Making It Work in Government

Perspectives on transforming performance in the public sector

July 2010
## Contents

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td>2</td>
</tr>
<tr>
<td>Achieving sustainable transformation in the federal government</td>
<td>4</td>
</tr>
<tr>
<td>Shall we talk?: Improving organizational performance through performance dialogues</td>
<td>20</td>
</tr>
<tr>
<td>Riding the hiring wave: Capturing the unprecedented opportunity in public sector talent management</td>
<td>28</td>
</tr>
<tr>
<td>Accomplishing step change in managing IT mega projects for success</td>
<td>38</td>
</tr>
</tbody>
</table>
Preface

How can the U.S. government run itself more efficiently and effectively? This is a question that public officials, politicians, academics, and other commentators have considered for decades—and that remains critical today.

Four months ago, we set out to explore this question. In collaboration with the Center for American Progress, we launched a research project to identify examples of strong management practices in the U.S. government, to draw lessons from those examples, and to incorporate them within our broader research and selected insights from other countries. We focused on three areas that we know to be particularly critical to efficiency and effectiveness: performance management, talent management, and IT. We also sought examples of how organizations try to achieve and sustain dramatic performance improvements.

Over the course of the four months, we interviewed nearly 100 officials across eight Departments and agencies to learn about their successful (and sometimes less successful) management practices. We also drew upon some publicly available information about examples of successful U.S. government performance improvement programs.

This research project builds on decades of research and client service in the area of organizational effectiveness and efficiency and performance improvement. We draw on data from three worldwide surveys of performance improvement programs conducted across multiple industries and sectors, including the public sector. They provide robust quantitative data on which management practices correlate most highly with successful change programs.

In this compendium of articles, we present the main findings to date from our research. In the first article, we present an approach to transformational change. In it, we describe the five stages of a change program, effective strategies in each stage, and how different U.S. government organizations have approached them effectively. In the second article, we outline how targeted performance dialogues can contribute to improved performance management. Although creating a comprehensive performance management program is important, doing so can be daunting; performance dialogues are therefore a low-cost, low-technology way to start. In this article in particular, we incorporate insights from other countries where government organizations have successfully used performance dialogues as a tool. In the third article, we describe the requisite elements of a holistic human capital strategy. We explain how government agencies can—and should—broaden their talent management strategies so that they not only hire the best people, but keep them and develop them. In the final article, we describe successful methods for implementing mega-IT projects, so that agencies reduce the costs, timetables, and risks for these very expensive projects.

We would like to thank the participating Departments and agencies for sharing their stories with us and allowing us to highlight their efforts in this compendium. In particular, we thank the Federal Trade Commission, the U.S. Department of Education, the U.S. Department of Housing and Urban Development, the U.S. Patent and Trademark Office, the U.S. Social Security Administration, and the U.S. Department of Health and Human Services, including both the Centers for Disease Control and Prevention and the Substance Abuse and Mental Heath Services Administration.
Achieving sustainable transformation in the federal government

Nick Lovegrove
Garrett Ulosevich
Blair Warner
You are responsible for running a major federal department or agency, excited about the opportunity to improve the lives of your fellow citizens. You know that the agency has significantly underperformed in delivering on its mission, and you want to help get it back on track. You anticipate that a major change program will be needed to transform your organization's performance and capability.

But before you even start the effort, it seems that you will need to downgrade your expectations. Everybody keeps telling you that significantly improving the performance of any part of the federal government is almost impossible. Just to be helpful, they go on to explain how weak your position actually is.

Think, for instance, of the workforce you'll be leading, most of them members of the career civil service who have seen well-intentioned change initiatives come and go along with department heads. Then there's the political cycle—the election calendar means that at best you have a short window of opportunity in which to act. And the budget process comes burdened with legacy programs, organizational requirements, and commitments (funded or otherwise), along with close scrutiny from the public, the media, Congress, and other stakeholders with intense, entrenched—and often conflicting—interests. You can’t help but wonder: is performance transformation in government possible?

McKinsey has found that change is hard, but achievable. Only one-third of transformational efforts are successful, according to our research in recent years across multiple industries and sectors. However, the change programs that do succeed share common traits. Given the right approach, the prospects for meaningful change and sustainable performance improvement—call it transformation or continuous improvement—in the federal government are not as bleak as the naysayers indicate.

Successful transformations can be broken down into stages; our guide to success along this change journey is called the “Five Frames” (Exhibit 1). Leaders must:

- “Aspire”—asking where the organization wants to be
- “Assess”—determining where the organization stands today
- “Architect”—deciding what the organization has to do to change
- “Act”—managing the change journey, and
- “Advance”—sustaining and improving capabilities for ongoing improvement over time.

Our research in the federal government has uncovered examples of strategies that agencies can use during all five stages. This article describes those strategies and examples.

---

1. ASPIRE
Set lofty goals for policy, performance, and health

Our research shows that successful change leaders aim high. They convey a clear and inspiring vision of the future, and they set stretching but realistic goals for their organizations. Our global research found that 44 percent of change programs that set stretching targets were very or extremely successful in improving performance, compared with 35 percent of those with only modest incremental targets and 27 percent of those with unreachable targets (Exhibit 2).

We also found that successful change programs address both the short-term performance and the long-term health of the organization—doing one without the other produces mediocre results. In fact, transformations that clearly define both performance and health targets are three times as likely to be successful as transformations that don’t take both objectives into account.

In the public sector, some leaders establish ambitious policy agendas or goals that are so bold as to be unrealistic. Others, apparently worried that internal targets might become concrete commitments monitored by external stakeholders such as Congress or the Office of Management and Budget, set only modest but seemingly achievable goals. This results in what might be characterized as an “aim low, achieve lower” problem. Many fail to set any goals related to improving underlying organizational capabilities for the longer term. This failure to address
Making It Work in Government
Achieving sustainable transformation in the federal government

underlying organizational health challenges makes it difficult for agencies to meet their program targets year after year.

But it doesn’t have to be that way. Some agency leaders have aimed high and achieved dramatic performance and organizational health improvements.

Use events as a call to action

Former British Prime Minister Harold Macmillan said that the biggest challenge to effective government is “events, dear boy, events.” But while unforeseen events can derail and even destabilize governments, they can also provide an urgency and impetus to make significant changes in organizational performance that otherwise might not occur.

The recent financial crisis, for example, has spurred several regulators to pursue broad improvements in their organizations’ performance and the underlying organizational capabilities to achieve them. NASA turned the loss of the Mars Observer spacecraft in August 1993, three days before it was due to go into orbit, into an opportunity to substantially reorganize the
agency. Dan Goldin, NASA’s administrator, used the setback to implement performance and organizational improvements that left NASA better positioned going forward.\textsuperscript{2}

Unforeseen—and often difficult events—can help federal agencies overcome an aversion to major change. Public sector leaders need to be prepared to view such events as a catalyst for broader transformation programs.

**Link aspirations to the mission**

Federal agencies can capitalize on the fact that their primary mission is to serve the public. That can be a compelling motivation for employees and other stakeholders to embrace change. In government, the inherent drive to achieve socially beneficial outcomes enables agencies to tie performance objectives to the mission. Our organizational research across the public sector consistently shows a robust commitment to the mission that motivates positive actions.

For instance, the Centers for Disease Control and Prevention (CDC), an agency within the U.S. Department of Health and Human Services (HHS), tied a recent organizational change program to a series of public health initiatives by linking reform to impact on specific disease risks. The change program did not just define these objectives in abstract terms. It specified a set of “winnable battles” that required a collaborative, agency-wide approach. The mission-driven staff could see in quite tangible ways how achievement of the mission depended upon changes in the organization’s structure and processes—and the staff could track their performance against stretching targets.

**2. ASSESS**

Understand the organization—including its strengths and underlying mindsets

Our past research shows that change programs are seven times as likely to succeed when the organization assesses its current performance, strengths, and weaknesses to set a baseline for future improvement. In other words, to make real and sustainable change, leaders first strive to understand their organization’s performance and health. They assess the causes of underperformance, including practices, processes, and mindsets that may impede progress. And

\textsuperscript{2} IBM Business of Government, Lambright Report, 2001
they identify practices that are helping the organization meet its goals, so they can spread those practices throughout the organization.

Federal government leaders frequently give short shrift to this discovery process. Many leaders feel pressure to begin the change effort as soon as possible, given that they tend to expect to spend relatively little time in office. As a result, political leaders often drive through policy initiatives from the top, without investing the time to fully understand the agency’s starting point.

A thorough assessment, however, is particularly important in government. Learning about their organizations—ranging from the data they use to the barriers they have encountered in past change efforts—enables new leaders to identify issues, capitalize on their organizations’ capabilities, and acknowledge good work that is already underway. We have seen that taking these steps will accelerate the overall change effort and ultimately make it more likely to succeed.

