

ABC TECHNOLOGIES, INC. LINKING ACTIVITY-BASED INFORMATION TO THE SCORECARD

My first responsibility when I joined the company was to coordinate the disparate parts of the business. I wanted a management process that would get everybody heading in the same direction, work in a small company, and be scalable upwards as the company grew rapidly.

Mohan Nair, President and Chief Operating Officer

The scorecard is a way to sharpen our focus as well as create new opportunities with our customers. It will improve our growth and profitability by expanding the market for our products and through internal changes.

Chris Pieper, Chief Executive Officer

Background

ABC Technologies, Inc., was the dominant company in the worldwide market for Activity-Based Costing (ABC) solutions. The company earned revenues of close to \$25 million in 1999, and revenue growth averaged 45 percent a year over the most recent five-year period.

ABC Technologies was founded in 1989 by two engineers, Chris Pieper and Scott Gilmour, after learning about Activity-Based Costing from professor Peter B.B. Turney in the University of Oregon Executive MBA Program. ABC was a tool for accurately measuring the cost of activities, products, services, customers, market segments, and other business elements.

The plan was to create business modeling software using the ABC method, which would allow decision makers to incorporate accurate and relevant cost data into their decisions. Pieper and Gilmour believed they could successfully apply their prior experience in modeling electronic components to the emerging field of activity-based costing.

At the time the company was founded, ABC was in its infancy. The tool had been popularized by academics, but it was not yet widely used in business. ABC Technologies was the first software company to enter the ABC market, and its sales program devoted considerable effort to educating customers about the economic benefits of ABC.

The experimental phase of the ABC market ended in 1993, when managers and executives concluded that ABC was not a fad; rather, it was a valuable business information tool. This perspective created rapid growth in the demand for ABC software and allowed ABC Technologies to leverage its dominant market position into rapid sales growth.

By 1997, the market for ABC solutions had grown to about \$50 million worldwide. Primary competition came from niche software companies like Armstrong-Laing and Sapling. There was substantial diversity in the market, however, with some customers choosing to build their own tools, using spreadsheet or database software, and some of the large consulting firms—including KPMG and PriceWaterhouseCoopers—creating their own software for use with clients. The large software companies had not entered the ABC software market prior to 1997, believing the market to be too small to justify the required investment.

This situation changed in late 1997 when SAP, PeopleSoft, J.D. Edwards, and other large vendors of Enterprise Resource Planning (ERP) systems announced their intention to enter the ABC market. The change was driven by the increasing size of the ABC software market and by pressure from customers to transform their information systems from data warehouses to decision support systems.

At the same time, large software companies that provided business information analysis tools—like Hyperion—also entered the ABC market. Their entry into the ABC market reflected not only a belief that ABC was the enabling technology for the rapidly emerging market for business information but also their desire to compete with the large ERP vendors. ABC Technologies estimated that the entry of ERP and other vendors would help increase the market for ABC solutions to over \$250 million by the year 2002.

The rapid convergence of these markets led to a restructuring of the ABC software industry, which involved partnerships and acquisitions among ERP vendors, ABC software companies, and the decision support companies. J.D. Edwards announced a partnership with Armstrong Laing; PeopleSoft acquired the ABC solutions unit of KPMG; Oracle acquired the Activa ABC software from PriceWaterhouseCoopers; and Hyperion acquired Sapling.

In September 1998, ABC Technologies announced a partnership with SAP, the largest ERP vendor. This partnership, which included SAP taking an equity stake in ABC Technologies, involved the development of “bridges” to link the ABC Technologies software to SAP’s R/3 system. A second partnership with SAS, the leading supplier of business information software, was announced in mid-1999.

Despite the turmoil in the marketplace and a decline in the growth rate of ERP and decision support vendors, ABC Technologies continued to grow rapidly. Chris Pieper commented:

Our competitive advantage is our knowledge of the space we occupy. This knowledge comes from our large community of users. It is hard for an Oracle or a PeopleSoft to come into the market and match this. With this knowledge, we have the opportunity to expand our space and provide our customers with everything they need from our suite of products and services. This strategy should allow us to grow rapidly for many years to come.

The danger for a small niche player is that it doesn't have the name recognition to compete with the large ERP and business information vendors. However, our dominant position in the ABC market, combined with partnerships with the leading ERP and business information vendors, allows us to compete successfully.

Company Goal Setting

ABC Technologies's strategy was to provide "one-stop shopping" for users of ABC methodology. Customers could select from a suite of software tools that ranged from personal software to an enterprise solution. They could also purchase videos, books, and case studies from the "ABC University," enroll their staff in any of over 20 different training courses, and acquire a variety of services ranging from software support to applications development. Customers were targeted in all industry sectors—manufacturing, high technology, financial services, other services, and government—with a focus on large organizations in each sector.

Each year, the strategy was translated into a set of goals for the company. These goals were the basis for setting departmental goals and objectives, which in turn guided area and individual goals and objectives within each department. Chris Pieper, chief executive officer, described how these goals were set:

I initiated the process by formulating my goals for the coming year. These goals reflected my expectations about where the company should be heading and the big issues that needed to be resolved. They were not the final goals for the year, but it is important to put a stake in the ground and begin the journey towards specific objectives and targets.

Once I had formulated my goals, I initiated an informal dialogue with the board of directors, Mohan Nair, and other members of the management team. This communication helped translate our strategy into a clear direction for the year. The discussion got tighter and tighter until we had buy-in to a set of company goals.

In September 1999, the management team met to finalize the company goals for the year. The management team consisted of Pieper, Nair, and the vice-presidents of each of the six departments (Finance, Marketing, Sales, Technology, Engineering, and Client Services). Bob Rubitschun, vice-president of Client Services, commented:

We held a pizza and napkin session with Chris Pieper to formulate our fiscal 2000 goals. It didn't take long for us to focus on the magnitude of the task. There was a

discussion of what needed to be done, a lot of give-and-take, and in two hours we had a set of high level goals. I thought ‘this will be a great year—it will be a stretch, but we can meet these goals.’

Once the management team had agreed on the goals for fiscal 2000, each vice-president was tasked with determining what to do to achieve each goal, like, for instance, how many people to hire to reach a sales target. This helped structure, test, balance, and refine the goals as a target for the management team. The strategic goals for fiscal 2000 were as follows:

1. Expand the community of users.

ABC Technologies had a very large community of users that provided multiple marketing opportunities. For example, its User Group conference in 1999 attracted over 1,200 customers and affiliates. The company’s web-site—abctech.com—had over 500,000 “hits” and 25,000 user sessions per month, and continued growth was essential.

