An aerial photograph of a large crowd of people gathered on a green lawn. The people are scattered across the frame, some sitting on blankets, some standing, and some in small groups. The lawn is a vibrant green, and the overall scene suggests a public event or festival. The text of the document is overlaid on the right side of the image.

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MCKINSEY CENTER FOR GOVERNMENT

DELIVERING FOR CITIZENS

HOW TO TRIPLE THE SUCCESS RATE OF
GOVERNMENT TRANSFORMATIONS

DISCUSSION PAPER
JUNE 2018

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Tera Allas | London
Martin Checinski | Dubai
Roland Dillon | Melbourne
Richard Dobbs | London
Andres Cadena | Bogotá
Eoin Daly | Kuala Lumpur
David Fine | London
Solveigh Hieronimus | Munich
Navjot Singh | Boston
John Hatwell | London

PREFACE

In many countries, citizens are increasingly dissatisfied with government services—and compare them unfavorably with nimble, app-driven services in the private sector. Governments know they must transform; the task is made all the more urgent by megatrends such as population aging, urbanization, and the need to reskill workforces. Unfortunately, 80 percent of government transformations fail to meet their objectives. This report shows how governments around the world can learn from the 20 percent of change efforts that do achieve their goals. It identifies five disciplines which together can more than triple the chances of success of such transformations—but which require a set of change-management and delivery capabilities quite distinct from the policy expertise that has long been at the heart of government. The good news is that innovations in citizen engagement, design thinking, and technology-inspired approaches are making the task of government transformation easier and opening up new horizons for better, faster delivery.

This research is based on a major global study on government transformations conducted by the MCG. We surveyed nearly 3,000 public servants who had been involved in transformations across 18 countries. We interviewed more than 30 leaders who had personally driven such change efforts and combined this with analysis of more than 80 case studies of government transformations around the world.

This study was led by Richard Dobbs, MCG director and senior partner based in London; Andres Cadena, a senior partner based in Bogotá; Eoin Daly, a senior partner based in Kuala Lumpur; David Fine, global leader of McKinsey's Public and Social Sector Practice; Solveigh Hieronimus, MCG director and partner based in Munich; and Navjot Singh, MCG director and senior partner based in Boston. The research team was headed by Tera Allas, MCG senior fellow based in London; Martin Checinski, expert associate partner based in Dubai; Roland Dillon, associate partner based in Melbourne; and the Rt Hon. Ben Gummer, senior adviser to McKinsey & Company. The team comprised Matei Alexianu, Reham Alshammary, Taniya Bajaj, Markus Bergman, Ozgun Bicakli, Melanie Brown, Daniel Clifton, Charlotte Davis, Natalia Ferens, Maria Golushko, Vasudha Gupta, Lucy Harris, John Hatwell, Zaana Howard, Kathryn McGeough, Kimberley Moran, Vivian Ojo, and Keightley Reynolds.

We are grateful for the contributions of time and expertise by McKinsey colleagues in many practices and functions. We want to personally thank the following McKinsey partners for their guidance and insights: Salman Ahmad, Rima Assi, Kalle Bengtsson, Darya Borisova, Michael Bucy, Kevin Carmody, Benjamin Cheatham, Felipe Child, Michael Conway, Luis Cunha, Tony D'Emidio, Etienne Denoël, Jonathan Dimson, Tom Dohrmann, Andre Dua, Tarek Elmasry, Andrew Goodman, Andrew Grant, Rajat Gupta, Martin Hjerpe, Mark Hojnacki, Tom Isherwood, Matt Johnston, Naufal Khan, Julia Klier, Elena Kuznetsova, Diaan-Yi Lin, Jukka Maksimainen, Sorcha McKenna, David Meredith, Jaime Morales, Fiyinfolu Oladiran, Vadim Pokotilo, Jens Riese, Robin Roark, Yaron Savoray, Gundbert Scherf, Gayatri Shenai, Seelan Singham, Zachary Surak, Karim Tadjeddine, Charlie Taylor, Naveen Unni, and Brook Weddle. Colin Douglas and Dennis Swinford provided editorial support, and Graham Ackerman, Sharmeen Alam, and Theo Lomas led external communications. Design and copy editing are by Leff, including Justin Durkin, David Peak, Alia Samhat, and Delilah Zak. We are also grateful

for the invaluable help provided by McKinsey colleagues Bechara Abi Assi, Karin Ahlbäck, George Argunov, Edward Barriball, Guy Benjamin, Esmee Bergman, Andreas Bernecker, Asim Bokhari, Mary Calam, Amy Challen, Michael Dowling, Matt Dunn, Anna Gressel-Bacharan, Stephen R. Hall, Hagar Heijmans, Aaron Horowitz, Alain Imbert, Hemant Joshi, Daniel Korn, Randy Lim, Uliana Loginova, Karen Lowy, John McCarthy, Hilary Moore, Stefan Moritz, Katarzyna Myslewicz, Yevgeniy Rodionov, Victor Saavedra, Brian Sabina, Olli Salo, Scott Schwaitzberg, Freddie Södergren, Julien Spliet, Siamak Tahmoresnia, Philipp Torka, Jonah Wagner, and Berker Yagci.

We are also grateful for the generous contributions of Bruce Bennett, partner at Jones Day; Kenneth A. Buckfire, president and managing director at Miller Buckfire & Co. LLC; Mike Bush, commissioner of New Zealand Police; Catherine Connolly, former deputy director financial stability at HM Treasury; Bjarne Corydon, CEO and editor in chief, Dagbladet Børsen and former finance minister of Denmark (2011 to 2015); João Costa, secretary of state for education, Portugal; Kaustubh Dhavse, officer on special duty to the chief minister of the Government of Maharashtra, India; Andrew Dillon, former state treasurer of Michigan (2011 to 2013); R. Mark Evans OBE, deputy chief executive strategy at New Zealand Police; Graham Farrant, chief executive and chief land registrar at HM Land Registry; Dr. Rachna Gandhi, former chief executive officer of Service New South Wales (2015 to 2017); Nika Gilauri, former prime minister of Georgia (2009 to 2012); Sir Bernard Gray, former chief of defence materiel, Defence Equipment & Support, UK Ministry of Defence; Aini Hayati Jamaludin, advisor, business transformation, Governor's Office Central Bank of the UAE; David Heiman, lead counsel for the City of Detroit (2013 to 2014); Mina Hsiang, former senior advisor to the White House for healthcare and health data: US Digital Service (2015 to 2017); Aset Irgaliyev, head of project management, Center for the Office of the Prime Minister of Kazakhstan; Rt Hon. David Laws, chairman of Ark Education Partnerships Group; Dalton McGuinty, former premier of Ontario, Canada (2003 to 2013); Liz McKeown, chief economist of the UK Cabinet Office; Charles Moore, managing director, Alvarez & Marsal; Dennis Muchmore, former chief of staff to Governor Rick Snyder (2011 to 2016); Olusegun Obasanjo, former president of the Federal Republic of Nigeria (1999 to 2007); Jennifer Pahlka, founder and executive director, Code for America, former US deputy chief technology officer in the White House Office of Science and Technology Policy (2013 to 2014); Fredrik Reinfeldt, former prime minister of Sweden (2006 to 2014); Jaime Saavedra, senior director of the Education Global Practice at the World Bank Group and former minister of education of Peru (2013 to 2016); Andreas Schleicher, director for the directorate of education and skills at the Organisation for Economic Co-operation and Development; Cecilia María Vélez White, former minister of education of Colombia (2002 to 2010); Jaap Versfelt, founder, Stichting leerKRACHT; Robert Watt, secretary general of the Department of Public Expenditure and Reform, Ireland; and Professor Ngaire Woods, dean of the Blavatnik School of Government and professor of global economic governance at Oxford University. We are grateful for the valuable input from all these leaders, but the final discussion paper is ours and any errors are our own.

This paper contributes to MCG's mission to provide governments with new and proven knowledge and tools to confront critical challenges and opportunities in a context of limited resources. This work is funded entirely by the partners of McKinsey and has not been commissioned or sponsored in any way by any business, government, or other institution.

Richard Dobbs

Director, McKinsey Center for Government

Solveigh Hieronimus

Director, McKinsey Center for Government

David Fine

Leader, Public and Social Sector Practice, McKinsey & Company

Navjot Singh

Director, McKinsey Center for Government

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IN BRIEF

Governments around the world know they must transform the services they provide if they are to be able to deliver for citizens. Aging populations are putting huge pressure on health and social services, education systems need to equip young people with the skills for a technology-driven world, and the changing shape of cities is creating new demands on infrastructure. Many government services lag behind citizens' expectations, contributing to public discontent.

According to a survey of nearly 3,000 public officials across 18 countries, part of this landmark study undertaken by the McKinsey Center for Government, around 80 percent of government efforts to transform unfortunately fail to fully meet their objectives. The failure rate of government transformations represents a huge missed opportunity to tackle society's greatest challenges more effectively and deliver better services for citizens. Were governments globally to match the rate of their most improved peers, they could save as much as \$3.5 trillion a year by 2021 while maintaining today's levels of service quality. Alternatively, they could release funds to strengthen high-priority services while keeping overall government expenditure constant.

The study also includes insights from 80 transformation cases and 30 in-depth interviews with leaders who have personally driven transformations in government. Using these insights we have identified five disciplines that together can more than triple the chances of success of government transformations. They may seem obvious, but our research shows that they are extremely difficult to get right. We call them the five Cs:

- **Committed leadership.** Transformation leaders must commit extraordinary energy to the effort, take personal accountability for success or failure, lead by example, and challenge long-established conventions. To inspire transformation, they must spend substantial time communicating face to face with the people affected, listening as much as they talk.
- **Clear purpose and priorities.** Successful transformations paint a compelling picture of their destination and make it clear to public servants and citizens why the change is necessary. When it comes to objectives, less is more: successful efforts keep targets few, specific, and outcome based.

- **Cadence and coordination in delivery.** The delivery of transformations requires a fast yet steady pace, a flatter hierarchy than is usual in the public sector, close collaboration between different agencies and functions, and the flexibility to solve problems as they arise. It also requires an empowered and focused transformation team to drive and track progress.
- **Compelling communication.** Every government communicates, but only a few do so effectively. Nearly 90 percent of participants in our transformation survey said success would have been enhanced by engaging more with frontline employees. Transformations need well-planned, in-depth, and genuine two-way communication with all the groups affected by the change—especially the organization's own employees.
- **Capability for change.** Although civil services are often staffed by highly skilled people, they rarely have deep expertise and experience in change management. Reliance on business-as-usual capabilities is a major contributor to the high failure rate of government transformations. Three sets of skills are particularly important: the ability to run complex, large-scale service-delivery organizations; project and program management; and digital and analytics skills.

Our study also looks ahead to the next horizon of government transformations, drawing inspiration from technology-enabled change initiatives in both the public and private sectors. Pioneering organizations are using the concept of citizen experience to understand people's end-to-end journeys in services such as public transport or business licensing. They are drawing on design thinking to reconfigure such services in a way that integrates the needs of people, the possibilities of technology, and the requirements of the provider organization. And they are deploying agile practices to design, prototype, test, and improve services with users.

Over centuries governments have honed their capabilities in areas such as policy and diplomacy. They now need to build similar capability and agility to transform how they deliver services. ■

EXECUTIVE SUMMARY



Governments today face extraordinary challenges. Aging populations are putting huge pressure on health and social services in many countries; states must reconfigure education systems to equip young people with the skills to adapt and succeed in a technology-driven world; and the changing shape of cities is creating new demands on infrastructure. In this environment, many governments recognize that they must not just reform but transform. In other words, they must fundamentally change the way they operate to improve their performance. But that's hard to get right: our research has revealed that only 20 percent of large-scale government change efforts fully succeed in meeting their objectives. There is no shortage of bold government visions; the challenge is how to translate those visions into reality.

This report aims to answer that need. From a unique evidence base (see infographic on page 9), we distill a set of insights on what works in government transformations. We set out five disciplines—illustrated with real-world case studies—that together can more than triple the chances of transformation success. We also look ahead to the next horizon, drawing inspiration from technology-enabled transformations in the most advanced organizations in both the public and private sectors.

The prize is huge: by learning lessons from their most improved peers, governments globally could save \$3.5 trillion by 2021 while maintaining today's levels of service quality. Alternatively, they could substantially improve the outcomes that citizens most care about while keeping expenditure constant. And, with improved citizen experiences, they could start seeing increasing levels of trust in public-sector institutions around the world.

WHY GOVERNMENTS MUST TRANSFORM, NOT JUST REFORM

The scope and resources of governments have grown to unprecedented levels. Government expenditure in 2016 equated to 33 percent of global GDP. Yet a series of long-term trends will put further pressure on public-sector budgets in the coming years, while creating complex new demands on governments from the national to the local level. Three such trends stand out:

- **Profound demographic shifts.** The proportion of the world's population aged over 65 is expected to double over the next 35 years, from 8 percent in 2015 to 16 percent in 2050. As a result, many governments will be faced with ever-greater dependency ratios as working-age populations decline and the number of retirees increases. At the same time, 75 million young people worldwide are unemployed, and automation could worsen this problem. In response, governments must transform the education-to-employment journey.
- **High levels of inequality.** In advanced economies, two-thirds of all households saw their income stall or fall between 2005 and 2014. And while government transfers and tax policy mitigated some of the impact, up to a quarter of all households still saw disposable income stall or fall in that decade. At the same time, gender inequality has remained persistently high in many countries: the McKinsey Global Institute (MGI) found that 40 out of 95 countries assessed have high or extremely high levels of gender inequality on the majority of indicators. Automation's impact on wages could result in further income polarization, displacing up to 30 percent of work by 2030.

The MCG research constitutes a comprehensive evidence base detailing what makes government transformations succeed



Surveyed
2,900+ public servants
 across **18** countries

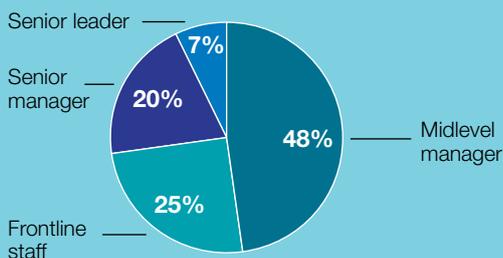
30+ interviews
 with senior government and
 public-sector leaders representing
300+ years of experience
 across **17** countries
 and **6** continents

Examined more than
80 cases
 across **50** countries
 and **6** continents

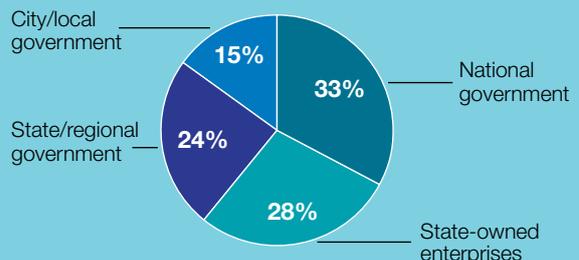
Countries represented in survey



Respondent's role during transformation



Respondent's employer type



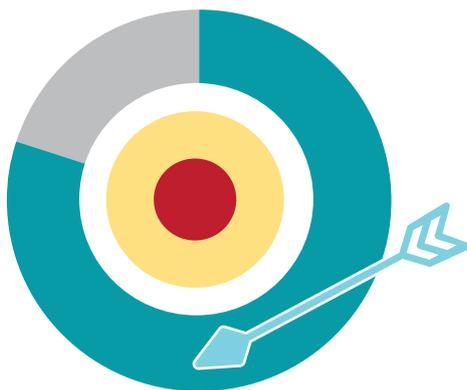
Source: McKinsey Center for Government Transformation Survey, December 2017
 Photography: © georgeclerk/Getty images; © MariuszSzczygiel/Gettyimages

- The changing shape of cities.** The proportion of the world’s population living in urban areas is projected to rise from 54 percent in 2014 to 66 percent by 2050. Cities in the developing world will experience the greatest growth—Africa alone will be home to 190 million more urban residents over the next decade. At the same time, some cities in developed economies, ranging from Pittsburgh in the United States to Genoa in Italy, are declining in size. These cities will need to design strategies to compete with other urban areas to maintain their vibrancy and retain and attract citizens and businesses.

Governments are struggling to respond to these trends, maintain public trust, and meet citizens’ expectations. According to the 2018 Edelman Trust Barometer, government is distrusted in three-quarters of countries measured. The “expectations gap” is further exacerbated by the speed at which digitally enabled services in the private sector are improving. McKinsey analysis in the United States, for example, shows that citizen satisfaction with government is significantly lower than for any private-sector services tested (Exhibit E1).

WHY MOST GOVERNMENT TRANSFORMATIONS FAIL—AND HOW TO TRIPLE THE LIKELIHOOD OF SUCCESS

Governments have never been asked to do so much—to deliver more, and better, for less. To meet this challenge, governments must transform their services and their operations. To shed light on how to do this successfully, we examined the experience of almost 3,000 officials—ranging from senior leaders to frontline staff—who had been involved in government transformations over the past five years. We reviewed more than 80 public-sector transformation efforts. And we interviewed more than 30 senior leaders, with a combined total of more than 300 years of experience, who have spearheaded major change efforts in government.



80%

of public-sector transformations fail to meet their objectives

Source: McKinsey Center for Government Transformation Survey, December 2017

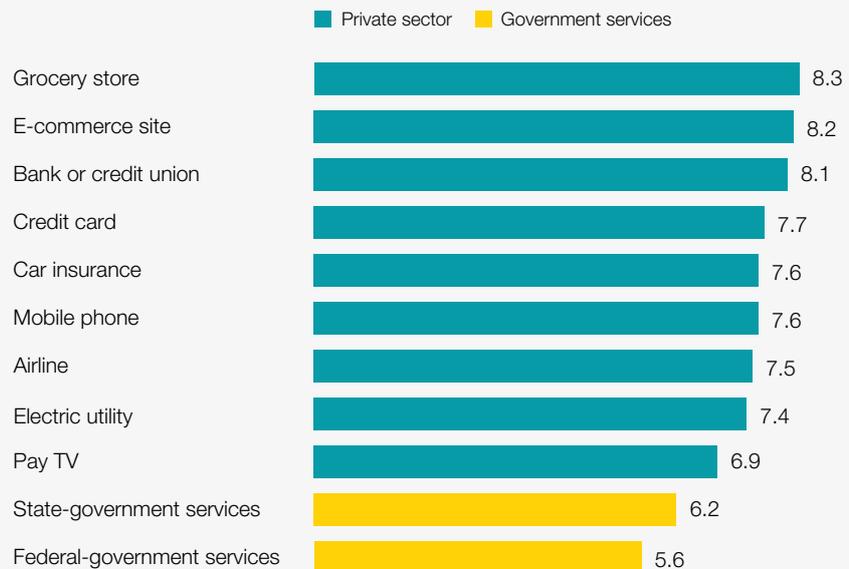
One of those leaders is Jaime Saavedra Chanduví, who was minister of education in Peru from 2013 to 2016. When Saavedra took office, the country was about to be ranked last in the world—65 out of 65—in the Programme for International Student Assessment (PISA), which is run by the Organisation for Economic Co-operation and Development (OECD). Saavedra recognized that effective basic education is “the make or break for a country.” But the new minister had inherited a plan with more than 200 objectives. His first act was to simplify it to a four-point plan focused on teachers, pedagogical interventions, infrastructure, and management. To deliver the plan, he assembled a team with deep public-management expertise, quickly moved to implementation, and personally led communication with almost 400,000 teachers across the country. The transformation achieved rapid impact. In only three years, Peruvian schools had moved up to the average for Latin American countries—the fastest improver in the region and fourth fastest globally.

Unfortunately, successful change efforts like Peru’s education program are exceptions. Our survey finds that around 80 percent of government transformations fail to meet their objectives. That is not because government transformations typically set

Exhibit E1

Customers are far less satisfied with government than with private-sector services

Average customer satisfaction scores in the United States, scale of 1–10
(1: extremely unsatisfied, 10: extremely satisfied)



Note: n = 15,269

Source: McKinsey Public Sector Journey Benchmark Survey, November–December 2016

unrealistic objectives: in 93 percent of cases, our survey respondents considered the goals of the change effort to be achievable. We compared these findings with earlier research in the private sector and found that the failure rate of government transformations (80 percent) is somewhat higher than that of change efforts in the business world (74 percent), even though private-sector initiatives are twice as likely to set stretching goals.

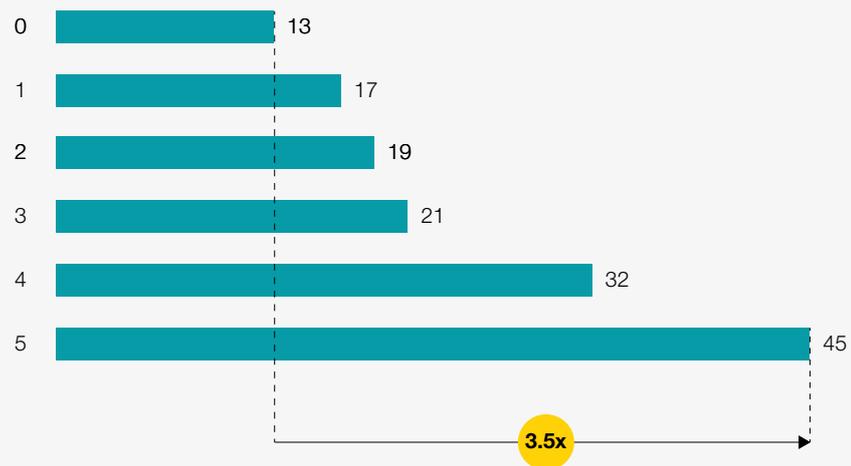
This failure rate is far too high. It represents a missed opportunity to solve society's greatest challenges more effectively, deliver better citizen experiences, and make more productive use of limited public resources. Indeed, were governments globally to match the rate of their most improved peers, they could save as much as \$3.5 trillion a year by 2021. Alternatively they could boost the quality of key services such as health care, schools and universities, policing, and transport, while maintaining current levels of spending.

Using our unique evidence base, we identified five disciplines that clearly distinguish successful transformations. Change efforts that effectively address all these requirements are more than three times as likely to succeed than those that do not (Exhibit E2). We call these must-do disciplines the five Cs: committed leadership, clear purpose and priorities, cadence and coordination in delivery, compelling communication, and capability for change. The five Cs are surprisingly universal: each is a driver of success regardless of the geography, service, trigger, scope, structure of the change effort, or the kind of government running the country. Moreover, the five Cs are common success factors for transformations in both the public and private sectors. We will now explore each of these in turn.

Exhibit E2

Embedding the five disciplines more than triples the likelihood of success in government transformations

Number of five Cs implemented during transformation effort, % of transformations ranked as completely successful



Note: Based on most relevant surveyed action for each of the five disciplines; sample size (0:747, 1:659, 2:590, 3:441, 4:338, 5:134) for each number of Cs; data weighted by proportion of world GDP, following *McKinsey Quarterly* weighting standards.

Source: McKinsey Center for Government Transformation Survey, December 2017

Committed leadership: Why ordinary management is not enough

Checklist for success:

- Don't launch a transformation effort if you are not able to use significant political and personal capital to make it successful.
- Don't rule out radical action if it is necessary, such as changing legislation, setting up new institutions, or removing transformation blockers.
- Show sustained commitment by spending a significant amount of time visibly leading and role-modeling the change.

The successful transformations we studied were steered and championed by deeply committed leaders. Each of them devoted considerable time and energy to the effort, took personal accountability for success or failure, was a visible role model for the change, and had the courage to challenge long-established assumptions and conventions. Such leaders of transformation live and breathe the journey and stretch their capacity for strategic planning, emotional resilience, and inspiring people-leadership. That means spending a substantial amount of time face to face with the people affected, listening as much as seeking to inspire.



Of course, this is easier said than done. Leaders often have limited political capital, particularly in politically sensitive services such as education and health care and in instances where they serve in a minority or coalition government. Governments often have too many priorities: leaders try to reform too much, too quickly. Another challenge is a lack of leadership longevity. For example, a review of ministers of health across 23 countries from 1990 to 2009 found that half of them served for less than two years in office.

One government that has overcome such challenges is the Colombian city of Medellín, which, until recently, was known as the global center of cocaine trafficking. Its 2.5 million inhabitants were plagued by violence and crime, and the city was notorious for having one of the world's highest homicide rates. Much has changed over the past two decades. With a decrease in the murder rate of more than 80 percent and a budding economy, Medellín's story today is one of revitalization. This remarkable transformation was by no means a given; it is thanks in part to the bold vision and deep commitment of a series of mayors of Medellín, as well as governors of the surrounding Antioquia province, and the partnerships they built with the private sector. One of those leaders was Aníbal Gaviria, who served as governor from 2004 to 2007 and mayor from 2012 to 2015. His very election to public office speaks of personal commitment: his immediate predecessor as governor was his brother Guillermo, who was killed by FARC guerrillas in 2003. Gaviria translated his personal commitment into a clear vision for change. "We faced incredulity and people thinking that we were forever condemned to be a failed city," he said. "The change in mentality—when people begin to see that it is possible to have breakthroughs that benefit everybody—has been the most important gain."

Transformation requires tough decisions from leaders—and that often involves disrupting established norms. For example, when the US city of Detroit faced bankruptcy in 2013 after a long period of urban decline, Governor of Michigan Rick Snyder appointed an "emergency

manager” who temporarily took executive powers from the mayor. The emergency manager restructured the city’s debts and embarked on a \$1.4 billion investment program into essential services such as street lighting; new IT systems for emergency services and city officials; and new police cars, fire engines, and buses. The city has balanced its budget every year since and is experiencing its longest period of sustained growth for half a century. Today Detroit is once again run by its own mayor.