Get to know the people

Successful leaders get to know the career staff to better understand what is taking place in the agency today and to create an environment of openness and trust. Taking the time to do this also helps leaders identify the high performers who may end up in critical roles as the change effort takes shape. This makes getting the buy-in of the agency’s staff much easier and sends a message that the organizational history and opinions of the employees are important.

For instance, the new leadership team at the U.S. Department of Education spent the first weeks in office walking the halls and speaking with Department staff. This created an environment of trust and collegiality from the start. The department also created a Web portal where staff could submit suggestions. These efforts increased employee engagement at all levels of the organization, provided concrete suggestions for potential improvements, and helped leaders get a sense of employee priorities.

Set a performance baseline

A quantitative baseline of performance data can help new leaders get their bearings. Baselining helps agency leadership and staff face the facts of where they are, building insight from data rather than anecdote and kick-starting the fact-based conversations that are a consistent hallmark of high-performing public agencies. This process often shows new political leaders areas of strength that they did not expect. It also provides a common set of facts about where the agency stands today relative to where it wants to be.

Having a baseline also enables leaders to demonstrate success to employees and stakeholders once the transformation gets under way. By establishing a quantitative baseline, the U.S. Department of Housing and Urban Development (HUD), for example, could show that a 115-day hiring timeline had been reduced to less than 80 days as a result of its reform efforts. Without such a concrete starting point, it would be hard to know if the change program had made a difference.
On a qualitative level, career employees in agencies are aware of a great deal of institutional history that can be invaluable in guiding leaders through the maze of opportunities and obstacles. For instance, after multiple attempts, the Social Security Administration (SSA) began its successful journey to electronic disability claim processing by involving thousands of staff members in an extensive process mapping exercise. This ensured that changes were built on an understanding of current processes and potential challenges. It also created immediate engagement in the change process at all levels, increasing buy-in and credibility that the change effort was going to take root.

**Identify existing pockets of success on which to build**

A baseline also makes it easier to identify pockets of preexisting success. Where operations are succeeding, leaders should ascertain and document the reasons. This demonstrates appreciation for the organization’s current strengths and talent, providing a foundation for the transformation that is positive and empowering to career staff. Effective leaders frame the transformation as building on those strengths, as opposed to simply fixing problems.

In the Federal Bureau of Investigation (FBI), the leadership team visited field offices and identified best practices among them, acknowledging the particular needs of small, medium, and large offices. They then built new intelligence structures and processes based on what they found.\(^3\) As a result, staff in many offices could identify concepts in the new structures and processes that they themselves had developed, and they were therefore more likely to accept the changes.

3. **ARCHITECT**

**Plan for deep-seated change over time**

Rolling out a set of changes requires thorough planning and organization. Change efforts should be broken down into themes, each supported by specific initiatives. Transformations with clearly structured change initiatives are over three times more likely to succeed.

Yet many struggle to pick the right number of initiatives given significant resource constraints. Leaders often either push through more initiatives than the organization can execute simultaneously or start with so few efforts that it is difficult to create momentum.

---

Leaders also struggle to select the right mix of initiatives. Most executives know they need to develop a prioritized set of initiatives—such as creating a new IT system or establishing a new business process—to drive performance improvement. However, they often fail to include in their list any initiatives that address the biases or assumptions that underlie the current ways of operating. For this reason, many transformations fail to make changes that stick.

**Plan initiatives to deliver in the short, medium, and long term**

A successful change program in the federal government often requires multiple initiatives involving thousands of employees across the nation. To get such a large-scale effort started, leaders should design some initiatives to deliver impact in the short term, building credibility and demonstrating progress, as well as others that generate results in the medium and long term.

During its transformation program, the FBI created a blueprint that outlined the various initiatives, the accountabilities, and the pace of change. It rolled out the initiatives first in waves to each field office and then within headquarters. The plan included targets to track intermediate progress, even though the fundamental changes in mindsets related to intelligence would take longer to fully embed. These intermediate initiatives ensured that the change program maintained momentum and that agency personnel could escalate any issues quickly.

For longer-term health-related changes, leaders should include initiatives that are achievable within the political time horizon (i.e., 18 to 24 months) on which future initiatives can build. For example, the U.S. Department of Education aimed to build management capabilities; to do so, it has required managers to have development plans including training and development activities for improving the identified competencies each year. While building management capabilities is a long-term effort, this provides a foundation for additional improvements.

**Include initiatives focused on shifting mind-sets and behaviors**

Successful change leaders support strategic and operational shifts with significant changes in mindsets and behavior. Changing underlying mindsets and behaviors requires a multipronged approach. Leaders must explain why the changes are important. They must role-model the new behaviors they want to see. They have to train employees in how to do new functions and use new tools. They must make sure performance plans incorporate the demands of the new processes.

---

4 Rivkin, op.cit., p. 4.
or programs. Given the effort required to change underlying beliefs and behaviors, leaders must prioritize initiatives that focus on the cultural changes necessary to deliver the new mission, policy changes, or performance improvements. Our research demonstrates that including specific initiatives targeted toward changes in mindsets and behaviors more than doubles change programs’ likelihood of success (Exhibit 3).

In the public sector, this focus on mindsets is even more critical than in the private sector, but it is often overlooked. Changes in mindsets and behaviors endure and become institutionalized—even across administrations. Rolling out the full set of initiatives necessary to complete a change effort may take longer than current leaders will be in office. The career staff will be the ones to see the change effort to conclusion. If they don’t adopt the mindsets needed to support the new tactical policy or performance improvements, the change effort is likely to flounder and fail.

One approach to role-modeling and building understanding about the changes is through interactive sessions such as training, town hall meetings, and workshops. Efforts like these are particularly effective when staff can engage in the process and identify how their own roles will change. For example, the SSA transition to electronic disability claim processing included regular forums for staff to share ideas and a multichannel internal communications approach.

Exhibit 3: Initiatives targeting mind-sets and behaviors

<table>
<thead>
<tr>
<th>Degree of transformation success</th>
<th>Extremely successful</th>
<th>Very successful</th>
<th>Somewhat successful</th>
<th>Not successful at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entirely</td>
<td>4</td>
<td>28</td>
<td>39</td>
<td>28</td>
</tr>
<tr>
<td>Very</td>
<td>1</td>
<td>43</td>
<td>49</td>
<td>8</td>
</tr>
<tr>
<td>Somewhat</td>
<td>4</td>
<td>59</td>
<td>34</td>
<td>4</td>
</tr>
<tr>
<td>Not at all</td>
<td>5</td>
<td>62</td>
<td>32</td>
<td>1</td>
</tr>
</tbody>
</table>

1 Unweighted data
Note 1: Due to rounding, totals might not sum to 100%

SOURCE: McKinsey Quarterly Transformational Change survey, January 2010
4. ACT
Create accountability to sustain implementation

Successful execution of the program requires clear accountabilities and performance tracking throughout the effort. Our research shows that change programs with clear roles and responsibilities are six times as likely to succeed (Exhibit 4).

Exhibit 4: Assigning clear accountabilities

In the federal government, it is common to see uncertainty and ambiguity over who is responsible for what initiative. Reducing homelessness, for example, cuts across multiple programs and divisions at HUD alone—and also involves many other federal actors, not to mention those on the state and local levels. Moreover, instituting change takes time—often longer than political leaders will be with the organization. The result is multiple changes in accountable parties over the course of a change program.
Routinely set expectations and monitor progress

Successful change leaders make a single point of contact within the agency responsible for each outcome and rigorously track progress through the formal reporting channels. They also ensure that internal leaders know what they are responsible for delivering and provide opportunities to report on progress and raise issues. For example, the Social Security Administration performed standard reporting to governance bodies and held a biannual forum for deputies to present the progress of their electronic disability claims processing effort.

While a single point of accountability is ideal, agencies—or divisions within them—often have to share responsibility with each other. One way of managing this is to assign a single unit to take the lead on a given initiative, specifying the supporting units involved and including them in any report-outs on that initiative.

Consider the approach of the Bureau of Consumer Protection at the Federal Trade Commission (FTC). In response to a growing and likely long-term focus on consumer privacy, the bureau created a permanent division to address privacy issues. But not all organizational changes were permanent; some were temporary. To respond to emerging advertising and marketing activities utilizing new technologies, which crossed organizational lines, the bureau created a special task force that drew staff members from all parts of the bureau to learn more about these activities and develop recommendations for further action. Similarly, to respond to the need for more financial fraud enforcement during the financial crisis, the bureau facilitated formation of multidivisional projects, called “sweeps.” These sweeps coordinated the targeting, development, and filing of multiple similar financial fraud law enforcement actions by the FTC and its federal and state law enforcement partners. As these examples demonstrate, models of accountability can vary; what’s critical is that accountability be clear.

