

# Sustaining high performance beyond public-sector pilot projects

Public institutions can turn remarkable short-term efforts into meaningful long-term results.

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All pilot projects come to an end—and therein lies the rub. In the short term, we’ve seen public-sector managers achieve remarkable results with small, dedicated projects, testing programmatic and operational changes even with a small budget and on a limited scale. But when those projects end, the strong results often do too, as organizations fall back into old patterns of behavior and lose momentum.

One explanation for this may be the so-called observer effect. Behavioral psychology suggests that individuals participating in such projects work harder because they know their managers are watching more closely than usual. The challenge is to sustain that level of performance over the long term—which comes down to the strength of the organization’s performance-management system. In fact, effective performance-management systems are particularly relevant for public-sector

organizations, which are steered by budget priorities rather than profits, sales, or market share. Held accountable to taxpayers, they are limited in their use of financial incentives, and their efforts are often complicated by short-term political priorities.

So it didn’t surprise us when a recent McKinsey survey suggested that public-sector officials are less likely than their private-sector counterparts to agree that their organization’s “current performance management has a positive impact on individual employee performance.”<sup>1</sup> While the survey’s sample size was small, its findings were consistent with our experience with more than 500 projects in public-sector organizations that sought to improve performance-management systems and practices.<sup>2</sup> We’ve distilled seven critical lessons to sustain the performance of public-sector institutions beyond the original pilot project (Exhibit 1.) While some of them

## Exhibit 1

### Seven ways to sustain high performance in the public sector.

#### Create transparency



**1** Define meaningful performance metrics  
High-achieving organizations need targeted indicators of performance that can be measured accurately and consistently



**2** Set stretch targets  
Organizations can motivate employees to reach for optimal performance by clearly communicating stretch targets that reflect overarching vision



**3** Create digital tools for sharing information  
Key performance indicators and stretch targets should be visible and shared in real time to change the way people work across the organization



**4** Institute motivational dialogues  
Managers should not simply review targets during performance dialogues; they should also offer incentives and support to employees



**5** Use agile methodologies  
Working in fast-moving project-review cycles, or sprints, can help organizations launch performance-improvement initiatives more quickly



**6** Emphasize nonfinancial incentives  
Organizational leaders need to map incentive plans to the behaviors required to achieve high levels of performance



**7** Build the skills for success  
Capability building is a critical foundation for ensuring that high performance can be sustained long term

may seem obvious, we frequently observe public-sector organizations encountering challenges when trying to implement them.

### 1. Define meaningful performance metrics

To perform at the highest levels, public-sector employees need a clear view on current performance, problems, and processes, as well as future goals. Such transparency is more common in focused, short-term pilot studies, where everyone is keenly attuned to the success of the experiment. But it can be rare in the broader public organizations they return to, where managers often think in functional or bureaucratic silos. And that complicates efforts to establish and communicate meaningful performance metrics, set stretch targets, and create cross-organizational mechanisms to change the way people work. Moreover, many public-sector organizations have a data problem. In some, performance metrics are drowned out by the flood of incoming information, while in others the data needed to establish metrics in the first place may not even be available.

To address this, public-sector agencies need first to identify which strategic moves will best meet their overarching mission and then identify metrics for tracking progress for each strategic dimension. Business heads, functional heads, and even regional leaders should contribute to the process so that metrics are relevant ones that employees will use. They should consider financial factors, such as how cost-efficient processes are, but also nonfinancial ones, such as measures of quality or customer satisfaction. Performance metrics should be limited only to those that can be consistently defined and measured. Where possible, they should allow individuals to see their direct effect on performance. That can be a powerful motivator, since public employees often derive considerable personal purpose from working for the common good.

The improvement can be substantial. After one large European labor agency adopted these practices, its improving finances even allowed it to lower workers' and employers' contributions to unemployment insurance. Managers credit their success to limiting the number of core performance indicators to fewer than ten, such as the share of unemployed workers placed in employment, the rate of successful staffing at companies with fewer than 100 employees, and an indicator for customer satisfaction to make working on service quality a top priority. The agency made sure that the selected indicators indeed reflected the organization's mission and strategic objectives and could also be influenced by individual performance.

