innovation success by creating an innovation climate.

## **Chapter Five: Case Studies**

### **5.1 Case Studies Background**

In order to evaluate if OKRs can be used for companies to become more innovative, a case study will be conducted where in order to take a look at three companies that are considered to be innovative companies and that has also confirmed that they use the OKR goal setting system. These companies are the microprocessor giant Intel, technology and internet-service provider Google, and the customer centered, e-commerce company Amazon. This chapter examine the company's history, how they were introduced to OKRs and the key persons in carrying the OKR system out, how they are using the OKRs and what we can learn from them. The companies all have a different approach to OKRs and are good examples of how OKRs can be exploited to get the best out of a company as will be further examined below.

### **5.2 Intel**

#### **5.2.1 Company History and Background**

Robert Noyce and Gordon Moore founded Intel in America on July 18, 1968, but under the name NM Electronics. Later on, they purchased the rights to the name "Intel" which comes from combining the words integrated and electronics. Intel started out by producing and selling semiconductors and memory chips. Today Intel has become a multinational technological corporation, mostly known for their high-quality processors, and with headquarters located in Silicon Valley, Santa Clara, California. Their organizational structure is divided into product type divisions, functional groups and geographical divisions. All of these follow the same strategy and

are optimized to maximize innovative activities at Intel. This kind of structure makes it highly effective, but it also limits flexibility when it comes to regional differences (Rowland 2018). In addition, Intel has optimized their organization culture to be a meritocracy that values employee ability and risk taking. Employees are encouraged to bring new ideas to the upper management for consideration (Rowland 2017). Right after the company was founded, Noyce and Moore recruited Andrew “Andy” Grove which later on ended up serving as a chairman and CEO for the company. Intel is widely associated with the executive leadership and vision of Andy Grove, who is also the person that introduced the company to the OKR goal setting system (Hall, 2019).

Andy Grove helped get the early manufacturing operations started when he joined Intel as the company’s director of engineering. In 1979, Grove was chosen as the president, and in 1987 he became the CEO. The centre focus of his leadership style was what he called Objectives and Key Results (OKRs). Grove later went on to become the chairman of Intel in 1997 and the same year he was named as Time’s Man of the Year for being “the person most responsible for the amazing growth in the power and the innovative potential of microchips”. In May 1998 he gave up his CEO title, though he still remained chairman of the board until November 2004. Grove is considered to be one of the greatest CEOs of his area and the father of OKRs (Doerr, 2018a).

### **5.2.2 Intel's Exposure to OKRs**

The history of OKRs start in November 1979 when the senior management at Intel was made aware of the fact that their biggest competitor, Motorola, had launched their new and easy to use microprocessor, and was therefore wiping the floor with Intel's own microprocessor. This set of an alarm at Intel which cascaded into a chain of events. Within two weeks, the executives had met and a task force had been allocated to find a solution to the threat of Motorola. Andy led the charge against Motorola and, within just one month, by supportive help of the top management of Intel, they managed to reset the company's priorities. They made a nine-part program which included overhauling the marketing campaign to play on company strengths. In addition, they worked on steering customers towards seeing the value of long-term systems and services instead of short-term (Doerr, 2018a). Just a week after the nine-part program had been approved, the strategy was out to the sales force. They used OKRs to align the company with their strategy and with transparency and accuracy, executed it at warp speed. The entire company shifted direction and worked towards the same goal and Motorola never stood a chance against the unified Intel.

### **5.2.3 Application of OKRs**

At the point when this change happened, Intel was already huge and almost a billion-dollar company, but still it managed to turn their strategy within a few weeks. When the OKRs were introduced, everyone in the company was clear about the objective that they had to work towards and what their colleagues were working towards. The clear key results encouraged thoroughness, but no one was punished for not meeting their goals as objectives were overly ambitious. Key

results and compensation were not tied to each other, which resulted in employees taking more risks in order to achieve their goals, but avoided cutting corners in order to do so.

Grove created a culture of honesty and loyalty which bound the company together in crisis and continued to exist ever since. This is what OKRs can do for a company. When in a crisis, the OKR system can drive transformation at lightning speed as it unifies the entire organization (Doerr, 2018a). Intel has continued to use OKRs ever since and their microprocessors can be found in computers all over the world. They managed to crush all competitors, and has continued to excel in the microprocessor field with very few setbacks. Intel ranked as number 47 on the Fortune 500 list of the largest American companies in 2017 (Hall, 2019)

#### **5.2.4 Analysis of Intel through Theoretical Framework**

When Intel implemented OKRs back in 1979, they had the strong leadership of Andy Grove to strengthen the impact this system had on the organization. Back then Grove had already built an organization with open communication and fierce loyalty which could be reason why this method was so successful. Since then, Intel has continued to build a flatter organization structure with product types in the middle and a culture where innovation and new ideas is encouraged among the employees. It could seem like having a structure and culture with open communication makes it easier for leaders to implement and use OKRs.