Clear purpose and priorities: Why “less is more” in government transformations

Checklist for success:

- Don’t assume you know what citizens or public servants want and need—find out what really matters to them in their day-to-day lives.
- Explicitly choose and commit to a small number of specific outcomes that you are going to focus on in the transformation—and avoid making your goals too broad.
- Anchor the transformation in an agreed baseline, trajectory, and target incomes.

The power of prioritization was a point made forcefully by Dalton McGuinty, who was premier of the Canadian province of Ontario from 2003 to 2013. McGuinty committed his leadership to the reform of education in the province, driving impressive improvements in quality and attainment—for example, the number of low-performing schools dropped from 800 to 63. As he told us, that success came about only because of ruthless prioritization. “I learned that it’s very important to settle on just a few priorities,” he emphasized. “If you try to boil the ocean, you’re not going to succeed. That is why my single greatest priority was education.” Under that broad goal, McGuinty focused on “a small subset of initiatives and objectives.”

This is never an easy exercise, as was made clear by the experience of Fredrik Reinfeldt, former prime minister of Sweden. Over the course of several years in opposition he had prepared detailed plans on three key priorities: tax breaks for low- and middle-income earners, reforms to unemployment benefits, and changes to sickness entitlements. It is imperative to “stay focused on what you want to do,” Reinfeldt told us. When a new premier comes into power, he said, “all the doors open around you and people come screaming from all directions.” He formed a team around him to help focus on the reforms, held regular follow-up meetings with cabinet ministers on exactly what they were doing for the reform program, and then asked them to present this information in front of the cabinet. “I wanted them to take and show responsibility, which they did.” As he had promised the electorate, Reinfeldt implemented his first three reforms within his first three months in office.

As McGuinty and Reinfeldt both demonstrated, priorities need to be clearly articulated and rigorously pursued. We propose three practical steps:

- **Paint a compelling picture of the destination—and commit to reaching it.** Leaders must be able to share a vivid picture of the full potential enabled by the reform and why it is necessary. In Ontario, for example, McGuinty described how setting ambitious targets raised the motivation of everyone involved. As he said: “When I made my commitments to increase test scores and graduation rates, I didn’t know how I was going to get there.” But he knew that he had to bring teachers with him: “I did everything I could to enlist teachers to the cause, by treating them respectfully, building capacity by investing heavily in them and their training, and publishing graduation rates and the test scores, which kept the pressure on them and on me.”
- **Create a common baseline and trajectory.** The aspiration must take account of the existing baseline of performance and the trajectory of the organization (both operational and financial) if action is not taken. Many governments currently use expenditure reviews to establish such a baseline, but this must go beyond budgetary allocations or inputs purchased and address the relationship between spending and outcomes delivered. Using this approach, Denmark achieved a 15 percent reduction in its defense expenditure without reducing its level of readiness to deploy armed forces.
- **Keep targets few, specific, and outcome based.** An example is Colombia’s education transformation, which was launched in 2002 under the leadership of Education Minister Cecilia María Vélez White, and continued by her successor María Fernanda Campo Saavedra. Colombia was the world’s second-fastest improver in student attainment from 2006 to 2015. As Vélez White told us, that achievement relied on setting clear, measurable targets for outcome improvements early on in the transformation. Those targets included increasing student enrollment in both schools and universities, making evaluations and standards the principal way of driving improvements, and improving the education information system.

Cadence and coordination in delivery: Why standard public-sector processes will not build momentum

Checklist for success:

- Avoid planning paralysis: make planning participative and time bound and move to action quickly, in the knowledge that plans will be adapted once implementation starts.
- Link planning and budgeting processes to ensure alignment, demonstrate commitment, and avoid unnecessary delays when ramping up the transformation.
- Appoint a dedicated transformation team to set the pace, solve problems when they arise, coordinate between agencies, track performance, and hold people accountable.
- Deliver quick wins and fast-track decisions to build momentum, while maintaining commitment and focus until the transformation is self-sustaining.

Traditional public-sector approaches to policy development and implementation are characterized by slow and systematic processes and time-honored rules and hierarchies. The focus is often much more on developing the perfect plan than on implementing it. By contrast, the delivery of transformations requires a fast yet steady pace, a flatter hierarchy with close collaboration between different agencies and functions, and the flexibility to solve problems as they arise. The importance of coordination was underscored by Bjarne Corydon, the former finance minister of Denmark, when discussing the reforms he oversaw: “One of the scarcest resources in government is coordination; there is so little you can invest as a leader, you don’t want to waste it.” Our survey also highlighted the importance of coordination in driving transformation success (Exhibit E3).

The starting point is to develop a participative plan that is owned by the organization and meets citizens’ needs. For example, when the city of Moscow launched a far-reaching transformation of transport, the government drew on the city’s best talent, a range of external technical experts, non-governmental organizations, and citizen groups. The city established implementation working groups for 20 different program priorities, each bringing together a mix of skilled and motivated leaders from the public, private, and social sectors.

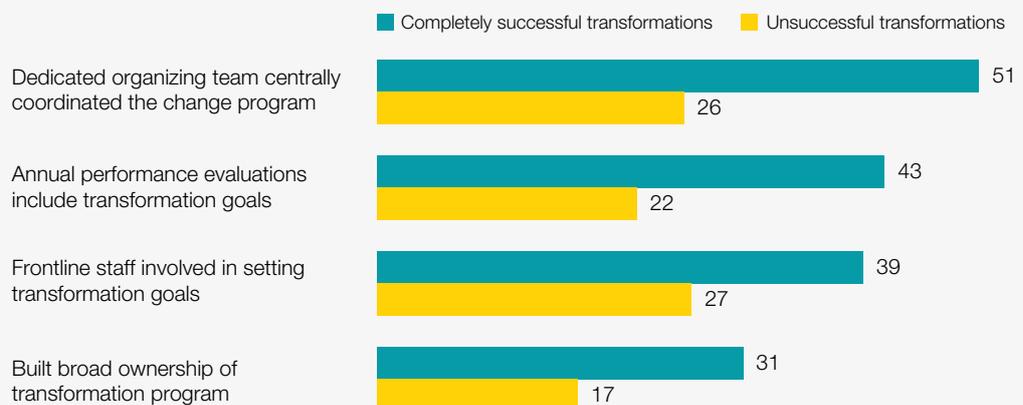
Such approaches stem from the understanding that most great ideas come from outside the top team and are improved through collaboration. Frontline staff and citizens often know far better than those at the center how things can be improved. Beyond new ideas, the participation of a wide group of interested parties brings much needed legitimacy to high-level aspirations. Research studies show that when people choose goals for themselves, they are far more committed to the outcome. Our survey corroborates this finding: organizations that involved frontline staff in transformation planning were more than 20 percent more likely to be successful. We call this “participative planning.”

A “perfect plan” is not required. Indeed, the pursuit of one will likely cause paralysis. Rather, planning should be treated like a sprint, a time-bound process with deliverables and a clear

Exhibit E3

Cadence and coordination are essential to achieving transformation success

Respondents indicating that action was taken during transformation, weighted % of total respondents



Source: McKinsey Center for Government Transformation Survey, December 2017

deadline. Officials should not spend months in working groups; plans can be changed and improved once implementation begins.

It is also critical to link transformation planning and the budgeting process, to avoid process duplication or delays in disbursement of funds. More than 80 percent of our survey respondents said that with hindsight, having allocated more financial and other resources at the start of the transformation would have improved the likelihood of success. Agencies should work with the finance ministry (or similar authority) to make cost estimates, secure funding, and seek alternative sources of funding such as private donor contributions or coinvestment from state-owned enterprises.

Governments also need to bring together a committed team of leaders to drive the change. Whether called a transformation team, a delivery unit, or something else, this group drives the pace of the effort by collaborating with the implementing agencies. The transformation team creates the heartbeat of the transformation. It should have the capability and commitment to solve problems when they arise and quickly escalate issues to the senior leaders in government when their intervention is needed. The transformation team must also establish and oversee a system that rigorously tracks the transformation's progress, holds people accountable, and makes performance transparent within government and to external stakeholders.

One example of such a transformation team comes from the Indian state of Maharashtra, where the chief minister created a “war room” in 2015 that focused on accelerating infrastructure projects—a critical need in a fast-growing, highly populous region with historic backlogs in infrastructure ranging from transport to water. The war room convenes regular meetings focused solely on the issues holding back each project. These meetings are chaired by the chief minister and bring together heads of the different departments and agencies so that decisions can be made on the spot to resolve the issues. This laser-like focus and rapid escalation has enabled a dramatic acceleration in delivery—for example, from delivering 11 kilometers of metro lines in the previous decade to delivering 250 kilometers in the past three years.

Last but not least, effective delivery requires that governments quickly build momentum for the change and then sustain it over time. Our experience, and that of the transformation leaders we interviewed, points to two proven actions to move effectively from planning to a sustained cadence of delivery:

- **Deliver symbolic or quick wins.** Leaders should pick a few relatively easy battles and make sure they can deliver on them. These early wins help unlock the energy required to tackle more difficult tasks and inspire teams to continue. An example comes from Service New South Wales (NSW) in Australia. The agency aimed to simplify citizen access to government services, with a shift to digital transactions and a “one-stop shop” approach to improve customer experience. Service NSW adopted a “bifocal strategy,” looking simultaneously for quick wins and the longer-term sustainable solutions. In the first six months Service NSW implemented “sticky-tape solutions” to take the pain away from the customer and achieved customer satisfaction scores of 99 percent from the day the service launched.
- **Fast-track processes and release bottlenecks.** The initial excitement and momentum of a transformation can quickly get pulled down by the deadweight of bureaucracy. Classically, procurement processes can take months, and positions can remain unfilled

due to rigid staffing guidelines. Leaders should consider making exceptions to the rules. An example is the response of the New York State government to the emergency caused by Hurricane Sandy in 2016. The governor, Andrew Cuomo, streamlined a number of the complicated bureaucratic processes to deliver more housing recovery aid faster. New York State distributed \$309 million to support the building of 5,470 homes by the first anniversary of the hurricane.

Compelling communication: Why lip service will never mobilize people

Checklist for success:

- Don't try to please everyone—while staff and citizens are core to success, attempting to address all interested parties can dilute and distract.
- Inspire through a compelling change story, with the “why,” “where,” “what,” and “how”—and “what is in it for each individual.”
- Overinvest in frequent face-to-face, frontline communication, and listen as much as you talk.
- Communicate targets publicly to create accountability and communicate progress to celebrate success.

The fourth requirement for successful transformations is well-planned, in-depth, genuine two-way communication with all the groups affected by the change—especially the organization's own employees. Of course, every government communicates, but only a few do so effectively enough to win hearts and minds; the findings of our government transformation survey underline this truth. In half of all successful transformations, the senior-management team communicated openly and across the organization about its progress, but this happened in fewer than 20 percent of unsuccessful transformations. And nearly 90 percent of transformation participants said success would have been enhanced by engaging more regularly with frontline employees. For example, according to the UK National Audit Office, the UK's ill-fated FiReControl project, which was launched in 2004 to merge 46 local fire-control centers into 9, the program was doomed from the outset. This was in part due to a failure to communicate the purpose of the project with local fire services and to take account of their needs and concerns. As a result, the project did not deliver a system that fitted users' requirements nor had their support. The project was canceled in 2010, wasting around \$700 million.

What does effective communication look like in practice? One example, also from the United Kingdom, is the transformation of HM Land Registry, whose mission is to protect land and property rights across England and Wales. The organization had cycled through several CEOs and faced a major backlog in property registrations, exacerbated by outmoded systems and ways of working. Graham Farrant was appointed CEO in 2015 with a mandate to transform the agency into “the world's leading land registry for speed, simplicity, and an open approach to data.” Farrant kicked off the transformation by conducting “town hall meetings” with all 4,000 staff in groups of 30 to 50 at a time to listen to the views and concerns of staff members and to communicate the overall vision for the change. This two-way approach to communication proved invaluable:

Farrant learnt that the Land Registry's staff felt passionately about upholding the integrity of the property registration system, which helped him to craft a transformation message that—rather than focusing simply on efficiency gains, as his predecessors had done—spoke directly to advancing that widely held and deeply felt professional mission. Farrant also introduced a weekly blog, which allowed staff to post comments, and personally responded to people's thoughts and ideas. He made it clear that he cared about employees' views and wanted to build on the strengths and professionalism of the organization.

Capability for change: Why business-as-usual skills won't deliver

Checklist for success:

- Take training well beyond the top team—new capabilities are typically needed at all levels of the organization to deliver and sustain change.
- Make sure delivery and technical experts are fully involved from the start: new capabilities mean little if the experts are not listened to.
- Invest real resources in training for specific capability gaps, which are often in change management, operational, and technical skills.
- Realign recognition systems to align with the transformation goals and remove blockers who might derail or slow down the transformation.

Although civil services are often staffed by highly skilled people, they rarely have deep expertise and experience in change management. Reliance on business-as-usual capabilities is a major contributor to the high failure rate of government transformations. Three sets of skills are particularly important: operational management, or the ability to run complex, large-scale service delivery organizations; project and program management; and digital and analytical skills. For example, project management and operational-management skills were present in more than 50 percent of successful transformations but in fewer than 40 percent of unsuccessful ones.

When these skills are lacking, the likelihood of failure is increased. The initial failure of the US HealthCare.gov insurance exchange website in 2013 is a well-chronicled example. President Barack Obama's single most important domestic reform was put at risk in part because the right people with the requisite deep technical skills were not asked to help shape the strategy and monitor its implementation. While it took three years before a crisis exposed how badly things had gone wrong, it took only six weeks for a dedicated team of specialists, using classic agile methodology, to get the website working.

Sometimes acquiring the right capabilities means hiring experienced change leaders from outside government and, critically, investing in their onboarding to help them become an integral part of the team. But it also requires a sharp focus on internal capability building, as our survey findings make clear. When we compared successful and unsuccessful transformations, we found that the former were three times more likely to train initiative leaders in change-leadership skills. They were also twice as likely to offer broader capability-building programs to employees involved in the transformation.

One public-sector change effort that grasped that truth was the Ethiopian federal tax authority, which embarked on an ambitious effort to improve the effectiveness of its tax collection. The authority put transformation capabilities right at the heart of its program, starting with a top-team workshop where leaders agreed to a common vision of reform, identified the values they wanted to demonstrate to their people, and made explicit personal commitments to the program. More than 200 key frontline staff were trained and coached both on tax-specific skills (such as debt collections tracking) and project-delivery capabilities.

Most public-sector organizations, however, have underinvested in the skills required for successful transformations. For one thing, leaders in government agencies are often chosen for their policy expertise and close knowledge of the machinery of government, rather than operational, delivery, or transformation experience. By contrast, senior executives in the private sector are often required to complete a broader range of functional rotations (such as strategy, operations, and marketing and sales) before being promoted.

We propose three essential elements in building a successful capability-development program:

- **Tightly link capabilities to program needs.** Delivering good outcomes for citizens requires governments to understand how different capabilities enable performance. One example is New Zealand’s transformation of policing, launched in 2009. A key component was the “Prevention First” model, which focused on addressing the underlying causes of crime. This model required a focus on early intervention and engagement with the community. To deliver this change, police were trained in preventative policing and engagement techniques.
- **Ensure programs are tailored, not one size fits all.** Such programs must start with a rigorous understanding of the current capabilities of the organization and of the individuals inside it. This understanding informs the design of the capability-building effort—for individuals and the organization as a whole. Some governments use a “field and forum” approach combining theoretical and project work in highly practical settings. In addition, social learning and online “nudges” are increasingly powerful tools for capability building.
- **Shift mindsets to drive change.** Research suggests that 70 percent of change programs fail because management and employees do not adapt new behaviors. Organizational capability and behavior are based on the skills, attitudes, and outlooks of a collection of individuals. To sustain change, the surrounding structures (assessment and recognition systems, for example) must be aligned with the culture the organization wishes to promote. And of course, employees must see people they respect modeling the desired behaviors actively.

THE NEXT HORIZON: CITIZEN EXPERIENCE, DESIGN THINKING, AND AGILE PRACTICES

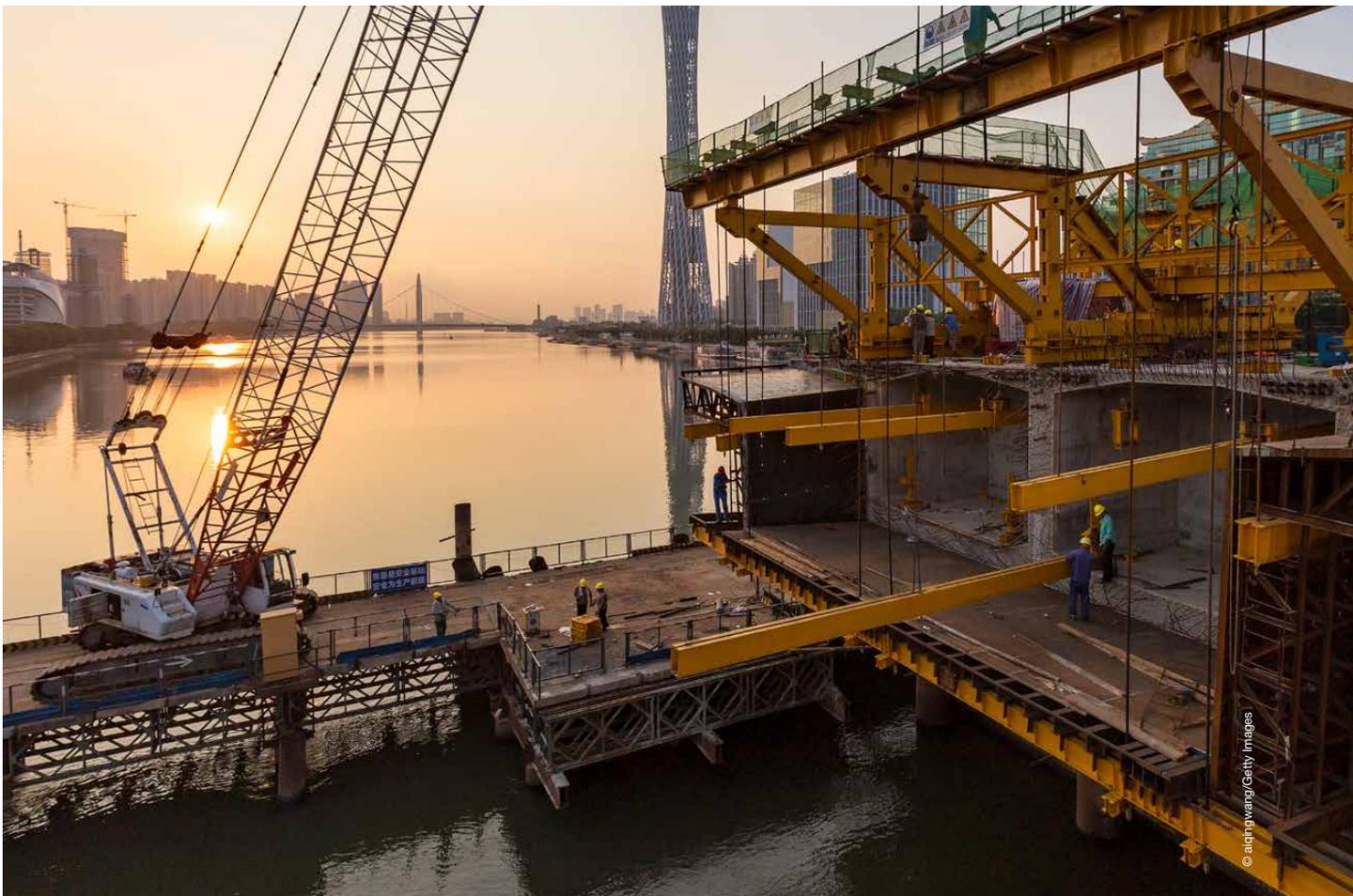
Getting the five Cs right will boost the likelihood of success. In addition, future government transformations are likely to go even further by better understanding the citizen experience and building in design thinking and agile practices. Consider the example of Mexico City, one of the most congested cities in the world. Authorities have expanded the city’s transport infrastructure but have struggled to keep pace with rapid urbanization. That has prompted a number of innovations. One aimed to create a navigable map of Mexico City’s sprawling bus

network. The network's 30,000 buses—many traveling unofficial routes—provide 14 million individual rides a day. Part of that solution was *Mapatón36*, which used crowdsourcing and technology to map the city's bus routes and gave commuters the opportunity to play a game on their mobile phones while riding a bus. In just two weeks, and with a budget of less than \$15,000, the game attracted 4,000 players who between them produced data on 1,500 bus routes covering almost 50,000 kilometers.

There is a vast range of technologies that governments can harness to improve performance—and they are proliferating. They include digital interfaces for citizens, automation of routine tasks such as processing of forms, advanced analytics (with or without big data), and artificial intelligence. However, as we analyzed technology-enabled transformations by the most advanced organizations, we came to a counterintuitive conclusion: it is not technology per se that drives their success, but rather the customer-centric and agile approaches that they deploy.

Three new-horizon concepts are particularly relevant to governments and can help them ensure that transformation efforts respond to the most pressing needs of citizens, actively incorporate citizens' ideas, and are designed genuinely from citizens' perspectives:

- **Citizen experience.** Traditionally, both companies and governments have focused on touch points—the individual transactions through which customers or citizens interact with the business or agency. More forward-looking organizations have realized that this approach



misses the bigger picture: customers and citizens may be satisfied with individual touch points but still unhappy with the overall experience. These organizations therefore consider the user's end-to-end journey and her or his overall satisfaction with it.

- **Design thinking.** Design thinking is the approach used to create compelling citizen or customer experiences. Design is no longer singularly associated with how something looks or its functionality: instead, it is increasingly strategic and system oriented. We define design thinking as a human-centered and creative approach to solving problems that integrates the needs of people, the possibilities of technology, and the requirements of the organization providing the service. The result is an experience, product, or service that is physical, digital, or both—and that creates value for the citizen and the provider alike.
- **Agile practices.** This approach started as a set of principles for developing software but is now being applied in many other areas, including entire organizations. The core ideas of agile are the ability to move quickly and efficiently and a relentless focus on delivering value to customers. Agile practices break the development process into small increments: quickly design, prototype, and test products or services with users and immediately channel the feedback into the next iteration of development. Rather than spending months or years perfecting a product or service before it is launched, agile approaches focus on creating a “minimum viable product,” often in a matter of weeks, constantly testing it with real customers and learning from their experience to iterate and improve it. Some pioneering government agencies are going further and starting to apply agile philosophy beyond individual projects, products, and processes. They combine organizational stability with dynamism—for example, merging a powerful common purpose and standardized ways of working with flexible resource allocation and information transparency.

A department of corrections in the United States provides an example of several of these innovations in practice. This department sought to lower violence levels and reduce recidivism across several thousand offenders and multiple facilities. In one project, the agency used design thinking, including journey mapping, to improve the effectiveness of rehabilitation. The agency identified “offender segments”—analogous to the customer segments used by private-sector marketers—based on factors such as education, employment, behavioral therapy, and mental health. The transformation team also designed “offender journeys” for each segment, much in the way private-sector firms reimagine customer

We define design thinking as a human-centered and creative approach to solving problems that integrates the needs of people, the possibilities of technology, and the requirements of the organization providing the service.

journeys. The aim was to allow corrections staff to set goals for the offender's rehabilitation and direct the appropriate programming and resources right from the start of the offender's stay all the way through parole and reintegration into the community.

Governments exploring the next horizon of transformations are also harnessing technology to engage with citizens much more frequently and imaginatively. In India, for example, the government launched the MyGov online platform in 2014 to invite citizens to share comments, ideas, or concerns. To date nearly 2 million citizens have participated, submitting suggestions in policy areas ranging from environmental pollution to girls' education to health. One proposal submitted through the platform was to turn rural post offices into simple banks to boost financial inclusion, and it was included in India's 2015 budget. By March 2017, banking sections had been installed in 25,000 post offices. Such participative planning puts citizens at the heart of designing and delivering effective outcomes.



The world urgently needs successful government transformations—to improve health and education outcomes, foster growth and job-creation, make cities more liveable, make constrained public-sector budgets go further, and ultimately restore citizens' confidence in governments' ability to deliver. Although the failure rate of such efforts is far too high, there is every reason to believe it can be radically improved. By learning from the 20 percent of government transformations that succeed, future leaders can more than triple their chances of success. To realize that opportunity, governments need to deploy the five Cs: committed leadership, clear purpose and priorities, comprehensive communication, cadence and coordination in delivery, and capability for change. These change-management and delivery disciplines require a set of skills quite distinct from the expertise that governments have honed over centuries in areas such as policy and diplomacy. The good news is that innovations in citizen engagement, design thinking, and technology-inspired approaches are making the task of government transformation easier and opening up new horizons to improve citizens' lives. ■

CHAPTER 1

RETHINKING THE SHIP OF STATE: WHY GOVERNMENTS MUST TRANSFORM, NOT JUST REFORM



Governments today face extraordinary challenges. In many countries, aging populations are putting huge pressure on health and social services, requiring imaginative solutions from governments. Just as urgently, states must reconfigure education systems to equip young people with the skills to adapt and succeed in a world characterized by constant change and rapid advances in technology. If they fail, the twin problems of youth unemployment and inequality could worsen and threaten societies' very stability. And in an urbanizing world, mayors of fast-growing cities must lead bold improvements in public transit and other infrastructure—even when public finances are under strain.

In this daunting environment, many governments around the world have recognized that incremental change is not enough—they must not just reform but transform. If governments are to solve big problems and deliver better services to citizens, they need to deliver ambitious, large-scale transformations, which are hard to get right. As we show later in this report, only 20 percent of government transformation efforts fully succeed in meeting their objectives. There is no shortage of bold government visions; the challenge is how to translate such visions into reality.

