

Making government for the people

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Budget constraints and the rapid pace of technological change mean governments must not only deliver services more effectively and efficiently but also prioritize citizens' needs.

One of the biggest questions for governments around the world is how to better set priorities amid swift technological change, budget constraints, and the need to adopt more transformational mind-sets. In this episode of the *McKinsey Podcast*, McKinsey senior partners Bjarne Corydon, Andrew Grant, and Diaan-Yi Lin talk with Cecilia Ma Zecha about the new skills governments must develop to bring about meaningful change that reflects the needs and wants of their citizens. An edited transcript of their conversation follows.

Podcast transcript

Cecilia Ma Zecha: Hello, and welcome to the *McKinsey Podcast*. My name is Cecilia Ma Zecha and I'm the head of digital communications for Asia for McKinsey, based in Singapore. Governments all over the world are operating in an increasingly complex environment. They face macroeconomic uncertainty, constrained budgets, rapid social and technological change.

The private sector's response to customer demands has also raised public expectations for government services. In this context, what should governments focus on prioritizing and getting right? Today I'm speaking to Andrew Grant, a global board member of McKinsey and leader of our Public Sector Practice globally.

We're joined by Diaan-Yi Lin, who goes by DY, the managing partner of McKinsey's Singapore office and a leader in our Public Sector and Infrastructure Practices in Asia. And we're delighted to have with us a new colleague, Bjarne Corydon, who's joined McKinsey as the global director of the McKinsey Center for Government, based in Copenhagen. Prior to McKinsey, Bjarne was the finance minister of Denmark from 2011 to 2015. Everyone, welcome to this conversation.

Diaan-Yi Lin: Thank you, Cecilia.

Andrew Grant: Thank you so much.

Bjarne Corydon: Thank you so much.

Cecilia Ma Zecha: Andrew, what's the answer to that question? What should governments be focusing on in terms of priorities and what they should get right?

Andrew Grant: At its simplest, what governments should be focusing on is what citizens want. At one level, that's a very trite answer, but where we think there's an interesting layer to that is that there do seem to be a set of outcomes that citizens increasingly care about.

Those outcomes require departments and agencies to work together in ways that they've never done before. More and more governments are setting a smaller number of very meaningful outcomes that citizens want, and they end up being things like reducing street crime, increasing participation in early-childhood education, or increasing the number of 20- to 30-year-olds who have advanced vocational skills.

Bjarne Corydon: A big thing that governments have to get right, and get right at the outset, is that digital is not just about digital. It's integral to every discussion you have on major policy issues. That's a point you were making as well, Andrew. That just like big corporations, you can't just put digital in a corner of government activity and leave that to a check-savvy department. You have to integrate it with the main purposes of government. You have to put the muscle of a bigger purpose behind it to actually drive it through.

Diaan-Yi Lin: One point to raise here, Cecilia, is whether to use the word prioritize. Governments struggle with that tremendously because it implies trade-offs have to be made. While it's easy to identify a long list of things that governments want to do, be it because fiscally they have to or because citizens want them to, the challenge is often what they do not do. And in some of the work that we've done with governments, we've organized workshops, using data, be it what citizens want based on polls or based on what civil servants are saying are some of the biggest issues. Usually getting that list is pretty straightforward, but the most difficult part is getting a cabinet together and for them to actually say, "At what point do we say this is no longer a priority? Or is this a priority maybe for later?"

Cecilia Ma Zecha: Andrew, is it hard to say no?

Andrew Grant: Absolutely, especially in a modern democracy, when there are more voices from more parts of society and the political spectrum. Bringing together Bjarne and DY's point, we do think it can be hard for government to make choices. To some extent, you're squeezed. You've got more things that you have to deal with. There's not a lot more money to be able to work to address that with. There are a few opportunities that we see to resolve that: Call them breakthroughs, call them pathways. Bjarne was talking about digital. Digital is absolutely one of them.