2. Maintain the software excellence that delivers the requirements of the community of users.

This goal involved developing the functionality of the suite of software tools to meet the expanding needs of its customers.

3. Expand the market for the suite of products.

This goal was aimed at expanding customers’ use of the software tools. For example, in 1999, ABC Technologies enhanced its software to support Activity-Based Budgeting and the scorecard. These additional applications allowed the company to enter new markets for business information.

4. Expand the market for services that support the software products.

The company was committed to expanding its training courses and application services. For example, in 1999 the company licensed a proprietary storyboarding method for inclusion in its Rapid Path implementation program. ABC Technologies was also developing new services and methods of delivery using the Internet.

The next step was to request formal approval of the goals from the Board of Directors. Pieper commented on the Board’s response:

The Board of Directors was pleased with management’s goals for fiscal 2000. However, the Board urged me to add more emphasis to our Internet strategy. This additional emphasis reflected the Board’s belief that any company would struggle to survive three to five years from now if it did not have an Internet strategy.

While this new direction came after management had completed its discussions, it shows that the goal-setting process is dynamic and is able to address a major change in the competitive landscape.

Departmental Goal and Objective Setting¹

The next step was for the departments to prepare their “big five” goals. These were the things the departments needed to do to accomplish the company’s goals. The vice presidents prepared the five goals for their departments and presented these to Nair. After some discussion and change, the goals were accepted as departmental targets for the coming year. For example, the fiscal 2000 goals for the Client Services Department were to:

1. Deliver Client Services revenue of \$10 million.
2. Improve customer satisfaction.
3. Establish global consistency standards for service delivery.
4. Develop worldwide knowledge matrix and knowledge transfer procedures.
5. Investigate and implement e-services.

Once the departmental goals were set, the vice-presidents prepared a list of detailed objectives and measurements for the five goals. These were prepared by the vice-presidents and their department managers. John Rutledge, manager of technical support within the Client Services Department, commented on how it worked:

Once we knew the big five areas, we looked at the reality of what we had to do and how we could improve our performance. For example, one of our departmental goals is to improve customer satisfaction. We know our current performance because we use surveys and other tools to measure customer response rates. The question is how much can we improve these rates and what do we have to do to achieve these improvements. Our answers to these questions became the departmental objectives.

The department objectives were submitted to Nair, who analyzed the overall performance impact for the company. This analysis included a preliminary estimate of the personnel, technology, travel, and other major costs of achieving the fiscal 2000 goals. This estimate helped management to evaluate the impact of objectives on resource requirements and to make resource deployment decisions. Bob Rubitschun commented:

The goal is to achieve as many objectives as possible but to focus on the most important ones first. In other words, if all objectives can't be accomplished, we proactively choose which ones get done and which ones don't. When resources are constrained, management redeploys its resources—including across departments—to the appropriate objectives, and then it works as a team to deliver the greatest value to the company.

Nair then reviewed the objectives and resource plans with the vice-presidents. After several iterations, a set of objectives was agreed upon for each department. The fiscal 2000 objectives for the Client Services Department are shown in **Exhibit 1**.

¹ The Exhibits are not accurate or complete, and data have been modified to disguise actual company costs and results. The Exhibits are shown for illustrative purposes only and are not to be relied upon as accurate or complete.

Once the departmental objectives for the fiscal year were set, the next step was to develop the first quarter's targets. For example, the fiscal 2000 learning goal for the fiscal year was "find and develop world-class talent" with a target of hiring staff in four areas. The target for the first quarter was to hire 40 percent of the annual target.

The Client Services quarterly objectives were developed by Vice-President Bob Rubitschun and the department managers. There were three managers in the Client Services Department: technical support, application services, and training. They worked with their staff to develop the area objectives. John Rutledge, manager of technical support, described the process:

At the beginning of each quarter I meet with my technical support staff over the company's teleconference system to discuss the objectives. I ask questions like "Why do we want to do this?" and "How are we going to meet this objective?" Once we agree on our detailed objectives, I post them on the Internet, and send an e-mail to everyone reminding them to check the degree of completion. Like all managers, I post my objectives behind my monitor in my cubicle so they are constantly visible.

Each staff member within each area of the department had target levels of performance based on the area's objectives. For example, an applications services person had a target for the number of days of customer work billed during the quarter. Measurement tools were put in place to allow tracking of actual performance. For example, customers completed evaluation sheets for each training class and for application services engagements.

Client Services's goals and objectives for the first quarter of fiscal 2000 are shown in **Exhibit 2**. Some objectives were the responsibility of an individual manager. For example, "sustain real-time-response at 70 percent or higher" was a technical support objective and the responsibility of John Rutledge (JR). Some objectives were the joint responsibility of two or three of the managers. For example, the innovation objective, "develop knowledge matrix," was the responsibility of all three managers (RM/DC/JR).

The objectives were measured in two ways. Financial objectives were given a specific target. The first quarter target for North American application services revenue, for example, was \$800,000. Actual revenues were tracked and reported during the quarter, but the objective was only achieved when actual revenues met or exceeded the \$800,000 target.

Nonfinancial objectives which were quantifiable were given a numeric target. The process objective—"sustain real-time-response at 70 percent or higher"—was an example of such an objective with a numeric target. This objective was easy to score because all customer contacts were logged into a database and the percent of customer calls handled by a person at the time of the call was easily computed. Nonfinancial numeric objectives were either achieved or not achieved, with no credit given for partial completion.

Objectives that were not quantifiable were also treated in a binary manner. For example, the learning objective, “create sales templates for service solution,” did not have an associated performance measure. It was simply rated as complete or incomplete.

Objective criteria were used to determine whether or not a nonnumeric objective was complete. For example, the objective, “certify at least one person in training, support, and application services on the SAP Bridge products,” was complete only if the person trained had read a white paper on the bridge products, taken a specific class, and had experience with the product. Bob Rubitschun commented on the strictness of these criteria:

Every non-numeric objective is binary. The answer is either yes it is complete, or no it is not complete. We always have clear criteria, using specific verbs and nouns to describe the objective. There is always a logical test so we know when the objective is achieved.

