IT Outsourcing at the California State University

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EDUCAUSE is a nonprofit association whose mission is to advance higher education by promoting the intelligent use of information technology.

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Preface

The EDUCAUSE Center for Applied Research (ECAR) produces research to promote effective decisions regarding the selection, development, deployment, management, socialization, and use of information technology (IT) in higher education. ECAR research includes research bulletins—short summary analyses of key IT issues, research studies—in-depth applied research on complex and consequential technologies and practices, and case studies designed to exemplify important themes, trends, and experiences in the management of IT investments and activities.

To identify case study candidates, INPUT began with a list of approximately 80 colleges and universities that outsourced or shared some of their IT functions. From this list, 10 were interviewed extensively by telephone, and three were selected for on-site visits.

ECAR on-site visits are extensive and involve nearly two days of interviews and meetings with the widest variety of institutional representatives associated with—or affected by—the technologies or practices being investigated. ECAR wishes to thank the leadership of the California State University for their time, assistance, and diligence in support of this research.

We hope that the readers of ECAR case studies will learn from the experiences of others.

Introduction

California State University (CSU, also referred to as “the system”) is implementing a very complex PeopleSoft ERP system that includes an outsourcing component for data center services. This implementation is occurring under the floodlight of national attention. As a result, higher education executives everywhere want to know

- whether the project was well conceived and is on target, from both an operational and financial point of view;
- whether universities elsewhere should follow the CSU example; and, if so,
- what lessons are to be learned even now, before PeopleSoft is fully implemented and while the outsourcing agreement is still fresh.

Evidence presented in this case study (and with reference to the University of Alberta case study) makes it clear that outsourcing is a viable solution to a variety of problems, and—particularly for large, multicampus institutions—it generates very high expectations.

Although the outsourcing component of CSU’s implementation is not yet seasoned
by even a year of operations, there is no evidence so far of any serious problems. Outsourcing appears to have proven its ability to deliver. Like any large undertaking, the start-up and implementation were not easy. Universities elsewhere would be well advised to heed the adversities overcome by CSU in the project’s early stages.

Founded in 1960, the CSU system is the largest four-year university system in the United States. It hosts more than 21,000 faculty and 370,000 students on 23 campuses and six off-campus centers. The oldest campus, San Jose State University, was founded in 1857. In 2002, CSU’s newest campus, California State University, Channel Islands, will begin admitting students.

According to Richard West, CSU executive vice chancellor, “By the early 1990s, rising IT costs became a great challenge. We realized that if we were to upgrade our IT services and infrastructure on 23 separate campuses, we would go broke.” The data center outsourcing contract, awarded by CSU to UNISYS in 2001, became one critical element in a very large, long-term plan to upgrade the university system’s IT infrastructure without going broke.

CSU campus presidents met in 1993 to address the IT challenge, as well as opportunities offered by rapid technological change. They agreed that technology should not be considered merely a cost (or burden on the budget) but a strategic resource to be leveraged in support of the university system’s mission and goals. Their consultations resulted in a new planning framework called “The Integrated Technology Strategy” (ITS) in 1996. Subsequently, the plan was approved by the executive council of the system and endorsed by the board of trustees. An ancillary report, “The Technology Infrastructure Initiative” (ITS-TII), addressed the baseline utilities, hardware, software, user training, and support systems required to fully implement the ITS.

In addition to providing specific student and faculty benefits, the ITS-TII initiative aimed at assuring, in part, that all CSU campuses would have:

- a fully built-out baseline intra- and inter-campus technology infrastructure,
- a funded program to keep the infrastructure current, and
- infrastructure capability to meet the educational needs of 100,000 new students anticipated to enroll by 2005.

An April 1996 preparatory study by IBM Higher Education Consulting Services concluded,

“... A significant performance gap separates the current state of technology access/support from the future state as articulated in the CSU IT vision... Opportunities exist to realize significant economies of scale through system-wide and/or multi-campus initiatives at CSU. On the other hand, the current cultural and political environment at CSU sometimes inhibits effective system-wide and/or multi-campus collaboration on technology initiatives.”

*“By 2005, all students, faculty, and staff will have anywhere/anytime electronic access to information resources in support of the teaching-learning mission of the university.”

But the CSU’s IT initiatives were a clear challenge to tradition and vested interests, which often pose serious obstacles to achieving system-wide goals at any large institution.

