An **interview** with the **Director of the US** department of defense's business transformation agency

James Kaplan
Kreg Nichols

Public-sector entities, like many commercial companies, are increasingly undertaking large transformation programs to streamline and improve core operations. Nowhere is this task more challenging than in the US Department of Defense (DoD), which is committed to transforming its business practices to support faster and more agile operations. This multiyear task will touch all aspects of one of the world's biggest enterprises with annual net operating costs exceeding $580 billion (including more than $30 billion for technology), 2.9 million people, and a supply chain involving 5.2 million items. The DoD established the Business Transformation Agency (BTA) in 2005 to help drive the transformation. Its responsibilities include deploying enterprise IT systems, publishing the business enterprise architecture, and supporting the governance of investment decisions through the Investment Review Board.

Few are as uniquely positioned to reflect upon the DoD's transformation as David Fisher, the first director of the BTA. Fisher joined the DoD from Silicon Valley, where as a consultant he helped private-sector companies implement large enterprise systems. As a special assistant to the deputy under secretary of defense for financial management, Fisher provided guidance for enterprise-level business transformation and was a member of the team that launched the BTA. McKinsey met with him in his office in Crystal City, Virginia, near Washington, DC, to discuss the differences between public- and private-sector transformations, as well as what he has learned about managing megaprojects.

McKinsey: Coming from Silicon Valley, how relevant do you think the public-sector context is to commercial enterprises?

David Fisher: The mission may be different, but many of the business challenges are the same. Outside experience with large commercial companies helps prepare for this type of role, because it gives you a willingness to buck the cultural trend and suggest new ways of doing business. But the public sector differs in some significant ways. For example, our leadership changes regularly—certainly every eight years, usually more frequently. This is a challenge when you consider that companies in the private sector work at transformation for a long time—sometimes up to 10 years—before they really start to reap the benefits. Also, the size of the Department of Defense poses a challenge. Our budget last year was just under $600 billion—more than the sum of the revenues of Wal-Mart, GE, and IBM.

McKinsey: What are the main challenges to deploying the technology to support the transformation?

David Fisher: We spend about $2 billion each year on IT business transformation, half of that on enterprise resource planning (ERP) systems throughout the Department of Defense. Much of the work focuses on deciding what should be centralized (at the DoD Enterprise-level) and what should be managed by components (for example, the Military Services, Defense Agencies, Combatant Commands, and Military Health Services). Here, as in any large enterprise, the people at the center are consumers of information, not process executors. As long as

information is interoperable and can be aggregated in a standard way, then those folks can do their job. Some decisions, however, can be distributed. The challenge lies in the gray area: where is it more effective to have a single system at the center as opposed to multiple versions that adhere to standards?

We have 27 systems in our enterprise portfolio today, and many of these are centralized only because there was no component capability when they were implemented years ago. As the component capabilities mature, we must ask if there are more efficient and effective ways to complete those transactions while still providing our cross-component community with the information they need to do their job.

McKinsey: How do you manage such large-scale transformation?

David Fisher: Much depends on governance and discipline in setting and implementing standards. Consider our experience implementing a set of financial standards for data. Initially, the reaction in the field was that this is going to cost too much to embed in individual IT systems, so we came up with a two-pronged approach.

In the short term, we agreed to create a bridge system to the components' legacy accounting systems, to save costs for them. It's not perfect, but it will move us toward interoperable data at a relatively low cost in a short time frame.

Our longer term challenge involves integrating these standards into various ERP systems. It is critical to get this right from the beginning. Again, the component managers

were concerned this would be expensive and difficult to integrate with their SAP and Oracle systems. So we deployed ERP experts into the component areas, and they worked with teams there to identify ways to configure those ERP systems so they could work with standardized data. It's been very successful.

McKinsey: How do you keep people motivated and set performance measures?

David Fisher: When I left the commercial environment, I thought one of the great things about leaving would be getting rid of the need to meet quarterly P&L targets, and the short-term decisions that result. But now that I don't have them, I miss the motivator of hitting our quarterly numbers. So you have to look for different kinds of motivators to keep projects on time.

McKinsey: With such large-scale technology deployments, what have you learned about managing megaprojects?

David Fisher: Many of the things that would portend a successful ERP implementation of small to medium size are the same things that would portend success for the large programs at the DoD.

We've looked at the top reasons ERP implementations fail. Many of them come down to governance, change management, requirements management, customization, skill sets of the people involved, and testing. Those concepts are immutable, regardless of size and scale. Our challenge with these immense projects is that implementation takes such a long time, spanning several generations of IT development. That

DAVID FISHER

Vital statistics
Born 1965 San Francisco, CA

Education
Graduated in 1987 with a BA in communication from Stanford University
Graduated in 1998 with an MBA from Santa Clara University's Leavey School of Business

Career highlights
Department of Defense
- Director of the Business Transformation Agency (2006–present)
- Director, Transformation Planning and Performance (2005–2006)
- Special Assistant to the Deputy Under Secretary of Defense (Financial Management) (2005–2006)
  BearingPoint
- Managing director (2000–2005)

Fast facts
Author of Optimize Now (or else!): *How to Leverage Processes and Information to Achieve Enterprise Optimization (and Avoid Enterprise Extinction),* 2004

Speaker on business process optimization at conferences

can be problematic and leave an opportunity for endless analysis and debate.

Also, you must be clear on the scope of what you're trying to optimize, since one person's view of the enterprise may be different from another's. From my perspective, the enterprise is the Department of Defense. But if I go to the Army or Navy, they might define the enterprise differently. So if they're trying to optimize the Army or Navy as opposed to the DoD, you'll end up with different solutions.

The department has been working a long time to modernize the way we do business. Every administration tries, and each time they make some progress. We want to build on the good work that's been done before us, but we also need to question previous actions that weren't successful, and offer new solutions. We still have a lot of work to do to get to where we want to be.

James Kaplan is an expert partner in McKinsey's New York office; **Kreg Nichols** is an associate partner in the Atlanta office.