This report aims to answer that need. Chapter 1 makes the case for transformation, highlighting the pressures that will increasingly compel governments to pursue radical improvements in performance. In chapter 2, we bring together our comprehensive evidence base on large-scale change efforts in the public sector and distill it into actionable insights on what it takes for government transformation to succeed. Finally, in chapter 3, we explore how governments can apply a new wave of innovations born in the private sector, including agile, citizen-centric approaches that can dramatically cut the time and cost of developing and implementing solutions.

FROM SUPERTANKERS TO SPEEDBOATS: WHY A NEW APPROACH IS NEEDED

To envisage the change in approach that is needed, it is helpful to revisit Plato's metaphor of the "ship of state." Today's ship of state is not a sailboat but a supertanker—or rather a fleet of loosely coordinated supertankers—with each government department making its slow and steady course on long-planned routes, governed by time-honored rules, systems, and hierarchies. Although the supertanker state is an impressive machine, it is proving increasingly inadequate for the challenges of the 21st century. Today, governments must reconfigure their fleets to include nimble "speedboats" that employ new thinking and cutting-edge technology to explore and test new directions and deliver better citizen services faster.

These new approaches are needed at every level of government, including mayors' offices and key departments such as health and education, as well as presidencies and finance ministries as they seek to achieve national goals such as inclusive growth and job creation. The good news is that, whatever the scope of your challenge and your starting point in tackling it, true transformation is possible—in economic and social outcomes, service delivery, and citizen satisfaction.

As an example, consider New Zealand’s transformation of policing, launched in 2009. One of its key components was the “Prevention First” model, which focused on addressing the underlying causes of crime. In 2017, the MCG published an in-depth discussion paper titled *Government productivity: Unlocking the \$3.5 trillion opportunity*, which detailed the model’s innovations, including issuing police officers with smartphones and tablets equipped with apps developed in collaboration with leading technology companies. Officers were then taught to prioritize prevention, including responding to incidents and calls not as isolated events but rather as part of a potential series of events, as well as assessing what needed to be done to prevent such situations from happening again. To further support this prevention-centered approach, officers were trained to work more closely with agencies in the social sector. New Zealand’s homicide rate fell from 1.2 per 100,000 people in 2008 to 0.9 per 100,000 people in 2015—a reduction of 25 percent. Over the same period, the proportion of people reporting confidence in the police rose to 90 percent from 78 percent.¹

Governments can also foster rapid transformation in their countries’ economic performance. Consider the example of Morocco’s sector-based economic transformation program, which kicked off in the early 2000s. Initiatives included creating export-focused special economic zones alongside major ports and supplying them with top-quality infrastructure, which improved Morocco’s position on the World Bank’s global Logistics Performance Index from 94th place in 2007 to 50th place in 2012. That improvement prompted multibillion-dollar investments from global manufacturers; Morocco’s export revenues from the automotive sector alone rose from \$400 million in 2004 to \$5 billion in 2015.² The country also transformed its agricultural sector through an integrated program to improve productivity, increase investment, expand water infrastructure, and open up export markets. Agricultural production increased by nearly 50 percent from 2005 and 2010.³ Finally, Morocco’s ambitious tourism strategy more than doubled tourist visits from 4.4 million in 2001 to 10 million in 2010.⁴

At the city level, the transformation of Moscow’s gridlocked roads and overloaded public-transit system provides one example of what can be done. Russia’s capital went from being the most congested city in the world in 2010 to 13th in 2016 (see Box 1, “From gridlock to green light: How Moscow transformed city transport”).

These are just a few of the thousands of government transformation efforts that have been undertaken over the past decade across national, state, and city levels. It is clear that governments around the world are trying hard to achieve major change in response to a plethora of pressures, both internal and external. We certainly had no difficulty identifying people, across a wide range of countries, who had personal experience of government transformations. For the survey that provides part of the evidence base for this report, we examined the experience of almost 3,000 public servants—ranging from senior leaders to frontline staff—who had been involved in such transformation initiatives over the past five years.

1 For more on the Prevention First model, see *Government productivity: Unlocking the \$3.5 trillion opportunity*, McKinsey Center for Government, April 2017.

2 *Lions on the move II: Realizing the potential of Africa’s economies*, McKinsey Global Institute, September 2016.

3 *South Africa’s big five: Bold priorities for inclusive growth*, McKinsey Global Institute, September 2015.

4 “Morocco’s Tourism Vision 2020 aims to attract 20 million tourists,” *Morocco World News*, November 22, 2013.

Box 1

From gridlock to green light: How Moscow transformed city transport

In 2010, Moscow was named the most congested city in the world. A rapid rise in car ownership had resulted in dire traffic jams, while the bus, metro, and rail systems were overloaded and unreliable. Citizens were fed up, and the city's leaders knew they had to act. In 2011 they launched a far-reaching transformation effort aimed at delivering rapid improvements in journey times and commuter experiences.

Moscow started by harnessing big data to create a detailed transportation fact base, drawing from sources such as geospatial analysis of district-level passenger flows, international benchmarking, and a survey of 40,000 commuters. Out of this fact base, the city developed an integrated transport model that would allow managers to prioritize investments based on a clear picture of current bottlenecks and forecasts of future commuting patterns. Using the new transport model as a platform, the city defined a program to improve all key aspects of transport, with goals to increase public-transport capacity, reduce road congestion, and shorten commuting times.

Translating these goals into reality required further innovation: an open implementation approach that drew on the city's best talent, a range of external technical experts, non-governmental organizations, and citizen groups. The city established implementation working groups for 20 different program priorities, each

bringing together a mix of skilled and motivated leaders from the public, private, and social sectors. This approach helped foster citizen engagement, which was bolstered by daily tracking of commuters' perceptions and a high-profile communication campaign.

Within six months, the city approved numerous key policies and projects, including new infrastructure-development programs for metro and suburban rail and new cargo limitations for trucks entering the city. The transport budget was reconfigured, channeling funding to priority areas and reducing overall capital expenditure. In the first year of implementation, the city made rapid progress in improving service quality and reducing congestion and commuting times. For example, a new e-ticketing system for public transit proved hugely popular, with 200,000 e-cards sold in the 40 days after its launch. Restrictions on trucking at peak hours increased morning traffic speeds on highways by nearly 10 percent, while better parking management in the city center eased congestion and reduced traffic violations by 65 percent.

The progress of the transformation has been sustained (see exhibit on following page). Maksim Liksutov, Moscow's deputy mayor for transport, highlighted several successes in an interview with McKinsey. For example, average traffic speeds on Moscow's roads

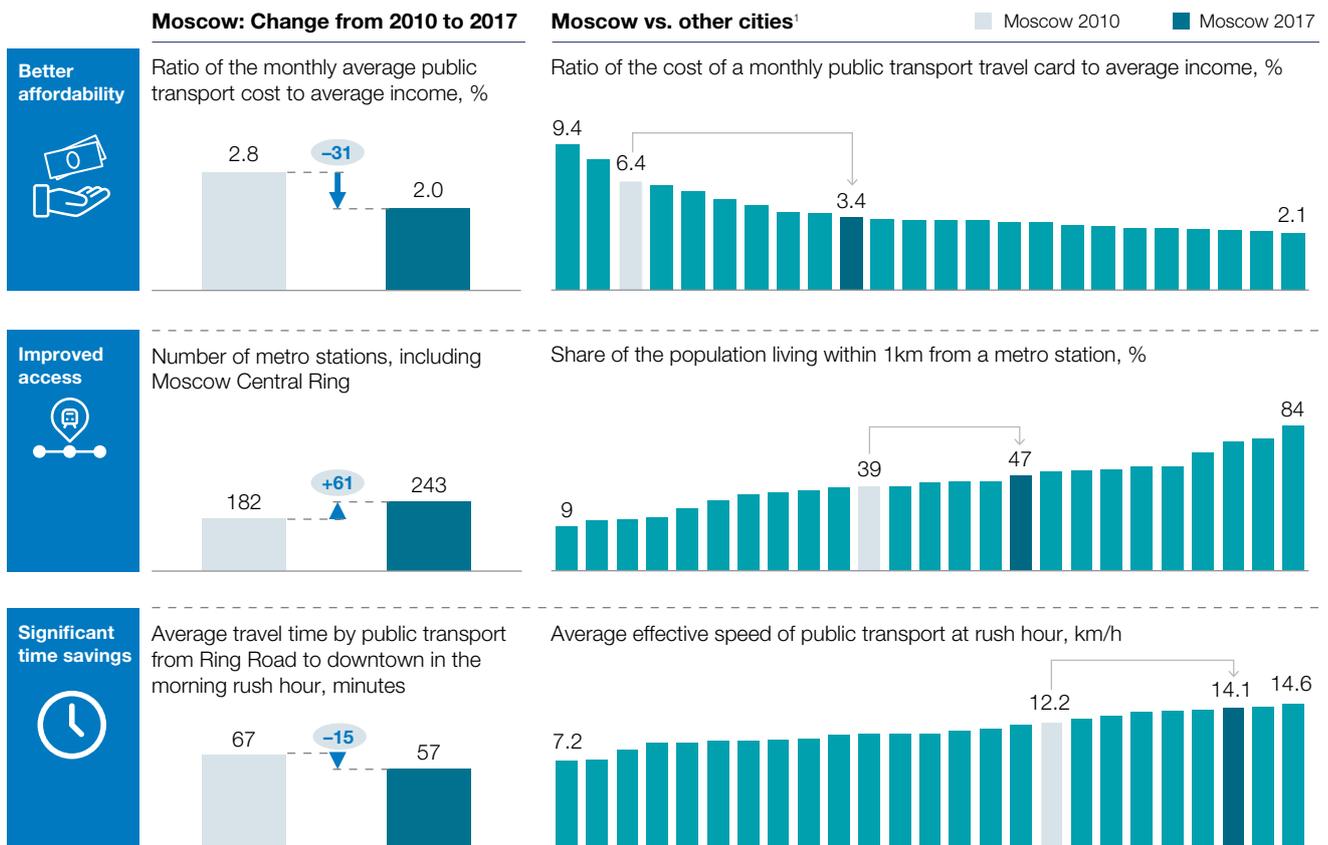
increased by 13 percent, from 45 kilometers per hour in 2010 to 51 kilometers per hour in 2016—an improvement that is among the best in the world. Modernization of metro and bus networks increased the number of full-fare trips on public transit from 1.9 billion in 2010 to 2.8 billion in 2017, and thanks to a bike-rental program and a new network of cycle lanes, the number of bicycle trips doubled in two years, reaching 2.3 million in 2017.¹

Those achievements have been enabled by smart use of technology. For example, Moscow has collected an extensive data set on bus passenger boarding and exiting, frequency, and speed, allowing it to make targeted decisions on route changes. The city has also harnessed technology to help citizens navigate the transport system more easily. Its city transport apps, downloaded 3.5 million times, make it easy for Muscovites to plan a trip using public transportation, pay for parking, and find the nearest bike-rental station. Having built a platform for data-enabled and citizen-centric transport planning, Moscow is well placed to continue these improvements.

¹ *Building smart transport in Moscow*, McKinsey & Company, January 2018.

Exhibit

Moscow's transport transformation resulted in reduced cost, improved access, and significant time savings for passengers



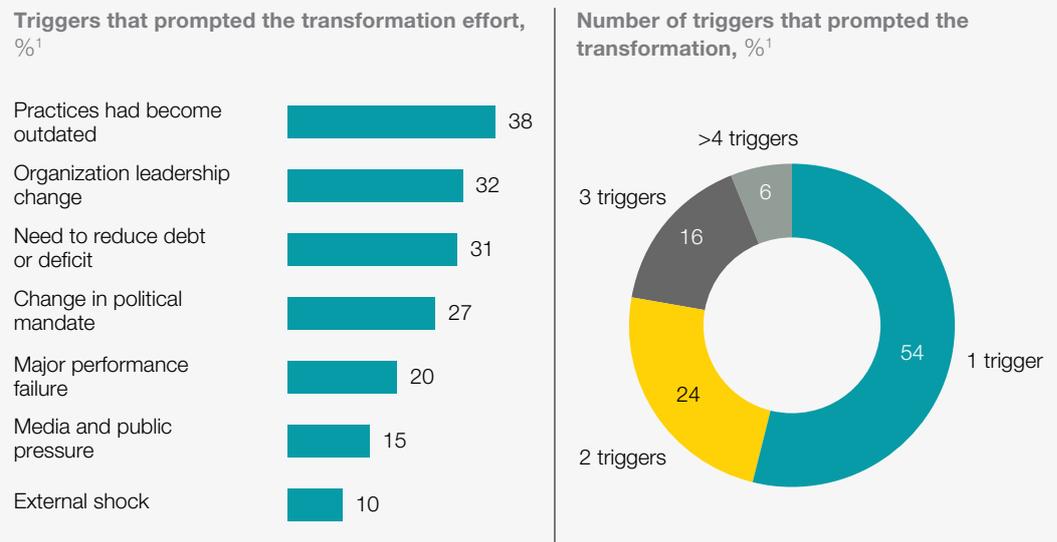
¹ Cities included in comparison: Bangkok, Beijing, Berlin, Buenos Aires, Chicago, Hong Kong, Istanbul, Johannesburg, London, Los Angeles, Madrid, Mexico City, Milan, New York, Paris, Sao Paulo, Seoul, Shanghai, St. Petersburg, Sydney, Tokyo, Toronto.

Source: Official government websites; geospatial data; McKinsey analysis

As our survey shows, the forces driving government transformations are many and various; among the efforts our survey respondents had been involved in, almost half had more than one trigger prompting the change (Exhibit 1). The most frequently cited reason was to update outmoded practices and processes—a clear indication of the widespread need to refit the ship of state. Nearly a third of respondents cited fiscal pressures, including budget deficits and public debt burdens. Reflecting the frequent electoral swings and public-service redeployments that are part of life for many governments, around a third of the transformations in our survey were prompted either by changes in political or organizational leadership or both. Others were triggered by the stormy seas that government leaders must often navigate, including external shocks such as epidemics and natural disasters, pressure from the media and the public, and major performance failures.

Exhibit 1

Almost half of all public-sector transformations had more than one trigger



¹ Data weighted by 2016 share of GDP among the countries surveyed (current prices, purchasing power parity adjusted); unweighted total number of respondents = 2,909.

Source: McKinsey Center for Government Transformation Survey, December 2017

As we show in the next chapter, however, success is far from guaranteed. There are specific disciplines that governments need to follow to design and deliver a transformation that has enduring impact.

STORMY SEAS AHEAD: THE MEGATRENDS THAT MAKE GOVERNMENT TRANSFORMATION A MUST

In the *Government productivity* report, we showed how in recent decades the scope and resources of governments have grown to unprecedented levels.⁵ Yet, as the paper emphasized, a series of long-term trends will put further pressure on public-sector budgets in the coming years, while creating complex new demands on governments from national to local levels. It is worth reprising three of those trends here.

Profound demographic shifts

As countries have become richer, fertility and mortality rates have dropped, and the average age of the population has increased—not just a little, but dramatically. Globally the median age rose from 23.6 in 1950 to 29.6 in 2015 and is forecast to reach 36.1 in 2050.⁶ Far more significant for governments, however, is the rapid growth in older populations. The proportion of the world’s population aged over 65 is expected to double over the next 35 years, from 8 percent in 2015 to 16 percent in 2050—and in developed regions, people over 65 will make up more than a quarter

⁵ Ibid. *Government productivity*, April 2017.

⁶ *World population prospects 2017*, United Nations DESA Population Division.

of the population by 2050 (Exhibit 2).⁷ In some economies, the trend will be even more pronounced. In South Korea, the over-65 age-group is forecast to increase from 13 percent of the total population to 35 percent. In China, the over-65 age-group is expected to increase from 10 percent to 26 percent and in Germany from 21 percent to 31 percent. In these countries and many others, governments will face ever-greater dependency ratios as working-age populations decline and the number of retirees increases.⁸

As previous McKinsey research has shown, these demographic tailwinds could have a dramatic impact on many countries' economic growth and tax revenues, unless productivity can be raised to compensate for shrinking workforces.⁹ Population aging will also put governments under pressure to increase expenditure in social services, particularly pensions, health, and social care. The International Monetary Fund (IMF) forecasts that without reforms, government spending on pensions and health will rise by a potentially crippling 5 percentage points of GDP by 2050.¹⁰

In some developing economies, particularly in Africa and the Middle East, populations are still aging, but from a far lower average age, so there are many young adults entering the

7 Ibid. *World population*.

8 For a full discussion on population aging, see Richard Dobbs, James Manyika, and Jonathan Woetzel, *No ordinary disruption: The four global forces breaking all the trends*, Public Affairs, 2015.

9 See *Global growth: Can productivity save the day in an aging world?* McKinsey Global Institute, January 2015.

10 See *The fiscal consequences of shrinking populations*, IMF staff discussion note, October 2015.

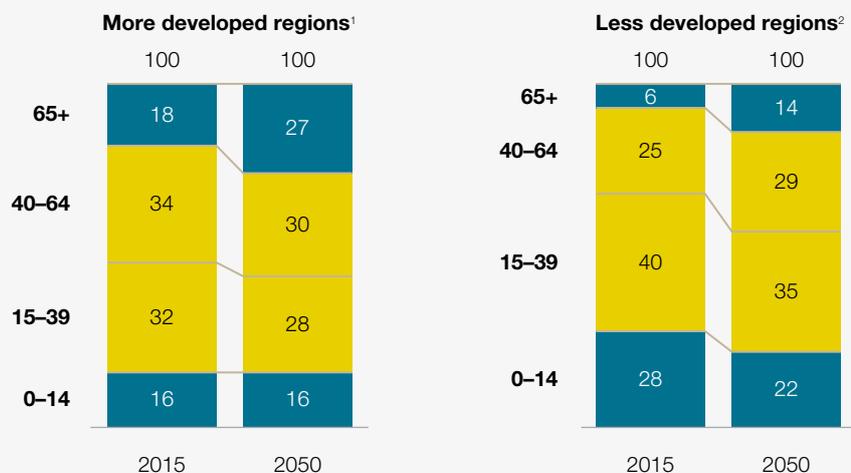
Exhibit 2

Demographic shifts will continue to put pressure on public finances

Proportion of population per age bracket, % of total population

Estimated net contribution to government spending

■ Negative net contribution to government finances ■ Positive net contribution to government finances



¹ More developed regions comprise all countries in Europe and North America, plus Australia, Japan, and New Zealand.

² Less developed regions comprise all countries in Africa, Asia (excluding Japan), Latin America, and the Caribbean, plus Melanesia, Micronesia, and Polynesia.

Note: Figures may not sum to 100 due to rounding.

Source: *World population prospects 2017*, United Nations DESA Populations Division; McKinsey analysis

workforce. Unless governments can engage with employers to transform education systems and ensure a pathway to the world of work, many of these young people will be unemployed or underemployed, and frustrated. Worldwide, young people are three times more likely than their parents to be out of work, and youth unemployment stands at an estimated 75 million.¹¹ Recent research by the Organisation for Economic Co-operation and Development (OECD) has also found that young workers are disproportionately represented in occupations most at risk of automation, such as food preparation, cleaning, and personal services.¹²

Smart approaches are needed to translate the demographic dividend represented by youthful populations into shared economic prosperity.¹³ Governments will also need to make bold shifts to ensure they connect and relate to “digital native” generations, who expect the responsiveness of a mobile app and are less likely than their parents to put up with slow-moving bureaucracies.

In addition to domestic demographic changes, there has been an upsurge in cross-border migration in recent years. Since 1990, the number of international migrants increased by 77 percent (64 million) in more developed regions and by 59 percent (42 million) in less developed regions.¹⁴ In 2017, 74 percent of international migrants were of working age—but integrating these new workers into local economies can be a huge challenge.¹⁵ These factors add to the complexity of the demographic challenges that governments must address.

11 *Education to employment: Designing a system that works*, McKinsey & Company, January 2013.

12 Ljubica Nedelkoska and Glenda Quintini, *Automation, skills use and training*, OECD Social, Employment and Migration working paper number 202, March 14, 2018.

13 Justin Yifu Lin, *Youth bulge: A demographic dividend or a demographic bomb in developing countries?* World Bank, January 5, 2012.

14 *Trends in International Migrant Stock: 2017 revision*, United Nations DESA Population Division, 2017.

15 See *People on the move: Global migration's impact and opportunity*, McKinsey Global Institute, December 2016.



High levels of inequality

In advanced economies, 65 to 70 percent of all households saw their income stall or fall between 2005 and 2014. And while government transfers and tax policy mitigated some of the impact, up to a quarter of all households still saw disposable income stall or fall in that decade.¹⁶ In many developing countries, meanwhile, there is evidence that inequality has worsened even as economies have quickly grown. For example, while sub-Saharan Africa has experienced rapid economic growth over the past two decades, inequality as measured by the Gini index has increased in about half the countries in the region.¹⁷ Likewise, inequality increased in India and Indonesia between 2000 and 2014.¹⁸ At the same time, gender inequality has remained persistently high in many countries: the McKinsey Global Institute (MGI) has mapped 15 gender-equality indicators for 95 countries and finds that 40 of them have high or extremely high levels of gender inequality on at least half of the indicators.¹⁹

Measuring inequality is a complex and much-debated undertaking, and the picture varies depending on the metrics used. That said, significant parts of the population in many countries feel disaffected by what is perceived to be a growing gap between the “haves” and the “have nots.” There is broad agreement among policy makers that more must be done to share the benefits of economic growth and to protect vulnerable populations from the disruptions associated with globalization and technological advances.

Indeed, recent MGI research highlights the challenges that automation poses for the world of work. It shows that, in about 60 percent of occupations, at least one-third of the constituent activities could be automated using currently demonstrated technologies, implying substantial workplace transformations and changes for most workers. The changes due to advancing automation will be significant, with 75 million to 375 million people needing to switch occupational categories by 2030 to stay employed. The shift could be on a scale not seen since the transition of the labor force out of agriculture in the early 1900s in the United States and Europe, and more recently in China.²⁰

To tackle inequality and prepare for a world in which automation requires reskilling on a wide scale, governments will need to implement several transformational steps—none of them easy or cheap. They will need to find ways to stimulate economic growth and broadly support job creation, including providing more opportunities for low- and middle-income households to find work. They will need to boost overall educational outcomes and provide large-scale job retraining for workers affected by automation. They will also need to shape interventions that secure the income and consumption levels of such households through transfers, tax reforms, labor-market regulations, and compensation practices.²¹ Narrowing the gender gap requires, among other things, rethinking education, improving maternal health, and restructuring the financial sector to increase access to finance for women.

16 See *Poorer than their parents? A new perspective on income inequality*, McKinsey Global Institute, July 2016.

17 Kathleen Beegle et al., *Poverty in a rising Africa*, World Bank, 2016.

18 *Poverty and shared prosperity 2016: Taking on inequality*, World Bank, 2016.

19 *How advancing women's equality can add \$12 trillion to global growth*, McKinsey Global Institute, September 2015.

20 *What the future of work will mean for jobs, skills, and wages*, McKinsey Global Institute, November 2017.

21 See *Poorer than their parents? A new perspective on income inequality*, McKinsey Global Institute, July 2016.

Even as cities in developing economies experience rapid population growth, many urban centers in the developed world are set to decline in size, owing to slowing population growth and plateauing urbanization.

The changing shape of cities

The bright lights of the big city are proving ever popular with increasingly urban populations in nearly all countries. As we noted in *Government productivity*, the proportion of the world's population living in urban areas is projected to rise from 54 percent in 2014 to 66 percent by 2050.²² Cities in the developing world will experience the greatest growth—Africa alone will be home to 190 million more urban residents over the next decade—while cities in China, India, and Latin America will also expand quickly (Exhibit 3).²³

This rapid urbanization has the potential to bring significant economic benefits—provided governments prepare for it effectively. To ensure that this expansion is sustainable, equitable, and healthy, governments will need to improve planning processes, build more affordable housing, design and invest in efficient mass transit systems, increase access to clean energy, and install more digital infrastructure. It will not be easy: many of the fastest-growing cities are in countries where funds for new infrastructure may be especially stretched.²⁴ Urbanization is also forcing governments to rethink service provision in those areas left behind—for example, streamlining services and harnessing technology to meet the needs of increasingly sparse populations in rural areas.

Even as cities in developing economies experience rapid population growth, many urban centers in the developed world are set to decline in size, owing to slowing population growth and plateauing urbanization. From 2015 to 2025, we expect populations to decline in 17 percent of large cities in developed regions. Many cities in Western Europe and North America are already experiencing low or negative population growth, including cities in Germany (Gera and Saarbrücken), Italy (Genoa and Venice), and the United States (Pittsburgh and Cleveland). In Japan, the population of almost 40 percent of cities declined from 2012 to 2015.²⁵

To sustain economic prosperity in the face of change, most cities need to sharpen their focus on citizens, raise productivity to boost incomes, and meet rising expectations with existing resources. They will need to demonstrate flexibility in adapting to the challenges that lie ahead and focus on maintaining their dynamism and vibrancy to attract talented workers and successful businesses.

²² Ibid. *Government productivity*, April 2017.

²³ *World urbanization prospects 2014*, United Nations DESA Population Division, 2014.