Intel definitely succeeded in their battle against Motorola, and OKRs did contribute to change the way they did things internally in the company. Changing processes in a company would be considered to be a successful innovation. In addition, Intel has continued to build their organization to focus on innovation ever since, which could also support the framework as OKRs can be used to change the innovative climate in a company. Overall, the framework applies to Intel and the way they used OKRs to crush the competitor Motorola and how they have continued to build their organization up until this day.

## **5.3 Google**

### **5.3.1 Company History and Background**

Google was founded in 1998 by Larry Page and Sergey Brin and started out with their initial product, Google Search. Their mission was to gather all the information in the world and make it accessible to everyone. The name Google is a variant of the word “googol”, which suggest very large numbers. In August 2015, Google reorganized itself and is now a subsidiary of a holding company called Alphabet Inc. Services such as YouTube, Android OS, internet search, advertising, apps, and maps, remains under Google. There are several separate Google ventures as well, Nest, a home products company, Calico, a longevity research company, and the research lab Google X are all individual companies under Alphabet.

Google has built a cross-functional and flat organizational structure which is product-based and function-based. The structure emphasizes change and innovation, and collaboration across teams and departments. To support their organizational structure, they have created a culture which is open and innovative to allow for idea generation and idea sharing amongst employees (Smithson 2019). Google started out in a garage and moved their way upwards; it is now considered to be one of the most influential companies in the world (Hosch & Hall, 2018). As of 2019, the holding company Alphabet had over 100.000 employees, and even though Google has a wide range of products in its portfolio, they confirmed that 85% of their revenue still comes from advertising. Google handles over 70% of the worlds search requests, so it is not hard to understand how the revenue could be mostly from advertising (Fiegerman, 2019).

### **5.3.2 Google's Exposure to OKRs**

Within a year after founding, John Doerr, which is an investor, introduced them to OKRs. Google took to the OKR system pretty much immediately and has been using it ever since. John Doerr is an American investor and venture capitalist that started his career at Intel as a salesperson in 1974. In 1980, he went on to join Kleiner Perkins which is a company that work with venture capital. He still works there today and is considered to be one of the most successful venture capitalists of all time. Doerr has invested in companies such as Google and Amazon and introduced them to the OKR goalsetting method. In 2018, Doerr released his own book named Measure What Matters, which is a book about the OKR goal setting method. In his book he reveals how OKRs has helped companies such as Intel and Google to achieve explosive growth, and how it can be used to help an organization grow and thrive. Doerr became a board member of Google when he invested in the company and is still a board member to this day (Loizos, 2015).

### **5.3.3 Application of OKRs**

Google started using OKRs in 1999 after being introduced to this goal setting method by John Doerr, and it was immediately a hit. The reason behind this could be because OKRs are data which suits the data gathering company well. Instead of just qualifying what it was they were working on and how well they were doing, OKRs gave Google access to a way of quantifying this information. Google has their own approach to OKRs, and uses a colour scale to measure how well they do with their OKRs. 0.0–0.3 is red, 0.4–0.6 is yellow, and 0.7–1.0 is green. Google uses two variants of OKRs, committed and aspirational and for Google it is important to differentiate between them. The committed variant are OKRs that leader and teams or employees agree will be

achieved, and in order to achieve these, they are willing to adjust schedules and resources to ensure success. For a committed OKR, the expected score is 1.0 and anything less than 1.0 requires in-depth explanation why it was missed as it displays miscalculations in the planning and/or execution phase. Aspirational OKRs on the other hand, express how Google would like the world to look, even though they have no clear idea how to get there and/or the resources necessary to deliver the OKR. For aspirational OKRs it is understood that 70 percent achievement (on average) is considered a success since they do not want their employees to strive for greens on every OKR as that would not be stretching themselves far enough (Google, 2019). Employees have one-on-one conversations with their leaders at the end of every quarter and beginning of the new quarter, however, OKRs are not a standard element in the annual performance review cycle for the same reasons that have been mentioned earlier in this report.

