



Government's productivity imperative

Governments can—indeed, must—undertake operational improvements to boost productivity. Doing so will require a clear mandate, performance targets and transparency, and a workforce equipped with the right skills and capabilities.

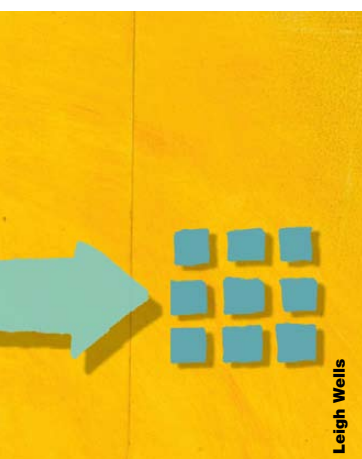
**Hans Arnum,
Thomas Dohrmann,
John Dowdy,
and Allison Phillips**

In February of 2009, President Obama signed the largest spending bill in US history—an economic stimulus package that raises the federal deficit by \$787 billion over the next ten years. In light of massive investments to stabilize the financial system, increased payments of unemployment benefits, and other types of government spending, the full impact of the crisis on the US federal budget will be a deficit equal to a staggering 15 percent of GDP by 2010. Similar scenarios are playing out in other industrialized nations as well, in varying degrees of magnitude (Exhibit 1).

Even before the current crisis, many governments were spending well beyond their means. Budget deficits and debt burdens, already on the rise, are certain to grow even more because of aging popu-

lations and the consequent pressures on health care, social security, and pension systems. If governments are to have any hope of approaching a long-term equilibrium in their finances, they must take drastic action.

There have been a spate of proposals involving raising taxes, reducing services to citizens, or undertaking entitlement reform; these are difficult choices that may prove necessary. But while these issues are receiving the bulk of public focus, there is another component of deficit reduction that, in our view, deserves more attention than it has been getting: governments can make significant improvements in their performance and productivity—and ensure that every government dollar spent yields the maximum benefit for



citizens. We acknowledge that even a considerable rise in productivity will not be enough to close the deficit gap—but it can certainly be a part of the solution.

There are two common misconceptions that get in the way of governments aggressively pursuing productivity improvement. One is the belief that significant improvements in the performance and productivity of government can come about only through system-level change (for example, privatization and the introduction of competition). In our recent analysis of more than 500 newspaper and magazine articles about productivity, we found that 76 percent of the articles on public-sector productivity focus on system-level change; the same is true for only 13 percent of the articles on private-sector productivity.

Our experience argues against the popular view. In our work with governments and public institutions around the world, we have seen incontrovertible evidence that dramatic improvements in performance and productivity can come about when governments make thoughtful, disciplined operational changes. Simply doing the same tasks in new ways, as it turns out, can be extremely powerful. Insisting only on

system-level change obscures the vast potential available within government's existing frameworks and operating systems.

The other misconception is that improving productivity necessarily involves headcount reduction. Productivity gains can certainly come from reducing inputs (that is, employee hours), and in certain cases layoffs may indeed be required—but productivity improvements can also come from increasing the quality or quantity of the outputs (the goods and services generated by employees). Another important measure of productivity is relevance: higher productivity can come from ensuring a closer alignment between the outputs and citizens' needs and demands.

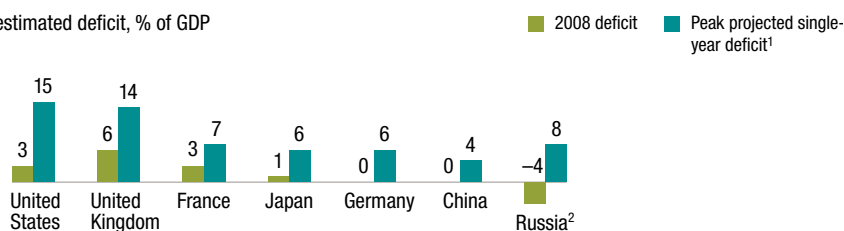
The current economic crisis presents a rare chance for governments to make radical changes in their operations and thereby boost productivity. Enterprises around the world are rethinking their operating assumptions; governments should do no less. Against the backdrop of the global downturn, governments have a window of opportunity to introduce new operating practices that will drive performance and productivity. In this article, we lay out the value at stake, as

Exhibit 1

Government budget balance forecast

The US deficit is projected to peak soon—and other countries will face similar situations.

2008 deficit compared with peak estimated deficit, % of GDP



¹Occurs in 2009 or 2010 for all countries.

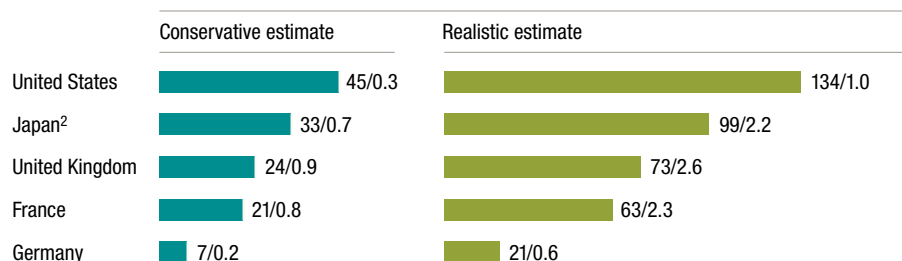
²Negative figure indicates surplus rather than deficit.