To make accountability real and allow for joint problem solving, leaders need to clarify expectations, create incentives, and generate transparency. Every public sector transformation that we have observed has involved the creation or use of performance management. While it can be difficult to create such a system to monitor the change program, once these systems are in place, they commonly evolve to provide transparency into ongoing operations.

At the U.S. Patent and Trademark Office (USPTO), senior leaders set an ambitious target of bringing patent application examination time to final conclusion within 20 months by 2015, with an initial patentability decision completed within 10 months by 2014. To address the current, large backlog in patent applications, USPTO’s leaders focused on enhancing the performance culture at the agency. Performance metrics cascade from the agency’s strategic plan to individual
performance plans. Moreover, the agency utilizes a data system that automatically populates dashboards and scorecards with pertinent, real-time information. As a result, accountabilities are clear down to the individual level; all employees now have an up-to-date snapshot of how they are performing against individual targets. This visibility on an individual level has put USPTO on the path to achieving its processing targets by 2015.

Create external pressure so the change will stick

Change programs stick when the leaders who envisioned them win the support of internal and external stakeholders who can cement the direction of change and ensure the achievement of long-term outcome measures. This article has already mentioned ways in which leaders can win the support of internal audiences in executing agency programs. The same thought process applies to external stakeholders. Creating external accountability for success allows an organization to sustain a change effort even in the face of political uncertainty and revolving leadership.

The Substance Abuse and Mental Health Services Administration (SAMHSA) within HHS provides a data collection and analytical tool with which program officers can track and assess how their grantees are performing. The program’s success reflects its creation. Grantees and project managers provided feedback throughout the development process and became invested in the system’s success. Thanks to their input during the development, grantees find that the system reflects their interests and needs and enables them to track their performance. Grantee adoption of the tool makes it more likely to stick.

5. ADVANCE
Build the organization for the future

Successful transformations help build the leaders needed to ensure continuous improvement in the future. The change program itself provides an opportunity to develop leadership and management capabilities such as project planning, status reporting, coalition building, conflict resolution, and executive presentation skills. The program also often provides a chance to build a network throughout the organization that long outlives the specific change initiative. As such, the change program can both achieve results and develop leaders and a culture of continuous improvement for the longer term (Exhibit 5). Leaders who build civil servants’ change management capabilities are more likely to see their changes institutionalized within the organization.

Identify change leadership and provide incentives to encourage participation

While learning about the organization, successful leaders keep in mind how they can recruit individuals to serve as internal change leaders. At the FTC, some high performers emerged as the agency created projects and task forces to focus on the financial crisis and new technologies in the marketplace. Such efforts commonly generate significant opportunities for professional
development. For example, the response to the financial crisis in the form of sweeps provided participating attorneys with additional feedback from management and exposure to the rest of the Bureau of Consumer Protection. As noted by Chuck Harwood, the bureau’s deputy director, “New challenges create new opportunities for people to prove themselves and excel. If you want people to succeed, you need to make sure they have visibility. Participating in the new initiatives we launched provided just that.”

Some professionals may initially be wary about taking part in a new effort. Career employees in particular may be skeptical that a change program will stick, and they see risk in embracing the change effort. Effective leaders create a safe space for taking risks and trying new things related to the change program—and then persuade employees to jump in and contribute their knowledge and ideas to the program. One form of encouragement is demonstrating that participation has an upside and limiting any downside risk. Leaders can create incentives to motivate top performers, such as linking involvement with the transformation to career-advancing opportunities ranging from awards to promotions. Top performers can also model behavior that draws observers in from the sidelines and onto the playing field.

Exhibit 5: Transformation to continuous improvement

<table>
<thead>
<tr>
<th>Degree of transformation success</th>
<th>Extremely successful</th>
<th>Very successful</th>
<th>Somewhat successful</th>
<th>Not successful at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1</td>
<td>39</td>
<td>49</td>
<td>11</td>
</tr>
<tr>
<td>No</td>
<td>23</td>
<td>54</td>
<td>20</td>
<td>2</td>
</tr>
</tbody>
</table>

1 Unweighted data
Note 1: Due to rounding, totals might not add exactly to 100%

SOURCE: McKinsey Quarterly Transformational Change survey, January 2010
Incentives related to achieving the mission also get people involved. To draw managers into the cross-divisional projects within the FTC Bureau of Consumer Protection, participants could effectively become the bureau experts on cutting-edge legal issues, which they could then share with their own divisions. At the CDC, congressional funding often correlated to programs’ visibility; strong participation in the new Quarterly Performance Reviews with the director has proven to be a successful way to receive this sort of beneficial visibility. Both personal and program advancement are helpful ways to enlist talent in the change effort.

A case study from the Social Security Administration

SSA had been attempting to move to electronic processing since the 1980s. Early on, the available technology simply could not process the amount of data that was required. In the 1990s, as it waited for technology to improve, SSA started moving toward greater automation of processing, entering claims electronically to avoid paper from the outset. At the turn of the century, under a new commissioner, the agency embarked on concerted change. As a result of the effort, SSA has improved consistency, shortened processing times, and increased the quality of reviews.

Aspire. In 2001, the new commissioner set electronic disability claim processing as her first priority. She set a timeline of 36 months to achieve it, re-prioritizing other projects to free the needed resources to take on the project. Given past challenges at moving to electronic processing, it was critical to prove commitment to the effort from the start.

Assess. From the outset, the commissioner engaged with stakeholder groups, including states, unions, and management. The leadership team had to understand past efforts and the potential barriers to success this time.

Architect. Initiatives related to moving to electronic processing involved thousands of people. For example, staff performed value stream mapping of the claims process, detailing all key assumptions. The program also consisted of communications initiatives, including forums to share ideas and engage the staff personally.

Act. To track the progress of the effort over time, SSA created a formal governance body. This group received routine updates on progress against the timeline. Twice a year, deputies presented the progress of the effort to a broader forum.

Advance. The change process built relationships and capabilities within SSA. Trust was built among the technology group, SSA business units, and external partners such as states. As a result, subsequent efforts to roll out new technology were easier. SSA staff also developed improved project management skills and communications across the agency. Automation is now the norm, creating continuous pressure to reevaluate processes and improve them.
Successful change leaders recognize that an organizational change program provides an unparalleled opportunity for building new capabilities and the capacity for further change within the organization. They use the transformation to reassess legacy processes and programs and instill in their staff a mindset of striving for continuous improvement.

The effort to implement the new data-entry system at the Substance Abuse and Mental Health Services Administration (SAMHSA) within HHS involved training program officers to use and interpret data as a part of their core business. In effect, SAMHSA instituted a fundamentally new approach to managing grantees around the country. As a further enhancement, SAMHSA is now working on a common platform across all of its centers that will allow greater flexibility as changes occur in health and behavioral healthcare.

Similarly, the U.S. Navy’s Sea Power 21 transformation effort focused on greater coordination among personnel processes (recruiting, training, and assigning) and acquisition processes (buying ships, aircraft, etc.). The result: a more seamless implementation that makes the Navy better able to adapt to future threats. An effective transformation program creates people and practices that position the organization to reassess its performance and make improvements on an ongoing basis. Over time, a discrete transformation program may not be necessary; rather, the organization will have the capability to continuously adapt and evolve.

McKinsey’s global research has shown that there are clear patterns of success in the transformation of large, complex organizations. These patterns also apply in the federal government, although the barriers to effective change are significant. As this article illustrates, the federal government offers many examples of transformational leadership that have materially enhanced the performance of major departments and agencies. The “Five Frames” provide a guide to effective transformation that any government leader can apply with confidence.

---

“New challenges create new opportunities for people to prove themselves and excel. If you want people to succeed, you need to make sure they have visibility. Participating in the new initiatives we launched provided just that.”

---

Shall we talk?

Improving organizational performance through performance dialogues

Toby Gibbs
Elizabeth Irons
The question of how to drive effective and efficient performance in government is receiving substantial attention around the world today. Government expenditure constraints, public demands for more transparency, and a demand for clearer accountability have prompted senior leaders in North America, Europe, and elsewhere to make public commitments in recent years to improve government performance.

For most great organizations, the linchpin of high performance and continuous improvement is a comprehensive performance management system (Exhibit 1). GE, for example, is known for setting challenging targets, holding intensive performance dialogues each quarter, conducting a forced ranking based on performance and values, and maintaining clear consequences and rewards based on delivery.