Some products that have come from OKRs are Gmail and Google Chrome. Gmail was initially an OKR to make a previous program better, but ended up becoming its own product. The specific objective when Chrome was launched was “develop the next-generation client platform for web applications”, and their main key result was “Chrome reaches 20 million seven-day active users” (Doerr, 2018b). At Google, everyone’s OKRs are public within the company, even Larry and Sergey’s. Google uses a computer system called Moma. In Moma you can go in and search for any employee in the company. There will be a link to their OKRs right next to details such as their cell phone, email address and title. Moma will show what they are working on this quarter and their grades, as well as what they were working on last quarter, and any quarter before that (Yarow, 2014). According to Wojcicki (2011), Google prefers to start small with an innovative idea and then continue to make it better bit by bit. She also claims that Google’s most brilliant ideas

come from the open communication they have in the organization and that because the tech industry is so dynamic, they need to continue to take risks or get left behind. The Google executives credit a major portion of their success to OKRs and OKRs has helped Google go from a small start-up company to become one of the biggest in the world. By using OKRs up through the ages, it has now become a part of the company culture.

#### **5.3.4 Analysis of Google through Theoretical Framework**

Google has the flattest organizational structure out of the three case studies which makes communication and information flow very easy. The structure has been created to improve change and innovation, and collaboration across teams and departments by being cross-functional and using divisions that are product-based and function-based. They even built a culture to support their organizational structure. This culture is open and innovative to allow for idea generation and idea sharing amongst employees. The leaders at Google have a strong structure and culture to support them when they set OKRs, and Google has been successful with this method ever since they started using it in 1999 and it has already led to several innovations such as Gmail, Google Chrome. From Google it is clear that the structure and culture has to be groundwork backing leaders up to create a good and open environment for innovation where employees are encouraged to participate. Google has created their own way of using OKRs that works for them, and they are able to motivate employees and create a climate where innovation happens.

## **5.4 Amazon**

### **5.4.1 Company History and Background**

Amazon was founded by Jeff Bezos on July 5, 1994 and is an American multinational online retailer, based in Seattle, Washington. Some of the areas that Amazon is focusing on are e-commerce, cloud computing, and artificial intelligence. Amazon's goal was always to become a store who sold everything, but they had to start small. Because of this, they decided to start as an online bookstore as books as a product is the same everywhere, except for language, and are easy to sell (Stone, 2013). Amazon has built a functional organizational structure that enabled managerial control in order to support their augmenting market reach. This structure global function-based groups, global hierarchy, geographic divisions which allows for more support when Amazon launches their products in new markets and continues to diversify their operations (Meyer 2019). The organizational structure of Amazon is a bit more hierarchical than Intel and Google, however they still encourage employees to take risks, explore new ideas and make bold bets in order to innovate on behalf of their customers (Meyer 2017). In the United States, Amazon is the second largest employer, and by revenue, Amazon is now the largest internet company in the world. Amazon managed to surpass Walmart's market capitalization in the United States in 2015 and became the most valuable retailer in the country. As of December 31, 2018, Amazon employed around 647,500 full-time and part-time employees so there is no denying that they have been a successful company over the last few years (McCracken, 2019).

### **5.4.2 Amazon's Exposure to OKRs**

As with Google, Amazon was introduced to OKRs through the venture capitalist John Doerr after he made an investment in Amazon in 1995. Doerr's name was famous in the venture capital world at that time and Bezos actually declined better offers just so he could get Doerr on board. We do not have the exact time for when Amazon started using OKRs because they are more secretive about it, but it is safe to say that it was around the time Doerr made his investment. Doerr stayed at Amazon as a board member until 2010 when he was unfortunately forced to withdraw due to the fact that he was also a board member at Google. At this time, Google and Amazon were starting to overlap in each other's market segments and gradually becoming competitors which ended up being a conflict of interest for Doerr (Loizos, 2015).

### **5.4.3 Application of OKRs**

Amazon is a bit more secretive about how they use OKRs compared to the other two companies, but they do talk openly about their overall goals for the company. In the letter to shareholders written by Bezos, their goal is to be the earth's most customer-centric company. In this they are guided by four principles: customer obsession rather than competitor focus, passion for invention, commitment to operational excellence, and long-term thinking. Amazon is aiming at extending their current position while also beginning to pursue online commerce opportunities in other areas. Amazon has also set themselves goals in order to reduce food waste and carbon footprint. In addition, they have set diversity goals which refers to gender, racial, and ethnic diversity (Amazon, 2019). Amazon focuses on long-term goals and these goals are based on what will not change in the future which according to Bezos are; more products, cheaper and faster. The

reasoning for focusing on something that they know will not change, even in the long run, is that they can afford to put a lot of energy into it. (Castro, 2018b). Amazon focuses on using nested cadences of OKRs in order to reach their long-term goals. Nested cadences of OKRs separates the long-term strategy of the company from the quarterly tactics they use. See figure 4 below as for what that looks like.

