

OREGON DEPARTMENT OF HUMAN SERVICES TRANSFORMATION INITIATIVE



State government agencies, like other public sector organizations today, are faced with increasing challenges, i.e., leadership transitions, constrained budgets, retiring workforce, etc. Given the transitory nature of these environmental influences, most state agencies continue to be under great pressure to improve their services and service delivery to the public to meet (and exceed) expectations. Doing more with less requires creativity and innovation to transform these agencies into lean, efficient entities.



DECEMBER 2008

This case study examines the enterprise transformation initiative underway at the Oregon Department of Human Services – an agency challenging itself to change and be the best.

Introduction

The Oregon Department of Human Services (DHS) is the largest agency in Oregon state government. DHS offers more than 300 programs and services to seniors, people with disabilities, low-income families, neglected children, and people with mental illness or addictions. Additionally, DHS contracts with county governments to support their many public health program initiatives. With so much at stake, DHS must ensure that the work it performs not only meets, but exceeds the public performance expectations.

At the conclusion of calendar year 2006, an urgent need was identified to better manage the Finance arm of the department. DHS partnered with Kauffman Global to apply LEAN thinking, tools, and techniques to DHS Finance business functions and processes. The LEAN philosophy, thinking, and implementation methodologies, tools and techniques created business knowledge not unlike that developed through business architecture practices. In this instance the segment focus was on Finance. Additionally, the LEAN initiative extended DHS' knowledge and insights to Information Architecture and work flow. The findings from this pilot effort established the foundation for developing new or overhauling the legacy finance system technology architecture. This effort raised the awareness level of LEAN and created an aura of potential across DHS.

Agency Profile

- * Agency: Oregon Department of Human Services (DHS)
- * Location: Salem, Oregon
- * Employees: 9,500
- * 2006-2007 Budget: \$10.7 billion

What does it mean to be world-class?

"It means being held up as a model for others to follow. It means a place where people are excited and energized to come to work every day. And it means being seen by clients as a partner in helping to achieve their goals, instead of an obstacle to overcome." [1]

Based upon Financial Management Services LEAN pilot success, DHS initiated an agency-wide effort to transform itself into a "world-class" organization in 2007. McKinsey & Company was engaged by DHS to perform data gathering about the entire agency. This has been articulated as the beginning of the "*DHS Transformation Initiative*." Because of the investigative nature and purpose of the initial effort, DHS chose to designate the work in several phases. **Phase 1: Discovery** includes: 1) conducting a baseline assessment to reflect the current state, 2) benchmark best demonstrated practices, and 3) propose a "Roadmap" of actions and opportunities to improve effectiveness, efficiency, and performance of DHS. Similar private sector enterprise transformation initiatives of this magnitude have taken several years to implement and realize their benefits. Encouraged by early progress, accomplishments, and results DHS continues to move forward. In June 2008, with the help from McKinsey & Co, the agency completed Phase 1 of the transformation. DHS has now moved into **Phase 2: Planning and Implementation**, which is projected to take two to three years, by engaging internal and external partners in implementing enterprise change.

A Case for Change

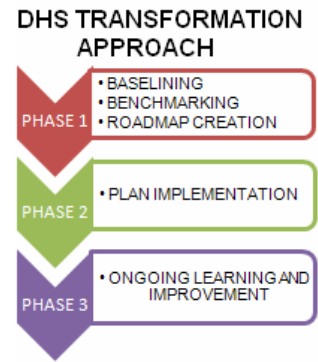
In 2007, DHS faced a \$150 million budget deficit. The deficit was expected to rise even higher in the coming years due to the increasing number of retiring baby boomers in the state requiring or applying for services. Additionally, increased legislative and public pressure due to an unfavorable federal review of the Child Welfare program indicated enterprise change was not an option, but an obligation.

The challenges within DHS are also substantially significant. The 'silo effect' was high with individual divisions were often the main drivers behind archaic and obsolete process. There were two previous agency-wide 'transformations' that predominantly resulted in major reorganizations. As a result, many within DHS perceived the new transformation more likely "just another reorg." [2]

A Holistic Approach to Enterprise Transformation

DHS has defined the agency-wide transformation initiative in terms of three phases. In **Phase 1: Discovery**, DHS partnering with McKinsey & Co assessed its current position and derived an opportunity and action roadmap.

