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Public Sector

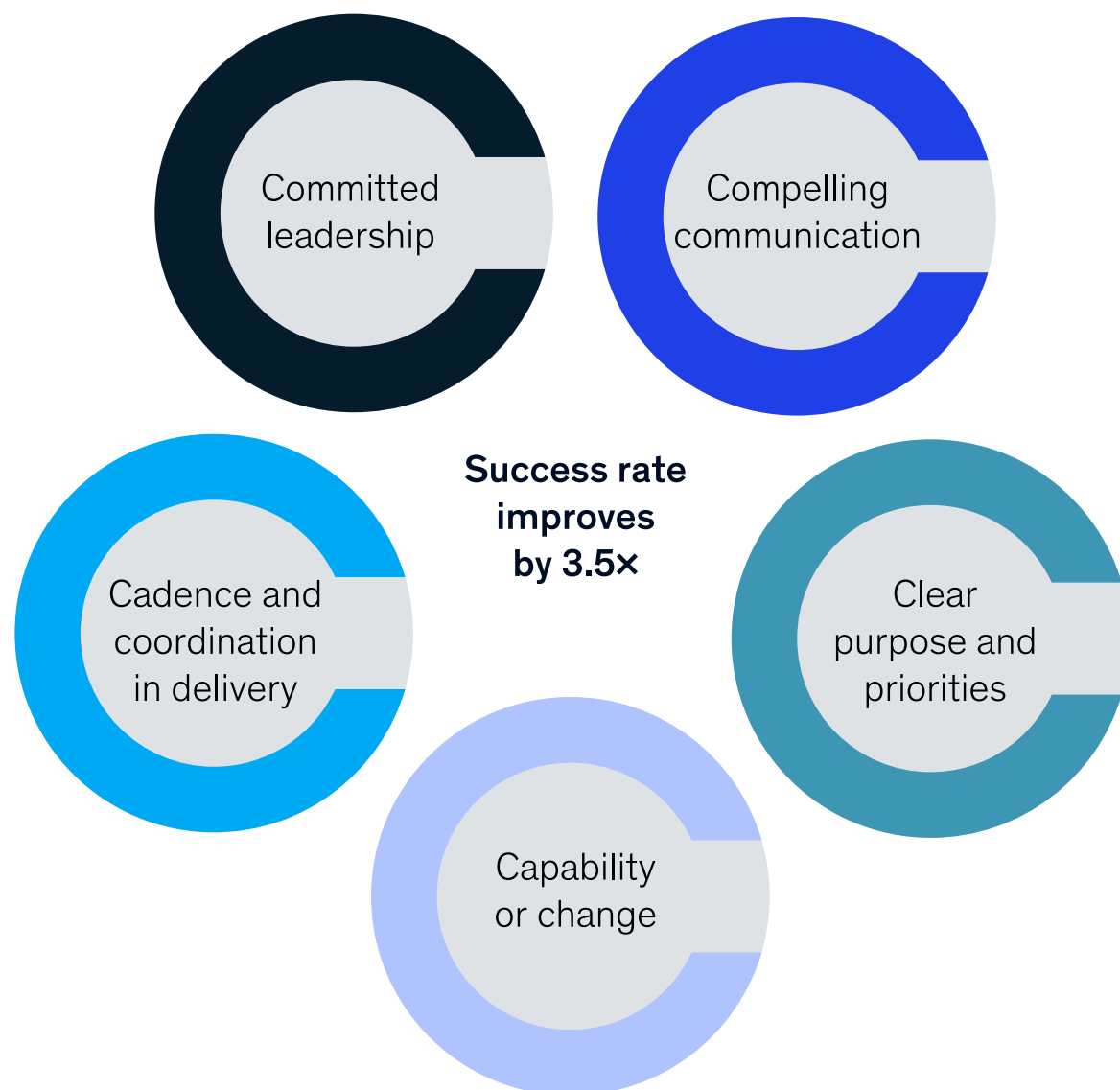
By Martin Checinski, Roland Dillon, Solveigh Hieronimus, and Julia Klier

It is no easy matter to bring about major change in a large, complex organization—whichever sector it's in. McKinsey research has found that 74 percent of private-sector transformation efforts fail to meet their objectives, while in the public sector, the failure rate is even higher, at 80 percent. In both sectors, people practices are a decisive factor, often making the difference between success and disappointment. Indeed, the five key success factors for government transformations all have a strong people component (Exhibit 1).