That's a huge opportunity for government, and it's also a challenge in the sense if you went back 10, 15 years, for most citizens their expectations of the department of an agency were set by another government department or another agency. Today, their expectations are driven by the private sector. They're driven by their digital experience with a bank, with their mobile-phone provider, with their pay-TV provider.

Cecilia Ma Zecha: Andrew, what are some of the ways that you're seeing to be effective at how governments can better manage their fiscal stability?

Andrew Grant: One little insight that we've seen from several countries that have done this quite well is that, if you're a consumer company, historically, if you were a customer of mine, I used to look at you in terms of how productive my relationship with you was over a one-year period. Increasingly, what world-class consumer companies are doing is looking at the value of a customer over a lifetime. Essentially, what is the value of that customer journey, that customer experience, over the whole time of the relationship? Believe it or not, governments have never done that. They've always looked at you, Cecilia, and what the nature of your relationship was over the last year.

A number of governments are now starting to truly look at you as a citizen over a lifetime. And where that's meaningful in a fiscal sense is where, to DY's point, we're getting a much sharper view of priorities. So, for example, if I look at youth unemployment on the one-year view, youth unemployment is issue number 10, 11, 12. But it's in the double digits.

If I look at youth unemployment from a lifetime perspective, it is the worst issue for a government. Because what happens to a young person early in life stimulates a whole lot of other negative things right throughout a lifetime. For many governments, in US dollar terms, the cost of a young person being unemployed to a government is north of \$1.5 million over a lifetime. One of the really meaningful things we've seen as a development is this moving to what many people call the investment approach rather than the fiscal approach. It's taking a lifetime view of a citizen and setting priorities on that basis, not just a one-year view.

Bjarne Corydon: Moving from the one-year view to the life-cycle perspective, you'll also tend to link different sectoral views on citizens. You don't just have Cecilia the mother or Cecilia the daughter of elderly parents who need care. You combine these sectoral views in a whole-of-government approach to what citizens need during their life cycle. That takes a completely new approach for many governments that tended to be one-year focused, one-year-budget focused.

Andrew Grant: One of the quite confronting things that we're seeing is many policy interventions actually don't have the impact that they aspire to. In fact, one of the really challenging things for modern governments and modern societies is that, increasingly, our citizen's lives are becoming path dependent on the socioeconomic outcomes that they're born

with. The effectiveness of many of the interventions we used to make that would help people rise socially—so they would get better jobs, would rise up the socioeconomic ladder—are not proving to be anywhere near as effective as they used to be.

We're seeing from a fiscal perspective another lens that's being brought as much richer data to really help us have a hard-nosed view of what interventions work and what ones don't. Most governments are taking that very seriously, saying, "For the next era, we have to get that right."

Bjarne Corydon: Some of the old instruments like income transfers or schemes that guarantee people against unemployment on an income basis are not going to do the trick to create equal terms for citizens in a modern democracy. They'll have to focus on education, on the building of skills, and do that in a much more sophisticated way than what we've seen up until now.

Cecilia Ma Zecha: DY, what are you seeing in terms of how governments are responding to any disruptions in the way they develop youth or create employment?

Diaan-Yi Lin: Singapore is a very good example of a country that has paid attention to the megatrends. It's a well-known fact that in 2016 they're undergoing two very large programs. One is the Committee on the Future Economy, which means they are reevaluating the entire structure of the economy, focusing on what are sectors and industries and markets they need to home in on to set Singapore up for the next 50 years.

Many of the megatrends play into this. Singapore is a small country. It doesn't have a lot of land. And so what will the trends around automation, technology, and an aging population mean for a country in terms of which sectors they now need to invest in to drive future growth of the economy? That's one leg.