Exhibit 1: Six elements of comprehensive performance management

Best-in-class performance management systems demonstrate strength at each element

... There is a clear view of what success look like—across the organization and with relevant partners

... Actions are taken to improve performance, and there are visible consequences for good and bad performance

... Performance reviews are both challenging and supportive, focused, fact-based, and action-oriented

... Set direction & context

... Establish clear accountabilities and metrics

... Create realistic budgets, plans, & targets

... Hold robust performance dialogues

... Track performance effectively

... Ensure actions, rewards, & consequences

... Superior and sustainable performance and health management

... Accountabilities are clear, KPIs & scorecards are balanced and cover performance and health, and metrics cascade where appropriate

... Targets are stretching but also fully owned by management and are supported by appropriate resources

... Reporting gives a timely view of performance at appropriate detail, without burdening the organization

The public sector faces unique challenges in establishing this kind of system. While for-profit companies can track metrics such as bottom-line impact, revenue, or shareholder value, public sector metrics often reflect social outcomes that are harder to define and measure. Companies in competitive marketplaces operate within clear ownership boundaries; many public sector organizations, however, share responsibility with other institutions in complex delivery systems, resulting in multiple, cross-organizational accountabilities. To facilitate performance reporting, the private sector has historically invested more resources in sophisticated information.
management systems; public sector organizations can find themselves working with insufficient, untimely, or overwhelming data. Finally, executives in the private sector typically have more leeway than public sector leaders in making performance-based human resource decisions (such as hiring, firing, or reassigning personnel), which contributes to an ethos of performance, accountability, and consequences.

Our research has shown that despite these challenges, examples exist of strong government performance management that has resulted in substantial performance improvements. Consider the U.K.’s Public Service Agreements and the work of the Prime Minister’s Delivery Unit, established by Tony Blair in 2001. The PMDU has demonstrated how a formal system of targets can help drive changes in performance. The PMDU instituted key elements of performance management: clear outcome targets with specific accountabilities to departments and individuals; regular tracking of priority metrics; and the alignment of different stakeholders to improve performance on crosscutting topics (e.g., on street crime, where robberies dropped by 56 percent in three years).1

Similarly, some U.S. government organizations and municipal governments have developed vibrant performance management systems. CitiStat, for example, a process for making government more responsive and efficient through data-driven performance reviews, helped Baltimore save more than $13 million in its first year of implementation and decreased absenteeism by up to 50 percent in some agencies within three years.

Organizations that make performance management a priority have had dramatic improvements in their performance, enhancing their ability to deliver their public service objectives. It can be hard to manage performance in the public sector—but it is possible, and worth it.

Performance dialogues—A good place to start

Creating a comprehensive performance management system is a significant undertaking for any organization, requiring substantial investments of time and resources. Those with limited resources can improve their performance management by focusing on one or two discrete areas at a time. In our experience with governments around the world, initiating high-quality performance dialogues—fact-based, action-oriented, constructive, and challenging conversations that target specific priority topics to drive performance right away—is an excellent starting point for change.

In this article, the performance dialogues we refer to are regular, structured, face-to-face meetings between managers and their direct reports, in which they:

- Use key performance data to review each group or unit’s performance;
- Identify best practices and probe the root causes of performance gaps;
- Collectively agree on prioritized action plans that they will review in the next discussion.

Performance dialogues have a clear leader but are inclusive, with all present expected to actively participate. At their best, they are collaborative but challenging problem-solving discussions targeting the key drivers of performance. They take place frequently enough to catch issues early, but not so frequently that staff have no new information to share. At senior levels, this may mean formal quarterly sessions running 60 to 90 minutes; at the front line, they may happen every day for just a few minutes.

Leaders have often told us that to feel comfortable having these dialogues, they need the other elements of the system (accountabilities, targets, reporting) to be in place—and so they hold off on the dialogues. Experience suggests otherwise. Once an organization has clearly defined the core elements of its performance, dialogues can be highly effective first step toward improving performance and a way of laying the groundwork for the other elements of performance management.

Starting with performance dialogues has a number of benefits. It drives a focus on action rather than bureaucracy and can lead to early performance improvements. Dialogues can generate a “pull” for improving other areas, for example, clarifying accountabilities, creating more challenging targets, or upgrading reporting. For a major European defense organization, effective performance dialogues created a demand at the top for new transparency and insight on logistics performance.

Done well, dialogues create positive momentum around a new way of working that cascades down through the organization, with a “virtuous effect” on other parts of the organization. For example, effective performance dialogues about human capital management in one U.S. federal agency have triggered similar approaches to performance management in other units.

Another reason for government leaders to begin with performance dialogues is that they have a near-term payoff. They do not depend on investments in new technology systems or time-intensive preparation.

### Practical approaches to making it happen

The task of upgrading performance dialogues can be daunting. Many government organizations struggle to obtain the data necessary to have a fact-based conversation. Some have plenty of data but find it hard to derive meaningful insights from them. Others have conversations that are insightful and fact-based but that do not lead to action or improved performance.
These are all common situations within public sector organizations. In this article, we describe below some approaches that have worked well for each of those situations.

**Recommendation #1: Recognize data limitations—but don’t be paralyzed by them**

Great performance dialogues focus on insights and implications based on clear, credible data, reviewed and understood by all participants in advance of the dialogue itself. In many public sector organizations, however, distributed workforces and disconnected IT systems make data collection and analysis difficult. Often, agencies have insufficient data to drive real insight, or they have many disparate sources of data. This can result in debates over definitions or validity rather than discussion of underlying performance issues. Great performance dialogues demand facts—so what can be done in these “data-free zones”?

Most often, we’ve found that government organizations have valuable information—the challenge is identifying the data and bringing them together. It is worth spending some time up front determining which data are most critical to inform high-quality discussions and agreeing on how the organization can capture those data over time.

**Don’t be afraid to get going with representative data,** such as qualitative or practical “proxies.” This can be particularly helpful for long-term outcomes, which leaders need to monitor frequently enough to indicate the effects of current efforts and implications of potential decisions that won’t have concrete results data for years. For example, the Centers for Disease Control and Prevention (CDC), an agency of the U.S. Department of Health and Human Services (HHS), uses proxy one-year and four-year measures to establish progress toward achieving its target long-term outcomes. That allows the CDC’s leaders to chart progress continuously, although the underlying impact on public health may be many years or even decades away. Agencies can supplement these data with targeted complementary analysis (e.g., root cause analysis of issues) and, where appropriate, objective observations from top leadership and subject matter experts.

**Be creative in capturing data.** Government agencies can—and should—leverage existing data collection processes wherever possible (e.g., surveys, processes to meet reporting or compliance requirements), both inside and outside the organization. Most U.S. government organizations already collect data for budgetary purposes, for financial audits, and for compliance with the Government Performance and Results Act (GPRA), as only a few examples. They may find that they can successfully mine these existing data sources for information that would be valuable in performance dialogues.

In one non-U.S. example, a European defense organization identified the data it already collected in many IT systems and designed a simple technical solution to skim off and collate the data it needed for a better performance dialogue.

When new data are required and manual collection and manipulation is unavoidable, agencies can seek creative ways to lessen the organizational burden, such as by collecting samples rather than comprehensive data sets, or varying the frequency of collection. Over time, they will need to seek institutional solutions to data challenges. For example, the U.S. Department
of Education centralized responsibility for acquiring long-term data on program efficacy and impact, thereby reducing the data collection duties of individual units. Doing so has meant that it can automatically populate half of the key outcome/operating metrics it regularly reviews with centrally kept data.

**Understand which data drive insightful conversations and collect them over time; deemphasize or stop pursuing the rest.** During performance dialogues, government leaders should note which data are most helpful in driving high-quality discussion. They should balance the insight they need with practicality, being clear to aim for the minimum amount—and accuracy—of data required for specific purposes: performance dialogues (e.g., for problem solving and course correction) vs. day-to-day management (e.g., for tactical decision making and quality assurance) or publication to stakeholders or the public.

The U.S. Department of Education, for example, sets a maximum of 10 metrics for each program office, with six standardized, cross-office metrics and four office-specific metrics. The Department can now compare individual units based on the six standard metrics for all program offices, including peer review survey results from across the Department, and quantitative indicators of the Department’s performance management process execution (e.g., timeliness of completion of required plans, midpoint reviews, and final ratings; training of employees).

Most organizations report considerably more data than actually needed. Once it becomes clear which insights are required to drive an informed conversation, the organization can gather the necessary data and analyze them—and stop collecting data that don’t contribute to performance insights.

On the flip side, some organizations continue to focus on suboptimal metrics over time because they can’t yet collect the data for the more insightful metrics. Rather than discarding objectively excellent measures that are currently infeasible, agency leaders should keep them in mind as systems and reporting are upgraded in the years ahead.