In November 1996, the CSU chancellor’s office, in cooperation with the campus chief information officers, commissioned a report by The Pacific Partners Consulting Group, “California State University Data Center Consolidation Feasibility Study.” The report explored various cost-saving alternatives that
entailed reducing the number of campus data centers, including internal outsourcing and various forms of partnering.

The report concluded that consolidating operations centers and systems support had been demonstrably successful at many institutions of higher education, but consolidating applications and user support services was much more difficult owing to the potential loss of control by end users. The report found that savings achieved ran as high as 50 percent, but it could not easily be “re-patriated” to the central system due to budgeting issues.4

Finally, the report emphasized that “Consolidation offers less risk than complete outsourcing; however, the scale of the consolidation must be large enough to offer significant savings,” adding “successful consolidations result only when driven by top management.”

Even so, according to the report, critical success factors include having a “top-down process, agreement on a set of principles, a commitment from leadership, and a willingness to invest resources up-front.” Moreover, it also is extremely important that individual campuses be willing to relinquish control in favor of a consolidated facility.5

Significantly, the report insisted that “It is not possible to determine accurately the savings [that] CSU could realize from consolidation without a detailed study of actual IT costs incurred by the current campus and Chancellor’s Office data centers.” Nevertheless, the consultants believed that incremental savings of $22 million were possible as a result of consolidating all CSU IT operations centers and systems support into only two regional centers, presumably one for northern California and one for southern California. These cost savings also depended on a phased-in schedule extending no more than four years and an up-front investment of $3.5 million to $6.5 million.6

The Initial Challenge

David Ernst, assistant vice chancellor of information technology services in the chancellor’s office at CSU, described what motivated the CSU simply by saying, “Initial research showed that we were spending $50 million to $60 million annually to operate 20-plus separate data centers.” His challenge, and that of his colleagues, was to devise a way to cap, if not reduce, these expenditures as well as improve significantly the level of IT services provided across the CSU system.

In addition, there was growing concern over IT “haves” and “have-nots” among the CSU campuses. These discrepancies spanned hardware, software, networks, human resources (HR), and financial resources. Disparities of resources reflected differences in history, enrollment size, location, leadership, and other factors.

Compounding the “haves” and “have-nots” issues were the rapid changes in technology. In the mid-1990s, the CSU IT system was still mainframe driven; the infrastructure, hardware, and applications were outdated. By the late 1990s, technology shifted to the Internet and to server-based, distributed systems. Campus leaders were up against a wall. From where they stood, they could not upgrade and maintain what they had, despite its obsolescence, or advance to new functionality and infrastructure.

In 1996, a task force (consisting of campus chief information officers and their staff) was set up to study the feasibility of consolidation. Their work concluded in the Pacific Partners’ report referenced above. The report was presented to CSU’s Commission for Institutional Management and Information Technology (CIMIT), which determined that any decisions on consolidation should be deferred until CSU determined its direction on administrative software upgrades.
At the same time, a common management system (CMS) task force began investigating the feasibility of replacing existing multicampus-common financial management systems. The CMS was conceived primarily as a joint procurement vehicle whereby each school would operate its own financial software.

Early on, the scope of the CMS study expanded to include efforts under way at several campuses to improve or develop HR management systems as well as to improve and expand student administration systems. The CMS’s expanded scope became a primary driver for the selection of PeopleSoft as the vendor of choice on the basis of its integration capabilities and flexibility.

By 1998, the move toward a CMS was well under way, and PeopleSoft had been selected. The new CSU chancellor, Charles Reed, realized the value of having a common system on all campuses and therefore mandated it. For Reed, the latest challenge was to find the money to pay for such an expansive and common administrative system.

Richard West, CSU executive vice chancellor/CFO, saw the challenge from another angle: “[CSU] can put money into this project, but, if we do that, the campuses will need to accept new constraints, that is, make a commitment to cooperate.”

As planning progressed for implementation of a CMS, the earlier efforts to consolidate data centers required reconsideration. It became clear that this ERP implementation would best be located at a few regional sites or possibly at a single, common site—not at 23 different campus sites.

Accordingly, what began as two separate initiatives—an effort to cut costs by consolidating data centers and a project to improve financial systems via one common financial management system—led to a major decision to replace the legacy financial, HR, and student administration systems with PeopleSoft. The decision also led to the previously proposed data center consolidation.