Exhibit 1

The success factors in government transformation all have a strong people component.

5 key components of government transformation



Rachna Gandhi, a former business executive who went on to lead the Australian government agency Service NSW, put it this way: “Transformations in government are not harder than in the private sector. There are certain unique factors in both, but the toughness factor is pretty similar. Both need to emphasize bringing people on the journey and creating an emotional investment.”

Paradoxically, the importance of people practices in transformations is both good and bad news for public-sector change leaders. On the one hand, governments’ public-service mission gives them a distinct advantage over private-sector peers when it comes to mobilizing people to live their values and achieve social outcomes. On the other, there is a lot of evidence that structures and cultures in government make them more change resistant than business organizations, reducing their overall organizational health and effectiveness.

How should government leaders think about people-driven change? McKinsey research—along with the insights of successful transformation leaders—points to three essential practices:

- Take a frank look at your organization and the cultural challenges it faces.
- Start at the top: build change-leadership skills and mind-sets in yourself and your senior team.
- Nurture the right capabilities: most public-sector staff, from the transformation team to the front line, need new skills to succeed in major change efforts.

Take a frank look at the challenges of public-sector organization and culture

Organizations can measure and manage health—in other words, how well they align, execute, and renew—with the same rigor as they manage performance. McKinsey has measured the health of over 2,000 organizations in both the public and private sectors through our Organizational Health Index Survey, which to date has had over five million respondents. This research indicates that over 75 percent of public-sector organizations have below-average health. Moreover, the research makes it clear that gaps in organizational health in the public sector are particularly apparent in culture, coordination, and capabilities (Exhibit 2). Only in the dimension of leadership do public-sector organizations match the health of their private-sector peers.

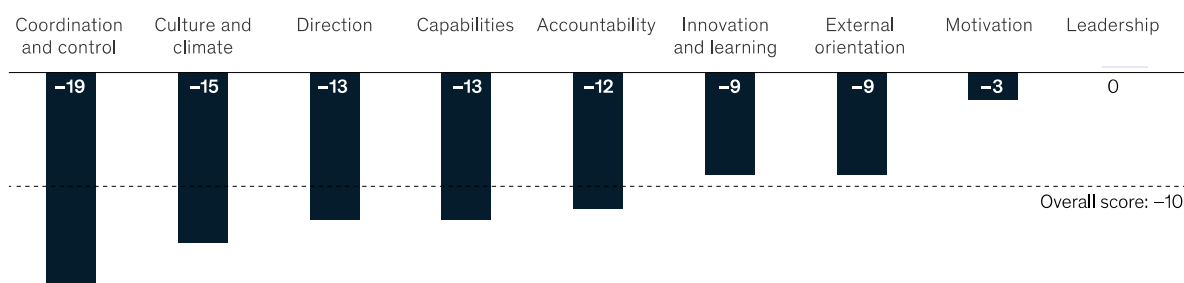
Exhibit 2

The public sector has weaker organizational health, on average, than the private sector.

Share of public-sector organizations by OHI¹ score quartile, %



Difference from global benchmark median² by OHI outcome, score



¹Organizational Health Index.

²OHI global benchmark (n = 1,300, with 1,321,659 respondents); public-sector benchmark (n = 37, with 46,463 respondents).

Source: Organizational Health Index by McKinsey

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In addition to disadvantages in organizational health, public-sector institutions face a series of complex people-related challenges that their private-sector counterparts have to navigate to a lesser degree. This makes their starting points and journeys quite different when it comes to engaging employees and building capabilities during transformation efforts.

First, public-sector organizations typically have more risk-averse cultures than private-sector businesses, where employees who innovate are often richly rewarded. That's no surprise, given a risk environment in the public sector that can only be described as asymmetric: civil servants are more likely to be penalized for failure than they are to be rewarded for innovation or outperformance. For example, a bold experiment that improves a service for the majority of recipients is unlikely to win kudos for the responsible civil servants if a small number of vocal citizens complain about the change. Likewise, a public-sector manager who succeeds in improving efficiency in his or her department might be "rewarded" with a reduced budget—but punished with a poor performance review if the effort fails.