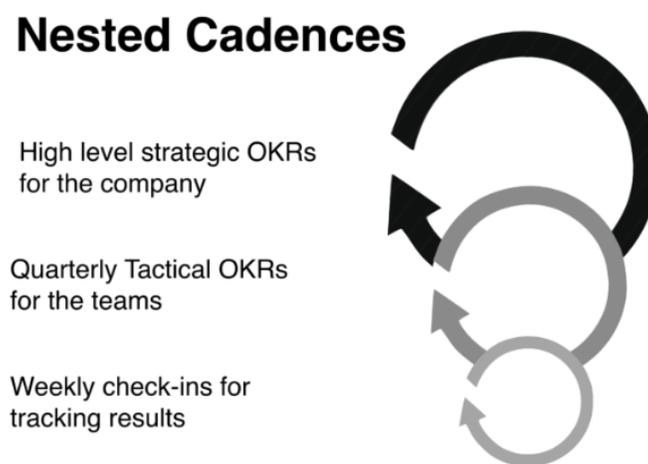


Figure 4: Nested cadences of OKRs. Source: Castro 2018b.

From the beginning of the company, Amazon aimed at building a culture of builders. This means that they want to hire and train people who are curious explorers and who like to invent. Furthermore, they want employees to see the way they do things as just the way they do things right now. These builders would gain a mentality where they are humble and know that the path to success is not straight, and in order to approach opportunities they would need to invent, launch, reinvent, relaunch, start over, rinse, repeat, again and again. In order to recruit these sorts of people, Amazon supports several education programs for elementary, high school, and university students

where the most excellent students often are hired at Amazon after graduation. Likewise, they have a veteran program where military veterans get reschooling in order to be employed at Amazon (Amazon, 2019).

In addition to the builder mentality, Amazon is aware that the scale of their failed experiments will grow according to the company size. According to Bezos, if a company's failures do not grow, they are not inventing at a scale that will make any difference. He is intent on experimenting at the correct proportions for a company of Amazon size, and aware that from time to time, there will be multibillion-dollar failures. They will not undertake these experiments blindly and will do the work needed in order to try and make it a success, but not all good experiments will pay out in the end (Amazon, 2019). Another thing that separates Amazon's take on OKRs from Google and Intel is that they are extremely customer centric. They want all their employees to listen to the customer's needs and wants and work backwards from there, invent on the customers behalf in order to create value for them. This means that OKRs set in Amazon comes mainly from the bottom-up, but it starts as far down as the customer. Valle (2019) recently announced that Amazon is now going to start rolling out their new one-day delivery system that they have invested more than \$800 million into.

#### **5.4.4 Analysis of Amazon through Theoretical Framework**

Amazon has the most hierarchical organizational structure out of the three cases, but it is still flatter than what we would consider a hierarchical structure to be. Amazon has to keep this structure because they are so large and spread over a large geographical area and because they are still trying to expand their market reach even more. This expansion needs a managerial control divided into global function-based groups, global hierarchy, geographic divisions that allows for the needed support that Amazon require when launching products in new markets. Amazon still has a culture that encourage employees to partake in innovative activities and take risks, explore new ideas and make bold bets in order to innovate on behalf of their customers. When the company is as large as Amazon, it is even more important for them to stay aligned in order to achieve their goals, and this is what OKRs help them do. Amazon continues to innovate, especially on their delivery processes and the OKRs have helped them do this. They have a structure and a culture that helps their managers execute their plans, and they are using OKRs to succeed with innovation in the company.

#### **5.5 Summary of Main Points**

So, what can be learned from the way these companies use OKRs. Intel was a very large company at the time when they started losing to Motorola. OKRs helped Intel in several ways through this crisis by making the path ahead clear and focusing the attention of the entire company on that path. OKRs have been given the credit for Intel's success, especially in their victory against their biggest competitor, Motorola. However, it is unlikely that they would have been as successful without the stern leadership of their leader, Andy Grove. With the Intel case, it is clear that OKRs

can drive change even in a large company, if the forces behind the change is strong enough. For Google, OKRs might not have been as effective without the open communication of goals throughout the company. They have also created their own version of setting OKRs through the committed and aspirational versions of OKRs. Amazon are using the nested cadences of OKRs and focus a lot on training and hire employees that fit the criteria of the organization. The OKRs at Amazon are set from the bottom-up and are mainly customer centric.