**CSU’s Centralization/Decentralization Experience**

Technological developments are a key factor in the choice between centralization and decentralization.

**System-Wide and Chancellor’s Office Data Centers**

During the mid-1970s, CSU had a central data center for the entire system. It was located on Wilshire Blvd. in Los Angeles. The data center was retained even after the chancellor’s office moved to Long Beach. A lack of space in the Long Beach facility resulted in CSU’s leasing space in nearby Los Alamitos for its own data center. In 1997, as CSU downsized its system-wide IT center, it outsourced the legacy system data center (in Los Alamitos) internally to its Fresno State campus, which offered the lowest bid for the work in an open selection process.

That system IT center still exists at Fresno State, and it still runs the legacy system. The chancellor’s office as a business unit and several campuses will use the Fresno center until they are brought online with the new PeopleSoft system from the UNISYS outsourced data center in Salt Lake City, Utah.

**Campus-Specific Data Centers**

Beginning in the late 1980s, paralleling advances in IT (moving from mainframes to distributed, client-server computing models), CSU decentralized its IT functions. Each campus began establishing its own data center.

However, it was becoming excessively expensive to maintain technical expertise on each campus to staff the separate data cen-
ers, so it began to look increasingly attractive to maintain staff primarily at a single, central data center. Also, advances in the Internet made telecommunications more reliable and affordable. Sufficient bandwidth had become available, and the need for fast and reliable system-wide information was increasingly critical.

The Solution

When CSU decided on a single software suite for its ERP system, campus presidents agreed with the chancellor on the strategy of taking $10 million off the top of the total CSU budget—before allocations were made to each campus—to partially fund the new CMS. Consequently, there was minimal campus contention for funds, where otherwise there would have been competition involving other campus priorities.

The decision to adopt common software clarified the issue of having a consolidated data center to run it. It also begged the question of whether these support services could be outsourced. The consolidated data center would take on the new work generated by the new system-wide ERP, including HR, finance, and student administration. However, the plan did not necessarily call for this data center to replace all services provided by the existing campus data centers. The state legislature wasn’t calling for outsourcing. In fact, organized labor had exerted continuing political pressure on the state legislature to reduce or delay outsourcing initiatives.

No matter how well conceived, solutions still need funding. During the academic years of 1999–2000 and 2000–2001, California felt the pain of a 17-percent drop in state appropriations for higher education, the most severe decline of any state in the nation.7

Funding

Historically, CSU has fared well in the budget process and has been able to obtain money to support growth. On occasion, the legislature has appropriated separate funding amounts above expected levels of growth, and these were included in the base level of permanent funding for CSU.

CSU didn’t ask for additional money from the legislature for the CMS. The funds for the $400-million estimated total CMS implementation cost over seven years would come from a variety of sources, including campus assessments, use of undesignated growth funds, and reallocation of existing budgets over seven years.

In 1995, CSU spent an estimated $100 million for maintenance and operation of the existing legacy systems supporting finance, HR, and student administration. According to Ernst, these costs have been increasing at a rate of 2 to 10 percent annually. As a result, the current-year maintenance and operation figure is estimated at $125 million.

Ernst answers critics who complain that no return-on-investment (ROI) analysis has been presented to justify the cost of implementing the CMS initiative, including the data center outsourcing contract to UNISYS, by focusing on the “big picture”:

“If you know that your existing un-maintainable [legacy] base is costing you $100 million annually and growing, and you know that you can replace it with a modern system for a $400-[million] one-time cost over seven years, a formal ROI analysis is unnecessary.”

Politics of Centralization versus Decentralization

From the point of view of the chancellor’s office, what Reed is doing is not exactly a centralization move because it ultimately gives each campus more options. But what is the view of the individual campuses?

Steve Wilson, associate vice president for administration and finance at Sonoma State
University (SSU) and SSU executive director for the SSU CMS project, had a succinct assessment of his relationship to the chancellor’s office in Long Beach:

“We are like the branch bank reporting to the home office. This is a CSU initiative to try to economize on hardware and skilled staff.”

When asked how CSU had been able to achieve a consensus behind the CMS under these circumstances, he clarified:

“We have an agreement, not a consensus. In an outsourcing environment, there is no consensus, rather a need for leadership and direction, or else there will be chaos. We are moving in a positive direction, and we are learning rapidly. From the point of view of Sonoma, we have excellent relations with both the hardware and software groups of the CMS project. We are not losing visibility.”

