McKinsey on Government

Feature articles

Introduction

The newspapers today are full of reports about what governments are doing to stabilize the world economy. Less prominent in the headlines is what we call the "productivity imperative"— the need for governments at all levels to become more efficient and effective. Improving productivity, specifically through operational change, is the topic of this issue of *McKinsey on Government*.

Accordingly, "Government's productivity imperative" asserts that an increase in the productivity of government organizations is a critical component of long-term economic recovery. In this first article, we set out the three preconditions that must be in place if the public sector is to achieve the kinds of productivity improvements that have become standard in the private sector.

The good news is that the public sector already boasts plenty of examples to lead the way. In the last decade, a number of public organizations across the globe—schools, health care systems, tax authorities, transportation agencies, and militaries—have improved their productivity by 5 to 30 percent or more using a range of operational mechanisms.

The second article, "A leaner public sector," discusses how classic "lean" techniques for eliminating waste, variability, and inflexibility—originally developed in private-sector manufacturing—have found ready application in public institutions. The most successful lean efforts embed continuous-improvement capabilities within organizations to enable them to achieve productivity gains in perpetuity. A brief follow-up piece, "Productivity lessons from the US Air Force," describes the journey that one of the world's largest public-sector institutions has begun in a bid to boost its performance and productivity, in a context in which cutbacks can be a life-or-death affair.

Maximizing the value gained for every dollar spent is an important element in productivity. "Improving public-sector purchasing" explains how large public institutions can avoid uncoordinated buying, and how they can do so while complying with often-elaborate procurement regulations and ensuring that a centralized purchasing organization does not get too far from its customers.

Another source of productivity gains—one that citizens have come to expect from all private institutions and most public ones—is the ability to conduct necessary interactions online. It is hard to believe that government organizations can meet current and future challenges if they remain technology laggards. "E-government 2.0" discusses how government agencies that currently make only

modest use of social-networking and other collaboration technologies can radically improve service and customer satisfaction at reduced cost.

However, we should also be aware that the public sector has not yet mastered old technologies either. "When the citizen is your customer" describes how one large public-sector institution is becoming more responsive to its primary constituency—the general public—in part by making better use of a technology it deployed more than two decades ago.

The last two articles focus on very difficult situations of very different sorts, both with important operational implications. "Performance improvement and the stimulus" asserts that the current economic crisis, like all crises, presents an opportunity—in this case, an opportunity for long-lasting performance improvement. But this will only happen if proper metrics are put in place to track the results of the enormous wave of public spending that is on its way.

We close this issue with a personal account by one of our associates. Becca O'Brien, a consultant in the Washington, DC, office, took a leave of absence to put her shoulder to the wheel of the challenges New Orleans faced in the wake of Hurricane Katrina. In "Making a difference in a crisis: One person's story," she meditates on her experience in helping to rebuild a city and on the crucial role that operational changes play in crisis recovery.

Whatever your response to the articles in this issue, we encourage you to let us know what you think at McKinsey_on_Government@McKinsey.com.

Nancy Killefer
Director, McKinsey & Company

Government's productivity imperative

Governments can—indeed, must—undertake operational improvements to boost productivity. Doing so will require a clear mandate, performance targets and transparency, and a workforce equipped with the right skills and capabilities.

Hans Arnum,
Thomas Dohrmann,
John Dowdy,
and Allison Phillips

In February of 2009, President Obama signed the largest spending bill in US history—an economic stimulus package that raises the federal deficit by $787 billion over the next ten years. In light of massive investments to stabilize the financial system, increased payments of unemployment benefits, and other types of government spending, the full impact of the crisis on the US federal budget will be a deficit equal to a staggering 15 percent of GDP by 2010. Similar scenarios are playing out in other industrialized nations as well, in varying degrees of magnitude (Exhibit 1).

Even before the current crisis, many governments were spending well beyond their means. Budget deficits and debt burdens, already on the rise, are certain to grow even more because of aging popu-

lations and the consequent pressures on health care, social security, and pension systems. If governments are to have any hope of approaching a long-term equilibrium in their finances, they must take drastic action.

There have been a spate of proposals involving raising taxes, reducing services to citizens, or undertaking entitlement reform; these are difficult choices that may prove necessary. But while these issues are receiving the bulk of public focus, there is another component of deficit reduction that, in our view, deserves more attention than it has been getting: governments can make significant improvements in their performance and productivity—and ensure that every government dollar spent yields the maximum benefit for

Leigh Wells
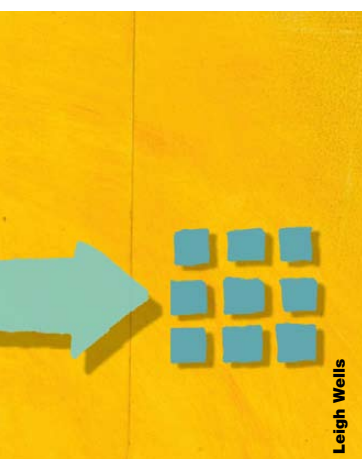
citizens. We acknowledge that even a considerable rise in productivity will not be enough to close the deficit gap—but it can certainly be a part of the solution.

There are two common misconceptions that get in the way of governments aggressively pursuing productivity improvement. One is the belief that significant improvements in the performance and productivity of government can come about only through system-level change (for example, privatization and the introduction of competition). In our recent analysis of more than 500 newspaper and magazine articles about productivity, we found that 76 percent of the articles on public-sector productivity focus on system-level change; the same is true for only 13 percent of the articles on private-sector productivity.

Our experience argues against the popular view. In our work with governments and public institutions around the world, we have seen incontrovertible evidence that dramatic improvements in performance and productivity can come about when governments make thoughtful, disciplined operational changes. Simply doing the same tasks in new ways, as it turns out, can be extremely powerful. Insisting only on

system-level change obscures the vast potential available within government's existing frameworks and operating systems.

The other misconception is that improving productivity necessarily involves headcount reduction. Productivity gains can certainly come from reducing inputs (that is, employee hours), and in certain cases layoffs may indeed be required—but productivity improvements can also come from increasing the quality or quantity of the outputs (the goods and services generated by employees). Another important measure of productivity is relevance: higher productivity can come from ensuring a closer alignment between the outputs and citizens' needs and demands.

The current economic crisis presents a rare chance for governments to make radical changes in their operations and thereby boost productivity. Enterprises around the world are rethinking their operating assumptions; governments should do no less. Against the backdrop of the global downturn, governments have a window of opportunity to introduce new operating practices that will drive performance and productivity. In this article, we lay out the value at stake, as

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Exhibit 1

Government budget balance forecast

The US deficit is projected to peak soon— and other countries will face similar situations.

2008 deficit compared with peak estimated deficit, % of GDP

■ 2008 deficit ■ Peak projected single-year deficit[1]
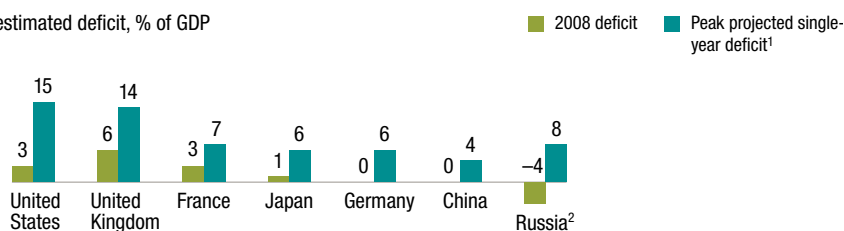
[1] Occurs in 2009 or 2010 for all countries.
[2] Negative figure indicates surplus rather than deficit.

Source: Economist Intelligence Unit

Exhibit 2

Positive impact

The estimated value of potential annual gains from increasing public-sector productivity is impressive.

2007 $ billion/% of GDP[1]

	Conservative estimate	Realistic estimate
United States	45/0.3	134/1.0
Japan[2]	33/0.7	99/2.2
United Kingdom	24/0.9	73/2.6
France	21/0.8	63/2.3
Germany	7/0.2	21/0.6
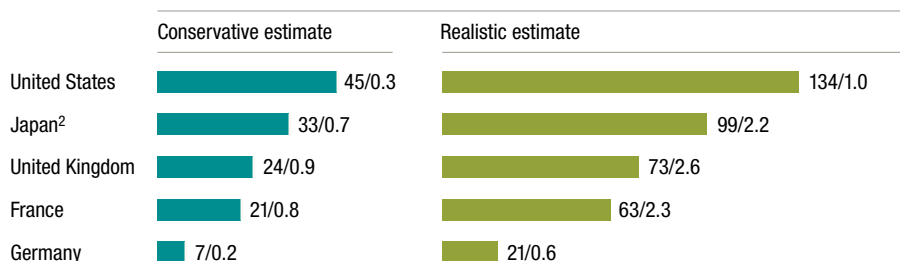
[1] In 2007 dollars, calculated as potential end-state reduction in spending made possible by a 5% (conservative estimate) to 15% (realistic estimate) productivity increase.
[2] 2006 numbers.