The second leg that they're looking at, as Bjarne was talking about, is skills. Their other big program, which was put into place at the beginning of this year, is called SkillsFuture. What the government has done is to ensure that every single Singapore citizen [age 25 and over] has a SkillsFuture account. A certain amount of money is put into that account every year. That money can be used toward reskilling an individual for the rest of his or her life because many of the skills that need to be built will have to be built as an adult, and they will have to evolve through that adult's life. Many of the skills that they will have to learn will be tied to these megatrends. How do I take advantage of these new technologies? How do I skill myself to be able to participate in the new sectors and industries that the country is moving toward?

Andrew Grant: The other thing that is confronting governments when they look at these challenges is the actual people who populate their civil service. They're really finding that, as for all of us across the economy, there are new skills, new capabilities, and the pace of change is like we've never seen before. We would argue that it's more acute in the public sector than it is in the private sector in terms of the degree of change.

Bjarne Corydon: There's a combination of pace and then the very broad range of disruptive potential that you have in place. You have a number of technologies that might all disrupt what we know today as the way the labor market works and the way the economy works, the way corporations work and the way governments work.

In my view, you're also at a genuine breaking point. And I think what you spoke about, Andrew—about government being under heavy pressure on the issue of talent—what strikes me when I visit very different nations is that there's a general feature.

It's felt everywhere in very different contexts and geographies. We're able to identify a paradox because government gets drained and pressured on talent while actually moving to the center of things. What governments do and what they have to do and whether they succeed in doing it is becoming more important to the next level of society and to cope with the changes we're discussing here today.

Diaan-Yi Lin: In our conversations with governments, we know that they never used to spend a huge amount of time thinking about strategy. They used to plan, they used to budget. But I think we're seeing the rise of the role of strategy. Singapore is a very good example. They're now thinking about what a strategy is for the country to be competitive in the future. They've developed a strategy group within the prime minister's office. So strategy is one that we see. Two, in every meeting we've all had, the term "data analytics" comes up within the first minute and a half. I've seen governments approach this at a few levels. One, they say, I need a core—call it almost a super-data analytics team. That's something that will deal with my big complex problems across government. But I also need to put data analytics into the curriculum of my new civil service, the same way I need to put things like project management or problem solving into the curriculum. That's become the norm. Excel isn't going to cut it anymore for my analytical abilities. The third, which I'd never really seen a couple of years ago, is the language around change management and transformation, which used to be a very private-sector kind of language, infusing into government today.

They're very aware of the acute need to get the civil service, and often the citizens, to do things differently—be it the way I interact with government or the way I communicate with my citizens or the way civil servants work.

Bjarne Corydon: We have to remember that, historically, most government activity has been about stability and about how to prevent disruption in ways that couldn't be predicted or handled. That's the key mind-set of many civil services around the world. There's now a move into a more corporate-like, but still distinct, way of focusing on change and the delivery of transformation that requires a new skill set but also a new mind-set. Some governments are able to set up change machineries or an apparatus for coordination that enables them to do that: to focus on new priorities and let this change machinery work to implement it to the level of

citizen impact. And others don't. Comparing the ability of governments to do that is going to be a really important focus area in the near future.

Andrew Grant: Picking up on this change-management point, for governments, the notion of metabolic rate is increasingly important: the pace at which they're able to do things, listen to citizens, incorporate views, and prioritize. Bjarne, one of the things that we were very impressed by with you was what I think you termed "frenzied reform."

Bjarne Corydon: Yeah. Reform frenzy.

Andrew Grant: Your time was characterized by a pace of reform, a pace of change, a metabolic rate that was quite distinct vis-à-vis other governments. Getting this metabolic rate right is critical. I'd be interested in your thoughts on what you did, what the government did, that helped enable demonstrable change in the metabolic rate.

Bjarne Corydon: We managed to have a four-year period, or even a longer period, of reform frenzy in Denmark, basically as a reaction to the economic crisis, to the financial crisis in Europe, and to the bust of the housing bubble.