So, in the end, will Sonoma benefit from the CMS and the outsourcing arrangement for its data center? “Yes,” says Wilson:

“From a strategy point of view, this is very important. We are approaching a point when we will have an information management system that will move us in the direction of better decision making. While some campuses will not complete implementation and start benefiting until later this decade, Sonoma State will begin to benefit in 2004.”

Developmental Chronology

Selecting a vendor involves budget considerations, risk assessment, and dedication by a core group of participants with a wide variety of perspectives.

Competitive Bidding

When Ernst called Vicky Tauscher at Aligne Consultants for help in developing a request for information (RFI) for a solution, CSU’s need for additional expertise in the ERP vendor selection process was highlighted. Tauscher was key to providing CSU with consulting on the outsourcing market and help in the cost analysis of the final bids. CSU managed the bidding process and made the final decisions on award.

CSU released a request for qualifications (RFQ), and 21 vendors attended a mandatory vendor conference. Four vendors responded to the RFQ: IBM, UNISYS, EDS, and Oracle. From the vendors’ point of view, the project’s annual revenue stream was insufficient to register on many radar screens. Had CSU been able to offer an annual revenue stream of $20 million or more, according to Tauscher, a wider spectrum of outsourcing vendors likely would have responded.

On the basis of RFQ responses, as well as RFI feedback and questions, a team of CSU campus CIOs and other technical staff, along with chancellor’s office procurement staff, CMS technical and project management staff, PeopleSoft staff, and Aligne, developed the request for proposal (RFP). The RFP was sent to the two vendors qualified as a result of the RFQ: IBM and UNISYS. CSU diligently examined each of the finalists, and vendors were allowed clarifications. As a result of the team’s assessment using predefined evaluation criteria, IBM Global Services won the bid.

Initial Issues

Many client-based elements can affect whether an outsourcing initiative succeeds or fails—especially before a vendor is even selected. This proved true for CSU. The primary elements needed are collaboration, good planning, consistency, and cooperation.

It’s worth noting that CSU chose to tell the finalists, up-front, how much money CSU had available to spend on the solution. Normally, such a “showing of cards” might
be avoided. However, in many instances it assists in keeping only closely matched partners involved. IBM Global Services’ bid and overall cost came close (two percent over funds available). The initial bid by UNISYS resulted in an overall cost that was 25 percent over funds available.

Tauscher stressed the importance of collaboration and the intense interest of campus representatives during the outsourcing vendor evaluation process:

“Often you try to get representation from IT and business offices alike. In the case of CSU, we had a core group of 12 people who were willing to participate for the entire process. However, we did not have a representative from every campus in this group. Some campuses were comfortable not participating, because they had virtual representation through an internal umbrella organization (the IT Advisory Council, which includes all campus CIOs).”

According to Tauscher, this consistent group of 12 people was especially effective because it included various perspectives and everyone had a positive attitude. This was particularly important because CSU was obligated to meet deadlines with the RFP evaluation process.

However, regarding the financial end of the process, Tauscher added,

“There was [not enough] time [as we would have liked] for a baseline cost evaluation... We did not do a normal cost model, that is, a function-by-function analysis with full-time assignments, which is a very lengthy process. We did a higher level assessment of budget data ...”

Tauscher continued,

“We knew in advance what funding was available. Our job was to get the job done within the amount available, or less. [However,] cost is only one of many outsourcing drivers. To make an accurate comparison, we needed good baseline cost data—which was unavailable.”

When the RFP responses were received, CSU had not yet determined whether the planned outsourcing would involve multiple data centers or a single data center. CSU had decided by that time that it didn’t want to locate the CMS project at the chancellor’s office IT facility or on any single campus. The final decision to implement a single data center emerged from the proposals submitted by IBM and UNISYS and the ensuing evaluation discussions with them.

CSU also wanted the winning vendor only to host the PeopleSoft application, not to manage the PeopleSoft application development—a very important distinction. CSU expected that the implementation process would be complex, requiring close collaboration with PeopleSoft experts and consultants working on each campus. Also, the winning vendor would not be responsible for network services from the data center to each campus. CSU retained that responsibility under its existing intercampus network organization.