Source: Organisation for Economic Co-operation and Development (OECD); McKinsey analysis. Discretionary spending includes compensation, use of goods and services, consumption of fixed capital, and other; excludes interest, subsidies, grants, and social benefits.

well as the critical factors that need to be in place to effect and sustain productivity gains: a clear mandate for operational change, well-defined performance targets and transparency, and the right skills and capabilities.

The size of the prize

The private sector becomes more productive each year. Long-term productivity increases in the private sector average 1.64 percent in the United States, 1.54 percent in the European Union, and up to 7.53 percent in developing economies such as China and India. Although figures for public-sector productivity are notoriously difficult to come by because of the challenge in quantifying outputs, research suggests that public-sector productivity in large economies such as the United Kingdom and the United States is flat or even down, and certainly below the levels seen in the private sector.

Huge potential savings or quality improvements could come from raising government productivity, which we estimate (based on our experience working with organizations in both the private and public sectors) could increase by as much as 15 percent in various countries in the next ten years. The potential gains are impressive—more than 2 percent of GDP in France, Japan, and the United Kingdom, for instance (Exhibit 2). If done correctly, operational reform efforts could yield not only one-time resets in government efficiency as shown above but also ongoing year-on-year productivity growth.

In an era of permanent fiscal pressure, left-leaning politicians and citizens should welcome a more productive government to take some of the sting out of difficult budget choices. Conservatives should welcome it as a way to help keep taxes at politically acceptable levels. Rightly understood, better performance and higher productivity in government can become that rare arena in which common ground is possible.

A clear mandate

At the practical level, one obstacle to productivity improvement is that democratic governments are characterized by a fragmentation of authority;
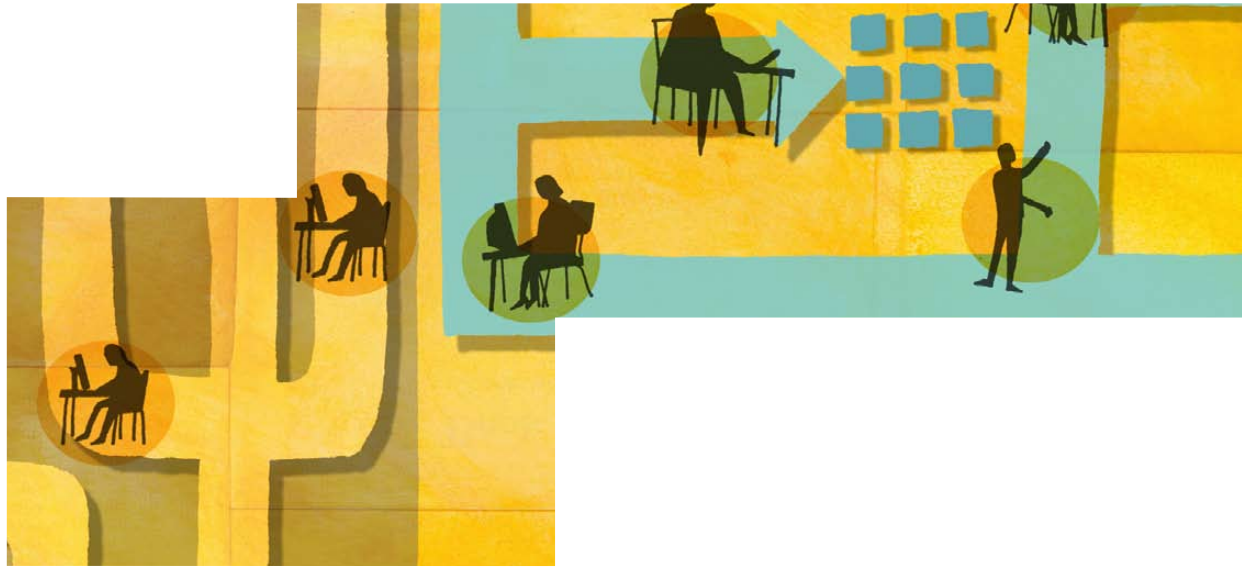
in many governments there is no single body with a clear mandate to lead operational change. Many public institutions are resistant to centralization and do everything they can to protect their turf. Furthermore, a ministry or agency that stands up and takes the lead on operational efforts has to accept political accountability for results and must be willing to risk failure in the public eye—such organizations are, understandably, few and far between.

A mandate from the highest levels of government gives public-sector institutions the authority and legitimacy to push for operational change in an environment that often resists it. In its most classic form, this legitimacy comes from the democratic process. For example, French president Nicolas Sarkozy recently campaigned on and was elected in part because of a promise to streamline government, break from traditional ways of working, and cut spending.

Another way governments can create the effect of a broad mandate is by establishing a strong strategic center. One example of a government system with a fairly strong center can be found in Denmark. The Danish Ministry of Finance controls the budget process and uses its power and authority to influence decisions that transcend budget issues. It leads and directs other ministries and government agencies in far-reaching operational programs.

Other countries have created entirely new entities—such as the Prime Minister's Delivery Unit (PMDU), in the United Kingdom, under the Blair administration, or the supervision committee headed by the chiefs of staff of the president and prime minister in the Sarkozy administration—to ensure that operational change programs move forward aggressively.

Performance targets and transparency

To achieve and sustain productivity improvements, leaders must establish a clear set of performance metrics and milestones to give people a sense of what "good" looks like and how they will know when they have gotten there. Recognizing this, several governments—New Zealand,

Governments must build skills and competencies in operational areas, and they must create environments and career tracks that acknowledge and reward exceptional operational performance

Sweden, and the United Kingdom, to name a few—have developed and applied quantitative metrics for assessing and reporting on progress in fighting crime, improving educational test scores, or reducing hospital waiting times.

Finland, which like many countries is confronting a rapidly aging public-sector workforce, has set forth a number of programs aimed at improving productivity and efficiency—including programs to optimize procurement and support services, increase the shared use of resources, and make better use of IT. The Finnish government has undertaken efforts to calculate the implications of demographic trends in each part of the public sector (that is, the productivity gains required to sustain service levels in health, education, and so on) and translated these into specific input and output targets for each administrative domain and government agency.

Making the performance of governments more transparent by publishing the results of customer satisfaction surveys, benchmarking surveys, and service-quality metrics also helps citizens to take an active role in demanding change and applying appropriate pressure for performance improvement. Some countries, for instance, are now trying to assess, compare, and improve hospital quality. Germany, for one, has established a federal agency to collect data about how well hospitals perform on a variety of quality indicators. Because the data are still limited at present, the inferences that can be drawn are not always fair. Nevertheless, the

availability of this type of information is beginning to affect both how hospitals are run and how patients, physicians, government officials, and other stakeholders view hospitals.[1]

The issue of how specific and detailed metrics should be has been widely debated. Some governments have chosen to modify their approach to reduce the risk of perverse incentives—for instance, incentives to hit short-term targets at the expense of longer-term outcomes. The United Kingdom, in particular, has substantially reduced the number of quantitative input metrics and is now taking a more nuanced, outcome-focused approach with fewer quantitative targets. Whatever the scope and nature of these metrics, they are essential to the accelerated achievement of productivity objectives.

The right skills and capabilities

Finally, public-sector employees must have the skills and capabilities to change the way they work and to become more productive. Traditionally, prestige and recognition in public-sector environments have been reserved for those involved in policy making—not those who spend their days working out the nuts and bolts of operational improvement. Governments must build skills and competencies in operational areas, and they must create environments and career tracks that acknowledge and reward exceptional operational performance.

Several public-sector organizations are taking the right steps. One government agency in Africa

[1] See Tobias Möhlmann, MD; Florian Then, MD; and Reinhard Wichels, MD, "How hospitals can respond to increased quality transparency," *Health International*, 2009 Number 8, pp. 58–67.

undertook a capability-building program that included providing detailed templates and tools, as well as training courses, to help low-skilled workers do more complex work and to transform high performers from mere administrators into effective coaches. Pilots conducted in certain agency offices showed that the capability-building program resulted in, among other things, visible improvements in team and leader morale, a 41 percent increase in customer satisfaction, and a more than 20 percent reduction in the time it took to perform certain critical tasks.

The regional health authority in London, part of the United Kingdom's National Health Service (NHS), undertook a comprehensive review of its workforce and health care educational offerings to ensure that it will have the right number of appropriately skilled staff to achieve its ambitions. Based on this review, NHS London has dedicated funds specifically to address gaps in supply (for example, it will train additional emergency nurse practitioners) and to develop and train future clinical leaders. It is also exploring other changes—such as making staff promotions based not on length of service as is traditionally the case—but rather on objective performance evaluations.