Understandably, many civil servants view ambitious change programs with extreme caution. To break through this risk aversion, public-sector leaders must work consciously to shift the organizational culture, giving senior civil servants clear mandates for change and strong performance measures tied to

improved outcomes. They can also take a leaf out of the book of business leaders who celebrate failure among their employees as a necessary by-product of innovation.

A second challenge for public-sector change leaders is the limitations of political mandates. Public-sector change efforts may be held back by the extent of the government's political mandate, which may be weak or short lived, owing to the frequency of elections. A related challenge is that public-sector leaders typically have shorter tenure than their private-sector counterparts. For example, a review of ministers of health across 23 countries from 1990 to 2009 found that half of them left office in under two years. The tenure of senior civil servants is falling too: in the United Kingdom, for example, annual churn in the cabinet office rose from 20 percent in 2010 to 35 percent in 2016. By contrast, the average tenure of CEOs of major US companies is around eight years.

In these circumstances, successful public-sector transformations require laser-like focus from leaders. McKinsey's research shows that efforts that are focused on a small set of true priorities are much more likely to succeed than initiatives that attempt to change everything at once. Moreover, frequent turnover at the top means that successful public-sector transformations must be anchored in frontline staff—the people who continue running the organization when the leader moves on. This was the approach taken by Service NSW. The agency aimed to simplify citizen access to government services, with a shift to digital transactions and a “one-stop-shop” approach to improve customer experience. It rooted its initiatives in frontline staff, who were empowered to develop and implement improvement ideas. Because the agency's initiatives were owned by the people who were actually going to run them, they were hugely successful: Service NSW achieved customer-satisfaction rates of 97 percent.

The third challenge is that many major change efforts must work across multiple government departments or agencies, as new-generation solutions do not usually fit neatly within existing portfolios. Each institution involved in a transformation is likely to have distinct strengths and gaps in capabilities and frequently conflicting motivations. The implication for change leaders is that they must invest time and energy in building support and collaboration from people they do not directly influence.

Whereas a private-sector CEO leading a change effort will usually have the majority of people involved within their own organization, a minister or head of department in government will need to work with several other ministers or departments. For example, an effort to improve tourism outcomes will require collaboration between the ministry of tourism and those of transport, economic development, foreign affairs, and so on—as well as with city mayors and the private sector. Indeed, McKinsey's research finds that 70 percent of public-sector transformation efforts were scoped across more than one ministry, department, or agency.

Any government leader embarking on a major change effort must face these challenges head on—and take deliberate steps to mitigate them. Yet the public sector also has distinct advantages vis-à-vis the private sector. In particular, public-sector organizations are in a unique position to tap into talent from the

broader society. For example, when Germany's government grappled with the influx of hundreds of thousands of refugees in 2015, it was able to mobilize massive involvement from citizens and civil-society organizations. An estimated one in ten adults in Germany was involved in voluntary refugee assistance in the summer of 2015.

In India, the state of Maharashtra invited college students to come up with ideas to solve 11 critical challenges, ranging from eradicating drought to using technology to expedite justice. The Transform Maharashtra competition attracted more than 11,000 student participants. Not only do such initiatives "crowd in" ideas and capabilities from beyond the civil service, they also enable governments to drive change with fewer public resources than would otherwise be needed.

Start at the top: Build change-leadership skills and mind-sets in yourself and your senior team

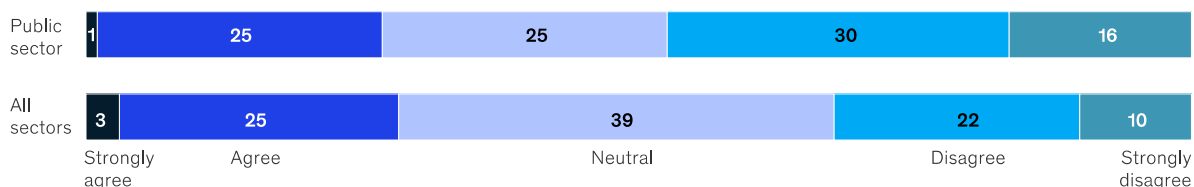
The successful transformations we studied were steered and championed by deeply committed leaders. Each of them devoted considerable time and energy to the effort, took personal accountability for success or failure, was a visible role model for the change, and had the courage to challenge long-established assumptions and conventions. Such leaders live and breathe the journey and stretch their capacity for strategic planning, emotional resilience, and inspiring people leadership. They also take personal responsibility for the change. An example is [Mike Bush, New Zealand's police commissioner](#), who led the transformation of the country's police services to a prevention-focused model. He told us, "You need to dedicate at least 60 percent of your time inside the organization to driving a transformation."