But we also managed to make institutional change that will empower a longer period of reform frenzy that will hopefully become the new normal of the way you do policy making in a small, advanced economy. On a very general level, we tried to introduce the idea that this was really the precondition for the social model that dominates Denmark. You can't have a model that regulated, with that level of government interference in the economy, but also a very open economy—open to competitive pressure from the outside. You can't have that without a very high level of reform and constant change to optimize the delivery of government services and the way you spend tax dollars in an ever-changing way. So we tried to install change permanently in the framework we built for economic reform and economic governance and tried to identify the key structural aspects of the economy that had to move forward gradually.

Cecilia Ma Zecha: Is agility a trait that governments can learn? Or is it like leadership—it has to be born?

Andrew Grant: Absolutely agility can be learned, and we're seeing people learn it. It's also important to note that we're not saying make everything agile. There is this notion of two speeds. There are some things you very much want to be stable and have to be stable, but you do need to learn the agile skill. Some governments have learned the hard way that digital for governments is not just about porting what works in the private sector across. One thing, for example, that Bjarne's government got right, which is an undertold important plank of digital, is that citizens need to have a cybersecure digital identity that is them. Because of the labels of trust in Denmark, to some extent because of the history of identity cards, it was quite straightforward to make that happen. Many governments are wrestling with that in

an enormous way around data-privacy issues and around how you provide symmetry with citizens.

New Zealand is an interesting example of a place that has historically been very nervous about data-privacy issues, which has created a whole new conversation around what they call your “RealMe digital identity.” To be agile, you need to have some things that work in a very clear way, and a cybersecure digital identity is fundamental to enabling agile. Many governments are getting stuck around that in a way that the Danes solved very, very well. Other countries are now starting to find ways through that.

Diaan-Yi Lin: I would challenge that a little bit, Andrew. Because I think while governments—

Cecilia Ma Zecha: Oh, he can take it. You can do it more.

Andrew Grant: Absolutely.

Diaan-Yi Lin: While governments, I think, can learn to be agile, I don’t think it’s an easy lesson to learn. They’re going to have to do more than just try a little harder, try a little faster. We’re seeing governments being much more open to injecting new talent earlier into the system, fresh talent from industry into the midlevels, and, in some instances, at more senior levels. They are going to have to adapt and adopt some of these HR practices. Without some element of fresh blood, injections of fresh ideas and new ways to do things, I’m not convinced that agility will come easily.

Bjarne Corydon: No. But still, you have to recognize that many governments underestimate the risk of not going agile. In many ways, that’s a low-risk option if you compare it to the full consequences of a waterfall approach.

Diaan-Yi Lin: Correct.

Bjarne Corydon: And that can end up getting you stuck in ways that you just can’t foresee the consequences of. At least in the Danish example we were discussing just a moment ago, they found that the consequences of not being agile really scared them, in economic terms, but also in the consequences for Danish businesses and the way they operated.

Diaan-Yi Lin: Yeah. Better that you innovate yourself before someone else comes in and takes you out.

Bjarne Corydon: Exactly.

Andrew Grant: Two things I think that are forcing governments to the edge are one, the private sector is now setting the benchmark in a way that it didn’t used to. Also, McKinsey has done

some research looking at citizen reactions to interacting with digital. If you can create a digital experience for a citizen, they have the highest satisfaction levels.

If you have a citizen who embarks on a digital journey but at some point in the journey has to go back to the old way, you get the lowest scores—scores lower than you had in the old world. To Bjarne's point, the stakes around getting it right have become high indeed. And, unfortunately—well, fortunately, governments have lit the fuse.

Cecilia Ma Zecha: Andrew, DY, and Bjarne, thank you for joining us today. And thanks for listening to our conversation. If you'd like to find out more about the work that we do in the public sector and at the McKinsey Center for Government, head over to [McKinsey.com](https://www.mckinsey.com). 

Bjarne Corydon is a senior partner in McKinsey's Copenhagen office and leads the McKinsey Center for Government; **Andrew Grant** and **Diaan-Yi Lin** are senior partners in the Singapore office, where **Cecilia Ma Zecha** is the head of digital communications for Asia.