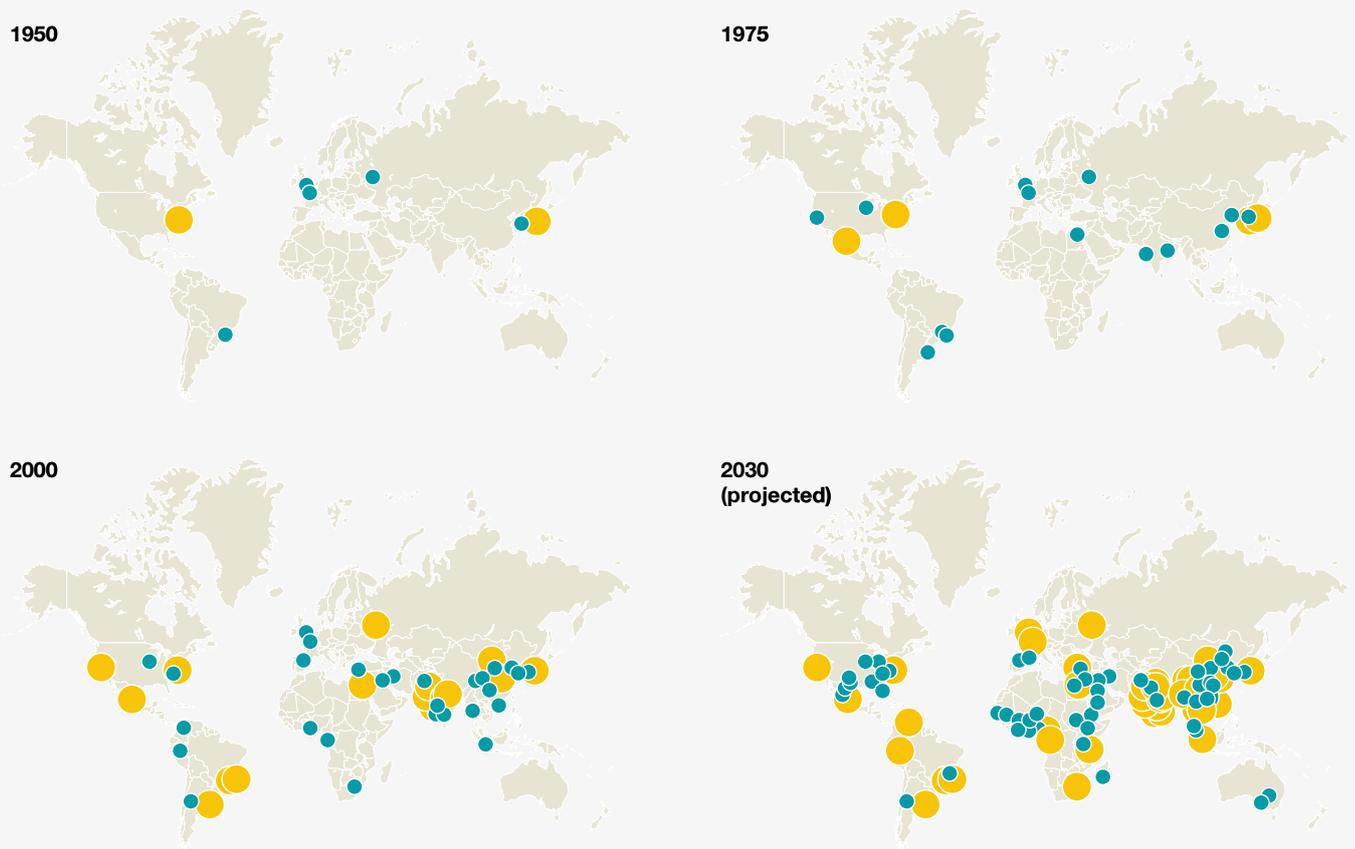
²⁴ Ibid.

²⁵ *Urban world: Meeting the demographic challenge in cities*, McKinsey Global Institute, October 2016.

Exhibit 3

Megacities continue to grow, especially in emerging economies

City population: ● 5–10 million ● >10 million



Source: *World urbanization prospects 2014*, United Nations DESA Population Division

ROCKING THE BOAT: THE 21ST CENTURY'S DEMANDING, DISSATISFIED CITIZENS

Despite the sheer scale of public expenditure, which equated to 33 percent of global GDP in 2016, governments are struggling to keep up with demands from citizens—or meet their changing expectations. There is mounting evidence from across the globe that citizens are dissatisfied with the status quo. In the 2016 and 2017 election cycle, the incumbent party or elected head of state was deposed or defeated in five of the world's ten largest economies. When given the choice at a referendum, many voters have confounded pollsters and gone against the expectations of commentators. In countries from the Philippines to the United States, voters have elected heads of state who campaigned on a platform that rejected mainstream politics.

New channels are now available for citizens to organize and voice discontent. There are more than 8.5 billion mobile device connections globally, with more than 5 billion of these

registered to unique users.²⁶ The widespread adoption of social media arguably makes it harder for governments to implement policy changes, as people negatively affected by those changes can be mobilized quickly and effectively.

The stormy course of world politics in recent years reflects high levels of discontent by citizens, along with mistrust of established institutions. A McKinsey survey in the United States found that satisfaction with government services was lower than all private-sector services tested (Exhibit 4). According to the 2018 Edelman Trust Barometer, government is distrusted in three-quarters of countries surveyed.²⁷ The same report found that just 35 percent of respondents saw government leaders as credible, while 44 percent said the same about business CEOs. These figures should be an urgent motivator for government leaders to refit the ship of state.

LIMITS TO GOVERNMENT EXPANSION: WHY THE SHIP OF STATE MUST BECOME NIMBLER

As we noted in *Government productivity*, the challenges facing governments are increasing in size and scope even as the fiscal space in many countries is contracting. In 2016, the proportion of taxation to GDP in OECD countries exceeded 34 percent—the highest level

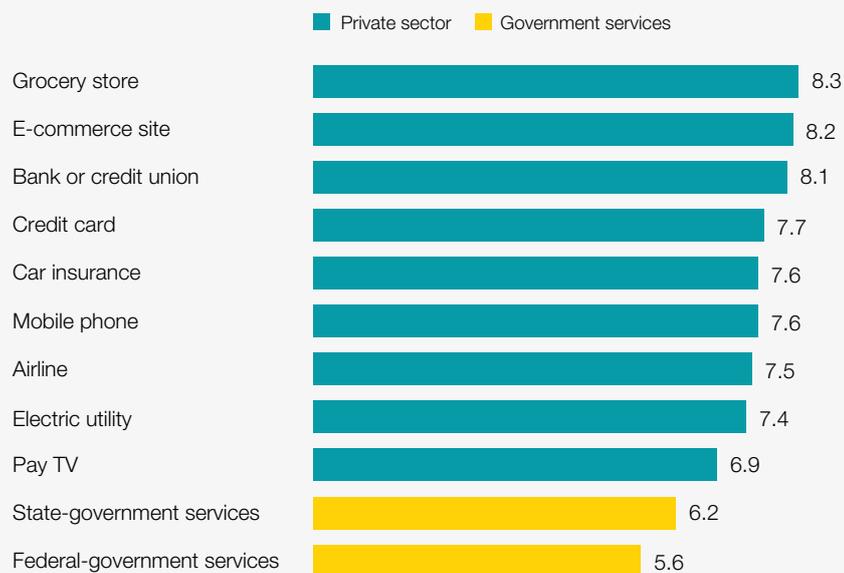
26 GSMA Intelligence 2018, May 2018 figures interpolated from 2017 year end.

27 2018 Edelman trust barometer: Global report, Edelman, 2018.

Exhibit 4

Customers are far less satisfied with government than with private-sector services

Average customer satisfaction scores in the United States, scale of 1–10
(1: extremely unsatisfied, 10: extremely satisfied)



Note: n = 15,269

Source: McKinsey Public Sector Journey Benchmark Survey, November–December 2016

since the OECD started recording this data in 1965.²⁸ In some countries, such as Norway and Finland, this percentage is significantly higher, at around 50 percent. But even these levels of taxation have not been sufficient to cover costs: government debt in advanced economies has increased by \$19 trillion from 2007 to 2014 and by \$6 trillion in developing countries.²⁹

Yet, governments have never been asked to do so much: they must find ways to deliver more, and better, for less. McKinsey's Government Productivity Score shines a spotlight on productivity gaps in multiple sectors, including health care, education, and tax collection. The good news is that pioneering governments are already delivering major improvements in citizen outcomes at little or no increase in unit costs. If all countries were to match the improvements of their best-performing peers, the world's governments could save as much as \$3.5 trillion a year by 2021—equivalent to the entire global fiscal gap. Alternatively, countries could choose to keep spending constant while boosting the quality of key services.³⁰

To return to our metaphor of the ship of state, it is unlikely that the challenges facing governments will be addressed by bigger supertankers. Instead they need smarter, nimbler vessels designed for new times.



The need for large-scale, well-orchestrated change is clear, and there are inspiring examples of success from every region of the world. But it remains challenging to design, sequence, execute, and sustain large-scale transformations in the public sector. For that reason, the next chapter of this report highlights five crucial disciplines that make the difference between successful and unsuccessful transformations. The final chapter looks ahead to the next horizon, drawing inspiration from agile, customer-centric, and digitally-enabled transformations in some of the world's most advanced businesses and government agencies. ■

²⁸ *Revenue statistics: 1965–2016*, OECD, November 23, 2017.

²⁹ *Debt and (not much) deleveraging*, McKinsey Global Institute, February 2015.

³⁰ *Ibid. Government productivity*, April 2017.



CHAPTER 2

WHY MOST GOVERNMENT TRANSFORMATIONS FAIL— AND HOW TO TRIPLE THE LIKELIHOOD OF SUCCESS



Governments face growing pressure to improve the quality of services, yet they must deliver in the context of a turbulent political environment and constrained public finances. That is why government transformation is an increasingly urgent imperative in countries and cities around the world. Changing the course of the supertanker state is no easy matter, however, as new research from MCG shows. We find that only a fifth of government transformation efforts reach their destinations on time and on target; many veer off course, get stuck in the doldrums, or run aground.

Yet, our research shows that by embedding five key disciplines—committed leadership, clear purpose and priorities, cadence and coordination in delivery, comprehensive communication, and capabilities for change—governments can more than triple their chances of success. The prize is huge: were governments globally to match the rate of their fastest improved peers, they could save as much as \$3.5 trillion a year by 2021, eliminating persistent fiscal deficits and releasing resources that could be reallocated to improve the quality of key services such as health care, schools and universities, policing, and transport.³¹

Why do so many transformations fail—and what distinguishes the relatively small number of efforts that do succeed? We are able to draw on a comprehensive evidence base to answer these questions. In this chapter, we highlight the findings of a survey of nearly 3,000 public servants involved in transformations, along with analysis of more than 80 government transformations around the world. We combine these with insights from in-depth interviews with more than 30 leaders who have personally driven transformations in government; between them they have more than 300 years of collective experience in what it takes to succeed (see infographic on page 41).

One of those leaders is Jaime Saavedra Chanduví, who was minister of education in Peru from 2013 to 2016. When Saavedra took office, the country was about to be ranked last in the world—65 out of 65—in the Programme for International Student Assessment (PISA), run by the OECD. As Saavedra told us, effective basic education is “the make or break for a country.” But the new minister had inherited a strategy with more than 200 objectives. His first act was to simplify it to a four-point plan focused on teachers, pedagogical interventions, infrastructure, and management. To deliver the plan, he assembled a team with deep public-management expertise, quickly moved to implementation, and personally led communication with teachers across the country. The transformation achieved rapid impact. In only three years, Peruvian schools had moved up to the average for Latin American countries—the fourth fastest improvement in the world (see Box 2, “How Peru’s school system moved from bottom of the class to best improver”).

Unfortunately, successful change efforts like Peru’s education program are exceptions. Our survey finds that around 80 percent of government transformations fail to meet their objectives fully. That is not because government transformations set unrealistic objectives: in 93 percent of cases, our survey respondents considered the goals of the change project to be achievable. We compared these findings with those of a similar survey we conducted in the

³¹ Ibid. *Government productivity*, April 2017.

The MCG research constitutes a comprehensive evidence base detailing what makes government transformations succeed



Surveyed
2,900+ public servants
 across **18** countries

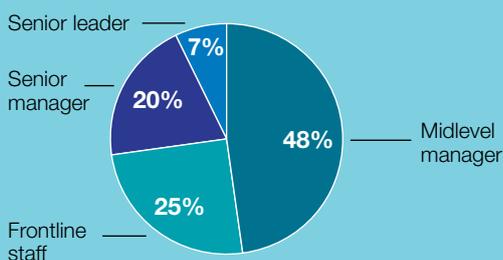
30+ interviews
 with senior government and public-sector leaders representing **300+** years of experience
 across **17** countries
 and **6** continents

Examined more than
80 cases
 across **50** countries
 and **6** continents

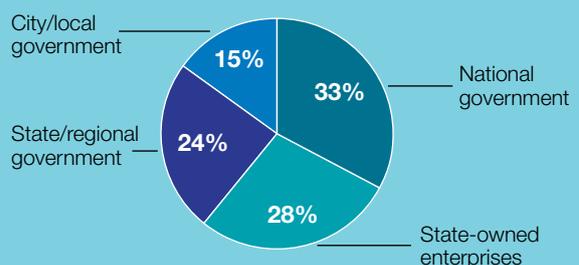
Countries represented in survey



Respondent's role during transformation



Respondent's employer type



Source: McKinsey Center for Government Transformation Survey, December 2017
 Photography: © georgeclerk/Getty images; © MariuszSzczygiel/Gettyimages

Box 2

How Peru's school system moved from bottom of the class to best improver

When he took office as minister of education in Peru in 2013, Jaime Saavedra Chanduví knew the country's education system was failing. Three weeks later, the whole country was about to find out as well. Peru's schools were ranked at the bottom of the global PISA scores. Saavedra's first task was to work out how to deal with the publication of the scores. As he told us: "We were able to say to the public, 'Look, we're not in trouble, we are in deep trouble.' We were able to own the problem."

It was the beginning of a remarkable journey. Saavedra started by setting his priorities. Everything needed reform—schools, technical education, and universities—but the new minister knew that he was likely to have only limited time and limited political capital. He focused initially on basic education: "That is the make or break for a country." As an academic specializing in poverty reduction, it was a no-brainer: education, he said, was "the main instrument for a country to give an equal footing for all citizens, independently of where they were born, their race, their gender."

The new minister inherited a plan with more than 200 objectives, developed over several years and hundreds of conferences and consultations. "The plan hit the right points, but who will understand it?" said Saavedra. He simplified it to a four-point plan "so that a cab driver understood it." Later he likened it to "a car, with four

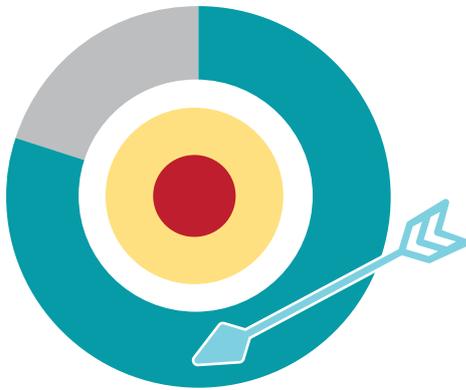
wheels. And the four wheels have to move at the same time. One wheel is teachers. The second wheel is learning, or pedagogical interventions. The third wheel is infrastructure—classrooms and textbooks. And the fourth wheel is management—both in the school and at the center."

With his priorities set, Saavedra needed to build a team around him that could deliver on those priorities. "I stole a lot of people from the Ministry of Finance and people with a public management background, economists, engineers." He added: "I brought in some people from the private sector, but just a few because, particularly at the beginning, we had to combine two things: freshness, yes, but also people who knew how the public sector works."

The new team started implementing the plan, which included improved pay and conditions for teachers in return for higher standards on qualifications and performance-based promotion; a simplified curriculum and easy-to-use lesson plans; full-day secondary schools; repairs to classrooms and toilets; and replacing failing school principals with better-qualified leaders. Planning was quick for public-sector standards and did not insist on perfection; improvements were made as the rollout continued.

From the beginning, Saavedra knew that the transformation would succeed only if it were a collaborative effort. He went on weekly visits to schools—and he did so unannounced, so that instead of being met by "a ceremony and a band" he could talk to the teachers and "hear what was really happening." The minister used the high mobile phone penetration across Peru to send personalized texts to 180,000 teachers, thanking them for their work and giving key messages about the term ahead. It was very effective: "I remember going to schools in the Andes and people showing me their cell phones with it." It was vital never to miss an opportunity to raise morale. "The perception of teachers had reached rock bottom," he told us. "So what we did was change the discourse. I never went out to say anything negative about teachers. I would say always that the key partners of the reform are teachers. Constantly, constantly, constantly—the key partners are teachers."

The transformation—focused and integrated—had a rapid effect. In only three years, Saavedra, his team, and his partners ensured that Peruvian schools had become the fastest improver in the region. "I remember, we were able to say we beat Brazil in math," said Saavedra. "We cannot beat them in soccer, but we can beat Brazil in math."



80%

of public-sector transformations fail to meet their objectives

Source: McKinsey Center for Government Transformation Survey, December 2017

private sector and found that the failure rate of government transformations (80 percent) is slightly higher than that of change efforts in the business world (74 percent).³²

Of course, public-sector transformations are not strictly comparable with those in the private sector. On the one hand, governments have some advantages over business when it comes to triggering and sustaining major change. They have the power to change legislation—for example, in the aftermath of Sweden’s financial crisis in the 1990s, political leaders agreed on a budget surplus rule, which is now monitored by the Swedish Fiscal Policy Council. At their best, governments are mission-driven organizations that can mobilize committed people—both career public servants and citizen volunteers—around important social goals. As we discuss in the final chapter of this report, advances in technology are also making it easier for government change endeavors to draw on the ideas and energy of a broad range of citizens and communities.

On the other hand, public-sector transformations face a series of complex challenges that their private-sector counterparts do not have to navigate. For example, public-sector change efforts can be held back by the extent of the government’s political mandate, which may be weak or short lived due to the frequency of elections. To transform, many must work across multiple government departments or agencies, as new-generation solutions do not usually fit neatly within existing portfolios. Moreover, government institutions are typically larger and more complex than private-sector organizations and subject to more onerous procedural requirements. Deep-rooted cultural norms in the public sector that have developed for good

³² *How to beat the transformation odds*, McKinsey & Company, April 2015.



reasons—including system stability and risk aversion—can run counter to the agility and rapid decision-making required for transformation.

Even taking into account all these challenges, the failure rate of government transformations is too high. It represents a missed opportunity to solve society's greatest challenges more effectively, deliver better citizen services, and make more productive use of limited public resources.

Governments in every region of the world therefore have a critical question to answer: How do we increase the odds of success in our attempts to transform public-sector services?

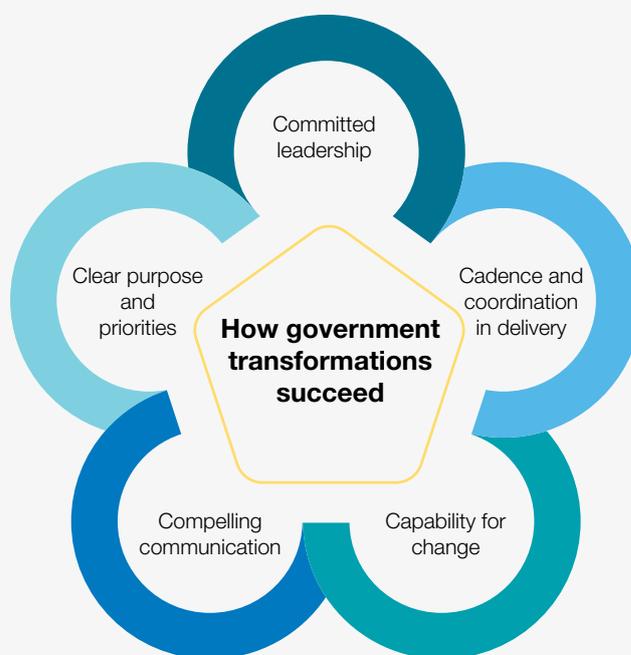
Using our unique evidence base, we have identified five disciplines that clearly distinguish successful transformations. Change efforts that effectively embed these requirements are more than three times as likely to succeed than those that do not. We call these must-do disciplines the five Cs (Exhibit 5):

- **Committed leadership.** Successful transformations are driven by extraordinary leaders who make deep personal commitments to achieving the targeted outcomes and lead by example in creating the culture they want to see. Ordinary public-sector management routines are not enough; indeed, truly transformational leadership often entails breaking with long-established norms.
- **Clear purpose and priorities.** Our evidence base shows that successful transformations have a handful of clear priorities translated into a few critical, measurable outcomes. That may sound simple, but most government change efforts fail to get it right; they instead focus on inputs or get swamped in long lists of conflicting objectives and key performance indicators (KPIs).
- **Cadence and coordination in delivery.** There are also dramatic differences between successful and unsuccessful transformations when it comes to delivery. What is needed is a consistent rhythm of change, akin to that of a well-coordinated rowing team. That involves a participative approach, sharp accountability and performance tracking, and frequent course correction through rapid problem solving and escalations.
- **Compelling communication.** The top-down, formal communication style common in many public-sector organizations fails to mobilize people. By contrast, successful transformations invest in continuous, two-way communication centered on compelling “change stories” and celebration of achievements. They are visibly led by ministers, mayors, or senior managers who commit publicly to the transformation objectives and who listen as much as they speak.
- **Capability for change.** Public-sector organizations contain highly educated people with deep policy expertise, but they often lack the technical and change-management skills and experience needed to lead and sustain transformations. Successful efforts value and actively build these capabilities in public servants, from senior management to the front line.

Our analysis shows that the five Cs are surprisingly universal—each is a key driver of success regardless of the geography, trigger, scope, or structure of the change effort. Indeed, even though transformations in the private sector might be quite different from the public sector,

Exhibit 5

Five disciplines clearly distinguish successful from unsuccessful transformations



Source: McKinsey Center for Government

our research has found that the five Cs are critical drivers of successful business transformations, too.³³

That said, context does matter: the specific trigger and circumstances of a transformation can influence its design choices. For example, immediate crises—such as the 2014 Ebola epidemic in West Africa or Ireland’s financial crisis in 2009 to 2010—create a “burning platform” that can make it easier for leadership to galvanize support for the transformation. By contrast, transformations focused on longer-term results, such as education outcomes or economic growth, often require institutional changes to sustain their momentum. Or take the importance of building a reliable fact base as a foundation for the transformation’s goals, which tends to be more important in developing economies, many of which lack robust data on government performance and outcomes.

Given such differences in context, mastering the five Cs is not just a science but an art—they require rigor in design and delivery, along with fine-tuned judgment and adaptation to the unique context of each transformation. But, as the earlier example of Peru’s education transformation illustrates, none of the five Cs is optional. Effective change leaders embed all of these disciplines into a well-thought-through transformation approach. As our survey findings demonstrate, such an integrated approach is greater than the sum of its parts. We

³³ *The people power of transformation*, McKinsey & Company, February 2017; *Ibid. How to beat the transformation odds*, April 2015.

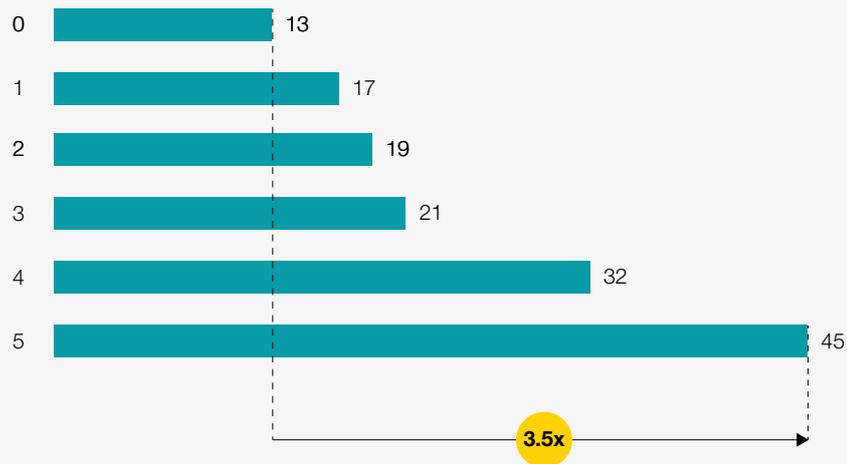
polled survey participants on more than 30 different actions that might be taken in public-sector change efforts, and then mapped those actions to the five Cs. The findings were remarkably clear: in transformations where all five top actions were in place, the success rate was more than triple that of programs that used none of the actions.³⁴ Transformations that applied all five Cs were also more than twice as likely to succeed than those where only two or three key actions were in evidence (Exhibit 6).

³⁴ As we discuss in this report, there are many other factors that influence transformation success, such as political context. Some of these are difficult to measure and are not captured in the survey data. The figures shown in Exhibit 6 only account for the top-five factors associated with the 5Cs.

Exhibit 6

Embedding the five disciplines more than triples the likelihood of success in government transformations

Number of five Cs implemented during transformation effort, % of transformations ranked as completely successful



Note: Based on most relevant surveyed action for each of the five disciplines; sample size (0:747, 1:659, 2:590, 3:441, 4:338, 5:134) for each number of Cs; data weighted by proportion of world GDP, following *McKinsey Quarterly* weighting standards.

Source: McKinsey Center for Government Transformation Survey, December 2017

The findings were remarkably clear: in transformations where all five top actions were in place, the success rate was more than triple that of programs that used none of the actions.

COMMITTED LEADERSHIP: WHY ORDINARY MANAGEMENT IS NOT ENOUGH

Checklist for success:

- Don't launch a transformation effort if you are not able to use significant political and personal capital to make it successful.
- Don't rule out radical action if it is necessary, such as changing legislation, setting up new institutions, or removing transformation blockers.
- Show sustained commitment by spending a significant amount of time visibly leading and role-modeling the change.