Source: Economist Intelligence Unit

Exhibit 2

Positive impact2007 \$ billion/% of GDP¹

The estimated value of potential annual gains from increasing public-sector productivity is impressive.



¹In 2007 dollars, calculated as potential end-state reduction in spending made possible by a 5% (conservative estimate) to 15% (realistic estimate) productivity increase.

²2006 numbers.

Source: Organisation for Economic Co-operation and Development (OECD); McKinsey analysis. Discretionary spending includes compensation, use of goods and services, consumption of fixed capital, and other; excludes interest, subsidies, grants, and social benefits.

well as the critical factors that need to be in place to effect and sustain productivity gains: a clear mandate for operational change, well-defined performance targets and transparency, and the right skills and capabilities.

The size of the prize

The private sector becomes more productive each year. Long-term productivity increases in the private sector average 1.64 percent in the United States, 1.54 percent in the European Union, and up to 7.53 percent in developing economies such as China and India. Although figures for public-sector productivity are notoriously difficult to come by because of the challenge in quantifying outputs, research suggests that public-sector productivity in large economies such as the United Kingdom and the United States is flat or even down, and certainly below the levels seen in the private sector.

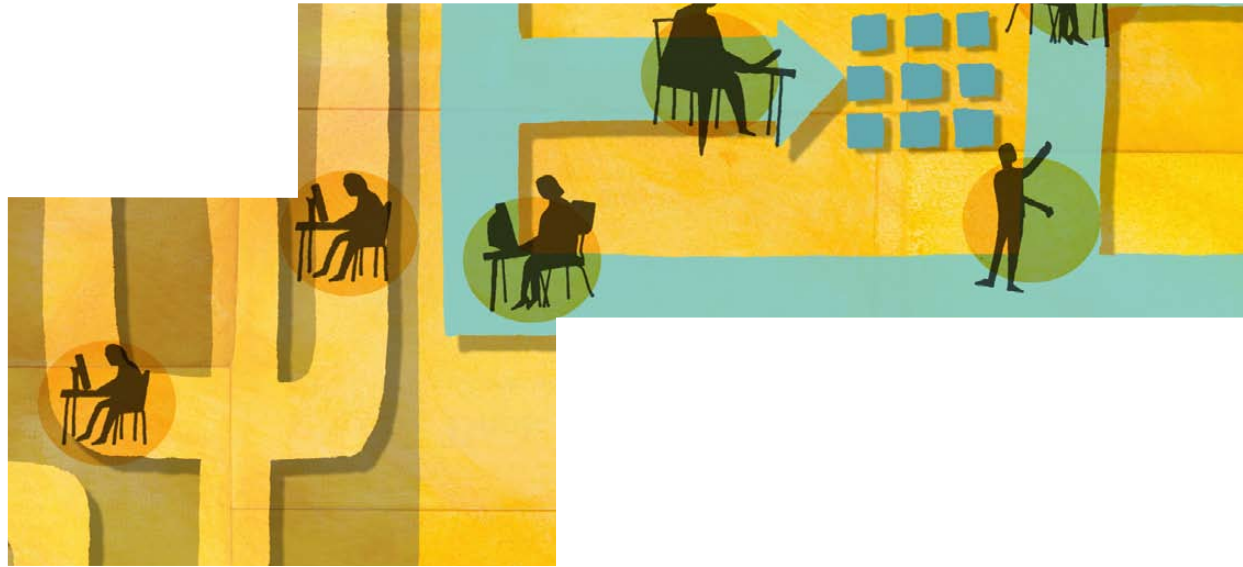
Huge potential savings or quality improvements could come from raising government productivity, which we estimate (based on our experience working with organizations in both the private

and public sectors) could increase by as much as 15 percent in various countries in the next ten years. The potential gains are impressive—more than 2 percent of GDP in France, Japan, and the United Kingdom, for instance (Exhibit 2). If done correctly, operational reform efforts could yield not only one-time resets in government efficiency as shown above but also ongoing year-on-year productivity growth.

In an era of permanent fiscal pressure, left-leaning politicians and citizens should welcome a more productive government to take some of the sting out of difficult budget choices. Conservatives should welcome it as a way to help keep taxes at politically acceptable levels. Rightly understood, better performance and higher productivity in government can become that rare arena in which common ground is possible.

A clear mandate

At the practical level, one obstacle to productivity improvement is that democratic governments are characterized by a fragmentation of authority;



in many governments there is no single body with a clear mandate to lead operational change. Many public institutions are resistant to centralization and do everything they can to protect their turf. Furthermore, a ministry or agency that stands up and takes the lead on operational efforts has to accept political accountability for results and must be willing to risk failure in the public eye—such organizations are, understandably, few and far between.