Client Services’s objectives were weighted using percentages developed by the vice-president and the managers. The weights allowed the scores to be rolled up and an overall assessment computed. The weights were set to influence the relative effort devoted to each objective. The department’s first quarter financial goal was weighted 60 percent, for example, and the “improve customer satisfaction goal” was weighted 10 percent. Individual objectives within each goal were assigned a portion of the overall weight. The application services revenue objective, for example, received 24 percent out of the 60 percent assigned to the department’s overall revenue goal.

A portion of the compensation of vice-presidents and managers was based on achieving the quarterly objectives. The incentive component varied from 10 percent to 25 percent of total compensation depending on a person’s ability to influence actual business results. The impact of a specific goal and objective on the bonus was dependent on its weighting. The revenue goal in the Client Services Department, for example, accounted for 60 percent of each manager’s bonus.

Tracking Performance

Once the quarter began, the emphasis changed from goal setting to tracking performance. The departmental and area goals and objectives were entered into the company’s Oros software tool (**Exhibit 3**). This tool was used by customers for ABC modeling, but also had a scorecard module.

The “Actual Score” column in **Exhibit 3** showed negative or zero performance ratings. These scores reflected the beginning status of objectives at the beginning of the quarter. The “Meter” column showed the type of measurement for each objective: the meter for financial goals was defined, while other goals were binary. The “Actual” column showed performance to-date for the objective: the number for each financial goal was the performance-to-date, while the nonfinancial goals were shown as work-in-process (WIP) until completed. The “Target” column

showed the planned level of performance for each numeric objective. The “Weighting” column showed the weights (relative importance) that would be applied to each objective. The weights were used in the roll-up of the scores in the “Actual Score” column.

Performance was discussed daily at the executive level, with Nair meeting with the vice-presidents at 9:30 a.m. The vice-presidents met weekly with their department managers to discuss the progress towards the objectives.

Performance data were entered into the scorecard during the mid-term review. The purpose of the review was to assess quarterly performance-to-date, and to determine the likelihood that each department would achieve its quarterly goals. This likelihood was measured by the “propensity to achieve” rating in the company’s Oros software tool (**Exhibit 4**).

The “propensity to achieve” rating was included in the “Mid-term Review” column of the Oros scorecard. Each objective was placed in one of four categories:

1. The objective is completed. Score of 2.
2. The objective is not accomplished and will not be completed. Score of -2.
3. The objective is not accomplished but is on track to be done by the end of the quarter. Score of 1.
4. The objective is not accomplished and is at risk of not being accomplished by the end of the quarter. Score of -1.

While the scorecard computed an overall weighted propensity for each goal, the mid-quarter review focused primarily on the objectives that received a score of -1. What could be done to bring these objectives back on track before the end of the quarter? What changes were required if a target would not be met? Nair explained the thinking behind the “propensity to achieve” measurement:

The earlier you know your actual performance, the earlier you can start correcting any problems. If we find that revenues are likely to be below goal for the quarter, for example, we can take steps to adjust the spending. We don’t have that discretion if we wait to the end of the quarter.

The actual performance of the numeric objectives was also included in the scorecard at the mid-term review. Non-numeric objectives were shown as “Work-in-Process” unless they were completed by the date of the review.

In the last two weeks before the end of the quarter there was constant communication regarding any objective that was at risk. Surprises were not acceptable, and everyone was expected to “come clean.”

Within a week after the end of the quarter, the vice presidents made presentations to the management team on departmental performance for the quarter. All of the vice presidents

worked closely with their managers to prepare for this presentation. The purpose of the presentation was to review the performance of the prior quarter, to coordinate the work of the departments, and to prepare the goals for the next quarter.

The end-of-quarter performance of the Client Services Department was summarized in the Oros scorecard (**Exhibit 5**). The “Actual” column showed the quarter’s actual performance for each objective. The “Deliver application services revenue” objective, for example, shows \$1,000,000 versus a target of \$800,000.

Objectives for which the actual performance met or exceeded the target or were complete received a score of 2 in the “Actual Score” column. Those objectives that were incomplete received a score of –2. These scores were rolled up using the weights to provide the overall departmental rating of 1.76.

Linking Activity-Based Information to the Scorecard

In the Fall of 1999, the management team reviewed the status of the company’s scorecarding process. While the team was pleased with the results of scorecarding, concern was expressed that the managers did not have the right information to manage the financial objectives. Chris Pieper commented:

The financial objectives in the scorecard are weighted 60 percent, yet we are dependent on the general ledger to help us manage these objectives. The general ledger has no information about the cost of activities and processes, and does a poor job of measuring product profitability. It does not help managers align resources with the work that supports the objectives.

The difficulty was that the company did not have a current ABC model to supply the needed information. The ABC model created in 1995 had not been kept up-to-date. While the model provided important insights and initial favorable results were achieved, management found no reason to maintain and continue with ABC. A second attempt had been made in 1998 to update the model but it was never finished. This second attempt fell victim to changing priorities and increasing workloads associated with the SAP relationship.

Chris Pieper commented on the failure:

Our failure to turn ABC into an ongoing system was unfortunate, and put us in the same position as many of our customers: we found ABC was a useful analytical tool, we identified some changes at the process level, but we were unable to justify the time and effort required to sustain an on-going system. The experience left me searching for something that would compel us—and our customers—to keep using ABC.

Our entry into the scorecarding market made it vital that we correct this omission. Not only would ABC support our internal scorecarding efforts, it would demonstrate to our customers that we “walked the talk” when it came to the scorecard.

Accordingly, the management team authorized an ABC pilot in the Client Services department. This pilot was expected to:

- Demonstrate the value of ABC in managing a key department.
- Show that ABC could be implemented quickly with minimum resources and elapsed time.
- Provide valuable learning in the use of the company's software tools for scorecarding.
- Enhance the functionality of the company's scorecard.

In early November 1999, Bob Rubitschun met with three key managers from the Client Services Department: Dan Cain, application services manager, John Rutledge, technical support manager, and Rick Musser, training manager. The group agreed to form the project team for the ABC pilot.

The ABC model for the Client Services Department was completed in early January 2000. The model contained 24 activities organized into the four centers: application services, training, technical support, and client services management (**Exhibit 6**). The client services management activities were activities that supported other activities in the department.

The cost objects in the ABC model were product groups and product lines rather than individual products (**Exhibit 7**). For example, the model reported the cost of public versus on-site training. Each of these groups of training was divided into product lines such as basic public classes and advanced public classes within the public training product group. No cost was assigned to individual products like, for instance, the 24 different training classes.