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Government leaders are wont to say, "The status quo is not an option"—a statement that resonates with the public at a time of unprecedented crisis. But of course, the status quo is always an option, and history suggests that when it comes to government productivity and operations, the status quo is too often the option that is ultimately realized. Our call to action is for governments to take a purposeful, concerted, and determined approach to improving performance and productivity through operations. The crisis has brought to the fore the need for governments to transform their efficiency and effectiveness—and they must do so if they are to address the challenges of today and the needs of generations to come. ○

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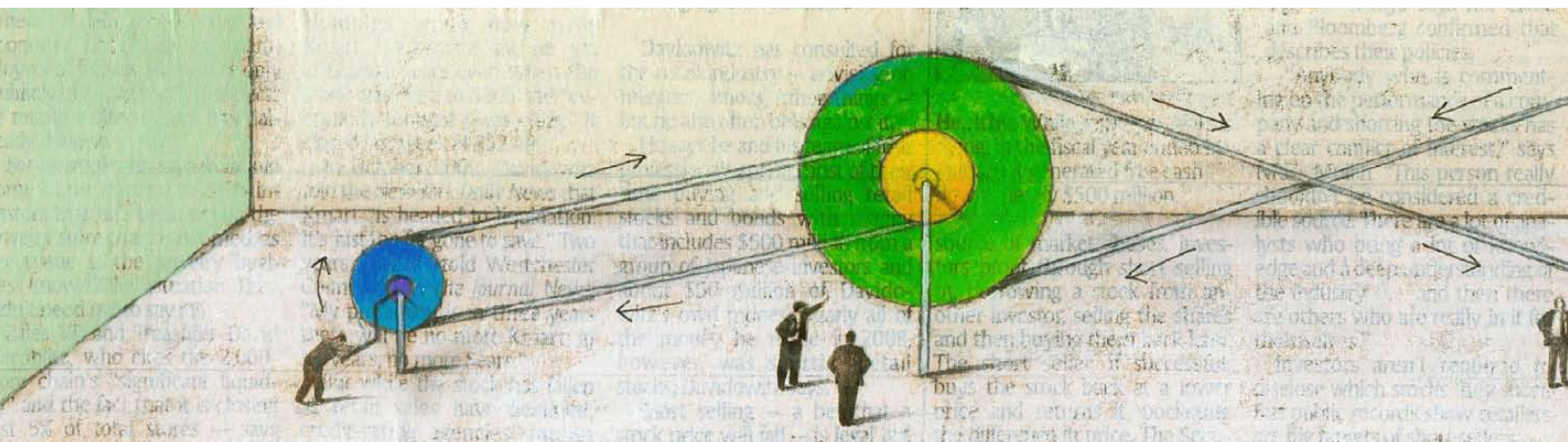
A leaner public sector

Through lean and Six Sigma initiatives, public-sector agencies can improve performance and productivity—but the impact won't stick if they ignore the "soft" side of making operational change happen.

**Maia Hansen
and John Stoner**

For several years, government leaders have been seeking ways to reduce waste through operational-improvement programs inspired by lean manufacturing, Six Sigma, or both.[1] Classic lean techniques for eliminating waste, variability, and inflexibility have been used successfully in a variety of agencies, from those with processes that somewhat resemble manufacturing (such as defense-related logistics units) to others where the ideas might seem less obviously relevant (such as intelligence agencies or policy-making bodies).

Yet for every success, there are several instances in which public agencies take a narrow view of lean operations. They devote their efforts exclusively to mastering the "hard" aspects of operational improvement—the technical tools and analytical solutions that abound in lean and Six Sigma tool kits (see sidebar, "Lean and Six Sigma basics," page 13). To some extent, this is understandable because the tools are objective and straightforward, and trained experts are invaluable in diagnosing problems and suggesting solutions. But it is easy to fall into the trap of thinking that simply by training and deploying technical experts, an agency will achieve significant improvements in its performance.

Neglecting the "soft" side of lean—which includes steps that enable leaders to drive continuous improvement and change the way employees think and work—can delay or even derail an operational transformation. Organizations can reap larger and more sustainable benefits by taking an approach that balances a lean program's

[1] While lean and Six Sigma are distinct methodologies, many organizations combine elements of the two. In this article, we outline best practices that are equally fruitful in lean, Six Sigma, and related hybrid environments, rather than advocate one approach over the other.

David Lesh
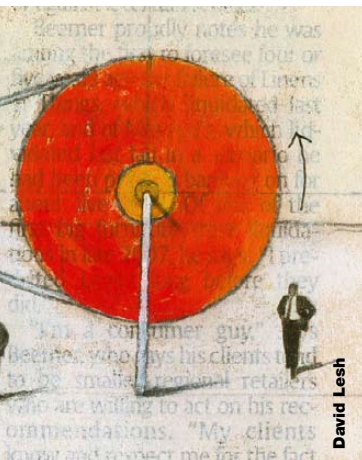
hard and soft elements (exhibit). Agencies must properly embed the softer aspects of lean by implementing the appropriate management infrastructure and by focusing on changing employees' mind-sets and capabilities.

Establishing the management infrastructure

Once an agency has identified what technical improvements are needed for an operating system, it must develop a corresponding management infrastructure to support and enable change. By management infrastructure, we mean the formal structures and processes that are used to manage systems and achieve business objectives. We have identified a few steps toward establishing the management infrastructure that are also key to the sustained success of a lean transformation.

Link process metrics to value

To streamline its processes appropriately, an agency must first develop a thorough understanding of its end-to-end processes and where the value lies in each step of each process. The US government's recent efforts to shorten the security-clearance process is a case in point. Over the course of five years, the process had lengthened by 40 percent—to 446 days. The US Government Accountability Office had estimated that clearance backlogs cost the government about $1 billion per year in additional personnel costs. But before the government could propose potential solutions, it had to be able to measure performance for each process step. This included identifying what made each step necessary, describing how it added value to the overall process, and finding sources of waste in each step—an analytic technique known as value-stream mapping. To develop an accurate value-stream map, individuals involved in the process must remain completely objective, which can be very difficult for people who are experts at what they do and who have been doing it for a long time. Our strong recommendation in these cases is to form a cross-

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Exhibit

A balanced approach

Marrying hard and soft elements is the key to a sustainable operational transformation.

The way corporate resources are deployed to meet customer needs at the lowest cost

Technical system (operating system)

Management infrastructure
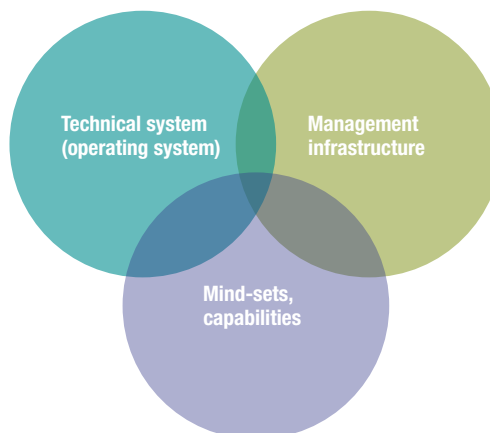
Formal structures and processes companies use to manage technical systems and achieve business objectives

Mind-sets, capabilities

The way people think and feel about their work and conduct themselves in their workplace

functional team with representatives who interact with the process in a variety of ways and therefore see it from different perspectives; such a team is better able to design an ideal process. The team charged with security-clearance reform came up with a new process that would reduce more than tenfold the time required to get a clearance—to roughly 40 days.

of a policy-development division in the Canadian government. Developers were struggling with their expanding workload, and in the course of a lean transformation the division discovered significant variations in elements that should have been consistent for all projects, including how to define a project's scope, determine what priority it should receive relative to other projects, decide

Agencies must establish a disciplined approach to solving problems on the front line, taking care to avoid a "gotcha" mentality that will almost certainly demoralize staff

Get data to the right people at the right time

Critical to a lean transformation's sustainability is management's ability to track unit performance and make fact-based decisions. Agencies can collect and disseminate performance data either manually or by using a sophisticated IT system that produces performance reports or dashboards, but the technology they use is much less important than the metrics they choose. An agency must understand and focus on the key performance indicators (KPIs) that matter most, agree on a straightforward way to measure them, and ensure that the right people are reviewing and discussing them at the appropriate times. Agencies must establish a disciplined approach to solving problems on the front line, taking care to avoid a "gotcha" mentality that will almost certainly demoralize staff. Leaders of public health care organizations in Europe and North America have found that by gathering and sharing performance data in a constructive way, they have helped motivate employees to improve performance.

