

Improving outcomes with better government productivity

Sure, productivity can save money. But it could also improve education, fine-tune tax collection, and add 12 billion healthy-life years for the world's population.

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When citizens are asked about their expectations of government, they focus on specific, real outcomes—better education, healthcare, and job opportunities, for example, are top priorities.¹ Moreover, citizen expectations of public services have risen over the past two decades, as people increasingly come to expect service levels comparable to what they get from the private sector.

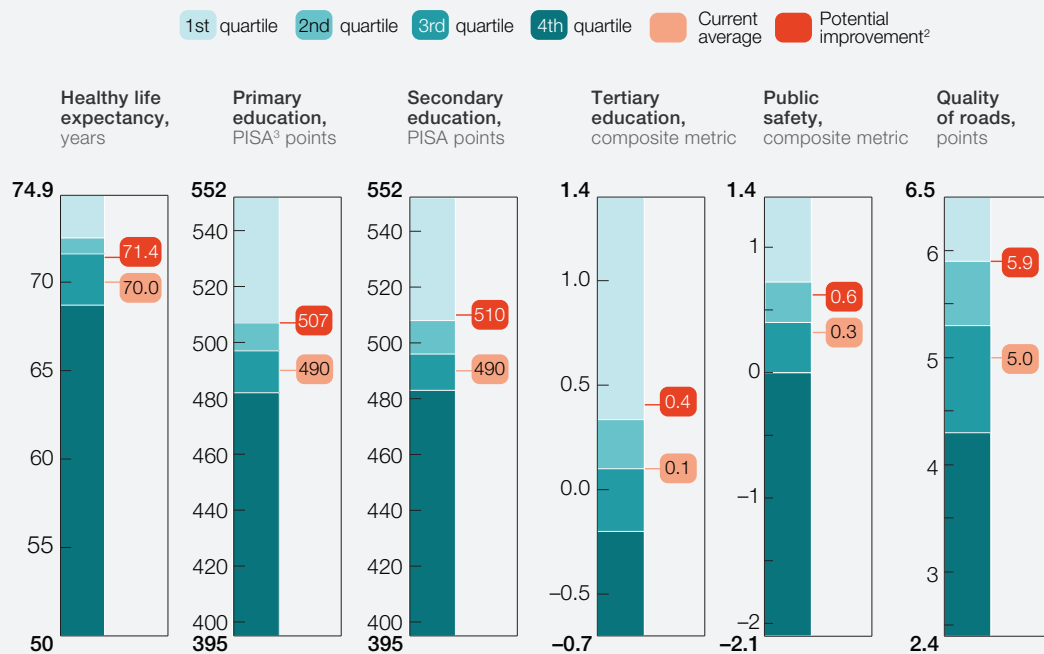
It would be generous to say that governments are succeeding. According to our research, the quality of

most services has improved only marginally—with some, such as education, even declining—despite increased expenditures.²

Yet buried in the global averages are some success stories. For example, between 2008 and 2015, Denmark improved its average healthy-life expectancy by 1.8 years (or 2.6 percent), without increasing per-capita health expenditures. Similarly, Poland's performance in primary and secondary education—as measured by the Programme for

Exhibit Improving government productivity at the rate of countries' fastest-improving peers would dramatically improve outcomes.

Outcomes by quartile by government sector¹



¹ Productivity defined as quality-adjusted outputs per \$ spent.

² Average potential improvement assuming best peer's rate of improvement.

³ Programme for International Student Assessment.

Source: Productivity-improvement score; McKinsey Center for Government

International Student Assessment (PISA)—increased by 8.1 percent from 2000 to 2012, while spending stayed roughly the same.³ The New Zealand Police improved public satisfaction with its work by five percentage points from 2009 to 2014 while reducing per-capita expenditures by 8 percent. Confidence in police increased to 78 percent.

In fact, each sector and each peer group (countries achieving similar outcomes) has its own outperformers. If all countries could raise their productivity at the same rate of their fastest improving peer, they could save or recover \$3.5 trillion a year by 2021.⁴ That's more than enough to cover the International Monetary Fund's projections of the global gap between governmental revenues and costs.⁵ Plugging revenue leaks with advanced analytics represents a \$1 trillion opportunity.⁶ Governments could improve their revenue collection by 1 to 3 percent in larger, advanced economies; in less formal, developing ones, the opportunity is much larger.

But productivity improvements are about more than just money. They can also spur better outcomes without the need to increase per-capita or per-unit spending (exhibit). If countries had raised the productivity of their healthcare systems at the rate of their fastest-improving peer over the past five years, the average healthy-life expectancy would have been 1.4 years higher. If that happened globally, the result would be 12 billion additional healthy-life years.

What's more, the average school leaver's literacy, numeracy, and problem-solving skills could reach those of top-quartile countries today. Putting a monetary value on such gains is fraught with challenge. But as an indication, the Organisation for Economic Co-operation and Development (OECD) estimates that the 20-point increase in PISA scores implied above would generate an increase of approximately 0.4 percentage points in a country's annual per-capita GDP growth rate.⁷ Since per capita GDP growth in OECD member countries has averaged 1.2 percent annually during the past ten years, this is a meaningful improvement.

What can governments do to spur their productivity and, in the process, improve outcomes? Our work emphasizes four areas:

- **Finance.** By taking on a more pivotal leadership role, the finance function can provide the information, insights, and incentives for public funds to be spent in ways that make a real difference to outcomes in every area of government. The finance function can also supply better data, guidance, benchmarking, and support to the line agencies who provide government services to citizens.
- **Commercial capabilities.** Cultivating excellence in commercial skills makes it possible for governments not only to ensure that big-expenditure items (such as procurement, major

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projects, and information technology) are actively managed for value but also to unlock better performance from state-owned enterprises.

- **Digital technologies and data analytics.** By building an effective digital function, governments can transform citizen experience, save money, and improve outcomes. They can also use advanced analytics to reduce waste and pinpoint the government activities that do—and don’t—improve citizens’ lives.
- **Talent management.** A strategic human-resources function can ensure that an entire government attracts and develops the talent needed to deliver better outcomes for less—and manages and motivates that talent to drive ongoing productivity gains. ■

¹ André Dua, Navjot Singh, Aly Spencer, and Tim Ward, “High-performing US states: Is there a secret to success?,” February 2018, McKinsey.com.

² This article has been excerpted and adapted from *The opportunity in government productivity*, April 2017, McKinsey.com.

³ PISA, a worldwide study by the Organisation for Economic Co-operation and Development, evaluates educational systems by measuring the scholastic performance of 15-year-olds.

⁴ Productivity is defined as quality-adjusted outputs per dollar spent.

⁵ World Outlook Database, International Monetary Fund (as of 2016).

⁶ Susan Cunningham, Jonathan Davis, and Thomas Dohrmann, “The trillion-dollar prize: Plugging government revenue leaks with advanced analytics,” January 2018, McKinsey.com.

⁷ *The high cost of low educational performance: The long-run economic impact of improving PISA outcomes*, Organisation for Economic Co-operation and Development, 2010, oecd.org; McKinsey analysis.

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