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High-performing US states: Is there a secret to success?

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Our refresh of the Leading States Index looks at state performance from the citizens' perspective to gauge what's working well for governments and citizens, and where states can improve.

States have enormous responsibilities. They must not only meet their citizens' needs on a wide range of issues—from education to healthcare to housing and job security—but also manage enormous budgets, often larger than most countries. How they do it, and do it well, is an important question. And for those that are succeeding, how are they succeeding? Measuring performance and developing a fact base for decision making is critically important for states to understand what they're doing well, where they need to improve, and what their residents value most.

To that end, we have launched our second annual Leading States Index, which combines more than 10,000 data points across a range of observable outcomes to give public-sector leaders a snapshot of how citizens experience their states across eight categories. McKinsey's Leading States Index is used by *U.S. News & World Report* to inform their 2018 Best States rankings, the results of which have now been made available online. This year's study combines enhanced data sets, more historical data, and more information for governments and citizens about what's working and what's not. (For more on what has changed since last year, see sidebar, "Refinements to our methodology.") Here's what we found.

There is no single formula for overall high performance

Among states with overall high performance, a variety of profiles emerge. All perform well on multiple subindices, but none is in the top 20 in all 8 subindices, and even some top performers fall in the bottom half of performance in a couple areas.

Where they succeed also varies, although there seems to be some regional consistency among these profiles. Successful profiles include a group of states that seem to have focused on human services. They collectively outperform on healthcare, education, crime and corrections, and opportunity. This profile is common for Northeast states (such as Massachusetts, New Hampshire, and Vermont). Another group, typified by some Western states including Washington and Utah, perform particularly well on economy, education, healthcare, and

infrastructure. Several Midwestern states, such as Iowa, Minnesota, and North Dakota, all perform well on measures of infrastructure, opportunity, and quality of life.

Some measures are more strongly correlated to top-line success

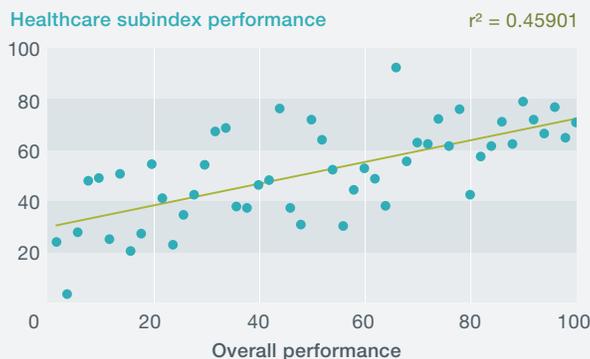
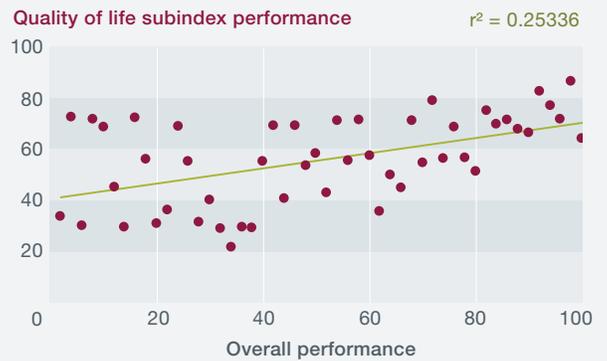
Even though well-performing states excel in different areas, patterns in our findings do suggest that certain competencies are more strongly linked to a state's overall success. Specifically, performance on the education subindex and on the healthcare subindex is a strong predictor of overall state performance. Other subindices are much less closely correlated with top-line success (Exhibit 1).

With the exceptions of education and income—and of course income is correlated with education—basic state characteristics like physical size, population, and percent minorities have little relationship to overall performance.

Exhibit 1

High scores on the education and healthcare subindices are stronger predictors of overall success than others, such as quality of life or crime and corrections.

Index performance, 50 states



Interestingly, state citizens already sense what the analysis verifies—education and good, affordable healthcare are most important to them. Over the past two years, we surveyed more than 30,000 people who have consistently rated health and education as the most significant issues affecting their lives (Exhibit 2).

Exhibit 2 Citizens intuit what are the most important subindices: education and healthcare.

2-year average point scores out of 100



McKinsey&Company | Source: McKinsey analysis

This outcome confirms what many experts already believe to be true, that building and maintaining human capital—particularly through prioritizing education and healthcare programs—should be the single most important focus for states.



These past two years have been a great start. We look forward to continuing to build our analysis over time and developing more and deeper insights that help states succeed. □

For more on this topic, visit the Best States platform at [USNews.com](https://www.usnews.com/best-states).

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Refinements to our methodology

In 2016, we first embarked on creating the Leading States Index. To understand the important elements of what citizens need and want from their states, we worked closely with experts and government officials. Based on their input and available data, we made what, at the time, were the best possible decisions for determining which aspects to track and how to report findings. As is common for longitudinal studies, however, this year we determined that refinements were necessary.

Improved metrics and indices

In the spirit of continual improvement, after our initial results were published, we solicited feedback from internal and external experts and state governments—including cabinet-level officials in more than half the states. Their feedback helped us to both assess how we might better measure states' progress over time, and identify important facets of performance where changes to the index would yield better results. Based on this feedback we made the following improvements:

- 1. We introduced new metrics** to measure important elements of state performance that were not adequately accounted for, including tax burden, the liquidity of state finances, and preventable hospital admissions. We also added an eighth index to study and track each state's quality of life and physical environment.
- 2. We focused on data quality issues** to both address feedback from the 2017 release and to create an index that is more stable over time. We removed metrics from data sources that we found were not being consistently updated. And we revised several metrics in which new and improved data sets had been developed and stabilized (for example, nursing home quality), and where states asked us to take a broader approach (for example, in college readiness, we added SAT scores and normalized to eliminate selection bias since some states encourage every student take to the test and some don't).

3. We tweaked our indexing methodology

to reduce the influence of outliers and create the ability to better track state performance from year to year. Coupled with an expanded set of historical data points (which for most metrics spans five years), this modification allows for greater insight into drivers of performance over time.

Of course, at any given moment the quality and availability of data for certain indices and subindices will drastically vary. Good and well-reported economic and educational data exists, for example, but because of HIPAA rules high-quality healthcare data is limited to those enrolled in Medicare and Medicaid. The data that exists on physical environment and crime and corrections is much less consistent across states and more difficult to assemble. And there's no avoiding the fact that, in general, the quality and availability of data will also change over time.

Short-term fluctuations will yield better long-term results

Still, we know that a great deal of the value in these scores lies in the ability to compare results from one year to the next. We also understand that some of these refinements to our methodology have made it difficult to do that. However, we are confident that these changes will lead to much stronger and more actionable results in the long term. And of course, that's why we're doing this. To help US states see where improvements can be made, and to help their citizens lead healthier, more productive, and better lives.

For more detail on methodology, see USNews.com.