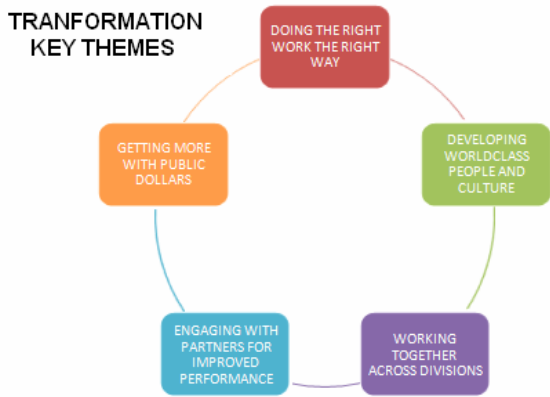
“Baselining” in this phase involved detailed evaluation of the agency business processes, policies and culture. Joint teams of McKinsey and DHS representatives (also called Tiger Teams) paid particular attention to critical processes that (a) touched a high number of clients, (b) were performed by a large number of employees, or (c) had a symbolic importance within the organization. [3] Throughout the process, the teams set targets to identify both waste and opportunities to create value by using metrics such as quality, cycle times, hand-offs, and value-added time ratios. The findings during this phase were insightful and valuable, potentially leading to streamlining opportunities. For example, the team discovered that inefficient distributed capacity and complicated manual processes led to much longer than expected cycle times within the Child Welfare program. Many Child Welfare cases, therefore, were measured in years as opposed to months. [4]



In addition to processes, the teams also examined the organization, its workforce, culture and operational spending. Several notable findings were not a surprise to the agency. For example, the teams validated that the majority of DHS employees understand the organization situation and expressed a desire for change. The findings also showed that employees want the organization to “focus on meaningful and purposeful actions.” There is also a significant gap between the organizational values that the employees perceive the agency has now with those values they would like the agency to have in the future. [5]

With these findings, the teams moved into the next stage by benchmarking DHS current performance output and outcome relative to other similar organizations. DHS key performance metrics were compared to three sources. First, metrics were compared to those of other health and human service organizations.

Second, metrics were compared internally across the DHS divisions to identify internal performance gaps. Lastly, metrics were compared to those of private sector organizations.



The last stage of this phase included deriving the opportunity and action roadmap for transformation. Using the findings from the previous stages and input from DHS division leaders, the teams developed a set of action paths for the agency. These action paths were organized around five key themes based on the potential impact and ease of implementation perceived by stakeholders.

Implementation

In the final months of 2008, McKinsey & Co was awarded the contract to help DHS implement the Transformation Roadmap. Some of the tasks that McKinsey is responsible for include:

- Train 40 LEAN Leaders in LEAN methodology and practices
- Provide a management overview of LEAN methodology and practices to 300 managers and executive staff
- Begin a sequence of rapid process improvement (RPI) events with the LEAN Leaders

At the end of November 2008, the DHS Transformation Initiative chartered a team to support each of the aforementioned five themes ; conducted 25 RPIs with approximately 200 participants; and provided

LEAN

“LEAN” is a production practice that considers the expenditure of resources for any goal other than the creation of value for the end customer to be wasteful, and thus a target for elimination. In a more basic term, **more value with less work.** [7]

LEAN overview training to more than 1500 managers and staff. [6]

Initial Results

While it is estimated that enterprise transformation initiatives may take up to 6 to 7 years to implement, DHS has already observed and measured some positive results from the completed work:

- The agency has gained a deeper understanding of itself. This self-discovery process enables DHS not only in assessing its own performance objectively, but also in identifying improvement opportunities.
- Visible progress is being made in business process improvement across all DHS divisions. For example, the cycle-time for hiring a nurse at the Oregon State Hospital previously took 80 days. This hiring process cycle-time was successfully reduced to 7 days enabling DHS to attract and retain quality candidates and at the same time utilize resources more efficiently.
- Cross-agency awareness and willingness to collaborate have greatly improved. Through training and learning opportunities, employees recognize potential value-add and saving opportunities earlier. This makes them more willing to participate and collaborate in the process.

Lessons Learned and Looking Ahead

Public-sector organizations that desire to engage in enterprise transformation can learn and apply critical lessons from DHS' transformation initiative efforts:

First, enterprise change requires enterprise dedication and involvement, from all staff at all levels. Leadership must champion the initiative, display visible and earnest commitment, and willingly dedicate resources. While top management is recognized most frequently as the initiator and driver of change, all employees need to be deeply involved in the process. Past transformation failures at DHS indicated that without the commitment and involvement of all staff, changes were simply impossible to implement. Employees resist and reject change when they lack the understanding about the why, when, and how change should be made.

Second, for many state agencies, the reality of running agency-wide change with internal resources alone can be overwhelming even though it might be the most economical approach. Staff assigned to these "special tasks" might already have too much to do and may grow disillusioned by the process. The recommended approach and best practice is to leverage internal knowledge workers with external subject-matter-experts, similar to DHS' experience with both Kaufman Global and McKinsey and Co. Partnering with an independent third-party allows for an unbiased view and interpretation of agency performance, and adds new skill sets and dimensions that eased DHS' resource constraints.

Lastly, a transformation of this size and magnitude requires substantial resources and consistent support from central state government. A new governor will be elected in 2010. DHS will need to continue to network with the legislature to gain further trust and allegiances and to mitigate potential political environmental risk factors to increase the likelihood of success.

Notes:

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[1] [2] [3] [4] [5]

Transformation Roadmap DHS 2008

[6]

DHS Transformation Initiatives web site. Retrieved December 17, 2008 from

<http://www.dhs.state.or.us/tools/transformation/phase2.html>

[7]

Lean Manufacturing. Wikipedia, *the free encyclopedia*. Retrieved December 31, 2008 from

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