The model showed that profitability varied significantly from one cost object to another (**Exhibit 7**). For example, small, infrequently offered training classes were unprofitable, whereas large, frequently offered classes were profitable.

Once the ABC model was completed, the next step was to connect the activities to the objectives in the scorecard. The purpose was to show which activities supported which objective. In some cases only one activity supported an objective. In other cases several activities supported the same objective. For example, the activities, "Deliver services," "Transfer knowledge," and "Develop services staff" were connected to the objective "Deliver application services revenue target" (**Exhibit 8**). There were also cases where one activity supported multiple objectives. For example, the activity "Develop technical support staff" supported "Sustain real-time response at 70 percent or higher" and "Deliver dedicated TSE for major accounts" (**Exhibit 9**).

Assessment of the Scorecarding Process

At the beginning of the second quarter of fiscal 2000, the Client Services management team discussed the results of the scorecarding process. Bob Rubitschun commented on the learning aspects of the exercise:

The Client Services scorecarding process was a tremendous learning experience for ABC Technologies. We examined our business and used scorecarding to focus our priorities and to assign the required resources. The process itself was extremely valuable because it created a common language and allowed everyone to communicate based on the objectives. The alignment of priorities helped to maintain focus and forge partnerships of cooperation within the department.

In one recent planning cycle, for example, Marketing had budgeted \$20,000 to produce a web-based product demo. However, those dollars were needed to hire additional staff to grow the business. Working in collaboration with the Client Services department, Marketing released the funds and Client Services redeployed technical development staff to assist Marketing with this objective. Here, the company benefited by focusing on its highest priority objectives and then deploying its resources to achieve the end goal.

While the scorecarding process has already improved communication, the real success will be realized when the scorecard becomes more widely used throughout the company. Once the system is integrated and accessible to others the organization will have everyone focused on the right priorities and working towards the company's goals.

The ultimate goal is to create the most efficient organization by focusing on what is important and not wasting time on what's not.

We have already made a lot of progress towards this goal. Even though Client Services was the formal pilot, there are scorecarding skunk works throughout the company. No one in the company is waiting for the official go-ahead.

The departmental view of the scorecarding process was echoed at the corporate level. Chris Pieper commented:

A hundred percent of the value of the scorecard is communication. Anyone can create a strategy, but how do you implement that strategy successfully? The scorecard is the definition of strategic success and quantifies the finish line for everyone. As we go forward and strive for that success, we learn, adapt, and change our definition of success. The scorecard is the mechanism by which we dynamically communicate these changes.

The value of scorecarding was evident during the beginning-of-quarter review of the Client Services objectives. Several objectives were eliminated because they did not support the current goals of the department. For example, the objective, "create a "Top Gun" training program for new Client Services employees," was discontinued. Rubitschun commented:

The “Top Gun” objective was eliminated because it was no longer consistent with the company’s business strategy. Our business model was quickly embracing the Internet as the vehicle to educate new employees and customers on the use of our software and methods. A seven-week traditional training class would have been obsolete before it was completed.

One of the challenges with the company’s scorecard was to create and maintain balance within the organization. Rubitschun commented on the first quarter experience:

In the first quarter I placed 60 percent of the emphasis (and bonus) on achieving the department’s financial goal. My managers easily overshot the financial target, yet they failed to meet the goal, “find and develop world-class talent,” which received a weight of 11 percent. There is no question that revenues play a huge role in our success, but if we do not hire world-class talent now, we may miss our financial targets in future quarters. I am still learning how to properly weight the goals, and I have reduced the weight given to the financial goal for the second quarter.

The relative weights attached to goals and objectives were used dynamically in the scorecarding process to influence the deployment of resources. Dan Cain, manager of application services, commented:

Due to increasing service demand, especially with our new Rapid Path™ implementation program and other solution-oriented delivery programs, our order file was getting very full. This put severe upward pressure on hiring in order to add delivery capacity very quickly. There was no question we needed to hire immediately to meet increasing demand, but we also needed to develop other service delivery mechanisms to leverage our workforce. In response to these needs, we reduced the weight on revenue-related objectives and increased the weight on objectives such as hiring additional personnel. By doing this we provided increased capacity immediately, and developed service delivery options using the Internet.

The emphasis on the Internet was a strategic thrust for the company in the first quarter of fiscal 2000. However, the ABC model showed that there were a limited number of activities associated with the goal, “Investigate and implement e-services.” Rick Musser, manager of Training, commented:

In the first quarter, we had only a few activities aligned with our e-strategy objective. This was because we didn’t have the necessary resources in place and because we were focusing on other objectives. In the second quarter we shifted gears and created new activities (with new resources) to implement our e-strategy. With our new scorecard we also eliminated other objectives that consumed activities and redirected those efforts towards our e-service implementation.

The scorecard was instrumental in this change because it increased the level of communication around the e-strategy. This was critical to matching management strategy to practical deployment.

Analysis of the ABC model showed that several activities were not connected to objectives. This led to a review of the value of these activities and a determination of what to do about them. Bob Rubitschun commented:

The Client Service's ABC pilot demonstrated that objectives and activities must be aligned to achieve peak performance. Our analysis showed several activities not aligned with objectives. We chose to eliminate these activities rather than create objectives to justify the work.

The ABC model linked departmental activities to departmental objectives, but it did not include activities and objectives in other departments and in corporate support. Rubitschun commented:

The next step is to expand the Client Services pilot to other parts of the organization and look at the true impact across the entire enterprise. This will tie all business functions into a common objective system of aligning goals and negotiating priorities. In addition, the ABC pilot needs to be integrated with our financial and operational information systems to allow for easier updates and sharing of results.

Another omission from the model was the connection of cost objects to objectives. While the model measured the profitability of product groups and product lines, there were no profitability objectives. Rubitschun commented:

While we connected our activities to the objectives, we did not connect the cost objects. This is an acceptable omission right now because the company does not focus on profitability. We believe the market rewards us for revenue growth and market share rather than profitability. However, someday we will need to be profitable and may want to develop objectives around profitability and connect the products to these objectives.

The ABC model showed which activities supported which objectives, but it did not assign the cost of the activities to these objectives. Rubitschun commented:

It would have been interesting to know the cost of supporting each objective. This cost information would allow us to evaluate the "cost-to-support" and the overall value of each objective.