A common challenge is that the ultimate goal may not be measurable in the short term—consider long-term population health, for example. In such cases, organizations should focus on the most practicable indicators of performance they can measure. In our experience, finding such measures tends to be easier in more operational settings, for example, when tracking throughput of files or cases handled. For long-term population health, vaccination rates or child mortality may be useful proxies.

### 2. Set stretch targets

Traditionally, managers of public-sector institutions tend to set discrete, nonaspirational objectives for their teams. So even if pilot-project managers set stretch targets to encourage stronger performance, they were probably too easy. Among survey respondents, those in the public-sector were more likely than their private-sector counterparts to describe performance targets as attainable. Further, managers assign employees in regional offices or back-office functions to specific targets relating to their own roles without communicating those targets openly to all staff. In part, this is because performance goals are often derived from specific laws rather than entrepreneurial objectives. As a

result, employees often perceive performance with regard to their own teams or geographies meeting static targets rather than the performance of the overall organization.

Stretch targets can help boost employee engagement and motivation—as well as performance.<sup>3</sup> Instead of simply asking employees to work harder, organizations should encourage their employees to innovate and think “outside the box” to meet their stretch targets. One example comes from the senior-management level at a large public-sector service agency. During a national crisis, senior managers decided and publicly announced that the agency would formally process one million cases in a given year. That target was integrated into a narrative of solving a national crisis and was made explicit not only within the agency but also to the general public. Ultimately, the agency fell short of its target, but it still processed about 700,000 cases in that year—about 2.5 times the number from the previous year.

Of course, publicly communicating stretch targets at the risk of failing to achieve them can have consequences in media coverage and in the organization’s standing in public opinion. Managers, therefore, need to strike a balance between being perceived as overambitious and being perceived as sluggish for having no stretch goals at all.

Such overarching goals should be clearly communicated from the top in a compelling narrative that reflects the organization’s values and vision. Also, the target-setting process should be a recurring process as organizational leaders achieve immediate goals and look toward new ones. Our data suggest that public-sector organizations revisit employees’ performance goals annually. That’s less frequent than private-sector institutions, which tend to readjust their goals biannually, quarterly, or even monthly.<sup>4</sup> However, in particular in a unionized civil-service environment, it is key to involve employees early and often.

### 3. Create digital tools for sharing information

Performance metrics and stretch targets are only meaningful if employees pay attention to them. In the context of a pilot project where everyone knows what’s being measured, that’s usually a given—workers know their performance is being closely monitored. But more generally, where stretch targets exist, the consensus-driven, nonjudging culture of many public institutions often lacks the kind of rigorous performance management that would enable them to change the way people work. Managers can remedy this by creating mechanisms that allow employees at all levels to share relevant performance-management information in real time. In our experience, several such mechanisms work well.

For example, a digital situation room can increase transparency into employee and organizational performance. This can be created by developing a fully digitized platform that employees can log into, at any time, from any device, to find real-time performance data. This enables a common, centralized view of the institution’s processes, achievements, and bottlenecks. One state-owned travel and logistics organization in Europe implemented just such a platform in 2016. Employees from more than 150 locations can now log into the digital situation room using their smartphones, tablets, or computers for critical reports on dimensions such as punctuality, customer satisfaction, or passenger information. A year in, the approach has received positive user feedback, and the organization is seeing improved performance. For example, the punctuality of long-distance transportation has increased by more than seven percentage points.

### 4. Institute motivational dialogues

Short-term pilot projects tend to be studies in collaborative experimentation, where workers and managers are in constant dialogue regarding project progress and next steps. But conventional performance reviews in public institutions tend to

focus more on past performance than on fostering a culture where everyone works toward overall organizational goals.