**Recommendation #2: Move from information to insight by focusing on selected critical issues and preparing thoughtfully**

In the best performance dialogues, the discussion’s purpose and agenda are explicit, and the participants spend the majority of time discussing current performance and how to improve it. Reporting is based on the information needed to drive effective discussion, not just what information is available. The dialogues focus on the most important issues, rather than trying to cover too much ground in insufficient—or often worse, excessive—detail. In many situations, however, although data are available, they do not inform insightful discussions, let alone management decisions or course corrections. This could be because the data set is left unanalyzed; is not compiled in a user-friendly, prioritized manner; or isn’t discussed in a systematic way.

**Target the biggest issues to discuss during dialogues.** Organizations often fall into the trap of “boilerplate” status reporting of performance in one direction (e.g., from each process or
division owner to the executive in charge). This can be time-intensive, barring questions or two-way discussion of consequential matters. To avoid this trap, leaders should:

- Make simple status reporting a “pre-read” requirement.
- Agree on the agenda before the meeting—and ensure the pre-reading materials provide analysis on the agenda topics. A performance dialogue agenda often includes:
  - Examples of success from which the organization can learn
  - Examples of challenges or underperformance on which the group can engage in problem solving
  - Situational or context-based topics through which the group can identify potential risks and opportunities.

Use simple templates to encourage focused and concise reporting, forcing people to concentrate on the highest impact data or information, ideally with visual graphics that help participants understand data over time. For example, a large U.K. government department reduced reporting for quarterly performance dialogues from 100-page data packs down to a single one-page “scorecard” supplemented by short (3-5 pages) briefs on agreed agenda areas. This dramatically improved the quality of dialogues among senior leaders, with greater insight, collaborative problem solving, and a greater focus on action and improvement.

The U.S. Patent and Trademark Office uses a simple format for its high-level dashboard (“Level 1”) that includes no more than 13 metrics. The executive dashboard is one page, with data presented in a simple, user-friendly manner. The format also includes “Level 2” metrics providing more detailed metrics and program-level information. This template allows the agency to offer a streamlined view to stakeholders while still including the necessary details for constructive problem solving.

At the Federal Trade Commission (FTC), as a part of its budget execution reviews, staff prepare reports on each program and major activity. These reports include data on the FTC’s results compared with its plans for budgetary and performance metrics. Staff consolidate this information into a summary report for the Chairman, flagging program activities and relevant budgetary data as red/yellow/green and providing historical trend data. By reviewing performance and budget execution data together, senior FTC leaders are able to make more informed budgetary and programmatic decisions.

Recommendation #3: Set clear expectations and get commitment to action

Performance dialogues are only as useful as the actions—and performance improvements—that flow from them. The best discussions go into depth on specific issues, collectively design solutions or approaches, and then assign clear, actions with deadlines to accountable parties, ensuring that they have the support (e.g., resources, skills, and capacity) to be successful.
Leaders play a critical role in using performance dialogues to establish expectations and hold the organization accountable for results. In addition to establishing rigorous action plans, they must also follow up. Leaders should ask their staffs to brief them about progress on previously agreed actions, reinforce expectations, offer support, and challenge individuals when results fall short. It is primarily up to the leaders to turn dialogues from ineffectual conversations into a core interaction at the heart of running the organization.

Use the dialogue to set expectations and tighten accountabilities. Many public sector lack clear expectations and responsibilities for individual units or employees, in part because of the collaborative nature of government work across agencies and other organizations. This makes it even more critical for public sector leaders to use performance dialogues to clarify and reinforce expectations for performance, assign individual accountability for specific actions, and ensure commitment from others to deliver. Accomplishing this can be as simple as one leader pledging to help another; often, organizations may find written support for this pledge—and clarity on the specific dates, tasks, and expected results that both parties have agreed to—a helpful supporting document to eliminate the possibility of confusion on either side.

Include cross cutting teams in the dialogue for complex initiatives. For complex initiatives within a single public sector entity, leaders should identify a single executive or senior manager as the primary performance owner and formally designate the other parties accountable to support them. For example, assigning a lead unit and specifying supporting units to each objective can help surface critical dependencies and increase the likelihood that as problems arise, all relevant parties know about and can address them.

A similar approach can be helpful across multiple organizations. When the U.K.’s PMDU focused on street crime, it brought together all of the relevant parties into a board chaired by the Prime Minister. This authority set up a classic performance dialogue with clear expectations (success had been promised to Parliament), a rigorous focus on improvement, and clear actions for each participant. In less high-profile situations, the U.K. has created boards to drive cross-government topics (e.g., obesity, social exclusion), with cross-departmental performance dialogues seen as a core part of their success.

Getting performance management right can dramatically improve the ability of an organization fulfill its objectives. The theory of good performance management is relatively simple. However, developing good practices and cascading them throughout an organization is difficult. By initiating high-quality performance dialogues, government leaders can begin their organizations’ journeys toward stronger performance management—and greater performance—right away.
Riding the hiring wave
Capturing the unprecedented opportunity in public sector talent management

Mark Berenson
Matthew Smith
Current opportunity

The U.S. federal government has a unique opportunity to reshape its workforce and collective abilities as it brings in the next generation of civil servants. According to the Partnership for Public Service, by 2012 the federal government will be hiring about 600,000 individuals—one-third of the current workforce, which will be a roughly balanced mix between hiring replacements and filling new positions. This will create an opportunity not only to bring in fresh talent, but also to potentially work with and develop these employees differently than in the past.

Two major drivers explain this increased demand for workers: mass retirements of baby boomers and an expanded role for the government.

- **Mass retirements.** By 2014, almost 40 percent of the federal workforce will be over the age of 50, with the largest percentage increase across age brackets in the 55 and older group. The aging of the current federal workforce is leading to an unprecedented wave of retirements. An extreme example of this is the FAA’s Air Traffic Controller corps. A large share of this workforce became air traffic controllers in the early 1980s after mass firings resulting from an employee strike, and many members of this group are approaching retirement. Between 2010 and 2017, the FAA is planning to hire 17,000 new air traffic controllers—more than the entire current workforce. While the shrunken value of retirement accounts has caused many workers to delay retirement, demographics suggest the inevitable turnover of a large portion of the current federal workforce.

- **Expanded role for government.** Health care reform, financial reform, the American Recovery and Reinvestment Act, and other measures have all created additional jobs in the federal government. Agencies need more staff, and the jobs themselves are becoming more challenging with increasing impact on key sectors of the economy. As the government has assumed an expanded role in the economy, the nature of positions, especially managerial jobs, has changed. More and more, the government is truly looking for leaders to develop and implement critical programs, not administrators to simply conduct and oversee the process.

More and more, the government is truly looking for leaders to develop and implement critical programs, not administrators to simply conduct and oversee the process.

The historic need to hire new government workers is occurring in parallel with trends in what individuals want from their jobs—in the public or private sector. Fortunately, these trends are encouraging people’s interest in working for the public sector. The professional aspirations of the Millennial Generation (those born between 1982 and 1995) are well-aligned with the core value proposition of the civil service, including a desire to both serve the greater good and achieve job stability. Recent economic conditions, notable for widespread layoffs and long job searches, have intensified the appeal of stable employment. Also, the general social desires of the Millennial Generation influence their career aspirations. A 2008 survey of undergraduates found that the top industry where graduates wanted to start their career was in “government/public service,” and five of the top 15 organizations identified as the “ideal employer” were federal
government institutions: the State Department (No. 5), Peace Corps (No. 8) and NASA (No. 9), CIA (No. 12), and FBI (No. 14).

At the same time, this new generation of talent demands more from employers than just a steady paycheck. Millennials put interesting content, recognition of performance, work/life balance, and development opportunities at the top of their list of job expectations, all ranking above job security and income level. As a result, the federal government has an opportunity to tap into this large pool of workers—if it can deliver a compelling value proposition through a talent management system that meets the needs of the emerging workforce.

From a focus on hiring to an integrated talent management approach

The Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) have recognized the critical need for smart federal hiring. In June 2009, they launched an effort to encourage all departments and agencies to focus on hiring and recruiting. Agencies have been asked to:

- Map their current hiring processes
- Simplify and use plain language in job announcements
- Improve applicant notification, and
- Engage hiring managers in all stages of the hiring process.

These are all highly beneficial activities, and they all support the critical and massive recruiting on which the government needs to deliver. Agencies have responded to this focus on recruiting, often going beyond the OPM/OMB mandate to drive innovation in their recruiting and hiring practices. For example, the U.S. Department of Health and Human Services Atlanta Human Resources Field Office, in partnership with the Centers for Disease Control and Prevention (CDC), successfully developed, piloted, and implemented an Accelerated Hiring Process that reduced the hiring timeline from 160 days to an average of 36 days. A key aspect of the process is a mandatory prehiring consultation between HR specialists and hiring managers. In these meetings, the HR specialists discuss current and future hiring needs, specific qualifications or skills needed, hiring options, and candidate assessment mechanisms. Together, the HR specialists and hiring managers agree on a hiring timeline. A contract of services is produced that outlines both HR and customer obligations and expectations. These consultations facilitate streamlined hiring and rapid decision making, and have led to improvements in the quality and relevance of the candidates recruited.