The new information contained in the ABC model was an impetus to change the scorecard in future quarters. Pieper commented:

Bob's primary measure of success is his revenue target. This is because revenue is measurable and he can only set goals which are measurable. For example, without

ABC he can't set the goal, 'improve the profitability of application services,' because he doesn't have this metric.

But now that he has ABC he has the information to set objectives about cost-to-serve and profitability. Some of these metrics reveal problems about which he is not happy. As a result, I predict that the objectives will change in the next scorecarding cycle.

In fact, I guarantee that the ABC model will be kept up-to-date because of the discovery it provides. ABC gives the metrics to populate the scorecard with valuable information.

ABC provides metrics to the management team they have never had before. They will take these metrics, set new objectives, and take care of the problems and capture the opportunities themselves. And they will do this without me pushing down on them. ABC is the means to accomplish this, but the communication and implementation of strategy via the scorecard is the end I seek.

The management team learned more during this cycle of the scorecard than ever before. ABC provided new metrics and surprising data that stimulated a new and fresh look at our business focus. We will be more successful as a result, and I expect the learning and results to continue into the future.

Exhibit 1

**ABC TECHNOLOGIES, INC.
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Goals and Objectives for Client Services for Fiscal 2000

RESPONSIBILITY

- FY00 **1. Deliver NA Client Services Revenue of \$10 Million**
 - DC a. \$3 Million Application Services
 - RM b. \$3 Million Training
 - JR c. \$4 Million Technical Support

- FY00 **2. Improve Customer Satisfaction**
 - DC/RM a. Respond to 80% of on-site customer requests within 30 days
 - JR b. Sustain Real-time-Response at 70% or higher
 - DC/RM/JF c. Provide web-based services
 - DC/RM/JF d. Deliver/collect customer feedback surveys via the internet
 - DC/RM/JF e. Sustain a 4.2/5.0 score for all delivered services
 - RM f. Customize "core training" classes for public sector industry
 - DC/RM/JF g. Implement a customer project/revenue tracking system

- FY00 **3. Establish Global Consistency Standards for Service Delivery**
 - BR a. Develop global consistency standards for Client Services
 - DC/RM/JF b. Certify training, support and application services for SAP Bridge
 - RM c. Synchronize classes to standard formats and create instruction notes
 - RM d. Videotape and distribute all classes to trainers throughout the world
 - DC/RM/JF e. Share technical resources with other regions to accelerate knowledge transfer

- FY00 **4. Find and Develop World-class Talent**
 - BR a. Deliver quarterly training to sales: new services, approach, lessons learned, etc.
 - BR b. Create sales templates for service solutions
 - RM c. Hire 2 Trainers
 - RM d. Hire 2 Course Developers
 - DC e. Hire 6 Application Services
 - JR f. Hire 4 Technical Support
 - DC/RM/JF g. Develop internal eTraining Program

- FY00 **5. Develop Worldwide Knowledge Matrix and Knowledge Transfer Procedures**
 - BR a. Plan/Budget worldwide services on a quarterly basis
 - BR b. Put in place infrastructure for continued growth
 - DC/RM/JF c. Stratify competency levels and responsibilities within each department
 - DC/RM/JF d. Develop worldwide knowledge matrix
 - BR/DC/RM e. Meet face-to-face with global counterparts at least once per year

- FY00 **6. Re-position Services and Drive Demand**
 - Mgr w/Mkt a. Re-position/simplify Training Curriculum
 - Mgr w/Mkt b. Develop training database to identify/track students for subsequent training
 - Mgr w/Mkt c. Expand web-based advertising for all services

- FY00 **7. Investigate and Implement eServices**
 - DC/RM/JF a. Develop eServices
 - DC/RM/JF b. Provide web-based Services

Exhibit 2

**ABC TECHNOLOGIES, INC.
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Goals and Objectives for Client Services for Quarter 1 Fiscal 2000

Weighting COMP DATE RESPONSIBILITY

60%			1. Deliver NA Client Services Revenue of \$2,000,000
24% Dec	DC		a. \$800k Application Services
21% Dec	RM		b. \$700k Training
15% Dec	JR		c. \$500k Technical Support
10%			2. Improve Customer Satisfaction
1% Dec	DC/RM		a. Respond to 80% of on-site customer requests within 30 days
1% Dec	JR		b. Sustain Realtime-Response at 70% or higher
1% Dec	DC/RM/JR		c. Sustain a 4.2/5.0 score for all delivered services
1% Nov	RM		d. Customize basic classes for public sector
1% Dec	RM		e. Customize ABCs of ABM for public sector
1% Oct	RM/JR/DC		f. Deliver UGC presentations and training, 4.0+ rating
1% Oct	RM		g. Delight customers at pre-conference training, survey to measure
1% Dec	DC		h. Deliver successful customer pre-conference summit, 4.2/5.0 rating
1% Oct	DC/RM/JR		i. Create competency tests for customer to certify users
1% Nov	JR		j. Deliver dedicated TSE for major accounts
6%			3. Establish Global Consistency Standards for Service Delivery
1% Dec	JR		a. Bring UK on centralized Onyx database
1% Nov	DC/RM/JR		b. Certify at least 1 person in training, support and application services on SAP Bridge
1% Dec	DC/RM/JR		c. Involve/share UK, Aust., other offices in ABB development process
1% Dec	RM		d. Develop a plan for 4.3 Oros class updates
1% Dec	JR		e. Implement global technical support renewal matrix
1% Dec	JR		f. Develop Plan for worldwide SAP Bridge Support
11%			4. Find and Develop World-class Talent
1% Oct	BR		a. Create an ongoing training plan for Sales: participate in UGC sales training
1% Dec	BR		b. Create sales templates for service solutions
2% Nov	RM		c. Hire 1 Trainers, Training Registrar
2% Oct	RM		d. Hire 1 Course Developers
2% Dec	DC		e. Hire 1 Application Services Specialists
1% Nov	DC		f. Hire 1 App. Svcs. Technical Program Manager
2% Dec	JR		g. Hire 1 Technical Support
3%			5. Develop Worldwide Knowledge Matrix and Knowledge Transfer Procedures
1% Dec	BR		a. Develop Q2 Budget for worldwide services
1% Dec	RM/DC/JR		b. Develop competency and responsibility template
1% Dec	RM/DC/JR		c. Develop knowledge matrix
7%			6. Re-position Services and Drive Demand
1% Nov	Mgr w/Mkt		a. Develop plan for curriculum repositioning/simplification
1% Dec	Mgr w/Mkt		b. Develop training database to identify/track students for subsequent training
5% Dec	Mgr w/Mkt		c. Develop content/service delivery portion of Business Plan for eServices
3%			7. Use Oros for Business Planning
3% Dec	DC/RM/JR		7.1 Develop a strategic ABC model for Client Services Dept.