## **Chapter Six: Analysis and Conclusion**

### **6.1 Analysis of Findings**

The literature tells us that setting goals can lead to a better mental focus directed towards the task at hand and the intention behind OKRs is exactly that, to help a company fixate on and align the goals of the company. The case studies show that this is mainly how OKRs are being used in the companies that are practicing the OKR method. Intel was able to turn the whole company around on a dime, Google has been able to build themselves up from a garage into one of the biggest companies in the world, and Amazon has used goals to become one of the world's most customer obsessed companies. From this it is safe to say that narrowing your attention to the task at hand will indeed make it more likely to become a success. The literature tells us that OKRs might not work well in hierarchical companies where information management and communication are very closed. We have seen from the cases that they all practice open communication and that the company culture has an impact on the efficiency of OKRs. All the three companies that was studied in this report has a structure and culture that supports their leaders and that are helping them making successful innovations. These companies use OKRs to help them track and monitor their progress, however, they all have different ways of using OKRs. These companies allow for employees to wander and explore, encourage them to take risks and be inventive, and accept that failure is a part of growing. Amazon is the company who mostly focus on exploration and long-term innovation and even set their goals long-term. Both Intel and Google are somewhere in between, trying to find a balance between long-term and short-term innovation. We have seen that OKRs can support both these types of strategies and can be set for both, so let us move on to the conclusions we can make from what has been found in this report.

## 6.2 Conclusion

This report has explored how transformational leadership is influenced by organizational structure and culture, and how leaders can use OKRs to directly and indirectly influence innovation success. What we can conclude from the case studies is that OKRs can not in itself lead to innovation, but has to be used as a management tool that can help contribute to innovation as it helps align the company and the goals provide a clearer focus on what is important. It is safe to say that organizational culture and structure do have an impact on leadership and that transformational leadership can only be practiced if the structure and culture provides support for it. From this, we find that the first hypothesis proves to be true as transformational leadership will be strengthened and easier to exhort when there is a structure and culture in place that encourages it. H1: Transformational leadership is strengthened by organizational culture and structure. This is very clear especially in the Amazon case where they have more hierarchy because of how far the company reaches around the globe. They still have open communication culture and the structure was made specifically to grow further.

What we see in all cases is that leaders are encouraging employees to stretch further and take more risks to innovate more. The OKRs are not tied to salaries or promotions and this influences risk taking and setting ambitious goals positively as failure will not be punished. Additionally, feedback is given regularly and everyone can see each other's OKRs which makes it easier to collaborate across the organization no matter what department you are in. This shows that our second hypothesis has been shown to be true as well. H2: Transformational leadership can use goal setting through the OKR method in order to directly influence innovation success. When looking at the case of Intel, we saw how one leader managed to gather the support of his managerial

team and turn the company around on the dime. This is the biggest proof we have that a leader can create an innovative climate in a company to indirectly influence innovation success and with that, the third hypothesis also shows to be true. H3: Transformational leadership can indirectly influence innovation success by creating an innovation climate. We have less evidence of this from Google and Amazon as they were small companies when they started using OKRs so they could shape their culture to become supportive of innovation from the start. Overall, our hypotheses have been confirmed through the case studies though there might be some limitations, which leads us to the final part of this report; limitations and future research.

### **6.3 Limitations and future research**

There was a limited time frame for literature and data gathering, and therefore, other existing literature and data might contradict the findings of this report. The companies that have been studied all originated in the U.S.A., which is a limitation as it does not cover companies from other countries or cultures in this world where OKRs might not work as well. They are also considered to be technology companies, so the findings might not apply to other types of companies. This report uses secondary data to build cases which could be a weakness as the authors will have to be the judges of what is relevant secondary data. For researchers who have the opportunity, they should go into each company and gather primary data in order to make a case study.

In this report the focus has been on existing companies that already have an organization structure and culture. It does not take into consideration how a start-up company can exploit OKRs in order to build their organization, including the structure and culture which is one of the fields that should be further researched. Another field that is not considered in this report is how different types of leadership styles and organization cultures could affect the impact that goals have on an organization. One more additional limitation is that there might be other goal setting methods that could be more effective, but in this report, OKRs are the center point. Finally, there might be other tools than can lead to innovation success that has not been covered in this report. Further studies on how innovation can be advanced should be conducted.

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