**Contract Award**

Finally, despite its initial price advantage, IBM Global Services lost the contract during the negotiation process as prices increased. CSU ultimately awarded the outsourcing contract to UNISYS. Sheila Bickham, CSU director of hardware operations and support services, considered the entire CMS project as the framework for data center consolidation, exemplified by the outsourcing contract to UNISYS to host the new PeopleSoft implementation. In her words,

“There was risk, and we wanted to minimize risk. We wanted to avoid 23 campuses upgrading to
PeopleSoft 8.0 independently—with a higher risk of failure than the risk associated with maintaining a uniform, centralized implementation.” Bickham also stressed that, over time, CSU’s would find attracting and maintaining IT staff on small campuses extremely difficult.

**Final Data Center Outsourcing Contract**

The outsourcing contract included the following UNISYS responsibilities:

- Hosting the PeopleSoft ERP application.
- Responsibility for hardware maintenance, system software maintenance, all backups and recovery, and the data center facility.
- Help desk interface to third- and fourth-tier help desks. (Each campus has its own tier-1 help desk; the CMS at the chancellor’s office has a tier-2 help desk.)
- Guaranteeing recovery of the data center database. UNISYS’s agreement with SunGard is for recovering the CSU data residing in the data center and providing connectivity to the recovery facility.
- Network responsibility within the data center only.
- Certain database administration responsibilities, including managing database availability, backup and recovery, planning and capacity, database security, and performance.
- Provision of third-party tools. (UNISYS provides software outside of the PeopleSoft application to assist in campus operations—for example, job scheduling tools, database replication, performance monitoring, and security tools.)
- Service delivery management providing for a single point of contact and a dedicated resource.

**True Outsourcing or an Anomaly?**

Some contend that the CSU-UNISYS contract doesn’t constitute true outsourcing. According to CSU’s Hilary Baker, “CSU’s contract to UNISYS is not true outsourcing because we did not have an established PeopleSoft data center operation that we could offload to an outsourcer.” By her definition, true outsourcing means that the client hands over to an outsourcing vendor responsibility for a function that is already operating under known parameters. In short, what Baker contends is that CSU clearly identified what it needed and wanted but didn’t have operational experience that could serve as a baseline for an outsourcing agreement.

**Demographics of Schools and Communities**

CSU campuses are located in rural, suburban, and urban communities. Students have various ethnic backgrounds, and each campus provides diverse academic programs. As of fall 2000, CSU had 41,000 employees, 11,000 full-time faculty, and a total student enrollment of 368,000, with individual campuses exhibiting wide variations.

CSU offers primarily undergraduate education; only 20 percent of total enrollment is at the post-baccalaureate or graduate level. The average age of all students is 26; full-time enrollment is 77 percent of the total. In terms of diversity, Caucasians make up less than half of total enrollment (47 percent); more than one-third consider themselves to be multiracial. Women represent 57 percent of undergraduate enrollment and 65 percent of graduate enrollment. Yet, 97 percent of total enroll-
ment comes from within California, and 40 percent comes from households where English is not the primary language spoken. Eighty-five percent are commuters rather than residential students. Because only 56 percent of students are dependents of their parents, a large number are working while they complete their studies (36 percent work full-time). CSU is a highly diverse and, in many ways, a unique system.10

**Revenues and Expenditures**

CSU’s 2001–2002 proposed budget request includes $10 million for technology build out and $5 million for increased network investments. Figure 1 shows CSU’s overall 2000–2001 budget allocations.

**Current Status**

As of January 2002, CSU has 11 campuses “live” in the PeopleSoft HR and/or finance modules and actively using the UNISYS Salt Lake City data center. In addition, five of the second-wave schools have begun using the data center for their HR and finance implementations. Three campuses are operational as a pilot implementation of the PeopleSoft student administration modules, and three more campuses have begun their implementations. CSU requires that a campus be live with HR and finance before going live with student administration.

In this context, CSU was extremely pleased that UNISYS, which had come in second in the initial round of competition with IBM Global Services, responded immediately by renewing the terms of its prior bid, even though it was not obligated to do so. Said Baker,

“When we recontacted UNISYS, they brought back people who had participated in the original bid team. Also, UNISYS agreed to the terms of its original offer. There was strong interest and cooperation to work with the CSU CMS team.”