While every government initiative has one or more formal leaders, successful transformations require a different kind of leadership. The transformations we studied were steered and championed by deeply committed leaders. Each of them devoted major time and energy to the effort, took personal accountability for success or failure, led by example in creating the cultural change they wanted to see, and had the courage to challenge long-established assumptions and conventions. Such leaders of transformation live and breathe the journey, and stretch their capacity for strategic planning, emotional resilience, and inspiring people-leadership. Of course, this is easier said than done. Public-sector change efforts often run aground on one of three specific leadership challenges:

- **Limited political capital.** Leaders may have limited political capital to push through their transformation agenda. This is particularly true for controversial transformations, for politically sensitive services such as education and health care and in instances where the government has a weak mandate—for example, in a minority or coalition government. Even in more straightforward cases there is typically vocal opposition from people who perceive that they could lose based on the changes being introduced.
- **Lack of sustained focus.** Senior leaders often lack the bandwidth or incentives to focus on long-term initiatives, making the momentum of the transformation more difficult to sustain. Sometimes the problem is that governments have too many priorities: leaders try to reform too much, too quickly, perhaps in an attempt to fulfill promises in a manifesto. Another challenge is a lack of leadership longevity. For example, a review of ministers of health across 23 countries from 1990 to 2009 found that half of them left office in under two years.³⁵
- **Lack of accountability for outputs and outcomes.** In many cases, government departments and their senior leaders are not held accountable for delivering on strategic outcomes. For example, it was only in 2014 that federal government departments in

³⁵ M. B. Ferraz, "Ministers of Health: short-term tenure for long-term goals?" *Sao Paulo Medical Journal*, volume 129, number 2, 2011; Analysis based on publicly available information.

Australia were required to set public performance targets in their corporate plans and report performance against these as part of the annual reporting process.³⁶ Even then, audits of selected agencies have found that the performance indicators set by departments were predominantly based on outputs rather than outcomes.

As one example of transformational leadership in action—and of an integrated approach that encompassed the five Cs—consider the Colombian city Medellín. Until recently, Colombia's second-biggest city was known as the global center of cocaine trafficking; its 2.5 million inhabitants were plagued by violence and crime, and the city was notorious for having one of the world's highest homicide rates. However, much has changed over the past two decades. With a decrease of more than 80 percent in the murder rate and a budding economy, Medellín's story today is one of revitalization. Now it attracts tourists from all over the world, companies looking to expand into the growing Latin American market, and individuals in search of job opportunities and better living conditions. This remarkable transformation was by no means inevitable. It is thanks in part to the bold vision and deep commitment of a series of mayors of Medellín and governors of the surrounding Antioquia province, who have coordinated actions in urban development, education, security, and administrative capacity-building. One of them was Aníbal Gaviria, who served as governor from 2004 to 2007 and mayor from 2012 to 2015. His very election to public office speaks of personal commitment: his immediate predecessor as governor was his brother Guillermo, who was killed by FARC guerrillas in 2003.

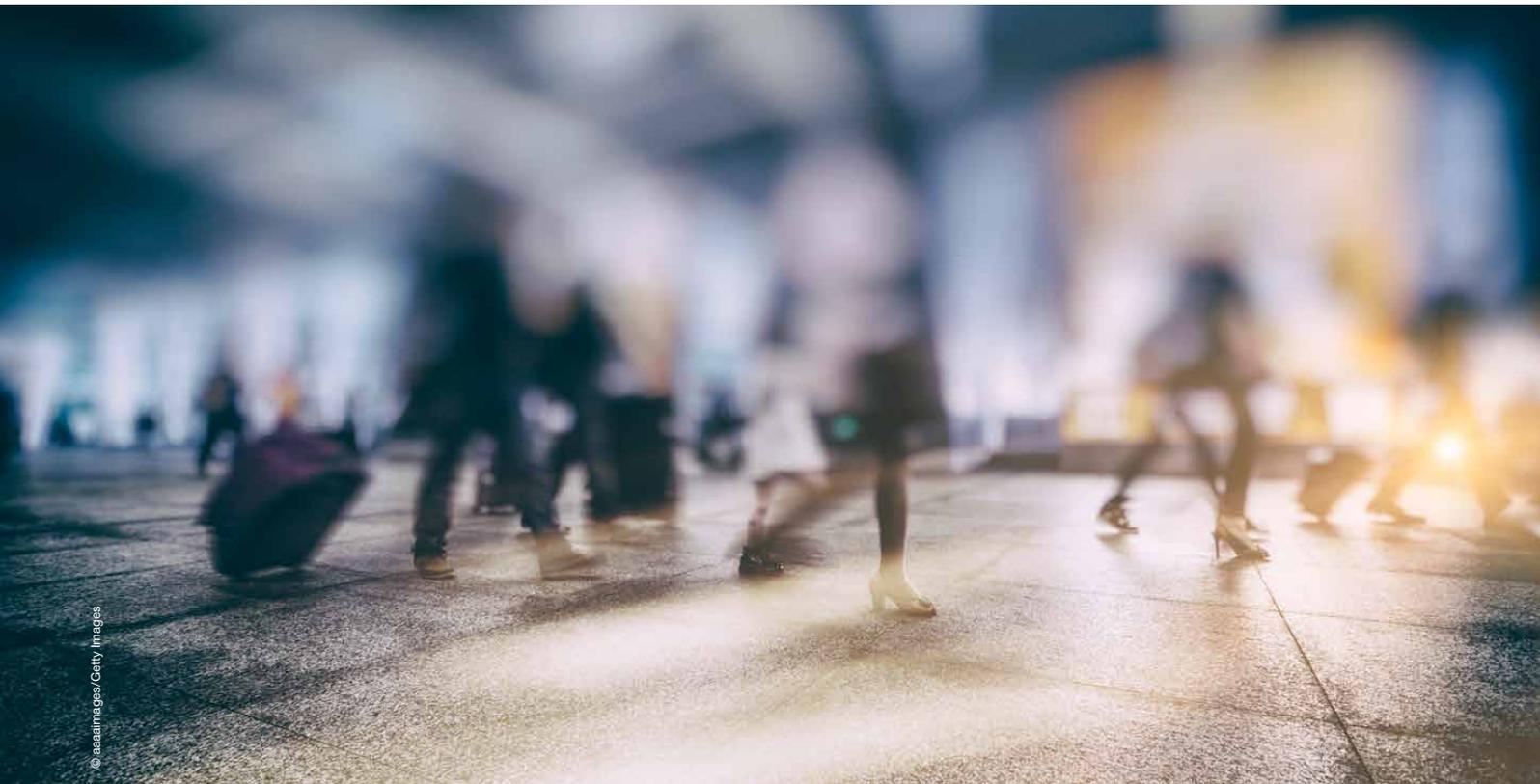
In an interview with McKinsey, Aníbal Gaviria said: “My brother and I always believed that the transformation of a society is accomplished by the succession of several good and coordinated governments. I am very proud to build upon what my predecessors have done and to give continuity to many of their programs and projects.” Gaviria also had the courage to make some profound changes himself, including to the structure of the city government. As he told us: “When I started as mayor in 2012, I had more than 50 direct reports, including secretaries, managers of decentralized institutions, and managers of state-owned enterprises.” He reorganized these reporting lines into six groups and appointed a vice mayor for each group, which he said was “similar to establishing six vice-president positions in a company, where the mayor is the CEO.” Gaviria also built strong partnerships with the private sector, which brought specific expertise in areas such as project planning.

Just as important, Gaviria led “constant dialogue” with citizens and local community groups to engender a shift in mindset about what was possible in Medellín and to inspire change. “We faced incredulity,” he said, “and people thinking that we were forever condemned to be a failed city. The change in mentality—when people begin to see that it is possible to have breakthroughs that benefit everybody—has been the most important gain.”³⁷ That, said Gaviria, was essential to overcome the “resistance that is expected when making transformational changes.”

Our research shows that focused, committed leadership like that of Mayor Gaviria and other leaders in Medellín is the most important starting point in government transformations, and

³⁶ Public Governance, Performance and Accountability Act 2013 (PGPA Act), which took effect July 1, 2014; *Corporate planning in the Australian public sector*, report number 54 of 2016–2017, Australian National Audit Office, June 1, 2017.

³⁷ “Medellín's metamorphosis: An interview with Mayor Aníbal Gaviria,” McKinsey & Company, May 2014.



© saaimages/Getty Images

one of the best predictors of success. Yet these qualities are often in short supply in the public sector. In McKinsey’s global Organizational Health Index—a survey-based benchmark that examines organizations’ health on parameters such as leadership and direction—public-sector organizations perform ten points worse than the global median on the dimension of leadership.³⁸

Of the behaviors that make up great leadership, role-modeling is one of the most powerful. Our survey found that leaders of successful transformations were twice as likely as their peers in unsuccessful initiatives to role-model the behavior they expected of public servants. Such role models of transformation make major personal commitments, are ready to spend their political capital, and often put the outcomes of the change effort ahead of their own interests. One leader we interviewed said he regularly worked 20-hour days for two years to ensure the transformation kept up its momentum. Another leader risked re-election to deliver a crucial reform to the country’s school system. And a third leader consciously challenged central government procurement rules to expedite change—confident that showing early results was worth the risk. These examples show that, at some moments and in some places, substantial commitments from leaders are necessary to deliver change.

In the country of Georgia, for example, the newly elected government of President Mikheil Saakashvili made a direct assault on corruption when he fired the entire traffic police force in one day in 2004 and instituted new recruitment and promotion procedures to put in place a wholly new force. Through this and subsequent reforms, Georgia improved its standing in the global Corruption Perceptions Index, moving from 133rd of 145 countries in 2004 to 48th in 2015. In our interviews with change leaders across the world, we found that radical, disruptive steps such as those taken by President Saakashvili are a common feature in government transformations (see Box 3, “When bold action is needed to disrupt public-sector norms”). Such steps often involve replacing key staff: our survey results showed that successful transformations were three times as likely as unsuccessful ones to staff critical positions with people who fully embraced the transformation effort.

³⁸ Global median includes public, private, and social sector organizations (836 surveys, including 2,472,246 respondents).

Box 3

When bold action is needed to disrupt public-sector norms

Detroit was the birthplace of the mass-produced automobile. But the last four decades of the 20th century that Detroit helped shape were not kind to the Motor City. Three factors combined to drive workers away from the city: the American auto industry lost market share, the surrounding suburban areas continued to grow economically, and local security issues became an increasing concern. As a result, the city government's income began to fall. Political leaders failed to make difficult decisions, reform budgets, and tackle persistent challenges head-on. By 2013, fully 40 cents on the dollar was being spent on retirees' entitlements and debt interest—the highest figure of any city in the United States. The prediction was that it would rise north of 50 cents within a few years. The city was in an untenable position, where it was unlikely that a mayor would be able to gather sufficient political power to fix the situation.

The governor of Michigan, Rick Snyder, recognized that Detroit could not make the necessary changes alone. Using state legislation, he created the position of “emergency manager” for Detroit, and appointed Kevyn Orr, who temporarily took over executive powers from the mayor. Within four months, having failed to come to terms with the city's creditors, Orr moved in July 2013 to place the city into bankruptcy, which was granted at the close of 2013. As a result, Detroit became the largest municipal bankruptcy in US history.

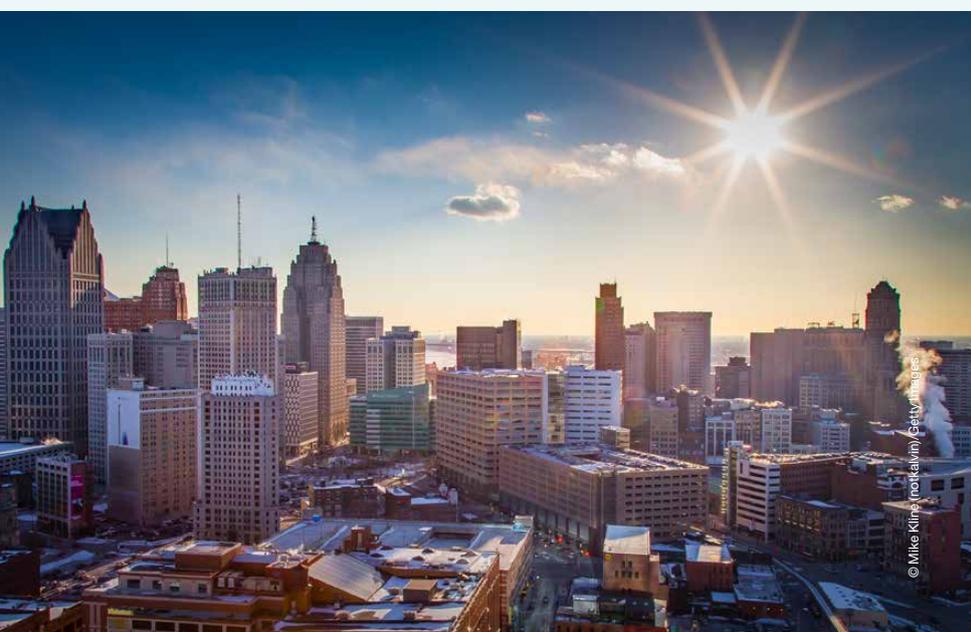
Just over a year later, Detroit emerged from bankruptcy protection with its debts restructured to manageable levels and embarked on a \$1.4 billion investment program for essential services, including street lighting; demolition of dangerous or redundant buildings; new IT systems for emergency services and the city administration; and new police cars, fire engines, and buses. The city has

balanced its budget every year since and is experiencing its longest period of sustained growth in half a century. Detroit is run once again by its own mayor, to whom powers have been returned. It is a remarkable turnaround story.

The essence of Detroit's story is one that we have encountered several times in our case studies and interviews. Sometimes, radical action is needed to make change happen. In Detroit that radical action was the temporary administration of a city by an emergency manager, with the full protection of the bankruptcy court.

In the aftermath of Sweden's terrible financial crisis in the early 1990s, the answer was more permanent. To ensure that no party or politician could jeopardize the fiscal stability of the country again, parliament, through a cross-party consensus, imposed a budget surplus rule upon itself. As a result, Sweden has paid down its debts faster than any developed economy in modern times, giving it some of the strongest economic fundamentals anywhere in the world.

In Detroit and Sweden, it was the normal course of business, whether it be the powerless and incompetent city government, or destructive party politicking—that was precisely the reason why change was so hard. The normal course had to be disrupted to make change happen. In Detroit the disruption was temporary and imposed; in Sweden it was permanent and agreed on by common consent.



CLEAR PURPOSE AND PRIORITIES: WHY “LESS IS MORE” IN GOVERNMENT TRANSFORMATIONS

Checklist for success:

- Don't assume you know what citizens or public servants want and need—find out what really matters to them in their day-to-day lives.
- Explicitly choose and commit to a small number of specific outcomes that you are going to focus on in the transformation—and avoid making your goals too broad.
- Anchor the transformation in an agreed baseline, trajectory, and target incomes—and measure progress against them within a specific timeframe (typically two to five years).

The power of prioritization was a point made forcefully by Dalton McGuinty, who was premier of the Canadian province of Ontario from 2003 to 2013. McGuinty committed his leadership to the reform of education in the province, driving impressive improvements in quality and attainment—for example, the number of low-performing schools dropped from 800 to 63. As he told us, that success came about only because of ruthless prioritization. “I learned that it's very important to settle on just a few priorities,” he emphasized. “If you try to boil the ocean, you're not going to succeed. My single greatest priority was education.” Under the broad goal of improving education outcomes, McGuinty focused on “a small subset of initiatives and objectives.”

This is never an easy exercise, which was made clear by the experience of Fredrik Reinfeldt, former prime minister of Sweden. Over the course of several years in opposition he had prepared detailed plans on three key priorities: tax breaks for low- and middle-income earners, reforms to unemployment benefits, and changes to sickness entitlements. It is imperative to “stay focused on what you want to do,” Reinfeldt told us. When a new premier comes into power, he said, “all the doors open around you and people come screaming from all directions. So just remember that you were actually elected to do something, which is not to listen to everyone screaming.” Instead, he formed a team around him to help focus on the reforms, held regular follow-up meetings with cabinet ministers on what they were doing for the reform program, and then asked them to present this information in front of the cabinet. “I wanted them to take and show responsibility, which they did.” As he had promised the electorate, Reinfeldt implemented his first three reforms within his first three months in office.

As McGuinty and Reinfeldt both demonstrated, priorities must be clearly articulated and held on to. In practice, ensuring clear purpose and prioritization for change includes three steps:

- **Paint a compelling picture of the destination—and commit to reaching it.** Leaders must be able to share a vivid picture of the full potential enabled by the reform and why it is necessary. McGuinty described how the ambitious targets he set to transform Ontario's education outcomes raised the motivation of everyone involved. As he said, “To tell the truth, I didn't know how I was going to achieve improvement. There's an old Irish

expression, which is to ‘throw your hat over the wall’: the story goes that there were some children walking across a farmer’s fields and they came to a wall made of stone, and the wall was very tall. They didn’t know how they were going to get over it, so they took their hats off and threw them over. As you couldn’t go home without your hat, they had to figure out a way to get over the wall. So, when I made my commitments to increase test scores and graduation rates, I didn’t know how I was going to get there, but I’d thrown my hat over the wall, and I had to get that hat back.” There is, of course, a wide gap between setting ambitious goals and achieving them. McGuinty knew that he had to bring teachers with him “over the wall,” and that the only way to do so was to make them part of the endeavor. “I did everything I could to enlist teachers to the cause, by treating them respectfully, building capacity by investing heavily in them and their training, and publishing graduation rates and the test scores, which kept the pressure on them and on me. And as they say, they were left with no place to hide, because they knew that my pursuit of improvement would be relentless.”

- **Create a common baseline and trajectory.** The aspiration must take account of the existing baseline of performance and the trajectory of the organization (both operational and financial) if action is not taken. Many governments currently use expenditure reviews to establish such a baseline, but this must go beyond budgetary allocations or inputs purchased and address the relationship between spending and outcomes delivered.³⁹ For example, after a long period of economic growth, the Danish economy was hit hard by the 2008 financial crisis. Facing the risk of fiscal instability, the government initiated reviews in a number of areas to scrutinize and reduce expenditure. Led by the ministry of finance, the review teams developed a baseline trajectory for spending, identified cost drivers, modeled the impact of specific costs on key outcomes, quantified savings potential, and proposed a set of actions to improve efficiency. Defense was one area identified for improvement: Denmark achieved a 15 percent reduction in its defense expenditure without reducing its level of readiness to deploy armed forces.
- **Keep targets few, specific, and outcome based.** This approach can be particularly difficult in government, where leaders must work with a multitude of interested parties with different demands. But as our analysis shows, it is necessary and important. An example is Colombia’s successful education transformation, launched under the leadership of former education minister Cecilia María Vélez White in 2002, and continued by her successor María Fernanda Campo Saavedra. Colombia’s mean performance on the Programme for International Student Assessment (PISA) improved by 28 points from 2006 to 2015, the second largest improvement among the 52 countries with comparable data. As Vélez White told us, that achievement rested on setting clear, measurable targets for outcome improvements early on in the transformation. Those targets included increasing student enrollment in schools, increasing student enrollment in universities, setting national and school performance targets in standardized tests, making evaluations and standards the principal way of driving improvements, and advancing the education information system. Even when governments do set outcomes-based targets, though, a classic pitfall is to set too many of them—simply adding “nice to have” targets to the mix, rather than highlighting those that are disproportionately important to the overall success of the transformation. Colombia’s four-year national development plan defines

³⁹ *How governments can be more effective by reallocating their resources*, McKinsey & Company, March 2018.

the main indicators for the sector, limiting their number and concentrating policy around them. Colombia’s education transformation succeeded in part because Minister Vélez White and her successors kept the number of targets to a minimum and used the system’s budgetary resources to achieve them.

CADENCE AND COORDINATION IN DELIVERY: WHY STANDARD PUBLIC-SECTOR PROCESSES WILL NOT BUILD MOMENTUM

Checklist for success:

- Avoid planning paralysis: make planning participative and time bound and move to action quickly, in the knowledge that plans will be adapted once implementation starts.
- Link planning and budgeting processes to ensure alignment, demonstrate commitment, and avoid unnecessary delays when ramping up the transformation.
- Appoint a dedicated transformation team to set the pace, solve problems as they arise, drive coordination, track performance, and hold people accountable.
- Deliver quick wins and fast-track decisions to build momentum, while maintaining commitment and focus until the transformation is self-sustaining.

Our earlier analogy of the supertanker state might be apt for traditional public-sector approaches to policy development and implementation: processes are typically slow and systematic and governed by time-honored rules and hierarchies. Indeed, the focus is often more on developing the perfect policy than on implementing it. By contrast, the planning and delivery of transformations requires a fast yet steady pace, a flatter hierarchy with close collaboration between different agencies and functions, and the flexibility to solve problems as they arise. The cadence and coordination needed is similar to a rowing team as it skims across the water. The importance of coordination was underscored by Bjarne Corydon, the former finance minister of Denmark, when discussing the reforms he oversaw.⁴⁰ As he told us: “One of the scarcest resources in government is coordination. There is so little you can invest as a leader—you don’t want to waste it.” Our survey also highlighted the importance of coordination in driving transformation success (Exhibit 7).

⁴⁰ Corydon is also the former director of the McKinsey Center for Government.

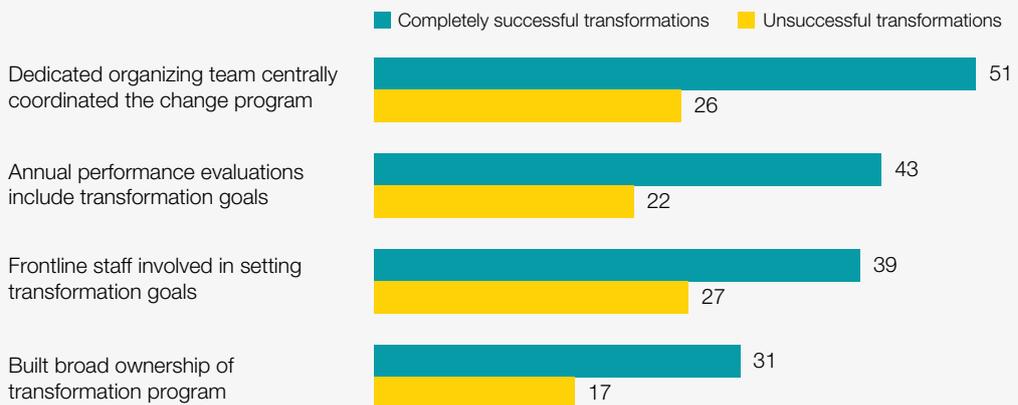
“One of the scarcest resources in government is coordination. There is so little you can invest as a leader—you don’t want to waste it.”

— Bjarne Corydon, former finance minister of Denmark

Exhibit 7

Cadence and coordination are essential to achieving transformation success

Respondents indicating that action was taken during transformation, weighted % of total respondents



Source: McKinsey Center for Government Transformation Survey, December 2017

Shape a participative plan—not a perfect one

The starting point is to develop a participative plan that is owned by the organization and meets citizens' needs. In Moscow's city transport transformation, for example, the government drew on the city's best talent, a range of external technical experts, non-governmental organizations, and citizen groups. The city established implementation working groups for 20 different program priorities, each bringing together a mix of skilled and motivated leaders from the public, private, and social sectors.

As part of its government transformation program initiated in 2010, Malaysia focused on building cross-ministry alignment, and pioneered intensive, multiweek workshops called "labs." In these labs, teams of 40 to 50 officials from different ministries and agencies, along with private-sector experts, come together to set aspirational targets, design initiatives to achieve these goals and, ideally, allocate budgets to start implementation. Delivery labs have since been used to good effect in Tanzania, South Africa, the United Arab Emirates (UAE), and other countries.

These approaches stem from the understanding that most great ideas come from outside the top team and are improved through collaboration. Frontline staff and citizens often know better than those at the center how things can be improved. Beyond new ideas, stakeholder participation brings much-needed legitimacy to top-down aspirations. Research studies show that when people choose goals for themselves, they are far more committed to the outcome.⁴¹ Our survey corroborates this finding: transformations where staff were involved in setting goals were 22 percent more likely to be successful than those where goals were set solely by the central team; we call this "participative planning."

⁴¹ Carolyn Aiken and Scott Keller, "The irrational side of change management," *McKinsey Quarterly*, April 2009.

A “perfect plan” is not required. Indeed, the pursuit of one will likely cause paralysis and prevent the right decisions being taken at the appropriate time. Rather, planning should be treated like a sprint, a timebound process with deliverables and a clear deadline. Officials should not spend months in working groups: plans can be changed and improved once implementation begins. The pace of progress and quality of plans will differ, and the planning process should seek to reduce bottlenecks by running through approvals in batches. A public launch or an external event can be a good pressure point in such instances. An example is the rescue of the US HealthCare.gov insurance exchange website, which worked to clear public deadline of December 23rd, 2013—the date by which people needed to apply for coverage beginning January 2014. That deadline served as a forcing mechanism for the team, pushing them to confront and solve problems as they came up.

It is also critical to link transformation planning and the budgeting process to avoid process duplication or delays in disbursement of funds. More than 80 percent of our survey respondents said that with hindsight, having allocated more financial and other resources at the start of the transformation would have improved the likelihood of success. Agencies should work with the finance ministry (or similar authority) to make cost estimates, secure funding, and seek alternative sources of funding such as private-donor contributions or coinvestment from state-owned enterprises. In Sweden, the fiscal sustainability law introduced after the country’s financial crisis in the early 1990s forces ministries to plan their budgets—and therefore their programs—with the finance ministry every year, inculcating a culture of transparent co-planning between operational and finance functions in government. Moreover, Sweden is one of few countries that does not index entitlement payments every year, which means that the relationship between budgeting and delivering is one of real dialogue, not automatic adjustments. “The result is that we start every budget discussion with a reform budget,” said former prime minister Fredrik Reinfeldt.

