

Statement of T. Michael Nevens
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I wish to thank Chairman Alpert and members of the commission for soliciting my written testimony on the Governor's Reorganization Plan for creating the Department of Technology Services (DTS) via the consolidation of data centers and network operations.

Creating DTS has the potential to be a first step in enabling the State of California to improve the cost effectiveness and quality of the delivery of services to citizens and businesses and to enable the State's employees to be more productive. I use the word potential advisedly.

Consolidations of this size and complexity are difficult to implement. Further, the real benefit will be in using information technology (IT) to improve processes throughout state government. Creating the DTS does not accomplish these improvements by itself, but it could create a more effective IT operations capability as one of the building blocks for those improvements. However, continuing leadership and political will to make those additional changes and process improvements will need to come from the Governor, the various agencies and departments and the legislature.

At the commission's request, I will confine the balance of my testimony to the challenges of the consolidation and the creation of the DTS.

My Experience

For 23 years I worked with clients of McKinsey & Company using and providing IT. For the last ten years of my tenure, I was the managing partner of McKinsey's global High Tech practice. I observed and assisted scores of companies and government agencies in using IT to improve performance. I also assisted in dozens of consolidations of IT operations as a result of mergers or reorganizations. My observations on the plans for creating the DTS are rooted in that experience.

In addition the Technology Advisory Peer Group (TAPG) has met twice with the cabinet secretaries and staff responsible for the formation of the DTS. The TAPG is composed of senior executives with experience in large scale, complex IT operations and consolidations in several private sector industries as well as government. The discussions in those initial meetings have been open and frank. The suggestions made by members of the TAPG have been thoughtfully received and in many cases acted upon by the staff and cabinet members. Much of the observations in my testimony are drawn from these discussions. As a result, the plans are being modified to reflect many of these ideas.

Summary Observations and Recommendations

The basic concept of the consolidation and the creation of the DTS is sound. The plans developed by the staff, while still a work in process, are headed in the right direction. Dividing the plan into two distinct phases and forming a Consolidation Management Office are best practice concepts that increase the probability of success. Like wise the "bottom up

development” of the plans by working groups involving all of the affected staff will increase buy in and help get the details right. In short, there is much to like about the approach being taken

The scale of the new entity will give the State the ability to better leverage its purchasing to take advantage of falling technology costs and should enable the more rapid propagation of best practices and new services based on new technologies. Because of the size, complexity and operating challenges in the merged entity, the DTS should also be able to attract, retain and motivate a very high quality staff. The plans that have been developed thus far suggest that there is much talent already in place. If successfully implemented, the creation of the DTS will be a step forward for the State.

However, the realities of the political process have forced the plans to deviate from best practice in several areas. While none of these changes are “fatal” on their own the cumulative effect is to increase the risks of an already difficult undertaking.

The compensation for the Director of the DTS has been capped at well below market rates. The leader’s role in a task of this complexity is crucial. The challenge of this undertaking should enable the State to attract the very best of IT management talent. If successful, the person who delivers this project will be one of a literal handful who has accomplished a reorganization of this scale. Anything that can be done to enable the recruiting of a top performer should be done and done quickly.

Also, the director will not serve at the pleasure of the board of DTS but rather will be a gubernatorial appointee. This blurring of accountability could slow decision making and open the door to second guessing many decisions that will inevitably be controversial. Clarifying the chain of command would increase the likelihood of success.

Further, the personnel and budget processes have reduced the planned staffing of the Consolidation Management Office (CMO). This is being penny wise and pound foolish. The quality and timeliness of the staff work in planning the transition is vital. It would help the overall effort to increase the up front investment in the planning staff.

Finally, the mechanics of the state’s budget process do not align with the realities of the IT market. The Director of the DTS will need to prepare a line item budget nearly a year in advance of the start of the year in which the expenditures will be made. Prices and capabilities for IT goods and services change materially in an 18 month time period. These budget constraints will force the DTS to be constantly behind the curve and unable to be as responsive to state departments and agencies as commercial operators with more responsive fiscal management policies. Giving the board and the director more flexibility while maintaining transparent reporting and accountability would be an important improvement.

Additional Observations

The focus of the effort should be on the creation of the DTS, a new entity with appropriately aggressive performance improvement goals. Focusing on the opportunity ahead will be more motivating to employees and help overcome resistance to change. The current plans do have this

element, but also have too much emphasis on the merger of the existing operations. This latter view tends to engender more resistance.

The team working on the implementation has begun to outline the performance improvement objectives for the DTS. They have begun to establish baseline performance measures for cost, quality and responsiveness of services. I would encourage them to go even further in two areas. First, it would be valuable to benchmark the current operations against best practice metrics and develop plans to close any gaps to get to world class performance. Second, customers of the current services should be given an opportunity to express what is working and what is not working from their perspective. The DTS would be well served to deliver some “early wins” to customers by addressing their concerns in the first 90 days of operations.

One additional planning element worthy of more emphasis is back up and recovery. The DTS will have sufficient scale to consider alternative configuration and location of assets and people to enable continuity of operations in the event of a disaster. In particular, consideration should be given to establishing one operation on a different power grid segment and earthquake fault system. Plans can then be made to use technology to move data and software around to enable operations to be quickly restored in the event of a loss of one center due to a large scale event.

The team is also working to shorten the time lines for fully integrating the operations. This is vital. Successful reorganizations move very, very quickly. Typically, major changes are made and new structures and processes are in place within 9 to 12 months. This requires top down decision making on which processes to standardize on and what architectural choices to make.

In turn this underscores the need to select the director for the DTS and get that person in place as rapidly as possible. Ideally, they would have been in place as the reorganization plan was being formulated and have had a chance to shape it. This hiring decision should be given top priority. In reality, the choice will not just be the director, but the top two executives. Ideally, one will have substantial consolidation experience and experience running an operation of this size. The other will be an “old hand” in the California State government IT and will know how to work the executive and legislative processes. If they are compatible, this sort of team will maximize the DTS’s chances for success.

With an eye to the future, some thought should also be given to clarifying the relationship between the DTS’s director and the State’s Chief Information Officer (CIO) and the Agency Information Officers (AIOs). As I observed earlier, the real benefits of the DTS will be in its ability to be a catalyst for change in agency processes and performance. Creating a forum for dialog between the director and the CIO and AIOs would be a positive step to encourage action on improving the cost, quality and productivity of processes.

As suggested above, the board of the DTS should be given more control over its budget and senior staff. The board’s role would be supported by the creation of the CIO-AIO forum described above. The cabinet secretaries and department heads should set priorities for process improvements and look to their IT staff and the DTS to deliver on those. They are in the best position to trade off IT expenditures versus other investments and expenses to accomplish their missions.

Finally, I would note that the staff has a very good beginning on their communications plans. The disruption for employees, customers, and other stakeholders should not be underestimated. Frequent two way communications are vital to calming concerns and coping with inevitable surprises along the way. These elements of the plan should be encouraged and appropriately staffed and funded.

Thank you, for this opportunity to submit testimony. I would be happy to respond to questions from staff or commission members.