Establish new roles to smooth processes

Changes in processes will often necessitate a redesign of roles in the organization. Take the case

what skills were needed, establish quality guidelines, and lock in a timeline. To avoid variability, the division concluded that a single person should be responsible for performing all these tasks. This insight immediately led to the creation of a new role, the policy coordinator, who would work with management to ensure consistency in all the project elements mentioned before. The creation of this role improved overall efficiency by 10 percent.

Align interests to drive momentum

In an effort to prevent enthusiasm from waning after the initial stages of a transformation, organizations have tried all manner of monetary and nonmonetary incentives. Such incentives, if they are to work, must be crafted carefully; they should benefit employees as well as the larger organization. Corporations and public agencies alike, for example, have seen improvements in morale as the result of gainsharing arrangements, under which any savings achieved through the transformation are reinvested in the agency. Such arrangements also help embed the concept of continuous improvement. But failure to reinvest at the proper level may dilute the value of this incentive. For example, at the defense

department of one European government, the savings delivered by an aircraft maintenance unit were reinvested for the benefit of the entire defense department rather than for the benefit of the unit. This prevented the unit's staff members from fully supporting the department's aggressive cost-reduction targets. However, the same unit saw real changes in behav- ior among its contractors as a result of gainsharing arrangements that split the benefits when contractors finished work for less than the contract price. The contractors were more willing to share technical knowledge and to innovate while seeking to reduce costs. In the first year of such a program with one of its contractors, the unit achieved savings of approximately €12 million.

Lean and Six Sigma basics

During the past 20 years, lean and Six Sigma have become the most prominent performance-improvement programs adopted by global manufacturing and, more recently, service companies and government agencies. Both lean and Six Sigma are built on the driving principle that a business is improved by relentlessly solving problems that affect the customer. But what's the difference between the two?

Lean

Lean, which has its origins in the Toyota Production System, is focused on improving process flows in a system for the ultimate benefit of the customer or end user. The idea is to remove the key sources of loss from the process—waste, variability, and inflexibility—in a continuous search for ways to increase efficiency. All activities that do not add value to the process are considered waste, the primary sources of which include waiting, rework, and the handing off of tasks from one person to another. Variability is any deviation that creates unnecessary costs, and may be caused by a lack of control over the process or unplanned changes in demand. Inflexibility refers to the inability to meet customer requirements without incurring unnecessary costs. Backlogs and lead times contribute heavily to inflexibility.

Six Sigma

Six Sigma was pioneered at Motorola. Like lean, its ultimate goal is continuous improvement, and it seeks to reduce variability. However, Six Sigma is much more rooted in statistics and tends to be favored by engineers and people with scientific backgrounds, who are drawn to its mathematical precision and the logic of its approach. The three key elements of Six Sigma are its statistical tools, the DMAIC[1] process, and the certification of staff through a system of colored belts derived from martial arts traditions.

Unlocking the toolbox

Both lean and Six Sigma give organizations powerful tools to help transform their operations for the benefit of the customer, but understanding these tools is not enough to deliver real benefits. For any improvement process to deliver real impact, its tools must be in the hands of the right people across the organization, and those people must get into the habit of applying them repeatedly and relentlessly in almost everything they do. Reaching this point is one of the most challenging aspects of business improvement.

Jonathan Tilley is a senior expert in McKinsey's Orange County, CA, office, where **Phil Gilmour-Jones** was also an expert; he passed away in 2007.

[1] DMAIC is an abbreviation for the process steps design, measure, analyze, improve, and control.

Changing mind-sets and capabilities

Our experience in applying lean concepts—both in the public and private sectors—demonstrates that the failure to sustain change over the long term is often due to inattention to employees' mind-sets and capabilities. Without the shift to a performance culture, it will be difficult to initiate change and to have employees adhere over time to the new standards. Again, this shift must be accomplished concurrently with changes to the operating system and management infrastructure.

Get staff to focus on the customer

One of the most difficult changes to make in government agencies is the shift to a customer-centric organization. Dissatisfied customers do not have as big an impact on the public sector as they do on the private sector, because there are often no competitors for the agency's services, and thus no effect on the bottom line. Nevertheless, there are ways to help employees better understand the customer's perspective. One is to have employees walk in a customer's shoes. Some agencies have had one or more employees follow a customer through the entire process of completing an interaction with agency personnel. The employees can then feel the frustration of waiting lengthy periods of time or encountering a less-than-helpful attitude and report back the experience to other team members with supporting data. Once employees empathize with customers, the agency can begin to coach employees on customer-management skills such as building trust, having difficult conversations, engaging in active listening, and resolving conflict. For one Canadian agency that provides loans and insurance services to export-oriented local businesses, this type of approach involved extensive one-on-one and group coaching sessions on how to improve interactions with customers. Employee motivation improved, and productivity (as measured by the number

of deals completed per full-time employee) increased by 40 percent.

Break down bureaucratic silos

Another significant challenge in public-sector lean efforts is "bureaucracy think," which becomes a particular problem when—as is often the case—a process cuts across government agencies. But silos can be broken down. One strategy is to educate units about what other units involved in their processes do. This can be done through informational sessions or by having employees spend a day shadowing their counterparts in other organizations. Another effective technique is to create shared metrics or help units better understand their shared goals. Assembling leaders from different units into problem-solving teams can go a long way in this regard. For example, one reason the US security-clearance process became so complex was that the intelligence agencies had different requirements for security clearances. Each agency believed its requirements were unique and thus warranted a different set of criteria and processes. To break free of this mind-set, a cross-functional team was created that included leaders from each of the agencies. The team was accountable for meeting the president's mandate to create a new process, and its members came to realize that great efficiencies could be gained by having a central organization govern a common process. Team members also began to feel a sense of loyalty to one another, which helped them resolve tensions that might have lingered had they worked only within their silos.

Lead by example

If leaders do not convey that there is an urgent need for change, then the lean transformation will not be as successful. A European courts system faced this challenge as it sought to apply lean methodologies in preparation for future budget

Managers should thank employees for trying new approaches, and focus on solving problems rather than assigning blame for mistakes

cuts. After months of identifying process improvements, introducing a performance-management system, and changing roles and workflows, the project did not have as much impact as anticipated. Pilots showed that the time to accomplish certain critical tasks could be reduced by 50 percent, but because leaders in the justice ministry did not communicate any sense of urgency or commitment to change, ultimately the front line had no motivation to do anything differently. Conversely, the US government's work on security clearances benefited considerably from the positive and forceful mind-sets of the leaders of the effort. They set a clear goal—a transformed and sustainable security-clearance process—and made it plain that there would be accountability for any inefficiency in the new process.

Inspire employees to overcome risk aversion

Another mind-set frequently encountered in the public sector is an aversion to performance measurement and risk. Often this stems from the perception (and sometimes, unfortunately, the reality) that there is more downside to surfacing problems than there is upside to making improvements. Management can play a large role in changing this perception. Managers should thank employees for trying new approaches, and focus on solving problems rather than assigning blame for mistakes. Risk aversion was so entrenched at one US government agency that at the beginning of a lean-transformation effort, the leaders likened the project to "turning

a battleship." They overcame this mind-set by involving workers in the creation of the performance-management system. By piloting a wide range of best practices that came from employees, the leaders were able to achieve buy-in for new ways of doing the work. The agency also established a team to generate the next set of improvement ideas and to support field implementation of the ideas that had been piloted. The long-term impact was significant: within two years, the agency had reduced its cost structure by 15 percent, and within four years it had achieved $4 billion in annual savings.

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Lean transformation is a long-term commitment—a marathon, not a sprint. To be sure, there will always be opportunities for quick wins, but lasting improvement does not come after a few weeks of training or a few months spent identifying waste. Agencies must foster a culture of continuous improvement. Everyone from the front line to top management should be responsible for initiating new improvement ideas. For managers, this creates an imperative to spend time observing what is happening on the front line; reports generated by others are no substitute for first-hand observations. Managers should also set a new tone, one that represents the new standards to which everyone is expected to adhere, and create a work environment that fosters teamwork, discipline, and enthusiasm. ○

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Productivity lessons from the US Air Force

The world's largest air force has embarked on an ambitious effort to become more productive—with very promising early results.

Ron Ritter

Can a public-sector organization achieve the kind of performance improvement seen only in the world's best-run corporations? The United States Air Force is well on its way to doing just that.

Given the scale involved, this achievement has striking lessons for other large public-sector agencies. The USAF is a global operation with an annual cost base above $120 billion and just under 700,000 employees, including active duty, guard, reserve, and civilian members. The operational scope of military services—everything from schools to pharmacies—makes the Air Force almost a mirror of US society.

Like the country itself, the USAF is being stretched. It faces relentless operational challenges in Afghanistan, Iraq, and a number of other places. It must cope with resource pressure with regard to manpower, health care, energy (it is the nation's largest energy consumer), and an asset base aging more rapidly than forecast because of near-continuous use. The situation is further com-

pounded by demands for expanded mission capabilities and the need to substantially reinvigorate the nation's nuclear enterprise.