None of this is easy; indeed, leading a large-scale change effort is a huge personal challenge for any senior government official. Few governments train their leaders sufficiently in the people skills needed: research by the McKinsey Center for Government (MCG) finds that fewer than a third of public-sector transformation leaders have received any training in change-leadership skills. And findings from a [McKinsey survey of public- and private-sector organizations](#) suggest that public-sector managers typically fall short in at least three important interpersonal-skill dimensions: giving feedback, motivating employees, and supporting their development. Public-sector participants in the survey were less likely than the average participant to agree that managers at their organizations were trained in these skills (Exhibit 3).

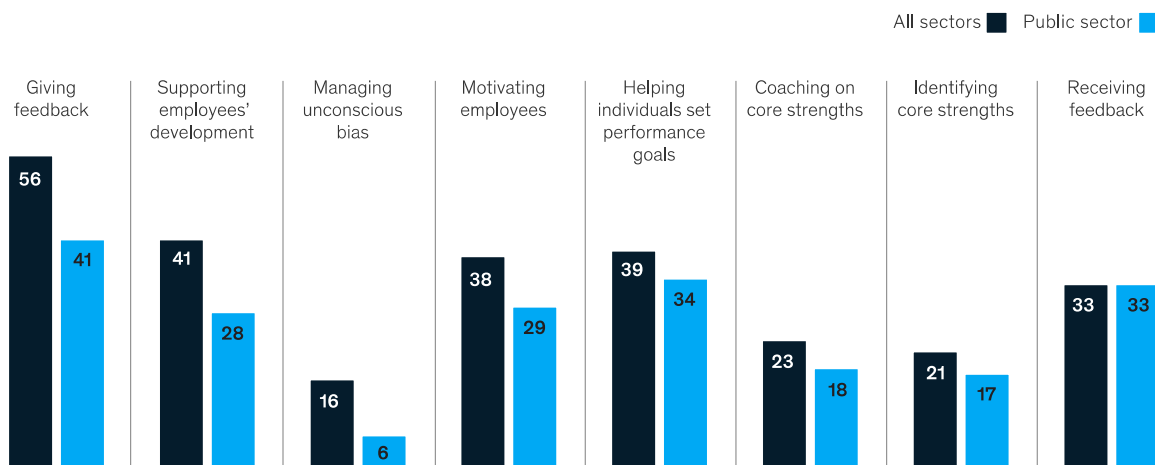
Exhibit 3

Public-sector organizations are not making the most of coaching or capability development.

Organization's managers are effective at coaching and developing employees, % of respondents, n = 1,761



In which skills, if any, are managers at your organization trained?, % of respondents, n = 1,761



Source: McKinsey Global Performance Management Survey 2017

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To build the leadership skills and mind-sets needed to inspire and sustain change, we recommend three key interventions whose impact has been proven across many transformation efforts.

The first is bringing senior transformation leaders together. Leading a transformation can be an isolating, unfamiliar experience; with some notable exceptions, few public servants lead more than one agency or department in their career. Many of the senior leaders we interviewed emphasized that they lacked a network of peers with whom to test ideas and share experiences. That meant they were forced to learn on the job when the stakes were extremely high. To address this challenge, some governments have created special forums to bring together leaders from across ministries and agencies to develop critical skills—and build networks to support change efforts for years to come. For example, the government of

New Zealand introduced its senior civil-service leaders to digital and innovation concepts via a full-day executive class that covered topics such as digitization best practices and hiring digital talent. The training also included a live “hackathon” that allowed the participants to redesign and digitize a series of citizen interactions, using agile methods.

That points to a second key step: designing leadership-training programs that go beyond theory and give participants opportunities to practice and hone new skills in real-world settings. We have seen several public organizations follow a “field-and-forum” approach to capability building. Instead of simply providing training and assuming it will trickle into organizational practices, a field-and-forum approach provides classroom training in a series of workshops and then takes a structured approach to translating the theory into practice via hands-on projects in the field. A European labor agency, for instance, used this approach to train more than 150 managers. After the program was completed, 93 percent of participants reported that they were inspired to implement new capabilities in their daily work.