Build a strong support system for delivery

Bringing together a committed team of leaders is fundamental to the successful outcome of public-sector change. Whether called a transformation team, a delivery unit, a SWAT team, or something else, this group drives the pace and quality of the effort by collaborating with the implementing agencies and bringing in the best of internal and external talent as required. The transformation team creates the heartbeat of the transformation. There are typically two requirements for its success:

- **Actively solve problems and accelerate the pace of change.** This process is essential if the team is to propose effective course corrections and facilitate working across organizational silos. For example, in 2015 the chief minister of the Indian state of Maharashtra created a “war room” focused on accelerating infrastructure projects, a critical need in a fast-growing, highly populous region with historic backlogs in infrastructure ranging from transport to water. The war room convenes regular meetings focused solely on the issues holding back each project. These meetings are chaired by the chief minister and bring together heads of the different departments and agencies so that decisions can be made on the spot to resolve the issues. This laser-like focus and clear escalation has enabled a rapid acceleration in delivery—for example, from delivering 11 kilometers of metro lines in the previous decade to delivering 250 kilometers in the past three years.

- **Track performance and make it transparent.** Rigorously tracking progress against outcomes provides the top decision maker with an unbiased, fact-based view on the performance of implementing agencies. It also spurs the team on. For example, Saudi Arabia established the National Center for Performance Management (Adaa), as one of the support entities in the center of government to measure performance and progress in achieving the goals of the country’s Vision 2030. Adaa measures the performance of key government organizations and releases quarterly performance reports to government leaders and decision makers, in addition to measuring beneficiary satisfaction of public services. Further, Adaa empowers public entities by developing their capabilities in performance measurement, through development and standardization of relevant tools, and providing training for public servants to increase the adoption of performance management practices in government. But a central function is only as good as the data it receives, which is why it is sometimes necessary to be unapologetically pragmatic when it comes to data collection. In Punjab, Pakistan, an education reform effort faced the challenge of having to gather selected data points in around 50,000 schools each month. As a solution, the transformation delivery unit hired around 1,000 new monitoring officers, former military non-commissioned officers, and equipped them with motorbikes to visit schools and low-cost tablets to gather data. To maintain the objectivity of this army of data gatherers, the government regularly rotated these field officers to different clusters of schools within their districts of Punjab.

In all these areas, a transformation team differs markedly from the project management office (PMO) often put in place to manage government change programs (see Box 4, “How does a transformation team differ from a program management office?”).

Build momentum quickly and sustain it

If planning is like a sprint, then delivery is the marathon. Or as one transformation leader put it: “Getting on the diet was easy, staying on the diet was much more difficult.” In his case, the political momentum provided by a budgetary crisis and a new government was critical for kick-starting the change program. But once the crisis abated, a lack of buy-in from the affected agencies slowed and arguably stalled the transformation. The top-down political and budgetary imperatives failed to translate into a cultural shift. This experience highlights how difficult it can be to maintain momentum, especially as political capital gets used up.

Our experience, and that of the transformation leaders we interviewed, points to several proven actions to move effectively from planning to a sustained cadence of delivery:

- **Deliver symbolic or quick wins.** Leaders should pick a few relatively easy battles and make sure they can deliver on them. These early wins help unlock the energy required to tackle more difficult tasks and inspire teams to continue. An example comes from Service New South Wales (NSW) in Australia. The agency aimed to simplify citizen access to government services, with a shift to digital transactions and a “one-stop shop” approach to improve customer experience. Service NSW adopted a “bifocal strategy” looking simultaneously for quick wins and the longer-term sustainable solutions. In the first six months, Service NSW implemented rapid “sticky-tape solutions” to take the pain away from the customer and achieved customer satisfaction scores of 99 percent from the day the service launched. Then over a multiyear period, the agency built a digital platform to address legacy systems and remove the burden of complex processes from staff.

Box 4

How does a transformation team differ from a project management office?

Transformation teams and project management offices (PMOs) often exist side by side, as they play complementary roles. Four things differentiate them: scope, outcome focus, delivery support, and ability to escalate. This is what those differences look like in practice:

- A PMO's scope covers the full set of initiatives, but the transformation team's focus is on only a handful of priority outcomes, or the subset of the transformation that is going to drive 60–80 percent of the impact.
- A PMO monitors implementation of initiatives to the plan to ensure milestones are achieved on-time and on-budget. In contrast to this process orientation, a transformation team tracks implementation and initiative KPIs at both the output and outcome levels. The team should regularly take stock of the plan, assess which initiatives may have to be adapted, which should be scrapped, and which new ones to launch.
- A PMO can highlight delays but is not resourced to challenge the quality of initiatives or solve content problems with initiative owners. A transformation team, by contrast, typically solves 80 percent of the delivery challenges with initiative owners, and escalates those to senior leaders only in exceptional cases.
- PMOs typically escalate issues for resolution with leaders over monthly cycles or longer, following a “traffic light” logic that focuses leadership attention on “red” (stalled) actions and “yellow” ones (those with issues). But a transformation team has privileged access to top leaders and is capable of escalating issues on a daily or weekly cadence if that is essential to the outcomes of the program. For example, the UK's Prime Minister's Delivery Unit submitted monthly memos to the prime minister with specific items for him to action.

The former CEO of Service NSW, Rachna Gandhi, told us that the new service would never have launched on time if the agency had focused only on the long-term solution. In addition, the lessons learned from the interim solutions helped refine the final design.

- **Fast-track processes and release bottlenecks.** The initial excitement and momentum of a transformation can quickly get pulled down by the deadweight of bureaucracy. Classically, procurement processes can take months and positions can remain unfilled due to rigid staffing guidelines. Leaders should consider making exceptions to the rules. A recent example of this process is the New York State government's response to the emergency caused by Hurricane Sandy in 2016. The governor, Andrew Cuomo, streamlined a number of bureaucratic processes to more quickly deliver housing recovery aid during the crisis. In addition, rather than relying on an existing government housing agency, the governor built a separate Storm Recovery Unit, cutting across internal hiring norms in order to access experts from across government. The new unit redesigned the housing grant application cycle to allow for parallel processing of applications and self-certification where feasible. This unorthodox approach is credited with significantly speeding up the recovery. New York State distributed \$309 million to support the building of 5,470 homes by the first anniversary of the hurricane.

COMPELLING COMMUNICATION: WHY LIP SERVICE WILL NEVER MOBILIZE PEOPLE

Checklist for success:

- Don't try to please everyone—while staff and citizens are core to success, attempting to address all interested parties can dilute and distract.
- Inspire through a compelling change story, with the “why,” “where,” “what,” and “how”—and what is in it for each individual.
- Overinvest in frequent face-to-face, frontline communication, and listen as much as you talk.
- Communicate targets publicly to create accountability, and communicate progress to celebrate success.

An important requirement for successful transformations, highlighted by many of our interviewees, is compelling communication with all the people affected by the change, both on its objectives and on its progress in meeting them. Successful transformations put a heavy focus on communicating on these themes, both with government employees and with citizens. Our research shows that this communication must be continuous, not one-off—and it must be two-way, not just top-down (Exhibit 8). A few findings stand out from our government transformation survey:

- In half of all completely successful transformations, the senior management team communicated openly and across the organization about its progress. But this happened in only 18 percent of unsuccessful transformations.
- Engaging with stakeholders and the wider public were also common features of successful transformations, where comprehensive communication plans were 25 percentage points more common than in unsuccessful transformations. Likewise, regular two-way engagement with citizens was 18 percentage points more common in successful transformations.
- Nearly 90 percent of transformation participants said success would have been enhanced by engaging more regularly with frontline employees.

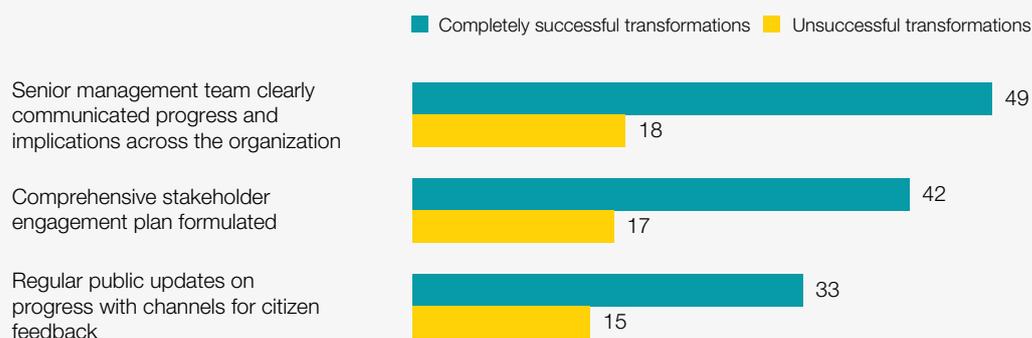
Examples of failure are unfortunately all too common. Consider the UK's ill-fated FiReControl project, which was launched in 2004 to merge 46 local fire-control centers into nine. According to the UK National Audit Office, the program was doomed from the outset by a complete failure to communicate its purpose with fire services and to take account of their needs and concerns. As a result, it did not secure their support and was also unable to deliver a system that met their requirements. The project was canceled in 2010, wasting around \$700 million.⁴²

⁴² *The failure of the FiReControl project*, report by the Comptroller and Auditor General, HC 1272 Session 2010–2012, National Audit Office, July 1, 2011; *The failure of the FiReControl project*, House of Commons Committee of Public Accounts, Fiftieth Report of Session 2010–12, HC 1397, National Audit Office, September 20, 2011.

Exhibit 8

Communicating more clearly, consistently, and comprehensively significantly boosts the chances of transformation success

Respondents indicating that action was taken during transformation, weighted % of total respondents



Source: McKinsey Center for Government Transformation Survey, December 2017

Of course, every government communicates to a greater or lesser degree with citizens, employees, and stakeholders, but only a few do so effectively enough to win the hearts and minds of the people involved in transformations. One example is the transformation of HM Land Registry in the United Kingdom, whose mission is to protect land and property rights across England and Wales. The organization had cycled through several CEOs and faced a major backlog in property registrations, exacerbated by outmoded systems and ways of working. Graham Farrant was appointed CEO in 2015 with a mandate to transform the agency into “the world’s leading land registry for speed, simplicity and an open approach to data.” Farrant kicked off the transformation by conducting “town hall meetings” across 14 locations with all 4,000 staff members in groups of 30 to 50 at a time, to listen to the views and concerns of staff and to communicate the overall vision for the change. This two-way approach to communication proved invaluable: Farrant learned that the Land Registry’s staff felt passionately about upholding the integrity of the property registration system, which helped him to craft a transformation message that—rather than focusing simply on efficiency gains, as his predecessors had done—spoke directly to advancing the widely held and deeply felt professional mission. Farrant also leveraged digital communications by introducing a weekly blog, which allowed staff members to post comments, and personally responded to people’s thoughts and ideas. He made it clear that he cared about employees’ views and wanted to build on the strengths and professionalism of the organization.⁴³

Communication was also a key success factor in Colombia’s education transformation. Minister Vélez White developed a comprehensive approach to communications, spanning multiple forums. As secretary of education of Bogotá, these forums included monthly meetings with school principals, and at the national level as minister, she held a regular central forum of 1,500 teachers to discuss the transformation, as well as two-to-three-day meetings every two months with regional education administrations across the country. These information and dialogue sessions were complemented by a Saturday meeting held by the president and ministers in a

⁴³ *Transforming a 150-year-old government agency: A CEO story*, McKinsey & Company, April 2018.

“Sometimes I had more information than the local education secretaries because I went to speak with the people.”

— Cecilia María Vélez White, former minister of education of Colombia

different town or city every week with local administrators and communities including teachers and educational authorities. The result of this carefully orchestrated set of dialogues was that the government kept close attention on the pulse of progress and challenges of the transformation and built trust with stakeholders. Vélez White told us: “We would hear people, and they spoke about problems of the sector. Sometimes I had more information than the local education secretaries because I went to speak with the people.” In her eight years as minister, there were no national teacher strikes. Fredrik Reinfeldt took a similar approach as prime minister of Sweden. “For eight years, I spent more than 250 days traveling throughout Sweden,” he told us. “I went everywhere, met civil servants, discussed with them what was happening, and asked them what they were seeing.”

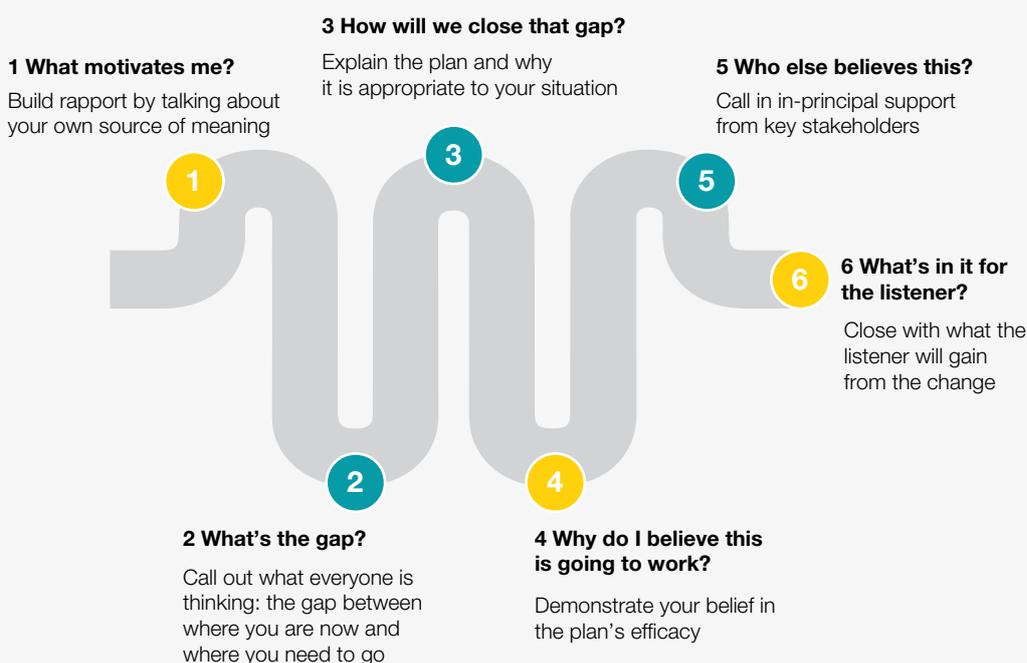
All of these transformation leaders crafted a compelling change story. Such a story provides inspiration and sets the tone for the endeavor to change, signaling a shift from business as usual and galvanizing staff to take ownership of the transformation (Exhibit 9). A compelling narrative is also critical if leaders are going to be able to overcome the opposition that any major

Exhibit 9

Articulating a compelling change story requires engaging both hearts and minds

■ Personalized based on individual leader and specific audience

■ Consistent across leaders and audiences



Source: McKinsey analysis

reform so often faces. Former prime minister of Georgia, Nika Gilauri, recalled the challenges he faced: “Every reform has its own immediate losers and although it also has beneficiaries, the voice of losers is always stronger.” He gave the example of reforms focused on teacher quality, where the voice of the teachers was loud and organized through their union, while the parents were less forceful, despite being “with you in their hearts.” A successful story rallies the support of a quiet majority while explaining your mission simply and persuasively to people who think they might lose out.

Finally, it is worth emphasizing that effective communication is even more important when the transformation effort straddles departmental boundaries. As Bjarne Corydon, former finance minister of Denmark, told us: “Usually it is quite straightforward to focus on a couple of KPIs or sectors or problems, but it is more challenging if you are in the game of pushing for broad-based improvements that require transformational change in not just one but a number of overlapping sectors.” One area where such multisectoral action was required was in tackling the problems faced by children in low-income families. In such situations, said Corydon, “it is very important to avoid working in silos; otherwise you will just scratch the surface of the problem.”

CAPABILITY FOR CHANGE: WHY BUSINESS-AS-USUAL SKILLS WON'T DELIVER

Checklist for success:

- Take training well beyond the top team—new capabilities are typically needed at all levels of the organization to deliver and sustain change.
- Make sure delivery and technical experts are fully involved from the start: new capabilities mean little if the experts are not listened to.
- Invest real resources in training for specific capability gaps, which are often in change management, operational, and technical skills.
- Change recognition systems to align with the transformation goals and remove blockers who might derail or slow down the transformation.

In Ireland’s civil-service reform program, capability building has been a cornerstone of success. The program’s leaders focused both on developing existing staff and on bringing in the best outside talent. To upskill existing staff, leaders explicitly committed more time and resources to training, increasing the learning and development budget to more than 3 percent of payroll, focusing on skills in IT and digital in particular. As Robert Watt, secretary general of the Department of Public Expenditure and Reform, told us: “We are now putting in place apprenticeships, and retraining, to support the thousands of people who are currently doing basic administrative or clerical work.” He noted that many of these jobs will disappear in the future and affirmed the government’s commitment to “give everybody the opportunity to retrain.”

To attract the right external talent, Ireland’s government moved all positions to an open recruitment process, greatly increasing its potential talent pool. It also made substantial investments in induction and training programs for these hires, recognizing that transitions from the private to the public sector can be difficult. Overall, Watt emphasized several key lessons from Ireland’s effort to build the execution abilities. “Governments just need to be better at HR, talent management, and reskilling,” he told us. “There are fantastic wins available for organizations,” he said, which include “having the right people in the right job, training people, mobility, reducing absenteeism, increasing hours worked, and driving performance.”

These insights point to the fifth and final element in the five Cs of successful government transformations: the skills of the broader team that designs and implements the transformation, from senior management to the front line. On the challenging journey that is a public-sector transformation, this team must be equipped not only with technical skills but also with top-notch delivery-management capabilities.

Our government transformation survey shows that three sets of skills are particularly important. The first are technical skills, especially in digital and analytics, the data-driven approaches used in new-generation change programs. These skills were represented in 35 percent of completely successful transformations, but in only 19 percent of unsuccessful transformations. The second are operational management or delivery capabilities—the ability to run complex, large-scale service delivery organizations. These were present in 51 percent of completely successful transformations, but in just 37 percent of unsuccessful transformations. The third set of skills span project and program management. These too were much more likely to be present in successful transformations.

When these skills are lacking, the likelihood of failure is increased. An example, discussed earlier, is the initial failure of the US HealthCare.gov insurance exchange website in 2013. President Barack Obama’s single most important domestic reform was put at risk in part because the right people with the requisite deep technical skills were not asked to help shape the strategy and monitor implementation. While it took three years before a crisis exposed how badly things had gone wrong, it took only six weeks by a dedicated team of specialists, using classic agile methodology, to get the website working. Within a further three months the insurance marketplace was resilient and had full functionality.⁴⁴

⁴⁴ Steven Brill, “Obama’s trauma team,” *Time*, March 10, 2014; Clay Shirky, “The key to successful tech management: Learning to metabolize failure,” *Foreign Affairs*, Council on Foreign Relations, March/April 2014; interviews by McKinsey & Company, 2018.

“There are fantastic wins available for organizations, which include having the right people in the right job, training people, mobility, reducing absenteeism, increasing hours worked, and driving performance.”

— Robert Watt, secretary general of the Department of Public Expenditure and Reform

Unfortunately, critical skills gaps are all too common in public-sector change endeavors. Our interviews reminded us that governments have typically underinvested in the skills required for successful transformations. For one thing, leaders in government agencies are often chosen for their policy expertise and close knowledge of the machinery of government, rather than operational, delivery, or transformation experience.⁴⁵ By contrast, senior executives in the private sector are often required to complete a broader range of functional rotations, such as strategy, operations, and marketing and sales, before being promoted.

To increase the likelihood of a successful transformation, governments need to invest in acquiring and building the right skills both among senior managers and across the organization. Our survey had striking findings in this regard. When we compared completely successful transformations to their unsuccessful counterparts, we found that they were three times as likely to train initiative leaders in change-leadership skills. They were also twice as likely to offer broader capability-building programs to employees involved in the transformation (Exhibit 10).

One public-sector change effort that focused on capability building right from the start was the Ethiopian federal tax authority, which embarked on an ambitious effort to improve the effectiveness of its tax collection. There were real challenges in meeting this goal: Ethiopia collected only about 12 percent of GDP in taxes, less than half the rate of Africa’s most effective tax-collecting nations, and its tax systems were less optimally structured compared with other countries.⁴⁶ Business-as-usual skills would simply not deliver the change required. Based on the results of an organizational health diagnostic and kickoff workshops with

45 Frank Ostroff, “Change management in government,” *Harvard Business Review*, May 2006.

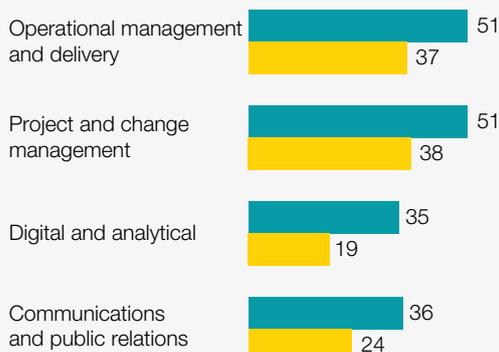
46 Ibid. *Lions on the move II*, September 2016.

Exhibit 10

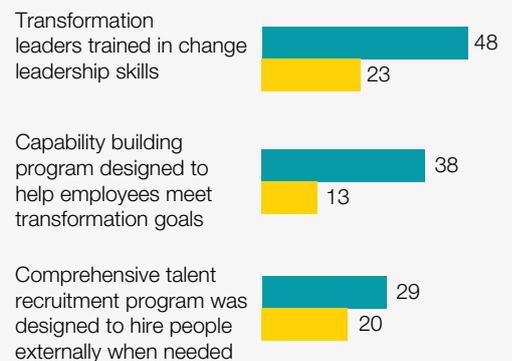
Capability gaps can be an issue in public-sector transformations but improvement programs can boost success

■ Completely successful transformations ■ Unsuccessful transformations

Capabilities present during transformation, weighted % of total respondents



Action was taken during transformation, weighted % of total respondents



Source: McKinsey Center for Government Transformation Survey, December 2017

frontline teams, the office launched a comprehensive capability-building program for both top management and frontline staff. For leaders, this undertaking began with a two-day, top-team alignment workshop where participants agreed on a common transformation vision, set out the values they would share by example, and made explicit personal commitments to the program. In addition, more than 200 key frontline staff were trained and coached both on tax-specific skills, such as debt-collections tracking and project-delivery capabilities.

Success examples—both in emerging economies such as Ethiopia and developed countries such as Ireland—point to three essential elements in building an effective capability-development program:

- **Tightly link capabilities to program needs.** Governments need to draw a clear link between their transformation objectives and the specific capabilities required to realize the change. They also need to invest sufficient resources in building those capabilities. For example, one of the core objectives of New Zealand’s policing transformation was improving public perceptions of safety, which depends on early intervention and engagement with community. To deliver this change, police were trained in preventative policing and engagement techniques. In contrast to this targeted capability-building effort, most capability programs focus on skills related to organizational hierarchy or role descriptions. Once a clear link to public value is established, it becomes far easier for governments to commit critical financial and people resources to capability building.
- **Ensure that capability-building programs are tailored, not one size fits all.** This should start with a rigorous understanding of the current capabilities of the organization and of the individuals inside it. This understanding informs the design of organizational learning goals and individual and cohort learning journeys. These journeys can then be implemented with the combination of modes that best suits the needs of employees. For example, capability programs have traditionally worked best when they have combined relevant theoretical work with project work in highly practical settings (Exhibit 11). That said, one capability-development trend that is becoming increasingly common is the use of bite-sized online components, including app-based prompts or feedback, small videos, and online forums that enable more social modes of learning. Whatever capability-building method is chosen—“field and forum,” online learning, or classroom-based instruction—it is critical that it is tailored and adapted to the individuals in question.
- **Recognize that successful transformation requires a mindset change.** McKinsey research on change programs in the private sector suggests that 70 percent of them fail because management and employees do not adapt new behaviors to support the change programs.⁴⁷ Organizational capability and behavior are based on the attitudes, outlooks, and skills of a collection of individuals. And individuals will only sustainably change their behavior if they see the point of the change and agree with it. To drive this change, the surrounding structures (assessment and recognition systems, for example) must be in tune with the new behaviors. The individuals must have or be given the skills to do what the behavior requires. Finally, they must see people they respect themselves modeling the kind of behavior the transformation requires. An example comes from Nigeria, where President Olusegun Obasanjo was elected in 1998 after a long period of military rule that had seen the economy

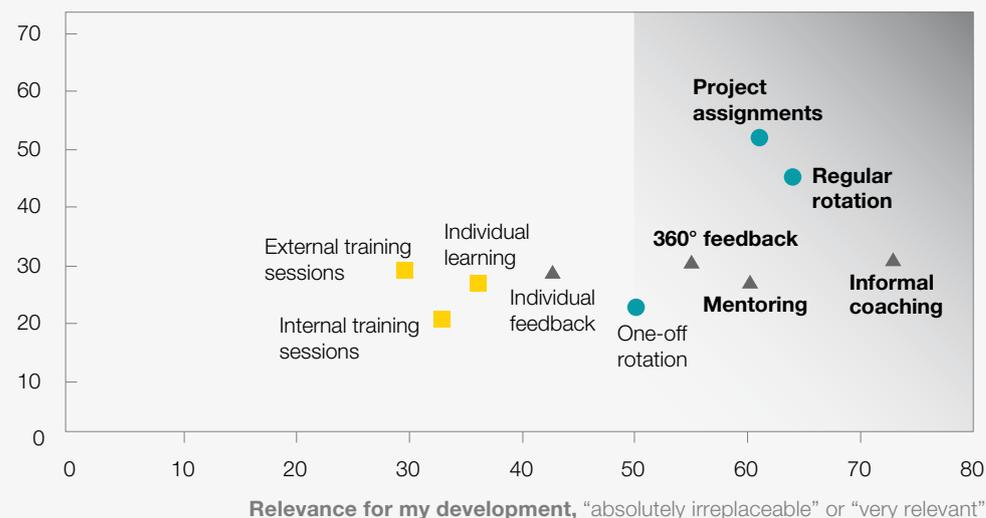
⁴⁷ Scott Keller and Colin Price, *Beyond performance: How great organizations build ultimate competitive advantage*, Wiley, June 2011.