The government risks squandering its improved recruiting effort if the rest of the talent management process fails to reach the same standard.

---

1 Universum USA 2008 Survey of Undergraduates.
While such efforts focus on bringing in a sufficient number of appropriately skilled new employees, that is just the first step in a holistic talent management program. Right now, the government risks squandering its improved recruiting effort if the rest of the talent management process fails to reach the same standard. In this scenario, the government would hire the employees it wants, but then fail to develop or retain them.

A recent McKinsey survey, using the Organizational Health Index (see sidebar), validates these concerns. The survey found that government practices related to talent development and employee engagement significantly lagged behind benchmarks from the private sector (while government performed better than the private sector on elements related to motivation and direction). For example, only 29 percent of government respondents felt that public sector managers provide helpful coaching to develop senior management capabilities (compared with 41 percent in the private sector), and only 40 percent of government respondents felt that the government has a robust performance management system (compared with 64 percent in the private sector) (Exhibit 1).

Changes in the workforce make concerns about retention even more critical. While the overall workforce is increasingly mobile, the Millennial Generation is especially fluid. Further complicating this retention challenge are the high expectations—often expressed as a sense of “entitlement”—that Millennials have for their work environment. The government, along with all employers, needs to immediately make sure that all of its talent processes are “good enough” so as not to drive away its

Exhibit 1: The Federal Government has opportunities to improve its talent management practices

<table>
<thead>
<tr>
<th>Statement</th>
<th>US public sector</th>
<th>US private sector</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers provide helpful coaching to develop as a leader</td>
<td>29</td>
<td>41</td>
<td>64</td>
</tr>
<tr>
<td>Employer has a robust performance management system</td>
<td>40</td>
<td></td>
<td>64</td>
</tr>
</tbody>
</table>

newly hired employees. Once the overall job market becomes more fluid, employees will respond to the experience they have had and anticipate having going forward; employees need to understand and be excited by advancement opportunities within the organization.

From a more strategic perspective, developing a world-class talent management system—as the government should be aspiring to do—requires an integrated approach.

Having an effective recruiting process or development system is a good start, but best practice talent management systems focus on the entire spectrum of activities and competencies, not just one or two areas. In this way, the information and processes from one part of the talent management system can inform and enhance the other parts. For example, a candidate profile developed during the recruiting process should become part of an individual’s development program. Those profiles will differ according to the nature of the position—mid-career hires need significantly different development programs than individuals fresh out of graduate school.

Given this need to broaden the focus beyond recruitment and hiring processes, McKinsey has developed an integrated framework for talent management, customized for public sector considerations (Exhibit 2). This outlines a complete talent management process and includes the critical enablers to drive the overall system.

Exhibit 2: An integrated approach to public sector talent management
This integrated view of talent management can help federal agencies build out all of the components they need to find, hire, develop, and retain new professionals in the coming wave of public agency turnover.

Four priorities for government leaders

The recent OPM and OMB efforts are helping agencies think through how to attract the right people as well as plan workloads and workforce needs. Other areas also require attention, and we have identified four that should be part of a holistic talent management improvement program:

1. **Evaluating and recognizing performance** through meaningful and differentiated performance management, with real consequences (both positive and negative) for individuals

2. **Growing and developing leaders**, including creating development/career paths that reflect a range of employee needs/experiences and are not one-size-fits-all

3. **Engaging and connecting employees** to improve productivity

4. **Strengthening HR capabilities**, in particular having the right leadership team in place to drive the agency’s talent agenda.

The final component in McKinsey’s talent management framework—creating a talent culture—should not be the current focus of improvements in the government’s talent management effort. Rather, this is the output and natural capstone of the full set of elements within an integrated talent management system.

**Evaluating and recognizing performance**

Too often, the performance management system becomes a perfunctory process as opposed to an effective tool. Typical stories include organizations where 99 percent of employees meet expectations (although conversations with managers reveal a very different picture), or units and divisions where annual awards are passed around based on “whose turn it is” and not merit. Such processes seriously weaken what can be a powerful tool and also produce lethargic, clock-watching employees who lack incentives to do anything more than the minimum required of them.

Managers play a critical role in improving performance management. While it may be easier to give an underperforming employee a “meets expectations” rating and move on, that approach does the organization no good—nor is it what managers are paid to do. By definition, managers need to actually manage their employees and recognize that while it may take time and effort, there can be consequences for the employee from underperformance (ranging from loss of grade to termination). Equally important, senior managers and agency leaders must not accept poor-performing managers any more than managers should accept poor performance from their employees. In fact, senior managers need to model the desired behavior to create a culture of meaningful performance management.
Tools used to diagnose current talent management systems

**McKinsey Organizational Health Index**
McKinsey’s Organizational Health Index (OHI) is an employee survey tool used to assess an organization against the elements that drive organizational health, and therefore long-term performance. The OHI has been used with more than 400 organizations across the private, public, and nonprofit sectors. The OHI survey tool helps organizations to benchmark against average and high-performing organizations and to prioritize needed interventions to drive lasting change.

The recent McKinsey publication Driving Federal Performance reported results from a government-wide sample OHI survey, providing the first-ever quantitative benchmarks on government management performance relative to the private sector.

**Talent Diagnostic**
McKinsey has developed a Talent Diagnostic that draws on the Firm’s expertise and insights in talent management. The Talent Diagnostic is composed of quantitative and qualitative tools that help diagnose the health of an organization’s talent system:

- A Talent System Assessment Tool to facilitate a quick qualitative review of an organization’s practices across each element of the integrated talent system
- An Analytical Framework of more than 20 key analyses to quantitatively assess and benchmark an organization’s talent management outcomes. Example measures of the analytic framework include time to hire, attrition rates, and leadership bench strength

McKinsey’s Talent Diagnostic emphasizes the importance of all parts of the talent management system.
Beyond people, agencies can put into place the right systems to support a robust performance management system. In doing so, agencies should aim for a good and achievable system rather than the Platonic ideal of a great system. While an ideal system both rewards good performers and has consequences for underperformers, agencies can start with a system that simply rewards good performers. This approach is typically much easier to implement.

### Growing and developing leaders

Career paths outlining how an employee can develop over time can be effective and powerful tools for all critical positions. These paths include the training and experience that employees should have at each step of their development. Such paths clearly outline for employees what the promotion process looks like and provide the sort of clarity that employees desire. A variety of career paths also carries appeal for employees, far more so than a one-size-fits-all template. Variety, offered without heavy-handed nudges down the “right” path, allows core employees to develop and advance in grade by becoming managers or subject matter experts. Another benefit of such an approach is that it signals to new hires that they can anticipate variety in their assignments and experiences while remaining at the same organization.
The CDC’s use of “Individual Learning Accounts” shows one innovative approach. CDC employees earn $1,000 each year in credits that can be used toward a variety of training programs, up to a maximum “account balance” of $3,000. Employees can spend these credits on training and development opportunities that meet their specific needs, but first they must complete an Individual Development Plan to ensure they are aligned with their supervisors on the capabilities and skill sets needed for their career development.

**Engaging and connecting employees**

Employees’ engagement with their work and the organization is one critical driver of employee satisfaction. Our research into employee engagement has revealed that higher levels of employee engagement advance the productivity and performance of public sector institutions, with higher effectiveness, flexibility, responsiveness, and efficiency. Unfortunately, our research has also revealed that when compared to their private sector peers, far fewer employees in the federal government report being highly engaged. This suggests that better engagement creates a significant opportunity to improve performance and drive results.

One of the critical levers that the federal government should use to enhance engagement is to connect all employees, at every level, to an agency’s critical mission. After all, the public service mission attracted many workers to the government in the first place. Couching the work to be done in terms of the underlying mission helps all employees—from the senior leaders to the most junior staff—see how their own work affects the public.

The U.S. Department of Education offers another model for employee engagement. It has worked hard to bridge what can be a significant divide between political leadership and career employees. In his first week on the job, Secretary Arne Duncan visited every floor at headquarters to meet employees and signaled how he would be operating the department. Senior political leadership has also included career employees in critical meetings and solicited their input prior to the launch of major initiatives.