A mandate from the highest levels of government gives public-sector institutions the authority and legitimacy to push for operational change in an environment that often resists it. In its most classic form, this legitimacy comes from the democratic process. For example, French president Nicolas Sarkozy recently campaigned on and was elected in part because of a promise to streamline government, break from traditional ways of working, and cut spending.

Another way governments can create the effect of a broad mandate is by establishing a strong strategic

center. One example of a government system with a fairly strong center can be found in Denmark. The Danish Ministry of Finance controls the budget process and uses its power and authority to influence decisions that transcend budget issues. It leads and directs other ministries and government agencies in far-reaching operational programs.

Other countries have created entirely new entities—such as the Prime Minister's Delivery Unit (PMDU), in the United Kingdom, under the Blair administration, or the supervision committee headed by the chiefs of staff of the president and prime minister in the Sarkozy administration—to ensure that operational change programs move forward aggressively.

Performance targets and transparency

To achieve and sustain productivity improvements, leaders must establish a clear set of performance metrics and milestones to give people a sense of what “good” looks like and how they will know when they have gotten there. Recognizing this, several governments—New Zealand,

Governments must build skills and competencies in operational areas, and they must create environments and career tracks that acknowledge and reward exceptional operational performance

Sweden, and the United Kingdom, to name a few—have developed and applied quantitative metrics for assessing and reporting on progress in fighting crime, improving educational test scores, or reducing hospital waiting times.

Finland, which like many countries is confronting a rapidly aging public-sector workforce, has set forth a number of programs aimed at improving productivity and efficiency—including programs to optimize procurement and support services, increase the shared use of resources, and make better use of IT. The Finnish government has undertaken efforts to calculate the implications of demographic trends in each part of the public sector (that is, the productivity gains required to sustain service levels in health, education, and so on) and translated these into specific input and output targets for each administrative domain and government agency.

Making the performance of governments more transparent by publishing the results of customer satisfaction surveys, benchmarking surveys, and service-quality metrics also helps citizens to take an active role in demanding change and applying appropriate pressure for performance improvement. Some countries, for instance, are now trying to assess, compare, and improve hospital quality. Germany, for one, has established a federal agency to collect data about how well hospitals perform on a variety of quality indicators. Because the data are still limited at present, the inferences that can be drawn are not always fair. Nevertheless, the

availability of this type of information is beginning to affect both how hospitals are run and how patients, physicians, government officials, and other stakeholders view hospitals.¹

The issue of how specific and detailed metrics should be has been widely debated. Some governments have chosen to modify their approach to reduce the risk of perverse incentives—for instance, incentives to hit short-term targets at the expense of longer-term outcomes. The United Kingdom, in particular, has substantially reduced the number of quantitative input metrics and is now taking a more nuanced, outcome-focused approach with fewer quantitative targets. Whatever the scope and nature of these metrics, they are essential to the accelerated achievement of productivity objectives.

The right skills and capabilities

Finally, public-sector employees must have the skills and capabilities to change the way they work and to become more productive. Traditionally, prestige and recognition in public-sector environments have been reserved for those involved in policy making—not those who spend their days working out the nuts and bolts of operational improvement. Governments must build skills and competencies in operational areas, and they must create environments and career tracks that acknowledge and reward exceptional operational performance.

Several public-sector organizations are taking the right steps. One government agency in Africa

¹ See Tobias Möhlmann, MD; Florian Then, MD; and Reinhard Wichels, MD, “How hospitals can respond to increased quality transparency,” *Health International*, 2009 Number 8, pp. 58–67.

undertook a capability-building program that included providing detailed templates and tools, as well as training courses, to help low-skilled workers do more complex work and to transform high performers from mere administrators into effective coaches. Pilots conducted in certain agency offices showed that the capability-building program resulted in, among other things, visible improvements in team and leader morale, a 41 percent increase in customer satisfaction, and a more than 20 percent reduction in the time it took to perform certain critical tasks.

The regional health authority in London, part of the United Kingdom's National Health Service (NHS), undertook a comprehensive review of its workforce and health care educational offerings to ensure that it will have the right number of appropriately skilled staff to achieve its ambitions. Based on this review, NHS London has dedicated funds specifically to address gaps in supply (for example, it will train additional emergency nurse practitioners) and to develop and train future clinical leaders. It is also exploring other changes—such as making staff promotions based not on length of service as is traditionally the case—but rather on objective performance evaluations.



Government leaders are wont to say, “The status quo is not an option”—a statement that resonates with the public at a time of unprecedented crisis. But of course, the status quo is always an option, and history suggests that when it comes to government productivity and operations, the status quo is too often the option that is ultimately realized. Our call to action is for governments to take a purposeful, concerted, and determined approach to improving performance and productivity through operations. The crisis has brought to the fore the need for governments to transform their efficiency and effectiveness—and they must do so if they are to address the challenges of today and the needs of generations to come. ○