The Air Force cannot control these challenges, but it can choose how to respond. A conventional approach might focus on simply adding more resources—that is, a price increase to the public. Instead, in the spirit of the times, USAF top leadership is challenging the organization to be more productive with available resources. Drawing on my private-sector experience, I worked daily with the Air Force's most senior leaders to lead recent initiatives to improve the USAF's operational capability, helping to set hard annual performance targets and get leaders to talk much more about performance reviews and results rather than effort—outputs rather than inputs. The Air Force is now revamping its strategic-planning and goal-setting processes, and putting more energy into achieving alignment within the leadership group. All airmen have been charged with developing their own ideas for improvement at every level.

Using early efficiency gains, the USAF has created a sizable internal-investment funding pool. Nine hundred senior leaders have been through several days of training in leading performance-driving change. The Air Force has explicitly adopted process-improvement methods from industry, including "lean" and Six Sigma (and has rediscovered that many of these ideas originated in the military during World War II). Finally, the Air Force has engaged with a wide range of companies (including Amazon.com, Chevron, Cirrus Aircraft, Clorox, Danaher, Disney, FedEx, John Deere, JTEC, P&G, Porsche, Toyota Motor, and United Airlines) to consider the adoption of industry benchmarks. Of note, Virginia Mason Hospital, in Seattle, Washington—which has aggressively applied disciplines from automotive manufacturing to health care—has been a remarkable partner.

Results to date show dramatic potential for the USAF and, by extension, any large public-sector organization willing to invest the time and effort required. At the Mildenhall UK base, just three enlisted airmen redesigned their work in vehicle maintenance and increased productivity by 600 percent while markedly increasing job safety. Air crews have found ways to improve the matching of equipment loads to reduce over 2,000 pounds of weight per aircraft, per flight across the entire fleet. Every 100 pounds removed fleet-wide saves over $600,000 in annual fuel burn and increases range and payload performance. Optimizing time allocations for just one training program has returned more than 300,000 person days to the front line. Nellis Air Force Base, in Nevada, home of the Weapons School, is saving more than $1 million in annual energy costs with a 140-acre 14-megawatt photo-voltaic solar power system—the nation's largest. At California's Vandenberg Air Force Base, civil engineers are testing LED street lights that would save over $300,000 per year per base—and get our airmen out of the business of changing light bulbs.

These are early days, but the USAF is working toward productivity gains of more than $5 billion and 11,000 person years of air-personnel time, and energy savings above 30 percent. And these are conservative estimates. Perhaps the most important observation is that these savings will be the result of improvements rather than compromises in the Air Force's mission precision, reliability, and capability. Productivity in defense is not at odds with but rather directly supports the USAF's work. Much more will be possible as the Air Force's focus and collective skill increases. Given the constraints on making cuts in an operation that is literally life or death for its front line, it seems reasonable to suppose that other public-sector operations can achieve at least a comparable level of improvement.

None of this is easy. The USAF has had to admit that "the world's finest air force" has significant opportunity to improve. This has meant, for example, encouraging one of its logisticians to talk candidly about the fact that over 90 percent of its work with certain kinds of cargo transit is non-value-added—that is, wasted effort. USAF leaders are learning to manage resources with much greater discipline; to focus on performance gains rather than efforts; and to talk openly about efficiency as a source of strength, not simply a necessity driven by budget cuts. Mid-level management—and senior enlisted members in particular—must embrace change in the most fundamental tasks. Junior air personnel must overcome the concern expressed by an Illinois Air National Guard tech sergeant that "nobody senior would be willing to listen" to the long list of practices he follows as a commercial pilot—practices that could find direct USAF application. At the highest levels, this notion of performance confronts the traditional use-it-or-lose-it style of budgeting.

The USAF's early successes hold profound lessons for the nation as a whole. Faced with an apparent choice of cutting capability or increasing costs, the USAF is embracing a third way. The task is massive, but those who seek the courage to start such a journey should look at how the USAF has started its own. The remark that Winston Churchill is rumored to have made to Parliament in the darkest hours of World War II is just as applicable to society as a whole as it is to the military: "Gentlemen, we have run out of money; now we must think." ○

Improving public-sector purchasing

To get the most out of the purchasing function, public institutions should gain a consolidated view of purchasing spend, set high aspirations for change, streamline buying processes, and strengthen the purchasing organization.

Christian Husted
and Nicolas Reinecke

Purchasing is an important lever for public-sector performance improvement. Because the spending base is quite large—purchased goods and services account for one-third of total public spending, or about 5 to 8 percent of GDP in most Organisation for Economic Co-operation and Development (OECD) countries—improvements can have a substantial impact on budgets, freeing up resources for other priorities (Exhibit 1).

And the potential for improvement is large. In fact, in the more than 500 purchasing projects that McKinsey has supported in both the private and public sectors over the past five years, we have seen that improved purchasing yields an average of 15 percent savings, with projects in the public sector delivering the highest savings—an average of 28 percent. In our work with one European

central government, we helped the client achieve savings of €65 million, or more than 40 percent of the addressed spend base, in the first eight months of the program alone. But even a 15 percent savings would be quite significant for a typical public-sector budget.

At the same time, while purchasing improvements may not always be easy to implement, they are easier and quicker to implement than other budget-improvement levers—particularly initiatives that suggest a possible reduction of head count or a tax increase.

There are also important nonmonetary benefits that institutions can achieve by optimizing purchasing. One of these is transparency. Having a clear picture of what is being spent where, as

well as simple and standardized processes for governing spending, enables managers to make better decisions and to plan effectively for the future. Another ancillary benefit is better compliance with regulation, such as a higher degree of assurance that all purchasing across the organization is conducted using the appropriate tender framework. More diligent fraud prevention is another benefit.

Challenges to address

To take full advantage of the opportunity, however, there are several hurdles institutions must clear.

First, public institutions often lack a consolidated view of their spending because purchasing responsibility is spread across many departments, and there is no unifying set of processes. Control of budgets may reside across multiple layers of authority, so there is little centralized oversight. This makes it difficult for institutions to know what they are spending or how many supplier relationships they maintain. This lack of transparency also makes it difficult for the institution, and even sometimes for departments within, to align on strategic priorities and targets. Certainly it makes it impossible to establish a

central performance-management system to track overall spending, employee performance, and quality of goods and services.

A second challenge is that the government's purchasing spend is a powerful tool for advancing various political objectives, leading to situations where capturing savings may be traded off for other goals. As a result, the degrees of freedom for the purchasing organization are often limited—sometimes even to the extent that savings are unwelcome. A typical example of this is when government uses purchasing to support the domestic economy, whether in general or to promote certain regions, industry sectors, or even companies. In connection with this last option, there is often talk of the importance of "national champions." National security is also used as an argument for spending money domestically even when purchasing internationally would be less expensive. Other examples include supporting expensive but environmentally friendly products, purchasing from smaller businesses to promote innovation and entrepreneurship, or buying from companies owned by minority groups to promote diversity. A final example is that governments often commit

Brian Stauffer

Exhibit 1
Significant share

Purchasing accounts for one-third of public-sector spending.

%

Typical breakdown of public-sector spending

Overhead	20
Purchasing	30
Service	50
Total	100

Purchasing share of total spending

Departments of central government
29

Hospitals
31

National defense
34
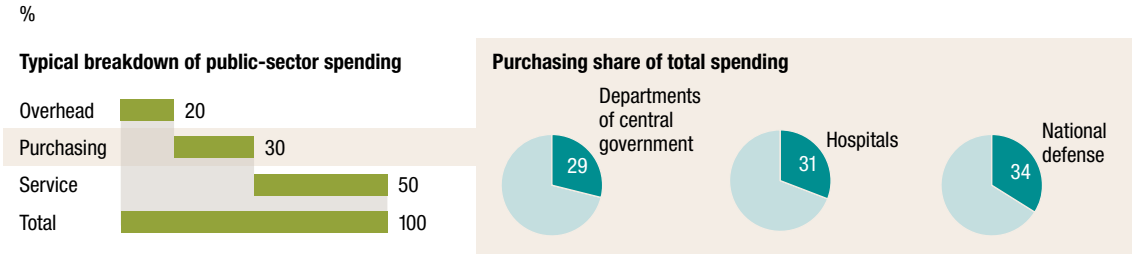
Exhibit 2

Comparing purchasing performance

In several dimensions, public-sector institutions trail private-sector companies.