Exhibit 3

**ABC TECHNOLOGIES, INC.
LINKING ACTIVITY-BASED INFORMATION TO THE SCORECARD**

Objectives for the Client Services Department
for Quarter 1 of Fiscal 2000 shown in the Oros scorecard.

Name	Actual Score	Meter	Actual	Target	Weighting
Strategy	-1.24				100.00%
Meet/exceed Client Services objectives	-1.24				100.00%
Use Oros for business planning	0.00				3.00%
Develop strategic client services ABC model	0.00	Binary	WIP		3.00%
Deliver Client Services revenue and sales targets	-2.00				60.00%
Deliver Application Services revenue target	-2.00	Revenue2Plan	200,000.00	800,000.00	24.00%
Deliver Training revenue target	-2.00	Revenue2Plan	125,000.00	700,000.00	21.00%
Deliver Technical Support sales target	-2.00	Sales2Plan	55,000.00	500,000.00	15.00%
Improve customer satisfaction	-0.44				10.00%
Respond to 80% of on-site requests w/in 30 days	0.00	Binary	WIP		1.00%
Sustain Real-time response at 70% or higher	0.00	Binary	WIP		1.00%
Sustain 4.2/5.0 score for all delivered services	-2.00	Rating	Does Not Meet		1.00%
Customize basic classes for public sector	0.00	Binary	WIP		1.00%
Customize ABCs of ABM for public sector	0.00	Binary	WIP		1.00%
Deliver dedicated TSE for major accounts	0.00	Binary	WIP		1.00%
Create competency tests to certify customer users	0.00	Binary	WIP		1.00%
Deliver pre-conference summit - achieve 4.2/5.0 rating	-2.00	Rating	Does Not Meet		1.00%
Deliver UGC presentations/training - achieve 4.0/5.0 rating	0.00	Binary	WIP		1.00%
Establish global consistency standards for service delivery	0.00				6.00%
Bring UK on centralized Onyx database	0.00	Binary	WIP		1.00%
Certify Specialist, Trainer, Engineer on SAP	0.00	Binary	WIP		1.00%
Involve ROW offices on ABB development	0.00	Binary	WIP		1.00%
Develop plan for Oros 4.3 class updates	0.00	Binary	WIP		1.00%
Implement global renewal matrix	0.00	Binary	WIP		1.00%
Develop Oros Bridge support plan	0.00	Binary	WIP		1.00%
Find and develop world class talent	0.00				11.00%
Hire 1 App. Services Specialists	0.00	Binary	WIP		2.00%
Hire 1 App. Services Tech. Program Manager	0.00	Binary	WIP		1.00%
Create ongoing training plan for Sales	0.00	Binary	WIP		1.00%
Create sales templates for service solutions	0.00	Binary	WIP		1.00%
Hire 1 Trainer, 1 Registrar	0.00	Binary	WIP		2.00%
Hire 1 Course Developer	0.00	Binary	WIP		2.00%
Hire 1 Tech. Support Engineers	0.00	Binary	WIP		2.00%
Develop worldwide knowledge matrix and transfer procedure	0.00				3.00%
Reposition services and drive demand	0.00				7.00%
Develop plan for curriculum repositioning/simplification	0.00	Binary	WIP		1.00%
Develop training db to i.d./track students for add'l training	0.00	Binary	WIP		1.00%
Develop content/service plan for eServices	0.00	Binary	WIP		5.00%
Orphans					

Exhibit 4

**ABC TECHNOLOGIES, INC.
LINKING ACTIVITY-BASED INFORMATION TO THE SCORECARD**

Midterm Oros Scorecard for Quarter 1 Fiscal 2000 for the Client Services Department

Name	Actual Score	Meter	Actual	Target	Mid Term Review	Weighting
Strategy	-0.57				1.38	100.00%
Meet/exceed Client Services objectives	-0.57				1.38	100.00%
Use Oros for business planning	0.00				2.00	3.00%
Develop strategic client services ABC model	0.00	Binary	WIP		2.00	3.00%
Deliver Client Services revenue and sales targets	-0.88				2.00	60.00%
Deliver Application Services revenue target	-0.50	Revenue2Plan	675,000.00	800,000.00	2.00	24.00%
Deliver Training revenue target	-0.50	Revenue2Plan	575,000.00	700,000.00	2.00	21.00%
Deliver Technical Support sales target	-2.00	Sales2Plan	310,000.00	500,000.00	2.00	15.00%
Improve customer satisfaction	-0.44				0.55	10.00%
Respond to 80% of on-site requests w/in 30 days	-2.00	Binary	WIP		-2.00	1.00%
Sustain Real-time response at 70% or higher	-2.00	Binary	WIP		-2.00	1.00%
Sustain 4.2/5.0 score for all delivered services	-2.00	Rating	Does Not Meet		2.00	1.00%
Customize basic classes for public sector	-2.00	Binary	WIP		-2.00	1.00%
Customize ABCs of ABM for public sector	-2.00	Binary	WIP		-2.00	1.00%
Deliver dedicated TSE for major accounts	0.00	Binary	WIP		2.00	1.00%
Create competency tests to certify customer users	-2.00	Binary	WIP		-2.00	1.00%
Deliver pre-conference summit - achieve 4.2/5.0 rating	-2.00	Rating	Does Not Meet		1.00	1.00%
Deliver UGC presentations/training - achieve 4.0/5.0 rating	-2.00	Binary	WIP		-2.00	1.00%
Establish global consistency standards for service delivery	0.00				0.00	6.00%
Bring UK on centralized Dryx database	-2.00	Binary	WIP		-2.00	1.00%
Certify Specialist, Trainer, Engineer on SAP	0.00	Binary	WIP		2.00	1.00%
Involve ROW offices on ABB development	0.00	Binary	WIP		-2.00	1.00%
Develop plan for Oros 4.3 class updates	-2.00	Binary	WIP		-2.00	1.00%
Implement global renewal matrix	-2.00	Binary	WIP		-2.00	1.00%
Develop Oros Bridge support plan	-2.00	Binary	WIP		-2.00	1.00%
Find and develop world class talent	0.00				0.55	11.00%
Hire 1 App. Services Specialists	0.00	Binary	WIP		2.00	2.00%
Hire 1 App. Services Tech. Program Manager	0.00	Binary	WIP		-2.00	1.00%
Create ongoing training plan for Sales	-2.00	Binary	WIP		-2.00	1.00%
Create sales templates for service solutions	-2.00	Binary	WIP		-2.00	1.00%
Hire 1 Trainer, 1 Registrar	0.00	Binary	WIP		2.00	2.00%
Hire 1 Course Developers	0.00	Binary	WIP		2.00	2.00%
Hire 1 Tech. Support Engineers	0.00	Binary	WIP		-2.00	2.00%
Develop worldwide knowledge matrix and transfer procedure	-2.00				-2.00	3.00%
Reposition services and drive demand	-2.00				-2.00	7.00%
Develop plan for curriculum repositioning/simplification	-2.00	Binary	WIP		-2.00	1.00%
Develop training db to i.d./track students for add'l training	-2.00	Binary	WIP		-2.00	1.00%
Develop content/service plan for eServices	-2.00	Binary	WIP		-2.00	5.00%
Orphans						