**Implementation Sequence**

The 11 first-wave campuses were self-selecting: they advanced knowing they would get PeopleSoft functionality and services from an outsourced data center. These 11 campuses have been operationally using the HR and/or finance system since July 2001. Five of the remaining campuses are now implementing HR and finance. Three
campuses are operationally using the student administration system, and three more campuses began their student administration system implementations in March 2002. CSU owns licenses for additional PeopleSoft modules, including accounts receivable and asset management, which will be implemented in the coming years.

**Summary of System Operations**

From the UNISYS point of view, many technical issues were resolved in the first six months of the contract. Now, UNISYS says it needs to focus more on management issues. The contract includes clauses for utilization changes. CSU monitors these changes monthly, which is important for a number of operational and financial reasons. UNISYS has promised 98.5-percent functional availability for the system. Higher levels are possible, but they wouldn’t be cost-effective. UNISYS says it could deliver 100-percent software availability, but the cost would be high and unjustifiable. If operational hours need to expand, the service-level agreement will be modified. The first was written for 99-percent availability, but during evaluation and negotiation, CSU lowered its requirement to make the contract affordable. Outages or unavailability of data would cause CSU embarrassment, especially during student enrollment, even if the school wouldn’t suffer life/death liability or significant monetary damages.

For system recovery and backup, UNISYS provides off-site storage, including daily and weekly tape storage. Recovery out-takes are sent to SunGard regularly. According to UNISYS, “We have the flexibility to operate out of a SunGard [disaster recovery] center, if necessary.”

**Opposition from Organized Labor**

The initial controversy generated by the announcement of the outsourcing agreement has subsided, but organized labor remains ambivalent about the CMS program in general and negative about the outsourcing component in particular. “We have a visceral dislike of outsourcing,” explained Teven Laxer, senior labor relations representative of the California State Employees Association (CSEA), CSU division. Unions in California higher education are organized into bargaining units; CSU has 10 units for 40,000 employees. CSEA represents 95 percent of employees. Laxer made several points about the union’s position. Job security and jurisdiction, as well as promotion and professional development, are important issues. The union doesn’t like to see jobs contracted out to other [non-CSU] entities. The data center contract is sensitive; it limits employee opportunities, work that could have been performed by union members.

Under Republican governors since 1982, unions couldn’t bargain over the decision to outsource but could bargain over consequences. Currently, California law enables unions to bargain over the issue of outsourcing. As a result of union bargaining in the CSU case, no jobs can be displaced because of outsourcing.

According to the union, the UNISYS system for tech support is cumbersome and redundant. Members feel that their expertise is unused. The union proposes to make the internal data centers more efficient and cost-effective by increasing their utilization—by having CSU itself offer ASP services to K–12 systems, community colleges, and other public institutions.
Higher education executives are likely to dismiss the union’s concerns as backward-looking, while characterizing CSU as forward-looking. The union’s efforts to defend the status quo come up short in the face of rising levels of cost, risk, and inefficiency that are likely to result from maintaining the present system. Nevertheless, the CSEA reaction demonstrates that organized labor in California is not a paper tiger, and if the issues it raises are not answered adequately, outsourcing projects will suffer years of controversy that could threaten their ultimate success. (See the comments on union problems in relation to the University of Alberta’s outsourcing initiative in the case study that follows.)

**The Long-Term Challenge**

“Chancellors come and go. After this one leaves, we will probably return to decentralized, campus-based computing,” according to one long-time CSU employee who has served under a series of chancellors and their administrations (and wishes to remain anonymous).

Countering that sentiment, which is pervasive among many of those with the longest tenures in CSU’s IT bureaucracy, will be the system’s greatest challenge, according to top CSU executives. They want to create a successful implementation and a commitment to the system that will prevent the CMS project from unraveling after the departure of the current group of administrators.

As long as there was no centralized student administration system, or HR system, each campus was obligated to provide for its own needs. Some campuses utilized makeshift software solutions; some use SCT’s Banner product. However, under the CMS program, the university is moving into a period of unprecedented harmony—at least in terms of IT operations. With a modicum of luck (and no disruptive new technology), CSU will continue to build on the current foundation and reap the benefits of this program.

**Outlook**

What will the relationship of CMS be to future outsourcing initiatives? Mike McLean, chief of staff for information technology services, insists that “We are not on a death march to impose outsourcing on the world.” Ernst adds, “If we were asked to consider other areas of outsourcing, a potential target might be networking services.”