**Strengthening HR capabilities**

The fourth critical element is getting the right leadership team to drive the agency’s HR agenda. In this aspect of talent management, HR operates as a business partner to core operations. Such a relationship requires appropriate actions from both the HR staff and core operations. HR must take on the mind-set of the operating side of the agency; HR operations cannot drive operating decisions, but rather the influence must be the other way around. Core operations must recognize and accept the role of HR as a partner and from a leadership standpoint must view talent management as a core part of what leaders do (and what they spend their time on), and not just as HR’s responsibility.
HR leadership can engage the agency or department through workshops or off-sites that address a particular talent management problem. HR-core collaborations create alignment and mutual understanding of the roles each side plays. At the U.S. Department of Housing and Urban Development (HUD), the effort to reduce hiring times began with a joint effort between HUD’s Federal Housing Administration and HR. The 115-day average hiring time was reframed as a problem of the entire agency, not just of HR. A joint task force redesigned the hiring process by discovering opportunities to work together more effectively and reduce overall hiring times. Similarly, at HHS’s Atlanta Human Resources Field Office, HR specialists, hiring officials, and subject matter experts used an off-site workshop to jointly standardize 80 percent of the position descriptions in the various occupations and grades. This was one of the factors that accelerated the hiring process.

Operational performance review processes can also improve coordination and partnership between operating leaders and HR leaders. For example, at the U.S. Department of Education, Human Capital leaders now play a prominent role in the Organizational Assessment sessions, where they get input from line managers on current performance and provide immediate feedback on implications for hiring needs. By integrating Human Capital into these processes, the organization can more rapidly respond to workforce needs, and Human Capital leaders can provide more strategic support to the core operating functions.

By looking beyond recruiting to embrace holistic talent management, federal government agencies can be well-positioned for the current workforce transition. Rather than simply replacing departing workers, they can thoughtfully source and groom the next generation of leaders. Such an integrated strategy helps drive a world-class program and ensures that new employees’ experiences with the organization meet their expectations.
Accomplishing step change in managing IT mega projects for success

Stuart Morstead
Steve Kelly
Chandru Krishnamurthy
Biji Thomas
Mark McMillan
Introduction

It is a well-publicized “truism” that public sector agencies suffer from relatively high rates of failure among their largest IT efforts. Federal CIOs self-report that 30 percent to 40 percent of the $40 billion annual investment in large-scale IT projects is in trouble.¹ This suggests that between $12 billion to $16 billion in taxpayer money is committed to distressed projects each year. Adding insult to injury, federal agencies have to bear public rebuke for their stewardship of taxpayer dollars from all directions: Inspectors General, Office of Management and Budget, Government Accountability Office, independent watchdog groups, the press, and the public at large.

Far less recognized are the steps public sector agencies are taking to improve their capability and success rates for these large-scale, or “mega,” IT projects. Across government, agencies are increasing their ability to predictably deliver mega projects. For the most advanced of these organizations, the on-time, on-budget success of a massive program is no longer considered a stroke of good fortune but rather the result of a professionally planned, scoped, and managed project.

A desire to learn about these transformative efforts prompted McKinsey & Company to launch a research effort focused on large-scale IT project management across the public sector. The principal objective: to understand, codify, and share distinctive project management practices across government. To that end, we launched a series of interviews and data collection efforts across public and private sector organizations to understand the drivers for mega project failures and successes. This article reports the interim research findings and considers the common challenges and best practices of IT mega project management in the public sector.

Our research found a number of innovative approaches agencies have taken to combat five pervasive challenges. The first two challenges are systemic and government-wide; the other three are agency- or project-specific.

1. **High-cost federal IT acquisition and appropriations process**
2. **Wide variance in employee capabilities**
3. **Exponential complexity of mega projects**
4. **Overreliance and ineffective partnership with third-party IT vendors** (a corollary to variance in employee capabilities)
5. **Limited transparency into the true underlying project performance** and therefore an inability to take action until a material negative impact has been sustained

---

¹ Federal IT Dashboard (http://it.usaspending.gov/) ratings sampled in February-July 2010 for projects with status reported as “needs attention” or “significant concerns.”
1. High-cost federal IT acquisition and appropriations process

The challenge

The federal IT acquisition and appropriations process creates incentives to enlarge projects to adjust for the high up-front acquisition cost. Specifically, the acquisition “tax” is driven by long-cycle budgeting, inability to rebalance funding across an agency’s portfolio of projects, and siloed funding sources.

Long-cycle budgeting, which requires program managers to guess project costs multiple years out, leaves many projects with significantly under- or overstated cost baselines. Underfunded projects are setups for failure. Overfunded projects often face unnecessary complexity caused by “side projects” the agency launches with excess funding.

An agency’s inability to rebalance funding across a portfolio of projects means that once projects are approved for funding, CIOs and IT portfolio managers have little wiggle room to proactively rebalance funds allocation based on project performance and new information. In other words, they have limited ability to incorporate experience-based improvements midstream.

Multiple, siloed funding sources exacerbate the acquisition “tax” issue by requiring multilayered funding approval processes with a complicated set of stakeholders. The perverse incentive is for IT managers to ask for extra funding up-front, particularly in light of the inability to manage resources across projects.

Although many of these challenges require oversight reform for full resolution, some federal agencies have found creative ways to mitigate their potentially negative effects.

Examples of agency excellence

Extremely lean acquisition process. One medium-sized agency found IT acquisition success by dramatically simplifying and accelerating vendor selection and contracting for its mega IT project. The revised acquisition process used a combination of front-loading and strict process management to go from the initial Request for Information to a signed fixed-price contract in less than half the time of comparable acquisition efforts. All stages of the process were meticulously planned so that all parties understood their roles and responsibilities in advance. Other time-savers: parallel operations (e.g., bid evaluations, negotiations for different parts of the contract), decision makers on “standby” to avoid decision bottlenecks, and thoughtful administrative support to avoid confusion and rework (e.g., meeting minutes recorded and reviewed, central issue logs). Not only did this agency’s no-waste acquisition process conclude on time, but it also resulted in a successful vendor partnership. Project scope is under control, the project is within budget, and all milestones have been met.

Cost Estimation Program Office. One of the largest agencies surveyed has developed an internal cost-estimation capability that leverages robust and rigorous analytical models to forecast program costs. The organization, comprising dedicated cost modelers and estimators, has configured a commercial software estimating package that takes into account government-
specific nuances (e.g., additional security requirements). This cost-estimating organization helps programs understand and predict full program costs well in advance of project delivery to minimize the negative effects of over- and under-budgeting.

2. Wide variance in employee capabilities

The challenge

Project delivery capabilities vary widely across and within government agencies. Moreover, some of the most critical skills to project success are those with the greatest variability: technical solution expertise; vendor management (not simply contract management); budget estimation; and project and performance management. Lower compensation for technology skills than in the private sector; cumbersome recruiting and hiring processes; and labor contract restrictions on discharging underperforming staff can exacerbate capability challenges.

Examples of best practices

Mentorship, training, and succession planning. The U.S. Social Security Administration (SSA) emphasizes the career development of junior project managers. This focus contributed to the creation of PRIDE, a Web-based guide that delivers project life-cycle models, work product templates and procedures, policies and directives, and management resources to project managers and teams. What is most impressive about PRIDE is that project managers actually use it and find it helpful.

The SSA’s emphasis on staff development shows itself in other ways, for example:

- A commitment to succession planning
- Collaboration between project managers across different projects
- Emphasis on mentoring junior project managers (viewing such interchanges as part of the senior project manager’s role)

The SSA’s capability-building efforts have paid off. The agency has the talent and the capacity to manage in-house many of its largest and most complex efforts (e.g., Ready Retirement, Health Information Technology). Vendor resources provide specialty skill sets and add flex capacity to government teams, but the SSA conducts critical stewardship and project management.

“Multi-person” project manager role. Mega IT project managers require a unique set of capabilities, including 10 to 15 years of experience in project management, strong professional credentials, and a personal track record of multiple, successful implementations. Agencies struggle to find these capabilities in a single project manager. The U.S. Department of Education addresses this challenge by deploying multiple individuals to complement the project manager. For example, on its G5 project, the CIO, director of information systems, and lead vendor manager all supported the lead project manager.
3. **Exponential complexity of mega projects**

**The challenge**

Large projects are complex by design, and this complexity makes it exponentially harder to execute such projects successfully. As the case example shows (Exhibit 1), large programs create two primary types of complexity:

- **Stakeholder complexity** develops from large programs having multiple stakeholders with different objectives. This leads to significant pressure to reshape the project’s original goals, creating “scope creep” as an ever-expanding set of stakeholder needs is addressed.

- **System interface complexity** (i.e., the number of touch points between new or modified systems) is a natural outcome of project size and scope. Large, multiphase IT systems require extensive interface development—both permanent and temporary. Each interface generates another set of stakeholders whose participation becomes critical for project success. This creates an ever-increasing, interlinked spiral of challenges that stretches the abilities of project leaders.