For Help, press F1

Single Tool

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Exhibit 5

**ABC TECHNOLOGIES, INC.
LINKING ACTIVITY-BASED INFORMATION TO THE SCORECARD**

Client Services Department Oros scorecard at the end of Quarter 1 of Fiscal 2000

Name	Actual Score	Meter	Actual	Target	Weighting
Strategy	1.76				100.00%
Meet/exceed Client Services objectives	1.76				100.00%
Use Oros for business planning	2.00				3.00%
Develop strategic client services ABC model	2.00	Binary	Yes		3.00%
Deliver Client Services revenue and sales targets	2.00				60.00%
Deliver Application Services revenue target	2.00	Revenue2Plan	1,000,000.00	800,000.00	24.00%
Deliver Training revenue target	2.00	Revenue2Plan	800,000.00	700,000.00	21.00%
Deliver Technical Support sales target	2.00	Sales2Plan	600,000.00	500,000.00	15.00%
Improve customer satisfaction	1.96				10.00%
Respond to 80% of on-site requests w/in 30 days	2.00	Binary	Yes		1.00%
Sustain Real-time response at 70% or higher	2.00	Binary	Yes		1.00%
Sustain 4.2/5.0 score for all delivered services	1.67	Rating	Exceeds		1.00%
Customize basic classes for public sector	2.00	Binary	Yes		1.00%
Customize ABCs of ABM for public sector	2.00	Binary	Yes		1.00%
Deliver dedicated TSE for public sector	2.00	Binary	Yes		1.00%
Create competency tests to certify customer users	2.00	Binary	Yes		1.00%
Deliver pre-conference summit - achieve 4.2/5.0 rating	2.00	Rating	Exceeds		1.00%
Deliver UGC presentations/training - achieve 4.0/5.0 rating	2.00	Binary	Yes		1.00%
Establish global consistency standards for service delivery	0.67				6.00%
Bring UK on centralized Oryx database	-2.00	Binary	No		1.00%
Certify Specialist, Trainer, Engineer on SAP	2.00	Binary	Yes		1.00%
Involve RDW offices on ABB development	-2.00	Binary	No		1.00%
Develop plan for Oros 4.3 class updates	2.00	Binary	Yes		1.00%
Implement global renewal matrix	2.00	Binary	Yes		1.00%
Develop Oros Bridge support plan	2.00	Binary	Yes		1.00%
Find and develop world class talent	0.91				11.00%
Hire 1 App. Services Specialists	2.00	Binary	Yes		2.00%
Hire 1 App. Services Tech. Program Manager	2.00	Binary	Yes		1.00%
Create ongoing training plan for Sales	2.00	Binary	Yes		1.00%
Create sales templates for service solutions	-2.00	Binary	No		1.00%
Hire 1 Trainer, 1 Registrar	2.00	Binary	Yes		2.00%
Hire 1 Course Developers	2.00	Binary	Yes		2.00%
Hire 1 Tech. Support Engineers	-2.00	Binary	No		2.00%
Develop worldwide knowledge matrix and transfer procedure	2.00				3.00%
Reposition services and drive demand	1.43				7.00%
Develop plan for curriculum repositioning/simplification	2.00	Binary	Yes		1.00%
Develop training db to i.d.track students for add'l training	-2.00	Binary	No		1.00%
Develop content/service plan for eServices	2.00	Binary	Yes		5.00%
Orphans					

Exhibit 6

**ABC TECHNOLOGIES, INC.
LINKING ACTIVITY-BASED INFORMATION TO THE SCORECARD**

Client Services Department activities for Quarter 1 Fiscal 2000 from the ABC model.

Name	Percent of Module	DriverName
Activity		
CS management	44.11	
Do management admin		EVENLY ASSIGNED
Develop products	0.41	EVENLY ASSIGNED
Manage customer satisfaction	4.83	EVENLY ASSIGNED
Manage people	12.51	EVENLY ASSIGNED
Invoice customers		EVENLY ASSIGNED
Recruit people	9.83	EVENLY ASSIGNED
Plan business	10.02	EVENLY ASSIGNED
Application services	24.64	
Do app. services admin		EVENLY ASSIGNED
Transfer knowledge	0.26	EVENLY ASSIGNED
Travel to/from services engagement	1.89	# Engagements
Develop services staff	0.88	EVENLY ASSIGNED
Schedule services	1.85	# Engagements
Deliver services		# Engagements
Training	15.91	
Do training admin		EVENLY ASSIGNED
Test products	0.50	PERCENTAGES
Develop training staff	1.00	EVENLY ASSIGNED
Deliver training	7.94	# Training events
Develop courses	2.53	# Courses
Coordinate and schedule classes	1.38	# Training events
Travel to/from training engagement	2.00	# Training events
Technical support	4.61	
Manage support requests	2.95	Hours
Test products	0.77	PERCENTAGES
Develop knowledge content	0.26	# Customers
Develop technical support staff	0.64	EVENLY ASSIGNED
Corporate management	46.83	

Exhibit 7

**ABC TECHNOLOGIES, INC.
LINKING ACTIVITY-BASED INFORMATION TO THE SCORECARD**

Client Services Department cost objects for Quarter 1 Fiscal 2000 from the ABC model.