Exhibit 11

The most effective learning modes for public servants tend to take place on the job

▲ Coaching ■ Theoretical training ● Practical training

Training channel efficiency, “excellent” or “very good”



Source: McKinsey War for Talent Survey

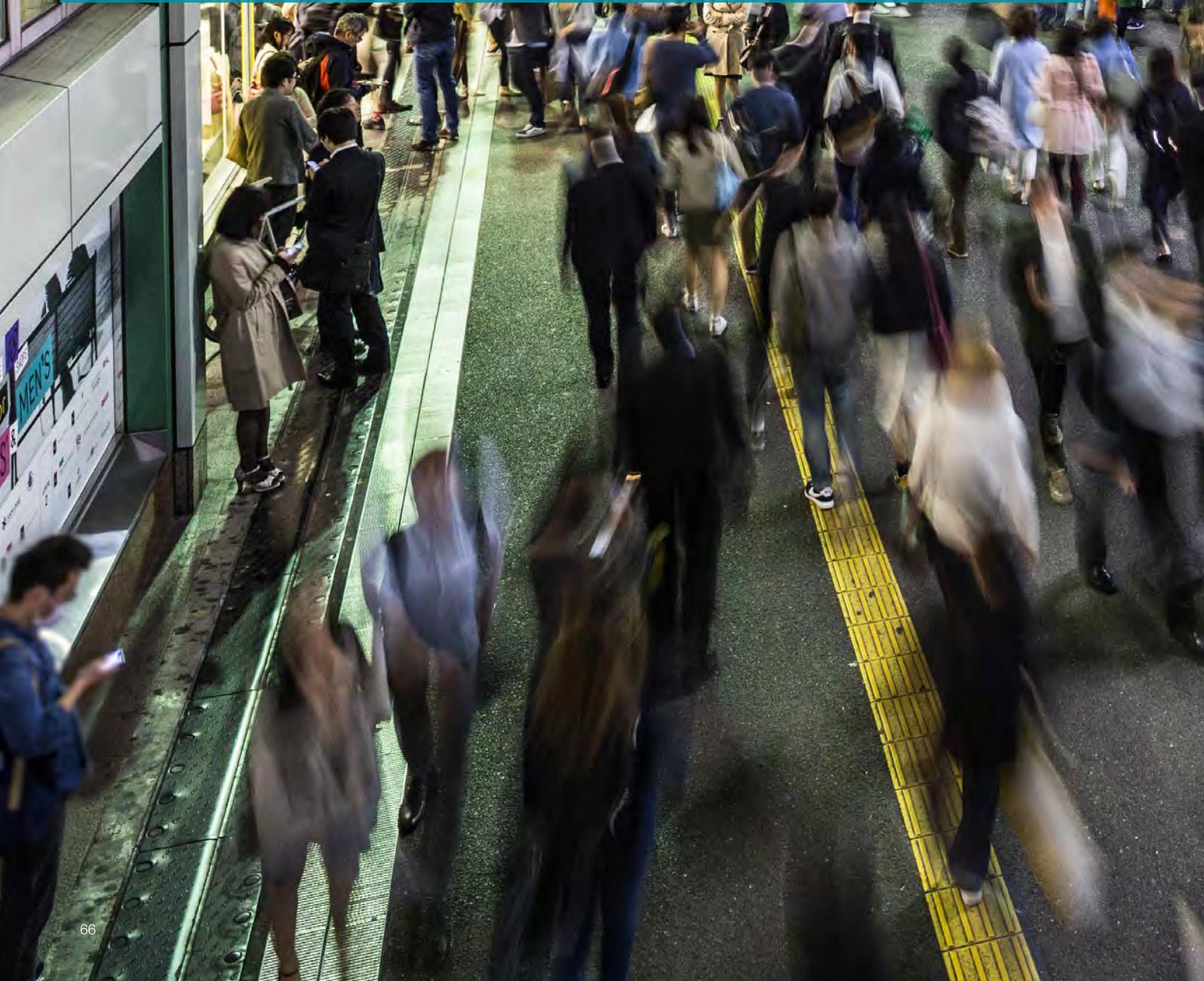
stagnate and government decline in effectiveness. He told us that he saw capability building as a key element of the national transformation he launched. At the start of his tenure, he organized a two-week training program for senior civil servants and attended the training with them. That sent a strong signal that capability building mattered and helped build commitment for the change among civil servants.



The world urgently needs successful government transformations. Among other priorities, countries and cities must improve health and education outcomes, foster growth and job creation, and make constrained public-sector budgets go further. Despite the best intentions of government leaders, though, the evidence shows that most transformations fail. That evidence also reveals that five factors—committed leadership, clear purpose and priorities, cadence and coordination in delivery, compelling communication, and capability for change—distinguish successful transformations from the rest. Getting those requirements right is not nearly as simple as it sounds: an integrated approach is needed to design and deliver change endeavors and to sustain their momentum. What is more, the five factors of government transformation require a set of change-management and delivery skills that are quite distinct from the expertise that governments have honed over centuries in areas such as policy and diplomacy. The good news is that innovations in citizen engagement, design thinking, and technology-inspired approaches are making the task of government transformation easier and opening new horizons for impact. We explore these ideas in the next chapter. ■

CHAPTER 3

THE NEXT HORIZON: TECHNOLOGY-INSPIRED INNOVATIONS PUTTING CITIZENS AT THE CENTER OF TRANSFORMATIONS





In the first chapter of this report, we highlighted the transformation in urban transport achieved in Moscow. In part, the city's success in breaking its notorious gridlock was thanks to an innovation that crossed the bounds of traditional public-sector management. The city set up working groups for the transformation's priority programs, each one made up of experts and influencers from government and business, and many of them including citizen representatives, to bring commuters' daily experience into the room.

Across the world from Moscow is another megacity known for its traffic jams and public-transit delays: Mexico City. Living in one of the most congested cities in the world, citizens of Mexico City face commute times that double in length at peak periods. City authorities have expanded transport infrastructure but have struggled to keep pace with rapid urbanization, which has prompted a next horizon of innovations. One such innovation aimed to create a navigable map of Mexico City's sprawling bus network, whose 30,000 buses provide 14 million individual rides a day. The system's size and high degree of informality had made such a map near impossible: hundreds of unofficial routes had sprung up in response to demand. To find the right bus, users often had to rely on word of mouth.

One solution was *Mapatón*, which used crowdsourcing and technology to map the city's bus routes—via a game that commuters could play on their mobile phones while riding a bus. The incentive to participate was simple: map the most routes and win a tablet or a cash prize. In just two weeks, and with a budget of under \$15,000, the game attracted 4,000 players who among them produced data on 1,500 bus routes covering almost 50,000 kilometers. The city and its technology partners then cleaned the data, which included route maps, journey lengths, and fares, and made it publicly available for companies and non-profits to use to develop urban-transit mobile phone apps.⁴⁸

Mexico City's "gamification" experiment is just one example of a new wave of technology-enabled innovations in the public sector. Many of them capitalize on social technologies to engage with users directly and in real time, creating opportunities for citizens to contribute ideas, information, and opinions, and for governments to become much more informed and responsive. Many of these innovations also draw on agile design principles developed in the technology sector: they create new products and programs through a rapid cycle of prototyping and user-testing. As a result, they enable governments and their partners—and citizens themselves—to develop solutions at a fraction of the cost and time of traditional public-sector interventions.

These new-wave approaches are not a substitute for the five disciplines of successful transformations we presented in the previous chapter. But pioneering government organizations are adopting innovative approaches to sharpen and strengthen transformations in several important ways, including engaging more deeply with citizens to define the purpose and priorities of transformations, and using technology to drive smarter participative planning that ultimately delivers better solutions, faster.

48 Case study: *Mapatón*—Mexico City, Mexico, Organisation for Economic Co-operation and Development, February 2017; Zoe Mendelson, "Mapping Mexico City's vast, informal transit system," *Fast Company*, April 8, 2016.

THREE INNOVATIVE APPROACHES FOR A NEW ERA OF GOVERNMENT: CITIZEN EXPERIENCE, DESIGN THINKING, AND AGILITY

In the private sector, technology-driven innovation has delivered huge leaps forward in customer experience. Uber and Airbnb have made travel cheaper, simpler, more convenient, and accessible to millions. These services have also tapped into users' own experiences and opinions to generate reviews that keep service standards high. Privately developed mobile apps such as Moovit and Citymapper channel public-transit information from many of the world's cities (including Mexico City's bus routes) into intuitive, real-time journey planning for commuters. Even companies in less digitally advanced sectors, such as banking and utilities, now deliver on-demand, mobile, user-friendly services.

These experiences are recalibrating individuals' expectations of their interactions with any service provider, public or private. Increasingly, we all expect service that is fast and frictionless, available anywhere, anytime across mobile, online, and physical channels, and personalized to our needs and preferences. In the United States, for example, citizens surveyed by McKinsey cared most about efficiency, simplicity, and speed in their service experience—all areas where they rated private providers much higher than government services.⁴⁹ As citizens become accustomed to private-sector innovations and adopt new technology themselves, their patience with old-style government processes is increasingly strained. For example, there is evidence that satisfaction drops significantly when citizens are unable to use their channel of choice—typically one they access on their mobile device—and are forced to switch channels.⁵⁰

Of course, there is a vast range of technologies that governments can harness to improve performance, and those technologies are proliferating. They include digital interfaces for citizens, automation of routine tasks such as processing of forms, advanced analytics (with or without big data), and artificial intelligence. Previous McKinsey reports and articles, including *Government Productivity* and *Artificial Intelligence: The next digital frontier?*, highlight the use of these technologies in delivering better services at lower cost.⁵¹ Later in this chapter, we explore how some of these can be used to turbocharge key aspects of transformations, including in traditional public-sector services such as transportation, disability services, and prisons.

However, as we analyzed technology-enabled transformations by the most advanced companies and governments, we came to a counterintuitive conclusion: it is not technology per se that drives their success, but rather the customer or citizen-centric approaches that these organizations deploy.⁵² These innovations ensure that transformation efforts respond to the most pressing needs of citizens, actively incorporate their ideas, and are designed genuinely from their perspective. The three new-horizon concepts to which governments should pay heed are: citizen experience, design thinking, and agile practices. Together, these approaches have had huge impact in the private sector but to date have achieved only limited traction in the public sector.

49 Ibid. *Government productivity*, April 2017.

50 *Citizens First 6*, Institute for Citizen-Centered Service, January 23, 2015.

51 *Artificial Intelligence: The next digital frontier?* McKinsey Global Institute, June 2017.

52 Note that while governments interact with many types of individuals and organizations—citizens, tourists, immigrants, domestic businesses, foreign companies—in this report we generally refer to citizens.

Let us start with *citizen experience*. Traditionally, both companies and governments have focused on touch points—the individual transactions through which customers or citizens interact with the business or agency. More forward-looking organizations, though, have realized that this misses the bigger picture: customers and citizens may be satisfied with individual touch points but still unhappy with the overall experience. These organizations therefore consider the user’s end-to-end “journey,” and her or his overall satisfaction with it. For example, a European energy retailer identified the “home moving” journey as particularly unsatisfactory. It redesigned that journey to give customers greater flexibility to plan their move, a new suite of online and app-based tools to communicate with the company, and a smartly designed “home movers” pack that included discount vouchers for local do-it-yourself stores, tradespeople, and restaurants. The result was a 50 percent increase in customer satisfaction.⁵³ Similarly, governments can view services through the eyes of the citizen, which entails considering the entire journey, from the time the person identifies his or her goal until it is completed (Exhibit 12).

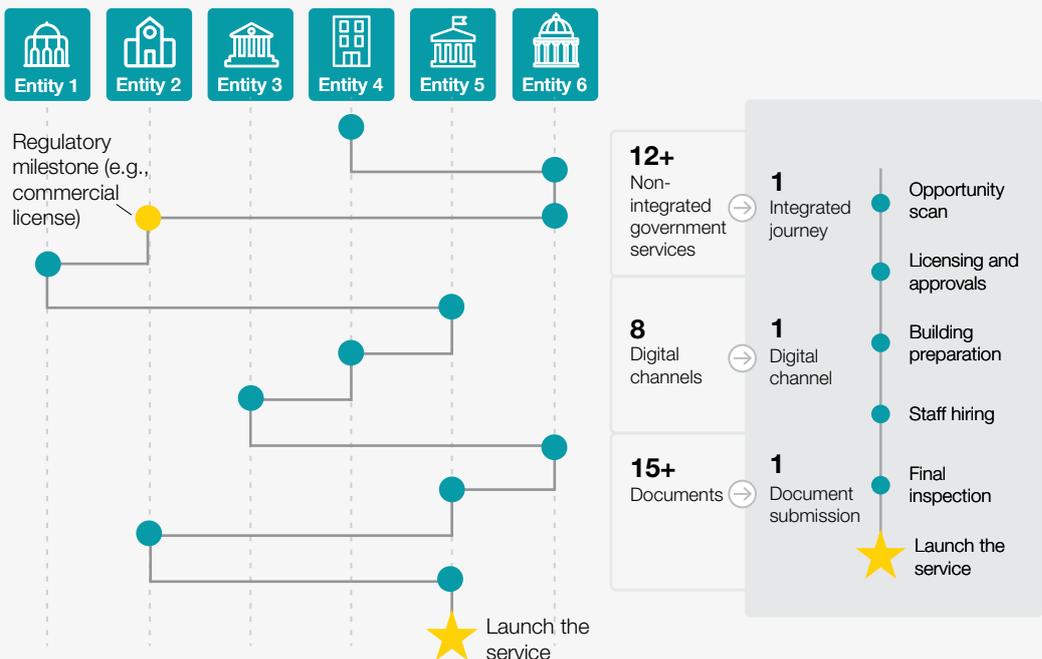
Design thinking, in turn, is the approach used to create compelling customer experiences. It has been a key enabler of the success both of digital companies, such as Amazon and Netflix, and of those providing physical products and experiences, such as Disney and Nike. Design is no longer singularly associated with how something looks or its functionality. Instead, it is increasingly strategic and system oriented. We define design thinking as a human-centered

53 *From touchpoints to journeys: Seeing the world as customers do*, McKinsey & Company, March 2016.

Exhibit 12

Focusing on the end-to-end user journey can support simplification and integration: example user journey for establishing a medical services facility

Government entities involved in the journey



Source: McKinsey Center for Government

and creative approach to solving problems that integrates the needs of people, the possibilities of technology, and the requirements of the organization providing the service. The result is an experience, product, or service that is physical, digital, or both and that creates value for the customer and the provider alike. An example comes from Airbnb. In its early days as a struggling startup, it understood through customer testing that poor photography affected people’s decisions to choose a property. The company invested in taking better photographs of the properties listed on its site—and immediately doubled its weekly rental income. Likewise, Airbnb originally used a star icon when users added a property to their “wish list.” Its designers had the customer insight to change that to a heart to make the choice more aspirational and emotional. That adjustment increased customer engagement by more than 30 percent.⁵⁴

The third innovation is *agile practices*. This approach started as a set of principles and practices for developing software but is now being applied in many other areas, including entire organizations. The core ideas of agile are the ability to move quickly and efficiently, and a relentless focus on delivering value to customers. Agile practices, both in IT and in a much broader set of contexts, break the development process into small increments; quickly design, prototype, and test products or services with users; and immediately channel the feedback into the next iteration of development.⁵⁵ Rather than spending months or years perfecting a product or service before it is launched, agile approaches focus on creating a “minimum viable product,” often in a matter of weeks, constantly testing it with real customers and learning from their experience to iterate and improve it. That contrasts with the “waterfall” development process, in which teams spend months perfecting the product before it is introduced to even a pilot group of users (Exhibit 13). The file-sharing service Dropbox provides an extreme example: before it even had a working product to offer, it posted a four-minute video of its prototype, generating valuable comments and feedback from its target users. This feedback enabled the company to capture an early user community—sign-ups leapt from 5,000 to 75,000 overnight—and rapidly launch a service that went on to become one of the leaders in cloud-based file storage services.⁵⁶

These innovations potentially allow governments to deepen the impact of several elements of the five Cs presented in the previous chapter. In particular, all three innovations are relevant for prioritization, as well as participative planning and the delivery of quick wins as part of the cadence and coordination of transformations. Understanding citizens’ (or other users’) end-to-end experience ensures the change effort is focused on outcomes. Design thinking can play a powerful role in the planning stage of transformations, enabling governments to design services from the point of view of citizens. As the transformation moves from planning to implementation, design thinking and agile principles can drive rapid development and delivery, while continually building on citizens’ feedback.

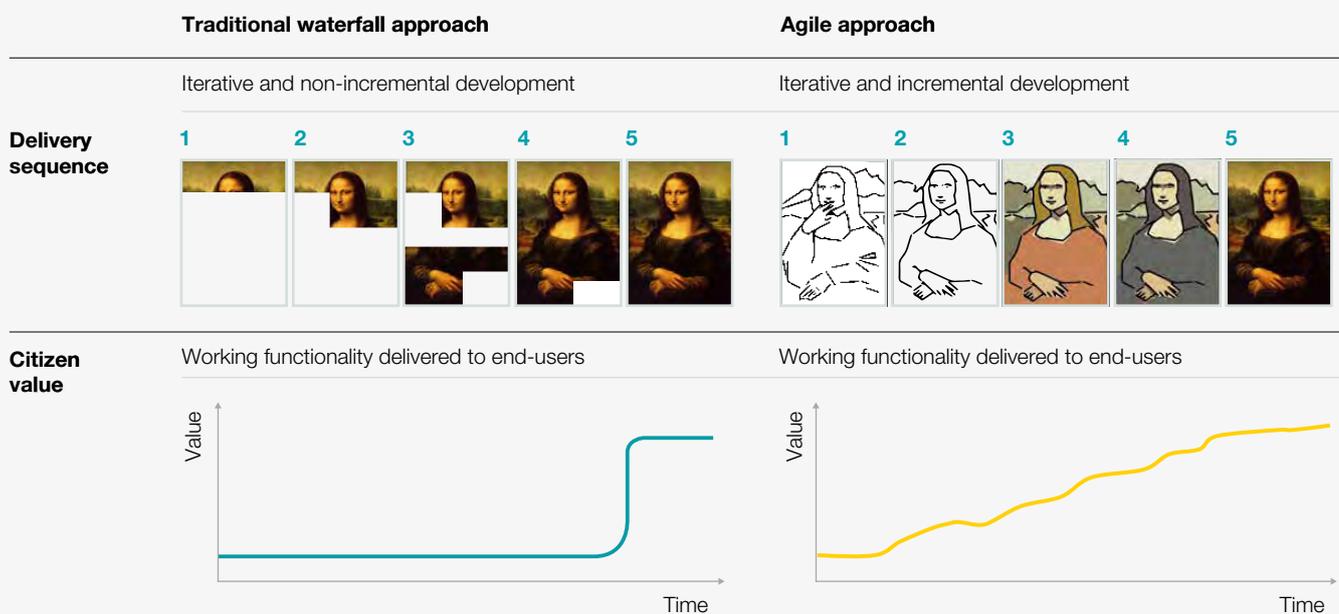
54 “How design thinking transformed Airbnb from a failing startup to a billion-dollar business,” *First Round Review*, February 7, 2015.

55 “Agile with a capital ‘A’: A guide to the principles and pitfalls of agile development,” McKinsey & Company, podcast, February 2018.

56 “How DropBox started as a minimal viable product,” *TechCrunch*, October 19, 2011; Eric Ries, *The Lean Startup: How today’s entrepreneurs use continuous innovation to create radically successful businesses*, Crown Publishing Group, September 13, 2011.

Exhibit 13

An agile approach quickly delivers functionality to users and then iteratively improves the product or service



Source: Jeff Patton & Associates

Innovation in practice: Examples from the real world

For an example of all three of these innovations in practice, consider another case from the public-transit sector. In late 2015, the Swedish public-transport provider Skånetrafiken set out to enhance the quality of bus transportation by engaging designers to think about the end-to-end experience of travelers—before, during, and after catching the bus. According to a recent McKinsey article, design thinking was at the heart of this: “a multidisciplinary group of technologists and designers, with support from transport companies Transdev and Volvo, prototyped and infused a bus with new technologies. The team also employed an agile approach, with iterative prototyping to generate more than 40 innovative ideas, based on interviews with customers, in less than six months. Every two weeks, new ideas were conceived, prototyped, and tested with users. New design concepts transformed the space, made seating more flexible, and integrated technology into the bus.”⁵⁷ One example was a comfortable spot for standing passengers, including an integrated space divider complete with cup holders, phone chargers, and shelf space. concept, based on the preferences of bacteria-wary passengers, was a sensor system that let riders send a stop signal to the driver without touching a traditional button.⁵⁸ Skånetrafiken’s concept bus took a major step toward reinventing the urban-travel experience. Although it continues to be an ongoing lab and project, it is also now ready to transport riders in southern Sweden, who will provide a stream of feedback to inspire future work redesigning urban-travel options.

In Singapore, government agencies used a design-thinking approach focused on citizen experiences to create social services and public spaces that better catered to the needs of people with disabilities (see Box 5, “How Singapore redesigned services for people with disabilities”).

57 “The expanding role of design in creating an end-to-end customer experience,” McKinsey & Company, June 2017.

58 Ibid.

Box 5

How Singapore redesigned services for people with disabilities

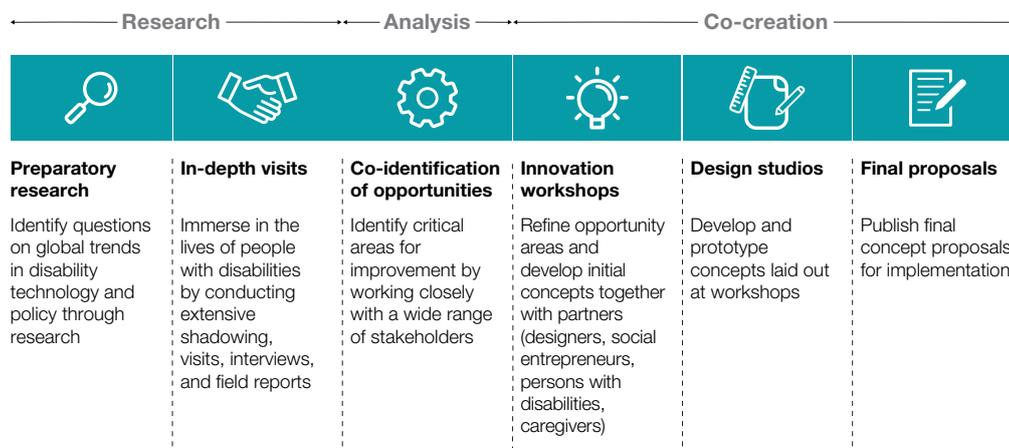
In 2016, the DesignSingapore Council and the National Council of Social Service, working with an expert design team, set out to imagine how social services and public spaces could improve inclusion and quality of life for people with disabilities. The effort began with a “discovery phase” in which the design team immersed themselves in the lives of people with disabilities to understand their needs and aspirations, and the day-to-day barriers they faced participating in their communities. The immersion included home visits, field reports, and video diaries. That research, in turn, fed into a design phase that included a series of “co-creation sessions” that brought together people with disabilities, their careers, social-services professionals, civil

servants, and design experts (exhibit). To challenge mindsets and to reduce the limits on solutions, the focus throughout these sessions was on people’s abilities not their disabilities. The output of this inclusive process was dozens of innovative concepts to improve the lives of people with disabilities, with each concept debated and tested, and the most promising ones prototyped. Four of them are now being implemented:

- **The Mobile Activity Café.** A truck staffed by a team of passionate helpers that brings social experiences close to home for people with disabilities, giving them an opportunity to interact with others in a highly affirming environment.
- **The Box of Joy.** A personalized “package of surprises” delivered to people with disabilities, allowing them to learn and discover new things on their own, with family members, and with the wider community.
- **Swiftly Wheels.** A transportation service for people with disabilities that retrofits sidecars to motorbikes and adapts them to the transport of wheelchairs.
- **Social Combinatory.** An incubator and accelerator program that encourages and develops business ideas imagined by people with disabilities.

Exhibit

A design-led approach was used to develop solutions to improve Singapore’s disability services



Source: DesignSingapore Council; National Council of Social Service Singapore; Veryday

The hallmark of such transformations is that they are truly citizen centric: they focus on how citizens think and feel about their entire experience and are responsive to citizens' needs and goals. Consider the example of a large government agency in Asia, which listed all the services it provided and then categorized them into specific journeys, such as “simple queries,” “applications,” and “appeals.” The agency ultimately identified more than 60 different citizen journeys across 20 services, eight population segments, and ten channels, and then combined customer-complaint data with interviews of frontline employees and senior leaders. This helped the organization identify the journeys that citizens found most problematic; it also suggested possible causes. The agency then used these insights to chart customer journeys across two dimensions: level of satisfaction and number of citizens affected. That allowed transformation leaders to prioritize the redesign of journeys with the highest levels of dissatisfaction, as well as those that had a large number of users.