Purchasing managers' evaluation of their organizations' purchasing practices, on a scale of 1 to 5, where 5 = best

— Private-sector average
— Public-sector average

Average scores	
Private	2.7
Public	2.1
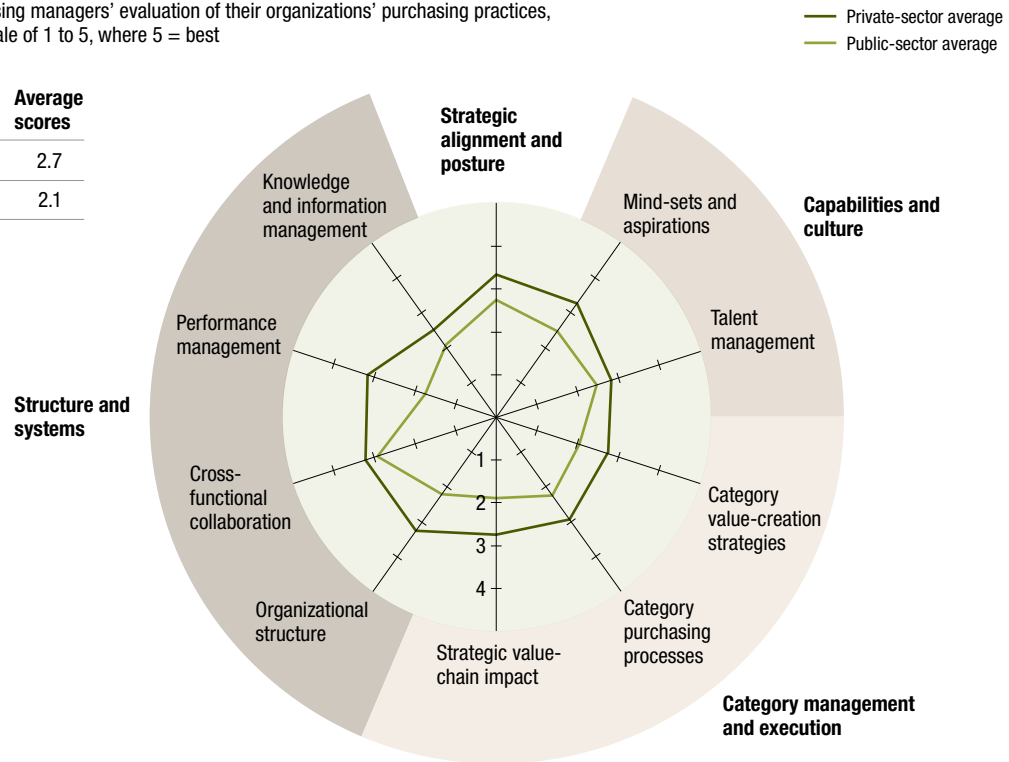
Source: Institute for Supply Management; McKinsey analysis

to a fixed spending profile for a certain area (for example, 0.5 percent of GDP on foreign aid or 3 percent of GDP on research)—so the money "will have to be spent anyway."

Third, the public sector is subject to complex and constraining procurement laws, which were established to ensure openness for every bidder and fair and nondiscriminatory practices in general. Institutions must solicit bids from many suppliers, provide detailed descriptions of the products and services they want to obtain, and follow predetermined time schedules in order to meet tender rules set out by the relevant authorities, such as the European Union, the World Trade Organization, US federal and state laws,

and so on. These regulatory frameworks often constrain the ability of a public-sector purchasing organization to leverage the same battery of purchasing tools available to their private-sector counterparts—and, consequently, their ability to claim the same level of savings.

Finally, basic performance in purchasing organizations in the public sector represents a challenge. A McKinsey survey of purchasing practices in more than 300 organizations in a wide range of industries revealed that public-sector institutions lag behind private-sector companies on several performance dimensions, including efficiency of purchasing tools and processes, capabilities, and performance management (Exhibit 2).

While there is a gap between public- and private-sector performance in almost every area, the gap is particularly large for "softer" dimensions, such as mind-set, aspirations, and talent management. Why should this be so? Two important reasons are that, first, the members of the purchasing staff are typically not on a career track as attractive as that of civil servants, which makes it difficult to attract and retain the best people. Second, a culture that rewards zero errors—for instance, one dedicated to "protecting the minister"—tends to favor preserving existing processes and mandates and offers limited incentives to aim for anything more ambitious.

Delivering the value

There are ways to address each of these challenges. In our experience, institutions can improve purchasing by gaining a consolidated view of purchasing spend, setting an appropriate aspiration for change, streamlining purchasing processes, and strengthening the purchasing organization. They can then take a phased approach to implementing these changes, beginning with a few key spending categories.

Create a consolidated overview of purchasing

To manage purchasing spend more effectively, public-sector leaders must have a consolidated overview of spending per category, along with a view of the network of supplier relationships.

Initially, this should be approached pragmatically, rather than attempting to establish a detailed picture of what is going on in all categories prior to capturing any savings. The information required to create the overview will typically not be readily available in the organization's internal systems; many public-sector purchasing systems contain only an aggregated view for budget purposes (that is, the types of goods and services the organization buys) and an item-by-item record of purchases from each supplier. Therefore, managers should establish a manageable number of homogenous categories (typically around 30). To estimate the size and composition of these categories, managers must gather data from a variety of sources—including invoices, department budgets, and existing suppliers—to "triangulate" a perspective on the amount of money spent in each category.

Set the aspiration for change

How can public institutions manage the trade-offs described above between savings and other purchasing objectives (such as buying locally made products)? The answer is to ensure that the
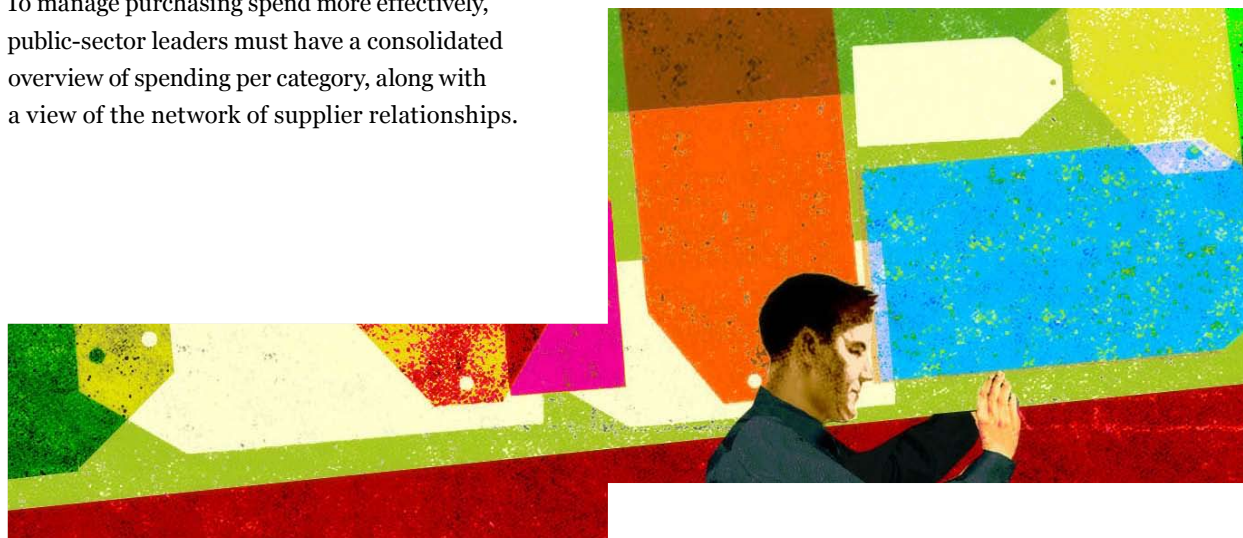
Efficient purchasing frees up resources that can be reallocated to other priority areas, maximizes competition in the private sector (the core engine for long-term economic growth), and creates a strong supplier base that will be able to withstand open competition

purchasing decisions are made at a significantly higher level than is typical. The rationale is that while it might make a certain kind of sense to trade off *against* purchasing efficiency at a regional or local level, it will almost always be desirable at the level of the government as a whole to establish efficient purchasing as the leading objective. This is because efficient purchasing frees up resources that can be reallocated to other priority areas, maximizes competition in the private sector (the core engine for long-term economic growth), and creates a strong supplier base that will be able to withstand open competition. One European government anchored its purchasing optimization program in its Finance Committee, a group consisting of six high-profile ministers, chaired by the Finance Minister. The committee provided direction to other ministries during the program's rollout, addressing any resistance by explaining why the changes were necessary to provide funding for various government priorities.

Streamline purchasing processes

Each category of spend requires its own sourcing approach and bidding strategy. Our experience suggests that it is possible for public-sector institutions to apply the same approaches and tools as those used in the private sector and still operate a rigorous tender process within the constraints of relevant rules and legislation (Exhibit 3).