In Ernst’s view, some might consider an operation like CSU’s wide-area network a target for outsourcing. “The existing network assets could be acquired by an outsourcing vendor and operated by the vendor. Due diligence would require us to at least consider this option at some point.”

Currently, CSU is managing 4CNet, an intercampus network that includes 23 CSU campuses and 125 community colleges, as well as high-speed links to the University of California system, Stanford University, California Technical Institute, and the University of Southern California. In addition, 4CNet provides links to 58 counties at county offices of education that then provide connections to the state’s K–12 districts and campuses. Set up in the 1980s, the network has grown over time and is being operated on a cost-recovery basis.

**Collaboration for New Initiatives**

Other collaborative initiatives already in place outside of the CMS framework will likely continue and expand. For example, CSU collaborates with California community colleges by providing them with network services. Both CSU and the University of California (with others) participate in a nonprofit consortium to promote Internet2. Over the past three years, CSU has been part of a statewide initiative to develop an optical fi-
ber network for higher education through the Internet2 consortium. Ultimately, the network may be owned and operated by the nonprofit Corporation for Educational Network Initiatives in California (CENIC). These are only a few examples of new institutional configurations being developed to advance IT in statewide higher education.

The long-term, sustained cooperation required by the CMS program appears likely to be used to leverage other collaborations between the various CSU campuses and between CSU and other institutions. As with the Associated Colleges of Central Kansas consortium (the subject of the preceding case study in this report), cooperation begets cooperation. In the process of developing these new shared programs and services, there is likely to be renewed attention to distinguishing between core and noncore university functions, which increases the probability that noncore functions will be outsourced—as with the UNISYS contract for data center outsourcing to support the CMS program.

**Applicability Elsewhere**

When CSU began planning and implementing the CMS project and the related data center outsourcing, California’s budget had ample funds. But in California as elsewhere, over the past few years the state’s financial outlook has deteriorated sharply. While CSU officials remain optimistic that they will be able to maintain their schedule for the project, they admit that if they were trying to initiate this expensive project today, there would be less likelihood of success.

However, and more importantly, data center consolidation and/or outsourcing need not be brought in through the back door. Any large-scale enterprise software upgrade would raise the same questions that occurred for CSU regarding the viability and expense of duplicating services on multiple campuses that could be consolidated efficiently and cost-effectively using a centralized data center.

Opposition from organized labor isn’t likely to jeopardize the success of either the CMS project or the related data center outsourcing contract. However, CSU’s experience exemplifies the importance of selling any new project that threatens to upset existing staffing levels and job assignments. CSU executives are unlikely to admit that the CSEA poses any serious threat to their long-term plans for development of IT services, but the union has raised some important questions that will likely attract the attention of legislators and the press.

At the risk of stating the obvious, the CSU model that uses limited help from outsourcing can only work for large institutions that are able to sustain substantial internal IT infrastructures. Those unable to build or sustain comparable in-house capabilities will find themselves obligated to seek help from outsourcing vendors.

The value of the outsourcing contract associated with the CMS program is modest and affordable by many institutions. Cost savings and efficiencies were the key drivers in the CSU’s moving to an outsourced environment for its ERP operations and support services. While the positive fiscal climate contributed to CSU’s going forward with its ERP, the outsourcing decision could have been made and justified in a positive or negative fiscal environment.
Endnotes

1. This and all subsequent citations, unless otherwise noted, derived from interviews held at the chancellor’s office in Long Beach, California, in January 2002.


3. Ibid.


5. Pacific Partners, p. 3

6. Pacific Partners, p. 4


8. When asked if the outsourcing component is transparent to Sonoma, Wilson replied, “Not at all. We used to have complete autonomy over our student administration system. Now, we are dealing with a great institutional change. We will now need to go through the chancellor’s office for CMS access.” He insisted that he was not skeptical, but believed that, in higher education, there was a heavy weight from tradition and past practices that would need to be lifted before the campuses would feel comfortable with the new system.

9. Because both CSU and IBM Global Services advised INPUT that litigation may result from this decision, neither party was willing to discuss in detail the reasons why the initial award to IBM was retracted and subsequently given to UNISYS.

10. CSU administrators are keenly aware of the difference between the California State University system and the University of California system, explaining that, “We are one university with 23 campuses versus the University of California, which comprises nine separate campuses, each with separate funding and more operational independence. The University of California Office of the President serves mainly to coordinate the operations of each constituent university.”