Motivational, cross-cutting, solution-oriented dialogues can help public-sector leaders cast their feedback on employee performance in a more forward-looking light. This includes identifying the root causes of problems, instead of merely treating symptoms. It includes helping employees break problems down so they can be addressed in manageable parts—and identifying any required counteractions. Leaders at one European service agency, for example, planned such a dialogue using precise agendas, a limited group of clearly defined participants, and rigorous preparation and follow-up work to enable constructive and goal-oriented discussions. The structured and outcome-oriented discussions resulted in a set of clearly defined key to-dos, with assigned responsibilities for tracking progress.

Of course, to ensure that these dialogues are successful, it is critical for public institutions to build supportive cultures. Such cultures encourage candid, frequent conversations among employees and managers and equip everyone with the tools needed to make them happen, such as structured communication techniques and the ability to master more challenging feedback conversations. The effectiveness of performance management, and dialogues in particular, rests on managers' capabilities, where there is clearly still room for improvement. Survey respondents from the public sector were more likely to disagree with the statement that their organizations' managers are effective at coaching and developing employees.

Targeted capability building can help address this: for instance, a large European public-sector service agency established a leadership-coaching module that offered step-by-step guidelines on how to conduct successful performance dialogues as well as hands-on role-playing exercises. Performance of

key projects led by future leaders who participated in these trainings improved significantly, and the capability-building modules received positive feedback from participants for their effectiveness.

## 5. Adopt agile practices

Broad-based efforts among public-sector institutions to improve performance often fall short of expectations. They often lack top-management support and clear timelines. They exhibit a low degree of collaboration among relevant stakeholders across departments as well as a stodgy resistance to change. And their lengthy planning and predefined delivery stages often result in delays and inflexibility.

Ideally, teams should move more quickly and efficiently. Rather than attempting to introduce all elements of agility across an entire organization from the outset, we recommend an intermediate approach, starting with some of the hallmarks of agile ways of working. These include faster and more adaptive cycles of iteration, testing, revision, and relaunch. And they include definitions of success from the customer or citizen's point of view. In this approach, organizational leaders and teams come together every few weeks to review progress on relevant initiatives and address questions that have come up. This forces top managers to be closely involved in any changes that are being implemented. The frequency of their interactions with senior leaders empowers employees to implement changes more quickly. And teams are able to own an outcome from end-to-end, with team members representative of the key stakeholders or value streams.

This approach can have a powerful effect on public-sector organizations' performance—and the impact can be significant. One European public health insurance payer, for instance, has been undergoing a transformation of its core processes since 2014. Each week, two or three of the leaders of the organization's highest-priority initiatives present status updates to top management in sprint-review meetings. These

meetings provide a suitable framework for the product owners and team members to discuss open challenges directly with top management, resulting in clear decisions and directions. Indeed, this approach to transformation has helped the payer generate savings totaling several hundred million euros every year.

## 6. Emphasize nonfinancial incentives

The effectiveness and efficiency of both public- and private-sector organizations are a direct reflection of the people who work there. Employees need training and appropriate incentives to deliver their best performance—an area where public institutions face limitations. For example, public-sector salaries may sometimes be less competitive than those in the private sector. And demographic change further intensifies the challenge of attracting sufficient talent to the public sector. As the baby-boomer generation retires, public organizations increasingly have to compete with attractive private-sector companies for a small pool of young, qualified individuals.

Nonfinancial incentives can help public organizations to engage and motivate employees. In fact, we believe they should emphasize nonfinancial levers more than financial ones—and not just because of limited funding structures. Research has found that nonfinancial incentives can be more effective for motivating employees than monetary rewards.<sup>5</sup> Our survey data suggest that public-sector organizations may already be ahead of the private sector in using nonfinancial rewards. For example, public-sector organizations are more likely than their private-sector counterparts to use more flexible work models—such as flexible hours and telecommuting—to reward and recognize employees' performance and are more likely to offer additional learning opportunities.