The purchasing organization should design the category strategies to take into account elements

such as product complexity and the competitiveness of the supplier market. One European government achieved savings of more than 30 percent on office supplies by combining a prequalification and an e-auction process. Generally, supplier workshops can be conducted within the tender rules if implemented at the appropriate point and in adherence to the principle of equal treatment of all suppliers. Analytical preparation (for example, cost-driver analysis or total-cost-of-ownership modeling) is obviously as important in the public sector as in the private sector. Some of the work, however, must be conducted earlier in the process to meet the requirements of describing all specifications and terms in the tender documents.

Complex product categories are typically best suited to functional tenders, in which the purchasing organization describes the functions of the product or the desired outcomes rather than technical specifications, and gives suppliers leeway to identify the best solutions. Selecting the right procurement channel ensures an optimal trade-off between the resources needed to procure the product, its quality, and its price.

The purchasing team should also establish binding rules for stakeholder participation—that is, formal channels for customers or other agencies to submit requests and access information. These processes will make it easier to manage competing stakeholder interests. Different players

Exhibit 3

Purchasing toolbox

These 15 methods can help improve product design, drive transparency, and manage suppliers.

1 Creativity workshop	**2 Product benchmarking**	**3 Best-of bench-marking (BOB)**	**4 Value analysis (DFMA[2])**	**5 Variety/platform management**	
	Own calculation	Supplier calculation			→ **Product design**
6 Linear performance pricing (LPP)	**7 Manufacturing/ assembly analysis**	**8 Target-price calculation**	**9 Total-cost-of-ownership (TCO) analysis**	**10 Cost-driver analysis**	→ **Transparency**
11 Concept request	**12 Request for quotation (RFQ)**	**13 Supplier workshop**	**14 Online bidding event (OBE)**	**15 Supply-market analysis**	→ **Supplier management**

[1] Direct to consumer.
[2] Design for manufacture and assembly.

will always seek political leverage where they can, but it will be harder for them to prevail when there is a transparent and defensible process for evaluating requests based on need, budget, and institutional priorities. Making the tender process rigorous also makes it easier to spot inappropriate behavior, intentional or otherwise, thus minimizing the risk of complaints and lawsuits.

Strengthen the purchasing organization
When creating the organizational platform for the effort described above, typically the best approach is to begin by establishing a small team of high performers to lead a centrally coordinated effort. As the processes become grooved in

key categories, the team can replicate successful methods from early initiatives in additional spending categories, training employees in those new areas and thus gradually building up the necessary capabilities throughout the organization. Leaders should also establish career paths for employees and require them to create personalized development plans aligned with the organization's priority activities and performance metrics. Public institutions can further build skills in the purchasing organization by establishing formal training programs in areas specific to procurement such as contract negotiation and category expertise (technology skills for the procurement of IT services, for example), as well as programs to

Exhibit 4
Starting small

A carefully phased rollout
is crucial to a successful
transformation.

**The right
sequencing
is key…**

1 Build credibility through early success
  • Start with a few high-potential categories
  • Demonstrate the ability to capture value

**2 Set ambitious targets and secure senior-
   management support**
  • Define clear roles and responsibilities
  • Obtain visible senior-/top-management support,
    which is more important than formal
    organizational structure

3 Create the foundation for successful transformation
  • Develop critical skills and capabilities
  • Establish necessary formal mechanisms/processes
  • Opportunistically leverage available IT systems
    and e-tools

4 Roll out the program to capture the full value
  • Follow a cascading approach to capture all categories
  • Penetrate the whole organization

5 Define the structure
  • Settle for a small, ad hoc project organization initially
  • Build a world-class purchasing organization over time

**…and is the reverse
of what most
companies attempt
to do**

develop organizational skills, such as coaching
and mentoring.

One challenge must be carefully navigated in taking
these steps. Instituting a more centralized pur-
chasing process can result in poorer purchasing
decisions if those decisions are made further from
the point of use. Organizations must take care to
ensure that those doing the purchasing work closely
as partners with the relevant departments to
understand and meet their needs.

Making it happen
When embarking on a program of this kind,
sequencing is crucial. Many institutions
start big and broad by defining an entirely new
organization structure, along with new
reporting lines and procedures. In our experience,
it is best to take the opposite tack by beginning
with changes in a few discrete spending categories
and using the success of these changes as a
foundation for making similar improvements in
other areas (Exhibit 4).

By first demonstrating the potential for change, the
leaders of public institutions will be more likely
to gain the support of stakeholders and employees
alike. The first wave of change should include a
modest number of categories—typically four or
five—where the ability to deliver value is most
easily demonstrated. Relatively simple categories
like IT hardware, office supplies, furniture, and
office equipment are usually good candidates.

After demonstrating early successes, management
can identify a set of ambitious savings targets
for other spending categories and for the program
overall. Throughout the effort, visible commit-
ment among senior management is critical to main-
taining momentum.

Over time, the initial pragmatic approach must
be buttressed by a broader set of initiatives to
create a foundation for capturing the full potential
across all categories, and to make the improve-
ments stick. As noted above, this requires transfer-
ring the capabilities developed in the core team

to the whole purchasing organization. Best practices for approaches, processes, and tools developed during the first waves of the program should be instituted as standard, and the organization trained accordingly.

• • •

Building a world-class purchasing organization takes time, but public-sector organizations can start small and capture considerable savings. By looking comprehensively at purchased goods and services, setting an appropriate aspiration for change, streamlining purchasing processes, strengthening the purchasing organization

through closer and more supportive management of its employees, and rolling out the change program in deliberate phases, public-sector organizations can generate significant value for other priorities. ○
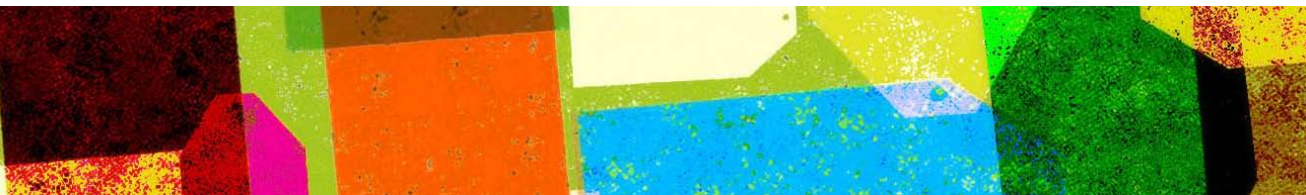
E-government 2.0

Despite spending enormous amounts on Web-based initiatives, government agencies often fail to meet users' needs online. By employing new governance models, investing in Web capabilities, and embracing user participation, agencies can raise the effectiveness of their online presence.

Jason Baumgarten and Michael Chui

Early breakthroughs in e-government—the use of information and communications technologies to provide and improve public-sector services, transactions, and interactions—have enabled government organizations to deliver better service and improve effectiveness and efficiency. In many countries, more than 70 percent of taxpayers now file taxes electronically, for example, and many other transactions—ranging from renewing drivers' licenses and paying parking tickets to managing government benefits—can be conducted online. Employees within government agencies also use the Internet routinely to manage internal processes, such as human resources and travel.

However, despite the continued allocation of enormous resources, progress on the e-government front appears to have plateaued over the past few years. Many new e-government initiatives have neither generated the anticipated interest among users nor enabled clear gains in operational efficiency. In the face of unprecedented fiscal constraints, as well as users' heightened expectations based on the integration of the Internet into their daily life and work, it is imperative that the public sector refine its approach to e-government to ensure that these initiatives achieve maximum impact.

In our experience, three obstacles have, however, limited the impact of e-government efforts: ineffective governance, lack of Web-related capabilities, and reluctance to allow user participation in the creation of applications and content.

Brad Yeo

Ineffective, complex governance processes present a fundamental obstacle to success. Accountability for Web-based activities (the focus of this article, since such activities have the broadest applicability and the greatest potential) too often resides deep within IT or communications departments. And because the Web is typically not viewed as a core business channel, Web-related efforts are often fragmented across an agency. One US agency found that it had more than 100 internal Web sites alongside dozens of external sites, as well as multiple tools and platforms to maintain them. In addition to increased costs and inefficiency, this complexity impedes adoption, as, for example, users must endure multiple sign-ons within and across sites.

Most government agencies also lack the necessary capabilities to develop and improve Web services. Whereas best-practice private-sector companies employ specialized talent to adapt and optimize their Web sites, governments rarely prioritize Web capabilities and have few experts in Web design or analytics.

Even those agencies that have begun to overcome the challenges relating to governance and capabilities have yet to join their private-sector counterparts in embracing Web 2.0 technologies—such as blogs, wikis, and mashups—that allow users to participate in discussions, develop applications, and combine data from multiple sources. This stems from a mind-set that favors maintaining control over the use of data, and from valid (though manageable) concerns about security. But as users become more accustomed to online participatory experiences, governments' failure to embrace Web 2.0 threatens to reinforce the public's perception that government Web sites offer a vastly diminished experience.