The third key thrust for leaders of transformation is to develop the skills and nurture the passion, to communicate in an inspirational way with all the groups affected by the change—especially the organization’s own employees. Of course, every government communicates, but only a few cut through the noise effectively enough to win hearts and minds. Many government institutions continue to be hierarchical organizations that follow the protocol of top-down, one-way communication cascades on the assumption that civil servants simply need clear instructions in order to act effectively. However, two-way communication and genuine engagement are what they need. The findings of MCG’s Government Transformation Survey underline this truth: in the most successful transformations, the senior-management team communicated openly and across the organization about its progress. And nearly 90 percent of transformation participants said success would have been enhanced by engaging more regularly with frontline employees.

Unlike governments’ private-sector counterparts, those that fail to deliver do not “go out of business”—and their employees are unlikely to lose their jobs. That, combined with the societal impact that effective government transformation achieves, has important implications for how public-sector leaders create internal motivation for employees to change: they must be adept at framing the transformation in a positive way. Rachna Gandhi of Service NSW put it this way: “We weren’t going out to our front line and saying that we really want to drive digital adoption, and them feeling the threat of, ‘does this mean we will have no jobs?’ We went and said customers want more digital; we’ve got to train them on this. How will we go about it?”

Nurture capability for change: Invest in your people, from the transformation team to the

front line

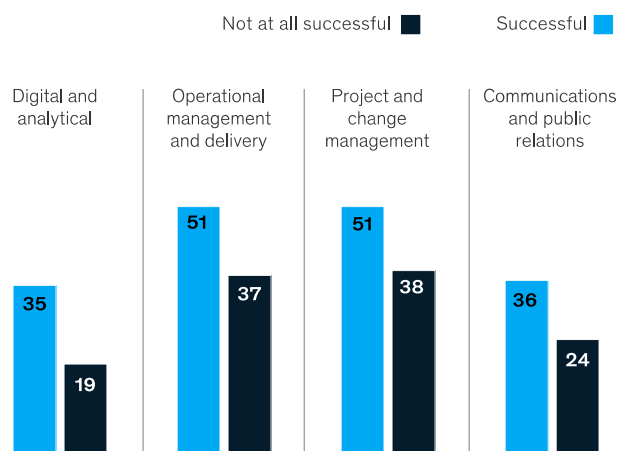
Just as governments need to invest in their leaders' transformation skills, they must build capabilities for change across the organization—from the team tasked with managing the transformation program right through to the front line. MCG's research shows that capability-building programs designed to help employees meet transformation goals more than triple the success rate of public-sector change initiatives.

So what kinds of capability programs are required? Certainly not the training in the policy and diplomacy skills classically emphasized in government. Rather, capability building is needed in a new generation of skills in operational delivery, analytics, change management, and communications (Exhibit 4). These new skills require new investment—which might mean that governments need to reverse the trend of declining public spending on labor-force training and support that has been observed in most Organisation for Economic Co-operation and Development (OECD) countries over the past 20 years.^[1] Governments will also need to reallocate training budgets from compliance-based training to programs that nurture the skills that are critical to support transformation. In Ireland, for example, government leaders have explicitly committed more time and resources to training: they have increased the government's learning-and-development budget to more than 3 percent of payroll, with a focus on critical skills such as digital capabilities.

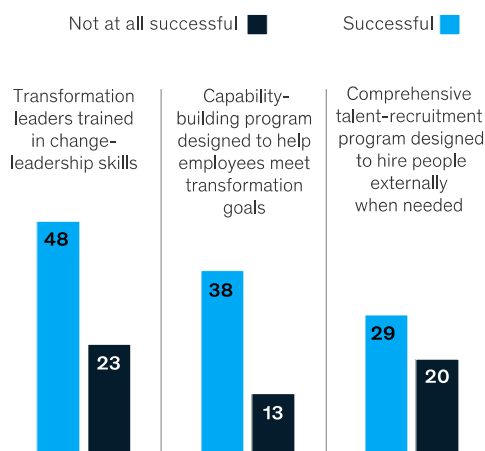
Exhibit 4

A new generation of skills requires capability building.