Some employees are also motivated by the emotional validation they receive when they are recognized for good performance and for the sense of mastery

they gain as they develop new capabilities. Positive psychology—such as the “progress principle”—shows that creating forward, progressive momentum through meaningful work can help maximize employees' performance.<sup>6</sup> Such an approach could work particularly well in the public sector, where employees are often intrinsically motivated by a sense of purpose or a contribution to society. Strengthening positive incentives for high performers, such as more autonomy, freedom to work independently, leading special projects or task forces, and chances of gaining attention or recognition, can further boost employees' motivation.

## 7. Build the skills for success

To ensure that organizational performance remains high in the long term, leaders in public organizations must develop new capabilities—filling skill gaps in various functional areas, for example, or training existing employees to work differently. In fact, our research shows that successful government transformations 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.

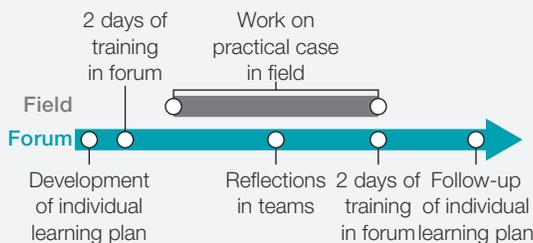
Yet our survey data suggest that public-sector managers typically fall short in at least three important interpersonal skill dimensions: giving feedback, motivating employees, and supporting their development. Public-sector participants in our survey were less likely than private-sector participants to agree that managers at their organizations were trained in these skills.

To address this, we have seen several public organizations follow a so-called field-and-forum approach to capability building. Instead of just providing training and assuming it will trickle into organizational practices, a field-and-forum approach provides classroom training in a series of workshops and then structurally implements it in the field

## Exhibit 2

### Capability building using a field-and-forum approach can improve performance.

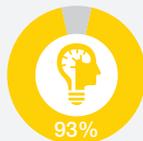
#### Implementation example<sup>1</sup>



#### Performance improvement



Share of regional units reporting that performance of participants improved after training



Share of training participants who reported getting valuable inspiration on implementing new capabilities

<sup>1</sup> Implementation occurred over 1 year and included more than 150 managers from all regional units and headquarters.

with hands-on practice. The European labor agency, for instance, used this approach to successfully train more than 150 managers, leading to a positive effect on performance (Exhibit 2). More than 65 percent of the agency's regional units reported that performance of training participants improved. Also, 93 percent of training participants reported that they received valuable inspirations for how to implement new capabilities in their daily work.



Adherence to these seven lessons should ultimately result in better services across the board. Not every organization will need to start from scratch, but our experience suggests that all will benefit from heeding these principles. ■

<sup>1</sup> The worldwide online survey was in the field from July 18 to July 28, 2017, and garnered responses from 1,761 participants representing the full ranges of regions, industries, company sizes, functional specialties, and tenures. Of the participants, 63 said they worked in the public sector and another 27 were employed in the private sector but reported working for a government agency or department. See Sabrin Chowdhury, Elizabeth Hioe, and Bill Shaninger, "Harnessing the power of performance management," April 2018, McKinsey.com.

<sup>2</sup> While this article draws on in-depth case studies from a sample of European countries, we believe the findings to be relevant for most developed economies.

<sup>3</sup> Mark Tubbs et al., "Goal setting: A meta-analytic examination of the empirical evidence," *Journal of Applied Psychology*, August 1986, Volume 71, Number 3, pp. 474–83.

<sup>4</sup> Ibid.

<sup>5</sup> Martin Dewhurst, Matthew Guthridge, and Elizabeth Mohr, "Motivating people: Getting beyond money," *McKinsey Quarterly*, November 2009, McKinsey.com.

<sup>6</sup> Teresa Amabile and Steven Kramer, *The Progress Principle: Using Small Wins to Ignite Joy, Engagement, and Creativity at Work*, first edition, Boston, MA: Harvard Business Review Press, 2011.

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