Such citizen-focused approaches to solution design have wide scope in the public sector. Consider the example of a corrections department—or prison service—in the United States. Drawing on advanced data analytics, it combined design thinking and digital tools to reduce inmate violence and chart a new facility strategy to lower recidivism (see Box 6, “New approaches to reduce prison violence and recidivism”).



Box 6

New approaches to reduce prison violence and recidivism

A corrections department in the United States sought to improve correctional outcomes—such as lowering violence levels and reducing recidivism—among several thousand offenders and within multiple facilities. The agency used an innovative approach, leveraging design thinking, digital technology, and advanced analytics to drive the transformation. As part of the effort, it re-engineered key processes, including offender needs assessment, security classification, and facility operations.

The work began with a focus on improving staff and offender safety. The department rethought the process of offender security classification, which determines what type of facility offenders are placed in during their stay. Shadowing offenders on the journey from courthouse to prison cell, the transformation team discovered that the process was manual, cumbersome, and very paper driven. Classification counselors would have to sift through stacks of paper and multiple electronic systems.

To tackle this, the department used design thinking to create a new front-end tool: it brought together groups of frontline users along with design and development experts to co-create the interface. A prototype was developed rapidly in agile sprints and then rolled out. One key advantage of codesigning the tool with frontline users was that it made adoption relatively seamless and avoided many of the challenges typically associated with change management. The new digital interface eliminated much of the paper previously used, consolidated all the relevant data from different systems in one place, and created a continuous view across the offender's stay that made the staff's work more effective and efficient.

In addition, the transformation team set out to apply advanced analytics to assist frontline staff in decision making. Machine-learning algorithms were developed that accounted for a large number of variables, and how they interacted with each other, to determine a “propensity for

violence” prediction. This prediction assisted staff in determining security classifications and offered a new approach to recommending optimal housing for each individual.

The team then shifted to the next focus area: reducing recidivism through better offender rehabilitation. Using cluster analysis, the team began identifying “offender segments”—analogous to the customer segments used by private-sector marketers—based on factors such as education, employment, behavioral therapy, and mental health. The team also designed “offender journeys” for each segment, much in the way private-sector firms reimagine customer journeys. The aim was to allow corrections staff to set goals for the offender's rehabilitation and direct the appropriate programming and resources right from the start of the offender's stay all the way through parole and reintegration into the community—thereby creating continuity of care.

Dynamic and stable: Putting speedboats and supertankers side by side

We should emphasize that not every government organization is necessarily ready for agile transformation approaches like the ones we profile here. Even fewer exhibit agility at the level of the whole organization—a characteristic that increasing numbers of private-sector corporations are seeking to achieve. In a recent McKinsey survey, public-sector organizations underperformed their counterparts in the private sector on 13 out of 18 agile practices, such as continuous learning and performance orientation.⁵⁹ To return to our image of the ship of state, we might think of agile approaches as the speedboats at the vanguard of transformation: they chart unexplored seas while the supertankers that command the

⁵⁹ *How to create an agile organization*, McKinsey & Company, October 2017.

McKinsey research shows that these agile organizations have a 70 percent chance of being in the top quartile of organizational health, the best indicator of long-term performance.

majority of public-sector resources follow at a more deliberate pace. Agile, speedboat-like approaches can coexist with the supertankers—even within the same government department or agency.

We should note that many private-sector businesses—along with some pioneering government agencies—are finding that they can further improve performance by extending agility beyond individual projects, products, and processes. McKinsey research shows that these agile organizations have a 70 percent chance of being in the top quartile of organizational health, the best indicator of long-term performance. In the private sector, such organizations simultaneously achieve greater customer centricity, faster time to market, higher revenue growth, lower costs, and a more engaged workforce.⁶⁰ They combine stability with dynamism—for example, merging a powerful common purpose and standardized ways of working with flexible resource allocation and information transparency. Similar benefits beckon for agile public-sector institutions.

One helpful analogy for such agile organizations is the smartphone, which exemplifies the ability to be both dynamic and stable simultaneously.⁶¹ The smartphone's hardware and operating system form a stable foundation: they are updated and improved on a regular but fairly infrequent basis, and the release schedule is often well known in advance. On top of this foundation sits a dynamic application layer where users can add, update, modify, and delete apps over time as requirements change and new capabilities develop. Apps are constantly updated in the background to enhance security and functionality, often without the user even noticing. For example, Instagram and Facebook were each updated more than 40 times in the past year.⁶²

In the same way, agile public-sector institutions can design their organizations with a backbone of stable elements—for example, a simple organizational structure, a set of strong values, or operating norms. These foundations, like a smartphone's hardware and operating system, are engineered to endure; changes are planned and relatively infrequent. Agile public-sector institutions typically also have dynamic elements, such as organizational apps to plug in as new opportunities arise or unexpected challenges shift the norms. These might consist of project-based interdisciplinary teams that come together to solve a problem and then disperse, or new startup organizations to test, learn, and innovate alongside the mothership.

⁶⁰ *The five trademarks of agile organizations*, McKinsey & Company, January 2018.

⁶¹ *How the public sector can remain agile beyond times of crisis*, McKinsey & Company, May 2017.

⁶² Data from www.mobileaction.co for the respective iOS apps in the US appstore February 28, 2017 to February 28, 2018.

While still rare, examples of such agile public-sector organizations are starting to emerge. Consider the United States Internal Revenue Service (IRS), which created a dynamic element on top of a stable backbone, and as a result achieved significant operational improvements. In 2012, the IRS faced a number of high-profile challenges, including a surge in identity theft, continuing scrutiny over improper payments to filers, and a small-business tax gap of more than \$140 billion. The IRS had strong research and statistical capabilities, but it mainly focused on statistical reports and did not play a role in strategic decision making. The commissioner saw a need to apply more targeted analytics that could address the agency's most pressing problems. A new Office of Compliance Analytics (OCA) was charged with finding rapid test-and-learn solutions in close collaboration with its internal customers in the operating divisions. OCA was defined by a culture of speed, risk taking, managed change, strategic focus, and radical information transparency. While the stable backbone of the IRS and its workforce of about 90,000 continued to deliver services consistently everyday, the OCA helped to identify and respond to key problems quickly while developing the leaders and skill sets to support a lasting agile approach throughout the agency.⁶³

One government agency in Europe used agile methodology to deliver improved customer service. To do this, the agency first identified a management agenda of 30 top priorities based on the most pressing customer needs. It then created targets mapped to these priorities that were focused on the end-to-end experience of customers. For the first time, the agency thought holistically about the entire value chain of its operations, spanning across all internal core processes as well as interfaces to other agencies.

Prior experience with agile in an IT context convinced this agency to trial some of the techniques with the rest of the organization. The priorities, though cross-functional in nature, were overseen comprehensively by a set of 30 newly selected project managers. The agency's managers and teams then used "sprints" lasting four to eight weeks to test, learn, and deliver solutions and kept end-to-end responsibility for the solutions even when working with other departments, such as IT, to digitize and simplify processes. To enable this approach, the agency invested heavily in capabilities within the sprint teams. For example, it conducted a series of specially designed workshops to introduce staff to the new ways of working. The agency's board held sprint review meetings every four to eight weeks, which ensured that senior leaders remained engaged on solution development and worked with the sprint leaders to solve problems.

PUTTING CITIZENS AT THE HEART OF TRANSFORMATIONS

Governments exploring the next horizon of agile, design-focused, citizen-centric transformations are also harnessing technology and new ways of working to engage with citizens much more frequently and imaginatively. As we highlighted in the previous chapter, such participative planning and ongoing engagement substantially increase the success rates of government change efforts. There are two specific ways in which governments can embed citizen voices and viewpoints in the transformation process. First, they can listen to citizens in a more active and granular way to understand problems at a deeper level and prioritize focus areas and investments. Second, they can involve a broader group of citizens to generate improvement ideas and codesign solutions.

⁶³ *How the public sector can remain agile beyond times of crisis*, McKinsey & Company, May 2017.

Smarter ways to listen to citizens, understand problems, and make informed decisions

For as long as states have existed, there have been forums in which government leaders listen to people. To this day, face-to-face forums remain a vital element of governments' engagement with citizens—witness the passionate debates on health care policy at town hall meetings across the United States in recent years. The internet, along with mobile and social technologies, represents a giant, virtual town hall. Technology can give millions more citizens a voice in government decision making, and channel and organize their feedback in powerful new ways.

The UK government, for example, uses online systems for its public consultations, allowing it to solicit feedback on policy proposals and analyze it quickly. An instance of this is Transport for London (TfL), which in 2013 used Citizen Space, a cloud-based consultation tool, to gather views on proposals to stop accepting cash payments in London buses. This resulted in the largest ever response to a TfL consultation, with more than 37,000 responses received. Cash payments were ended, ultimately saving an estimated £24 million per year and significantly reducing bus boarding times.⁶⁴

The Moscow City Government's "Active Citizen" mobile app, which launched in 2015, engages citizens in decisions such as setting speed limits and plotting bus routes. Citizens earn points through participation, which can be redeemed to pay for parking and metro fares or to enter contests to win opera tickets. The most active citizens get special privileges such as breakfast with the mayor, where they can discuss city policy over tea. To boost citizens' trust in the app, the government moved it to a secure blockchain platform in 2017. Since its launch, 2,700 polls have been administered through the app, and almost 2 million users across the city of 11 million have participated. In addition to resolving simple issues such as choosing train names and stadium seat colors, the app has been used to enable citizens to choose if their buildings are included in Moscow's housing relocation program, which is targeting the replacement and regeneration of more than 5,000 postwar housing blocks.⁶⁵

In addition to specific decisions, governments are also engaging citizens in priority setting. For example, citizen input into budget decisions is increasingly widespread in Latin America. More than 100 of Brazil's largest cities have adopted "participatory budgeting," allowing citizens a direct say on spending priorities. The funding amounts can represent up to 100 percent of all new capital spending projects and are generally in the range of 5 to 15 percent of the total municipal budget. Brazilian municipalities that have adopted participatory budgeting have spent more than their peers on education and sanitation and have experienced above-average reductions in infant mortality—clearly an issue that has true resonance with citizens.⁶⁶

64 "Customer story: Transport for London," Citizen Space; "TfL confirms introduction of cash free bus travel from Sunday 6 July," Transport for London, April 9, 2014.

65 Sarah Holder, "Can the blockchain tame Moscow's wild politics?" Citylab, December 22, 2017; "Active Citizen: The best votes of 2017," Moscow Mayor official website, January 19, 2018.

66 Mike Touchton and Brian Wampler, "Brazil let its citizens make decisions about city budgets. Here's what happened," *Washington Post*, January 22, 2014; Luciano Máximo, "Cidades com orçamento participativo gastam mais com saúde e saneamento," *Valor Econômico*, February 11, 2014.

Worldwide, people are using online and social channels to express their opinions and passions on everything from consumer products to public services to policy debates. It is common for citizens to express their views on their experiences in the private sector, with businesses like TripAdvisor and Yelp built heavily on reviews. TripAdvisor alone received 290 contributions per minute from users in 2016.⁶⁷ Platforms such as change.org, which allow individuals to start petitions and crowdsource support, have experienced rapid growth: the online petition platform has been used by more than 200 million people across 196 countries. (Of course, governments should be aware that crowdsourcing is susceptible to gaming. The recent attempt to name a UK polar research ship “Boaty McBoatface” is one light-hearted example.)

Governments that design effective channels to tap into this groundswell of energy will do a better job of listening to citizens; they are also likely to shape public services that are more responsive to people’s true concerns. For example, many governments have launched apps to let citizens report issues such as traffic violations, street vandalism, and garbage collection failures. Consider New York City. In 2003, it set up NYC311—a single call center representing about 300 city, state, and federal agencies offering more than 4,000 city services. The service has evolved greatly since then and now offers a more automated, multiplatform channel, including text messaging, apps, and social media. In fact, digital interactions made up nearly half of all the 36 million contacts the service received from citizens in 2016, of which 15 million were received through its website and more than a million through its mobile app. NYC311’s social media following on Facebook, Instagram, and Twitter increased by nearly 50 percent from 2015 to 2016.⁶⁸ These automated channels ensure citizens are served efficiently and achieve consistently high satisfaction scores. These innovations also create an army of volunteer inspectors and reporters who bring problems to the city’s attention.

The UAE has developed a “Star Rating Program” that uses private-sector standards for the quality of service delivery and private-sector approaches to identify problems. Launched in 2014, the program has a detailed, measurable citizen feedback process that focuses improvements on the issues that matter most to them. Entities across the UAE are given both a plaque with their classification and an evaluation report with recommendations to improve the level of their service delivery.⁶⁹ The UAE has extended this ranking system to government agencies around the world. Winners have included the Brazilian Ministry of Health for its innovative approach to health emergency detection during the 2016 Olympic Games, using an app that encouraged participants to register their daily health status.⁷⁰ The UAE initiative links to a broader drive to ensure that all its government services are accessible through mobile devices. In 2016 the UAE set a target that by 2018 80 percent of those who use government services should be accessing them on mobile devices.

With the City Voices solution, McKinsey has partnered with several pioneering governments to put listening to residents at the front and center of effective prioritization (see Box 7, “City Voices—how smart cities are putting citizens first”).

67 *TripAdvisor 2016 annual report*, TripAdvisor, April 2017.

68 “311 sets new record with nearly 36 million interactions in 2016,” Office of the Mayor, New York City, January 19, 2017.

69 *How the UAE government modernized citizen services*, McKinsey & Company, May 2016.

70 “The Best m-Government Award,” <https://www.mgov-award.ae/en/page/about>.

Box 7

City Voices—how smart cities are putting citizens first

Some years ago, a McKinsey team in Brazil was supporting the leaders of a large city to rethink their strategic plan. They helped harness social-media technologies and data analytics to create a platform that allowed the city to crowdsource ideas and feedback from citizens, who could then vote on specific priorities. As the McKinsey team built on this platform, they found it had powerful application in several other cities.¹ For example, the tools were used in developing a strategic plan for a major metropolitan area. Citizen feedback highlighted acute public concern about pollution in a nearby river—a topic that had been low on the list of priorities for city leaders. In response, the mayor’s office defined a role in restoring river use, even though this was outside the city’s official mandate. Similarly, there was strong support for a comprehensive youth-development program, which the city embraced in its strategy.

City Voices today provides comparable citizen data and outcome metrics for 100 cities across the world. It includes performance data drawn from a variety of local, national, and global sources, such as high school graduation rates, help-desk records, and crime rates. These data are combined with citizen-perception data gathered through surveys, social-media analysis, and crowdsourcing databases. The analysis allows cities to pinpoint areas where they lag behind their peers on actual performance, citizen perceptions, or both.

For example, a large US city found that it had low ratings on emergency response, both according to empirical evidence and public perception, which suggested that improvement of police and fire services should be a priority. On waste management, however, citizens were dissatisfied even though the city’s performance was comparatively strong. In this area, the city needed to communicate more

effectively about programs that were already in place, such as recycling facilities (exhibit).

City Voices is one tool that supports a shift to citizen-centric government. That means putting citizens front and center of strategy and operations, as governments can now gain deeper insight into how citizens interact with public services. Different citizen journeys involve multiple touch points associated with different public services. Do they commute using public transport or do they walk? How much money and time do they spend? How many times does a citizen visit the health center or hospital and for what reasons? What jobs do people do, and are they formal or informal? Such a data gold mine can inform targeted and effective public-services provision.²

¹ “Our newest solution brings ‘City Voices’ into government decision making,” McKinsey blog, May 11, 2017.

² “Putting citizens first: How Latin American cities can be smart,” McKinsey & Company, January 2018.

Involving a broader set of voices in generating ideas and shaping solutions

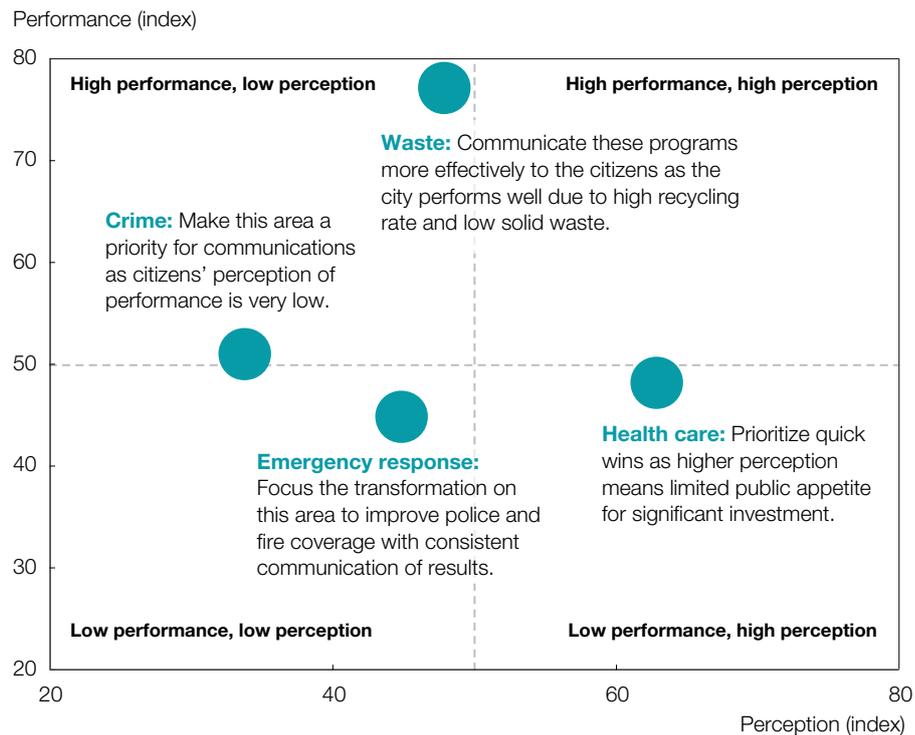
It is one thing to use technology-enabled methods to listen better to citizens and solicit their feedback on government services and plans. The next level, though, is to empower citizens to generate improvement ideas themselves. As we pointed out in the previous chapter, our survey of government transformations found that those that incorporate participative planning are 22 percent more likely to succeed than those that do not. Technology opens a host of new ways to invite participation from citizens and to filter and channel the ideas received to ensure they have the greatest possible impact.

In India, the government launched the MyGov platform in 2014, inviting citizens to share comments, ideas, or concerns using channels including blogs, chat rooms, and polls. To date

Exhibit

A North American city assesses citizens' perspectives on performance in four service areas

● Target city



Source: McKinsey social media analysis, July 2017–January 2018; open data research and proprietary performance benchmarks

nearly 2 million citizens have participated with the platform, raising suggestions and submitting ideas in policy areas ranging from environmental pollution to girls' education to health.⁷¹ For example, one suggestion to boost financial inclusion was to turn rural post offices into simple banks. This idea was included in India's 2015 budget and by March 2017, banking sections had been installed in 25,000 post offices.

The city of Stockholm is testing a digitally enabled tool for citizen dialogue, which consists of a web interface that allows citizens to study 3-D models of buildings being planned. Information is provided by clicking the buildings, and those who visit the dialogue page can leave their own comments and suggestions as well as view ideas and suggestions left by others. Other Swedish cities are applying similar innovations. In Avesta, the municipality built an

71 MyGov.in, <https://www.mygov.in/>.

Many governments have released transit, weather, address, and geospatial data that have generated numerous free-to-use apps, as well as commercial business models, providing enhanced services to citizens and businesses.

online application and used citizen-centric methodologies among other tactics to renovate a sports park and have residents vote on its design elements.

Technology makes it possible for governments to expand such participatory approaches at a relatively low cost. They can use platforms including websites, social-networking sites, and proprietary solutions to engage stakeholders regardless of their location. One example of a larger-scale crowdsourcing initiative is the UK government's "Red Tape Challenge," which launched in 2011 with the aim of achieving regulatory objectives in the least burdensome ways. Businesses, citizens, and organizations could "challenge the government" by identifying cumbersome regulations and proposing ideas on what could be done differently. Every few weeks a batch of existing regulations was published online so that the government could crowdsource ideas for improvement. One such improvement was spurred by the owner of a coffee shop who queried spending £100 a year for a portable appliance test to be undertaken on double-insulated items, such as kettles, in low-risk environments such as offices. The Red Tape Challenge panel responded by clarifying the widely held misconception that all portable equipment needs testing and prompting the relevant government department to revise the guideline.⁷² Overall, the Red Tape initiative saved businesses more than \$2 billion in regulatory costs and identified 3,000 pieces of regulation to be scrapped or improved and simplified.⁷³

Several governments have harnessed new technology to revitalize an old technique—cash prizes—to spur innovations and ideas in key areas of public need. Back in 1927, Charles Lindbergh was awarded \$25,000 for his epoch-making New York-to-Paris flight, which effectively kick-started commercial aviation. In 2005, the US government's Department of Defense offered a \$1 million prize for the development of autonomous vehicles. The winning design of a self-driving car, from a team at Stanford University, gave birth to the emerging industry of driverless cars involving companies such as Google, Tesla, and Uber. That success helped inspire the 2011 America Competes Reauthorization Act, which allowed all US federal agencies to set up innovation challenges to solve specific problems. Known by the shorthand Challenge.gov, its central web address, the prize program has touched all corners of US government. Prizes offered include \$500,000 to create vascular tissue in a test tube for NASA, \$5,000 for a white paper on using blockchain technology in health care, and a \$1,500 prize for a high school student who designed a comic strip nanotechnology hero. As of today, more than 100 agencies have held more than 800 competitions, producing a range of

72 Red Tape Challenge, Health and safety spotlight, The National Archives, United Kingdom March 9, 2015.

73 "Cuts in red tape now saving businesses £1.5 billion per year," Department for Business, Innovation & Skills Press release, July 9, 2014.

innovations, from a robocall-blocking system to an app that lets patients read medical records online to a portable sensor for air pollution.

Some innovative approaches to solution design are enabled by an “open data” movement that is putting government data online and inviting entrepreneurs to make use of it for public benefit.⁷⁴ For example, many governments have released transit, weather, address, and geospatial data that have generated numerous free-to-use apps, as well as commercial business models, providing enhanced services to citizens and businesses. In many cases this open data-sharing has resulted in cost savings for governments, too. For instance, after the US city of San Francisco offered open access to real-time transit data, call volumes to the city’s service center fell by 22 percent, resulting in savings of \$1 million annually.⁷⁵ The potential upside from open data is sizable: MGI research estimated that the annual value of open data across seven different public and private domains exceeds \$3 trillion worldwide.⁷⁶ Greater transparency can also strengthen citizens’ trust in government and their engagement in civic affairs, as long as the government takes effective measures to safeguard personal data and defend against cybersecurity risks.



Governments of the future will use mobile, social, and other technologies to listen to citizens and harness their creativity and feedback to deliver effective services. They will also put technology-inspired, citizen-centric approaches at the heart of their change efforts. These new-generation governments will stretch their capabilities well beyond their well-honed expertise in policy-making; they will build new skills and agility in delivery, too. As this report makes clear, transformations that consistently engage citizens in goal setting, design, and implementation have significantly better odds of success. Such programs not only result in greater citizen satisfaction, but also tend to be more efficient. True engagement with citizens helps governments prioritize their focus areas, thus delivering a higher social return on investment. ■

⁷⁴ See *Government productivity*, McKinsey Center for Government, 2017.

⁷⁵ Resetsanfrancisco.org.

⁷⁶ *Ibid.* Open data, October 2013.

GLOSSARY

Adaa

National Center for Performance Management (Saudi Arabia)

FARC

Revolutionary Armed Forces of Colombia

KPI

Key performance indicator

IMF

International Monetary Fund

IRS

Internal Revenue Service (US)

MGI

McKinsey Global Institute

MoD

Ministry of Defence (UK)

NSW

New South Wales (Australia)

OCA

Office of Compliance Analytics (US)

OECD

Organisation for Economic Co-operation and Development

PISA

Programme for International Student Assessment

PMO

Project management office

TfL

Transport for London (UK)

UAE

United Arab Emirates

UN DESA

United Nations Department of Economic and Social Affairs

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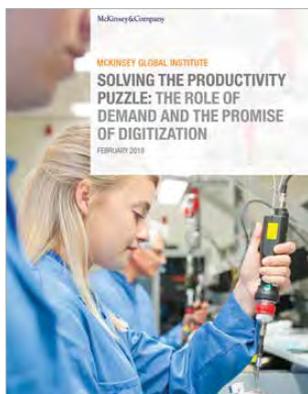
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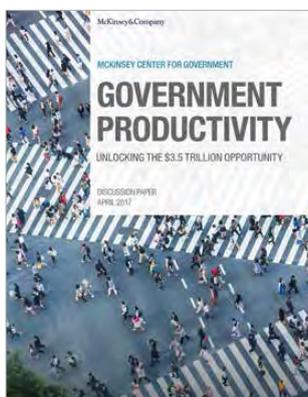
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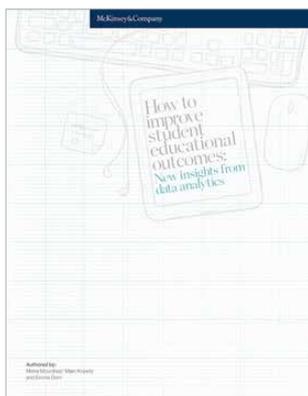
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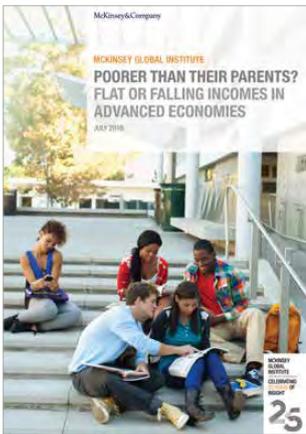
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