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Government by design: Four principles for a better public sector [EDITED]

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Making progress on society's biggest problems requires governments to make better use of data, involve citizens, invest in employees, and collaborate with other sectors.

Governments everywhere face a daunting paradox. On the one hand, they operate in an increasingly complex environment and must deliver on an expanded set of policy objectives. In a world characterized by macroeconomic uncertainty, rapid social change, and technological innovation, citizens' expectations of what government ought to deliver are rising. On the other hand, governments are hampered by unsustainable debt burdens and shrinking budgets. The ratio of general government debt to gross domestic product for member states of the Organisation for Economic Co-operation and Development (OECD) now exceeds 100 percent.¹ Meanwhile, public trust in government is eroding.² Against this backdrop, not only must governments do more with less; they must do so in highly visible ways, if they are to regain the faith of their constituents.

The good news is that governments can deliver the performance their citizens need and expect—and, indeed, some have begun to do so. Based on the McKinsey Center for Government's research into hundreds of cases of government innovation around the world, our on-the-ground experience working with governments, and numerous conversations with public-sector leaders and thinkers, we conclude that what works today is a more disciplined, systematic approach to solving public-sector management problems—in short, government by design.

Government by design calls on public-sector leaders to favor the rational and the analytical over the purely ideological, and to be willing to abandon tools and techniques that no longer work. Four principles are at its core: the use of better evidence for decision making, greater engagement and empowerment of citizens, thoughtful investments in expertise and skill building, and closer collaboration with the private and social sectors. Each of these principles is central to creating more effective yet affordable government.

¹ McKinsey analysis based on *Economic Outlook No. 93*, Organisation for Economic Co-operation and Development, June 2013, oecd-ilibrary.org.

² 2012 Edelman Trust Barometer, Edelman, January 2012.

The value at stake is staggering: prior McKinsey research suggests that improvements in government performance could amount to as much as \$1 trillion in increased productivity and cost savings by 2016 in the G8 countries alone.³ Through government by design, public-sector leaders can move beyond partisan debates and politicized headlines, and make true progress on society's most pressing problems.

Investments in expertise and skill building

Mission-driven employees are among the public sector's most valuable assets. Unfortunately, many governments fail to get the most out of their people—they don't invest enough in developing their employees' skills and expertise. For instance, although government agencies have started to embrace "lean" principles such as value-stream mapping and Six Sigma process improvement, many are unable to sustain the impact from these initiatives because they haven't been deliberate about building internal capabilities. In a 2012 survey of 974 public-sector leaders, we found that only about 39 percent of large-scale public-sector projects fully met their targets.⁸

Sometimes, the problem is that governments invest in the wrong kind of training. Research has demonstrated that adults learn six to seven times more through practice and feedback than through lectures, yet far too many public-sector training programs consist of classroom sessions or self-study modules.

Smart government institutions are ensuring that their employees develop and hone the skills that truly matter—whether those are core competencies, sector-specific capabilities, or broader expertise in strategy and risk management.

Using adult-learning practices to build core capabilities

Management skills are crucial to the success of any government program. A study by McKinsey and Oxford University revealed that more than two-thirds of budget overruns in large-scale IT projects are due to managerial—not technical—shortcomings.⁹ Best-practice government agencies are investing to make sure their managers are equipped with the requisite know-how. The US Department of Housing and Urban Development’s Office of Multifamily Housing Programs recently undertook a capability-building program that included a series of process improvements, the introduction of new managerial routines, and intensive coaching on problem-solving skills. The program yielded a reduction of more than 70 percent in the agency’s backlog of housing applications and a 35 percent productivity improvement. When Germany’s Federal Labor Agency undertook a similar program, the agency’s “customers” benefited: their average duration of unemployment fell from 164 days to 136 days. The Swedish Migration Board’s capability-building efforts led to a reduction in average processing times from 267 days to 85 days, saving more than \$160 million annually.

Developing specialized capabilities in critical sectors

Governments’ investments in building expertise in particularly important or challenging vertical sectors, such as infrastructure or transportation, can have significant payoffs. Hong Kong’s Mass Transit Railway (MTR) developed deep expertise in core mass-transit capabilities such as operations, maintenance, and property management as a result of the government’s investment and rail-led transportation strategy. This expertise has helped the MTR, which is still 77 percent government-owned, to win contracts to maintain, operate, and improve metro systems in Australia, Sweden, and the United Kingdom. Another increasingly important subsector is cybersecurity: recognizing this, the US Department of Homeland Security is collaborating with universities including Carnegie Mellon University and the University of Maryland to train a pipeline of approximately 30,000 professionals in cybersecurity.

Sharpening strategic and risk-management skills

Governments face large, intractable challenges with many dimensions, multiple stakeholders, and far-reaching ripple effects. Some are perennial issues, like national security, whereas others may be external shocks—a natural disaster, perhaps, or a pandemic. Regardless of the nature or origin of the challenge, such problems often affect—and require coordinated responses from—multiple parts of government. Leaders must be equipped to anticipate, assess, and react to these complex problems. That was the impetus for the Singapore government’s creation of the Centre for Strategic Futures, which “aims to develop insights into future trends and discontinuities, and cultivate capacity and instincts to manage strategic surprises.”

⁹ *Reference Class Forecasting Survey*, McKinsey and Company and Oxford University, 2012.

In an increasingly complex and interconnected world, governments will struggle to address the challenges of doing more with less if their employees are not armed with the right skills. A commitment to capability building will allow governments to be able to take a more dynamic and adaptable approach to reform.