Name	Cost	Income	Calc Profit	Column	Margin
Cost Object	\$2,150,453.00				
Product	\$861,440.13				
Application Services	\$388,332.77	1,000,000.00	611,667.23	611,667.23	157.51%
Short term	\$157,017.31				
Technical physical	\$53,658.52	100,000.00	46,341.48	46,341.48	86.36%
Short term	\$103,358.79	150,000.00		46,641.21	
Medium term	\$102,954.02				
Rapid path medium	\$60,712.70	80,000.00	19,287.30	19,287.30	31.77%
Medium term	\$42,241.32	110,000.00	67,758.68	67,758.68	160.41%
Long term	\$128,361.43				
Long term	\$69,003.63	110,000.00	40,996.37	40,996.37	59.41%
Rapid path long	\$59,357.81	450,000.00	390,642.19	390,642.19	658.11%
Training	\$318,314.43	800,000.00	481,685.57	481,685.57	151.32%
Public	\$95,162.27				
Basic public	\$50,030.86	210,000.00	159,969.14	159,969.14	319.74%
Advanced public	\$45,131.41	110,000.00	64,868.59	64,868.59	143.73%
Onsite	\$223,152.15				
Rapid prototyping	\$40,078.14	120,000.00	79,921.86	79,921.86	199.42%
Affiliate	\$16,505.97	15,000.00	-1,505.97	-1,505.97	-9.12%
Basic onsite	\$91,041.05	255,000.00	163,958.95	163,958.95	180.09%
Advanced onsite	\$38,818.56	75,000.00	36,181.44	36,181.44	93.21%
Mastering	\$36,708.43	15,000.00	-21,708.43	-21,708.43	-59.14%
Technical Support	\$154,792.93	600,000.00	445,207.07	445,207.07	287.61%
New support	\$62,539.38	300,000.00	237,460.62	237,460.62	379.70%
Renewed support	\$75,761.96	270,000.00	194,238.04	194,238.04	256.38%
Dedicated support	\$16,491.59	30,000.00	13,508.41	13,508.41	81.91%
Corporate Sustaining	\$1,289,012.87				
Corporate Sustaining	\$1,289,012.87	0.00		1,289,012.87	

Exhibit 8

**ABC TECHNOLOGIES, INC.
LINKING ACTIVITY-BASED INFORMATION TO THE SCORECARD**

Example showing linking of activities to objectives in the Client Services Department Quarter 1 Fiscal 2000 ABC model.

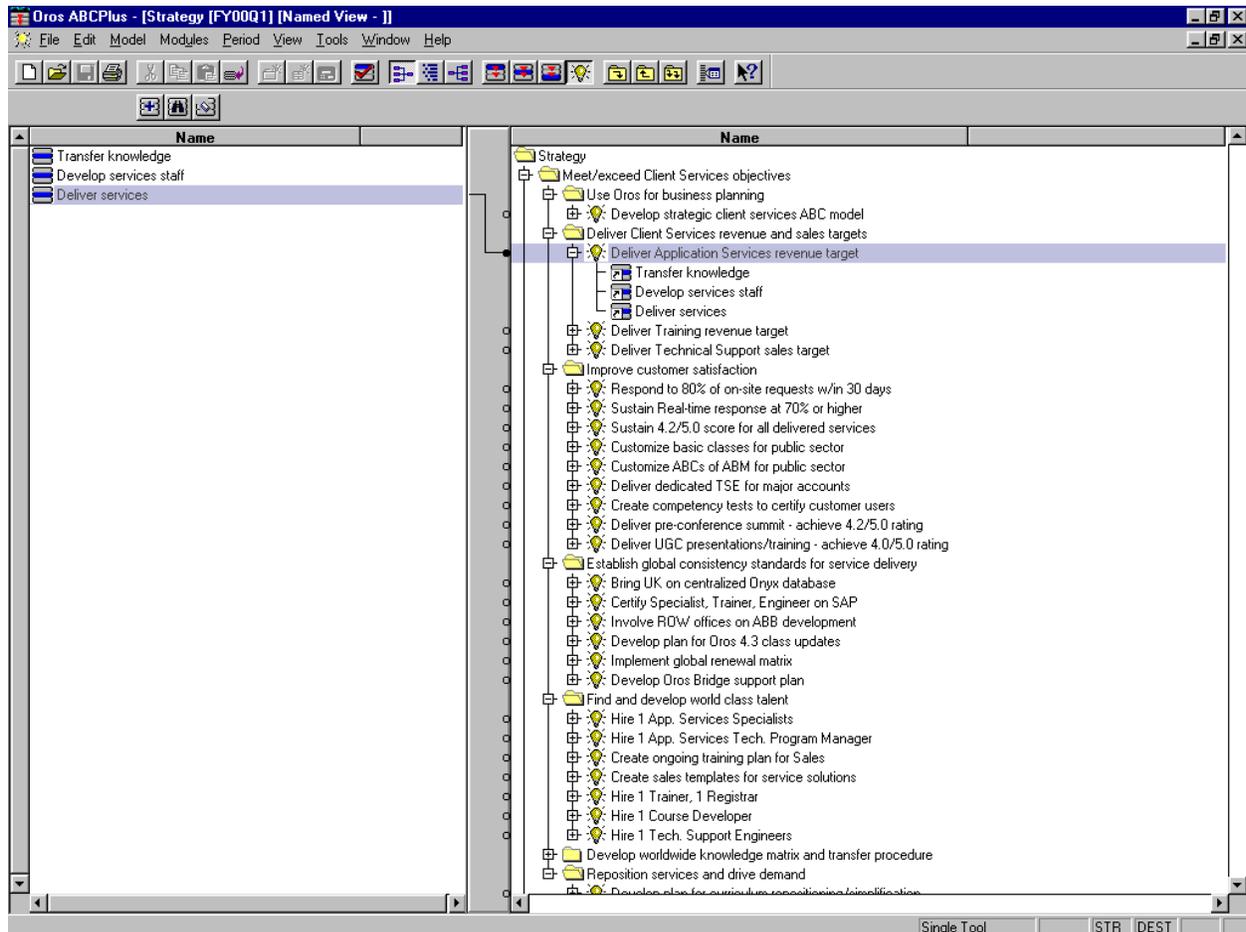


Exhibit 9

**ABC TECHNOLOGIES, INC.
LINKING ACTIVITY-BASED INFORMATION TO THE SCORECARD**

Oros scorecard showing one Client Services activity supporting two objectives in the Quarter 1 Fiscal 2000 ABC model.