Capabilities present during transformation, % of respondents, n = 2,909



Action taken during transformation, % of respondents, n = 2,909



Source: McKinsey Center for Government Transformation Survey 2017

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But public-sector leaders need to do much more than shift training budgets: they need to shift cultures. One leader we interviewed spoke for many of his public-sector peers when he said, “I’ve spent my life not developing these skills. In fact, I have been advised against taking roles [that] focus on these, as they are less highly valued.”

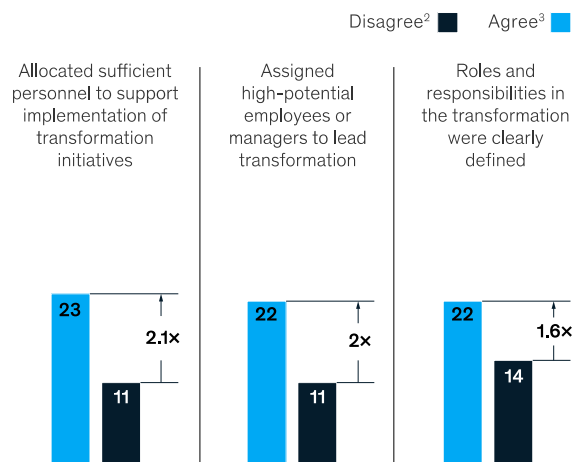
Moreover, as we noted previously, public-sector organizations typically need to prioritize capability building more than their private-sector counterparts, as employee development and coaching in government has generally been less robust. For example, a [McKinsey survey](#) found that just 28 percent of public-sector managers were trained in supporting employees’ development, compared with 41 percent of managers across all sectors. Likewise, as Exhibit 3 shows, public-sector managers were much less likely to be trained in giving employees feedback.

Beyond these broader steps in capability building, governments must also home in on the teams tasked with managing the transformation effort. It’s critical to ensure that these teams are staffed with high-potential employees with clearly defined roles and responsibilities—and that the employees are trained effectively to deliver on those responsibilities (Exhibit 5). When governments get that right, they can double the success rate of large-scale change efforts.

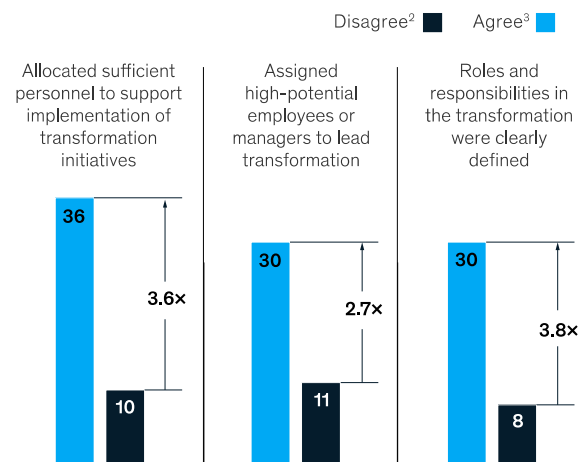
Exhibit 5

The success rate improves when there are sufficient and high-potential personnel and when roles are clearly defined.

Public-sector success rate in transformation,¹ % of respondents, n = 2,909



Private-sector success rate in transformation,¹ % of respondents, n = 1,713



¹% of respondents reporting very or completely successful transformations. Respondents who report "success" say transformations they are most familiar with have been very or completely successful at both improving performance and equipping the organization to sustain improvements over time.

²Disagree (somewhat or strongly) that statement describes organization's transformation.

³Agree (somewhat or strongly) that statement describes organization's transformation.

Source: McKinsey Center for Government Transformation Survey 2017

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All around the world, governments and public-sector agencies face an urgent imperative to deliver better outcomes, improve citizens' experience of public services, and make constrained budgets go further. Achieving these results calls for ambitious, large-scale transformation. To get major change programs right, however, governments need to focus relentlessly on the three *P*s: people, people, and people. They need to understand and tackle the cultural factors that hold back change, build change-leadership skills and mind-sets among senior managers, and nurture new capabilities right across their organizations.

1. For more information, see [*Jobs lost, jobs gained: Workforce transitions in a time of automation*](#), McKinsey Global Institute, December 2017.

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