In our research, we found that the challenges highlighted (Exhibit 1), coupled with the high-cost federal IT acquisition process, creates a “deadly do-loop” of program overruns and increased scrutiny (Exhibit 2). To offset the cost and time of federal IT acquisition, program managers

### Exhibit 1: Case Example

**Stakeholder complexity = exponential interface complexity = program overruns**

<table>
<thead>
<tr>
<th>Goals</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program objectives</td>
<td>8</td>
</tr>
<tr>
<td>Stakeholder needs</td>
<td>60</td>
</tr>
<tr>
<td>Business requirements</td>
<td>650</td>
</tr>
<tr>
<td>Cross-system interfaces</td>
<td>1500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Program status 5 years from inception, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blueprinted</td>
</tr>
<tr>
<td>Designed</td>
</tr>
<tr>
<td>Tested</td>
</tr>
<tr>
<td>Deployed</td>
</tr>
</tbody>
</table>

- Several hundred million dollars
- 2 PMO changes
- Good documents
- Negligible deployment
increase project scope to maximize the benefit of the onetime acquisition process. The result is greater project complexity and all of the accompanying challenges.

Short tenures of leadership in many public sector agencies exacerbate the impact of complexity because project durations frequently far exceed the tenure of project sponsors and other key agency leaders. This causes solution strategy changes and a “principal-agent” problem.

**Examples of best practices**

**Independent review of project objectives and scope.** When one medium-sized government agency solicited an independent review of one of its largest IT modernization efforts, what administrators found was typical of many large-scale IT projects. What began as a clear and critical set of objectives (to modernize expensive and risky legacy systems) had morphed into a broader set of objectives, including the modernization of front-end user systems. All of the new objectives were valuable and worthwhile, and each could be justified. However, the addition of new objectives had caused complexity and timelines to grow, making the core objectives much harder to achieve. The agency de-scoped and re-sequenced the project to clearly delineate between core objectives, which could be addressed in a two- to three-year time frame, and secondary objectives, which could be addressed after delivery of core functionality.

**Office of Management and Budget’s TechStat review process.** The new Federal CIO recently launched a series of mega project reviews to scrutinize the performance and health of federal IT spend. The reviews are bringing increasing transparency into which programs should
continue with modest improvements; which ones should restructure significantly to deliver required value; and which ones should stop because the project lacks a viable path to impact.

4. Overreliance and ineffective partnership with IT vendors

The challenge
Agencies with a talent gap in one or more key project management areas often end up over-relying on third-party vendors to deliver and manage mega projects.

Agencies and vendors have a natural principal-agent problem (i.e., agencies want problems solved while vendors are incented to extend the time and scope of the project). Generally thoughtful contracting and vendor management can control this. But any checks and balances in even the most well-intended contracts can be thrown off-balance when agencies rely on third-party vendors to oversee complete delivery or when their internal capabilities to oversee delivery are inadequate.

We believe agencies must invest over time to build a high-quality internal delivery capability to reduce overreliance on contractors. This capability requires both the time to build capabilities and a strategic view of what skills must be retained and developed in-house to support project procurement and delivery (e.g., senior project managers, deep architecture skills, comprehensive vendor management skills).

In addition to the longer-term investment in capability-building, agencies are finding near-term fixes to work more effectively with their lead systems integrators and other IT vendors.

Examples of best practices

Neutral third-party as a vendor-agency bridge. One approach to managing vendors is to engage a neutral entity to provide objective oversight over vendor and agency activities. The Department of Education has used this approach with some success. The Department allocates funding within the project budget for IV&V (independent verification and validation) contracts with neutral third-parties. Like a mediator in a legal dispute, an independent voice can help bridge disagreements between the agency and vendor by bringing facts to bear and providing neutral perspectives free of adverse incentives.

Consistent, long-standing relationships. The Centers for Disease Control and Prevention (CDC), an agency within the U.S. Department of Health and Human Services, adopts a different approach to managing its vendor relationships. Vendors at the CDC are involved early in the project life cycle, embracing the vision with CDC leaders. The leaders have painstakingly built a culture of collaboration and shared values. This is complemented by a data-driven approach to performance measurement and by transparent dialogues with vendor leadership on key issues.

Bringing the best agency talent to the game. The CDC deploys its best technical and managerial resources on projects and ensures that the agency is in charge of the project. This is based on the CDC’s belief that the success of vendor management lies in having the best internal
The CDC also focuses a high level of management attention on actively managing the project team, including vendors. Lastly, the CDC has built a strong contracts management group that is technically knowledgeable, understands CDC business processes, and has strong relations with the line managers.

**Not being afraid to replace the vendor.** One medium-sized federal agency found out the hard way what happens when a vendor is given too much control and has all the wrong incentives. Knowing it was almost certain to win all follow-up work on a mega project, the vendor bloated future task order time and cost estimates. Without the technical or programmatic expertise to check vendor estimates, the agency was essentially beholden to the vendor. That all changed when a new administration came in and reevaluated the project. The administration terminated the vendor relationship—a difficult decision that temporarily slowed project progress, but one that signaled the agency’s intent to take vendor management seriously.

5. **Limited transparency into the true underlying project performance**

**The challenge**

Our research indicates that the size and complexity of megaprojects frequently mask true (and disappointing) performance. By the time issues are known and understood, even extraordinary measures fail to achieve results reflecting initial expectations. This problem has its root in several independent but compounding issues, including:

- **Insufficient rigor in project reviews.** Project reviews often lack the rigor to gauge performance in clear and quantifiable fashion. Early warning systems rarely exist to gauge specific risks (e.g., complexity, stakeholder turnover, number of change orders) that require active management. Even when warning systems are in place, they often track the wrong metrics, leading to erroneous conclusions.

- **“Outsource” mind-set in agency IT projects.** An absence of critical skills can leave agencies at the mercy of contractors to accurately report status and, in the case of multiple parties, accurately assess and manage performance risk across vendors.

- **Insufficient adoption of a consistent methodology.** Federal agency projects frequently lack a consistent methodology to guide the project. This sometimes results from the involvement of competing vendors. In such an environment, the need for interpretation and coordination of different parties’ approaches and terminology can confuse even the ability to describe or document risk.

- **Inadequate emphasis on testing rigor, especially system performance testing in a realistic environment.** Testing system performance is a key area of weakness with federal IT projects. Agencies frequently perform testing in a simulated environment that does not reflect full production reality (e.g., actual frontline desktops, parallel load from multiple applications). This can cause projects to ultimately fail, resulting in significant rework, huge write-offs or both.
Examples of best practices

Rigorous tracking of outcome metrics. Carefully designing a performance dashboard with the right set of metrics is key to any early warning system. The CDC tracks a comprehensive set of outcome metrics across such categories as cost efficiency, staffing efficiency, service quality, and service provisioning. These metrics are tracked weekly, monthly, quarterly, and annually to identify performance issues before they become serious problems. An annual customer satisfaction survey administered by a third party supplements these metrics. The survey helps senior managers get a 360-degree view of the IT project team’s performance and helps identify key areas of potential performance degradation.

Disciplined performance review process. In addition to the right set of metrics, an early warning system requires a disciplined process. The CDC, for example, has established and follows a disciplined project performance review process. All critical projects go through a weekly IT director’s update in which leaders review key project parameters (e.g., deadline slippages, risk mitigation statistics). The IT director can then identify a handful of projects that will be more closely managed until potential issues are resolved.

Communications, communications, communications. Project performance reviews, risk tracking and mitigation, issue problem-solving, and status updates are a critical part of daily project management at the Social Security Administration. While the power of regular communications in mega projects is well understood, few agencies put enough emphasis on keeping stakeholders and project team members informed. The SSA ensures that meetings have clear objectives, agendas, and resulting action items.

Some U.S. federal agencies have delivered excellent results on large-scale IT projects—successes that often go unnoticed by the public. Other agencies, still facing structural problems, have a real opportunity to improve performance through best practices. The challenge for technology leaders is to identify successful strategies most applicable to their environment and then to scale them with sufficient speed. In parallel, we believe systemwide structural challenges can be overcome with thoughtful policy reform, creativity in developing new approaches, and perseverance.
About McKinsey & Company

McKinsey & Company is a global management consulting firm that helps leading organizations in the public, private, and nonprofit sectors make distinctive, lasting, and substantial improvements in their performance. Over the past eight decades, the firm’s primary objective has remained constant: to serve as an organization’s most trusted advisor on critical issues facing senior management. McKinsey has extensive experience in all major industries in the private sector, and has served governments and public-sector entities in more than 70 countries.