To reach the next level in e-government services, organizations must overcome each of these obstacles. First, they must move to a governance model in which e-government initiatives are owned by "line of business" executives and supported by a dedicated, cross-functional team. Second, they must develop capabilities in critical areas such as marketing, usability, Web analytics, and customer insights. Finally, government agencies must shift mind-sets to proactively get citizens, businesses, and other agencies involved in contributing or creating applications and content.

Implementing these changes will enable public-sector organizations to provide Web services that are used by more people with greater ease, reduce the costs of developing and maintaining the services over time, and offer more functionality and content, thereby providing a higher return on public money spent. Although focused on initiatives in the United States, the recommendations in this article are broadly applicable, as government agencies around the world continue to recognize opportunities to improve their interactions with citizens, businesses, other institutions, and their own employees through online services.

The plateau

During the Internet boom of the late 1990s, government entities raced to develop Web sites, and high levels of e-government spending became the norm. Spending on e-government-related initiatives has continued to grow—indeed, in 2009, the US government is expected to spend more than $71 billion on IT, of which an estimated 10 percent will be related to e-government.[1]

While the total price tag for e-government services has risen dramatically, these outlays have not yet delivered on the promise of e-government. Public

[1] Source: 2009 Federal IT Budget; Federal Enterprise Architecture taxonomy for 2008 budget; McKinsey estimates.

enthusiasm for government Web sites has waned. Americans' satisfaction with e-government, which rose steadily early in the decade, has started to decline.[2] In 2004, *Time* featured three federal government sites in its list of the "50 coolest Web sites," while more recent lists contain at most one mention.

Illustrating this trend, one US government agency site was recognized as an innovator in online information and transactions and became a model for other agencies to follow, as it enjoyed user adoption rates that justified its e-government expenditures. However, more recent initiatives have failed to catch on with users, who regard the Web site as having become harder to use and new services as too confusing and complex. Nor is this phenomenon confined to the United States. One government agency invested millions developing a service that enabled citizens to manage their accounts with the government online, only to achieve a disappointing adoption rate of less than 5 percent.

What's more, data suggest that investments have not yielded major improvements in the operational efficiency of government. A random sample of six US government agencies suggests that administrative costs have increased by 7 to 12 percent per year over the past decade. Nor has public perception of government efficiency improved. According to the Pew Research Center, the percentage of US citizens who agree that "When something is run by the government, it is usually inefficient and wasteful" has increased in recent years, from 53 percent in 2002 to 62 percent in 2007.[3]

Creating new governance models

Getting to the next level of e-government requires agencies to regard Web development as an integral part of the services they provide to constituents—on par with initiatives such

as call centers or field offices—or, in the case of internal efforts, as important as an all-hands meeting. Web projects should be maintained as a consolidated portfolio with a centralized view of costs and benefits. Clear end-to-end ownership of the online experience must be established and reinforced, with accountability for user adoption rates and costs. Specific business goals—more accurate processing, for example, or enhanced Web self-service to reduce incoming phone calls—should be agreed upon at the outset of initiatives so that the objectives can drive the approach to design and implementation.

Line-of-business leaders should be responsible and accountable for driving Web initiatives, but to support them agencies should establish a dedicated product-management team—consisting of designers, information architects, developers, and editors—responsible for not only the initial development process but also ongoing improvements to usability and functionality. To keep up with real-time feedback, this team must have access to funding that can be adjusted on a monthly rather than annual or multiyear basis. The team should also be expected and empowered to make quick decisions, and rewarded for adopting a test-and-learn mentality so that it can feel free to shut down pilots or programs that are not meeting expectations.

The management of e-government efforts must also become much more data-driven. Assumptions should be challenged rigorously, and data from small, low-investment experiments used to guide decisions. Best-practice online businesses continually conduct experiments to improve the user experience. Google has stated that at any given time it simultaneously runs 50 to 200 experiments on its Web sites.[4] Online government initiatives should adopt a similar orientation to determine, for example, what services are most

[2] "ACSI E-government satisfaction index," ForeSee Results, March 18, 2008.

[3] *Trends in Political Values and Core Attitudes: 1987–2007,* Pew Research Center, 2007.

[4] See Ben Gomes, "Search experiments, large and small," Official Google Blog, posted August 26, 2008, at http://googleblog.blogspot .com/2008/08/search- experiments-large-and-small .html.

in demand and how to make those services easiest to access.

Finally, governments must follow a structured approach to evaluating security issues. Organizations must balance the trade-offs between the benefits of implementing security decisions and the costs of restrictions, including financial impact and effects on usability, convenience, and adoption. When one agency realized that its Web team, IT team, and security team each had a different understanding of legal and security requirements, it clarified the requirements and assigned specific responsibilities. The security team was given full responsibility for assessing security, while the Web team was made responsible for understanding how security requirements would affect usability and deciding on the features in which to invest and launch.

Investing in Web capabilities

Effective Web management does not require a large team but should consist of a core group that is well versed in user-centric business requirements, fact-based decision making, usability and navigation, marketing, information architecture, and agile Web development. Initial hiring should focus on building a small interdisciplinary team of highly skilled Web specialists with a variety of complementary backgrounds.

While partnering with external vendors is an option, especially for capabilities that are commodities and that benefit from scale (for example, Web hosting), in-house skills are required to oversee development and design and to manage vendors effectively. We have found that agencies often lack the internal expertise required to appropriately select and work with these partners. Indeed, a review of US federal government contract records reveals that in 2008 five of the leading Web analytics firms were hired only six times,[5]

the five largest digital marketing firms were hired five times, and the five largest Web design firms were not hired at all.[6]

Capabilities that enable an agency to discern users' needs and preferences are also critical. Product-management teams must be able to incorporate findings from focus groups, surveys, usability tests, pilot programs, and real-time online experiments. One agency did not evaluate customer needs until after it launched a Web service. It found that very few citizens were willing to endure the authentication hurdles to access the service and its non-intuitive user interface. Usability testing and use-case analysis, which should have been done well before the launch, indicated that it would be more effective and less expensive to offer only a few simple transactions online.

Such capabilities will enable agencies to identify, design, and implement solutions that overcome potential obstacles to user adoption. For example, Austria, which has one of the most popular e-government offerings, uses a standard "citizen card" approach to identity management, thereby simplifying the log-on process. Existing identity cards, such as bank cards, are certified for use with a digital signature to access all e-government services, eliminating the need for separate paper registration to access each service.

Building internal product-management and technical capabilities also enables agencies to better select and manage external partners. Many government procurement and tendering processes are isolated from business or functional experts. It is crucial that subject-matter experts—not just purchasing experts—be responsible for helping select and negotiate with external partners, to ensure that outsourcing efforts cover the right capabilities on appropriate terms. We helped one

[5] Federal Procurement Data System.

[6] Leading analytics firms were based on rankings in TopSEO. Leading digital-marketing and design firms were based on revenue as reported in Hoover's and *AdAge*.

Exhibit

Capability target setting

A scorecard can help agencies rate their Web capabilities and identify areas for investment.

▲ Today's performance   ▲ 18-month target

Rating (illustrative)

Capabilities	Low 1	2	3	4	High 5	Example actions
Data-based decision making		▲		▲		• Set clear goals and measure success • Track quantitative data through dashboards • Collect user feedback • Test and learn through usability testing and piloting • Test and learn through A/B and multivariate testing
Site experience		▲		▲		• Create user-friendly content and tools • Create user-friendly navigation and search
Advertising and promotions		▲	▲			• Target customer and user groups • Optimize search-engine results • Establish cross-channel advertising • Use online promotions and e-mail campaigns
Multichannel coordination		▲	▲			• Provide consistent experience and share learning across channels

agency identify a 65 percent reduction in Web-portal operating costs by involving its subject-matter experts in determining the scope of an outsourcing effort, the savings from which will be used to fund future initiatives or reduce operating budgets.

Agencies can identify the gaps in their capabilities and set targets by developing a scorecard that lists categories of capabilities and actions relating to each, as shown in the exhibit. For each action listed, the agency should specify detailed criteria for staff members to use as a basis for rating their current performance and setting improvement targets.

Adopting "open innovation" and user participation

Strengthening governance and capabilities will not only improve existing content and services but also help lay the foundation for pursuing Web 2.0 technologies. A shift from a "publishing" to a "sharing" mind-set—one that embraces user participation—must happen within government agencies.[7]

Some agencies across the globe are leading the way. One high-profile example in the United States is the District of Columbia's "Apps for Democracy," a contest to encourage developers to create applications that would give residents access to data such as crime reports and pothole repair schedules. Forty-seven applications were created in 30 days. Hiring contract developers would have cost approximately $2.6 million, whereas the cost of running the contest was a mere $50,000. The US government has also shown a willingness to accept outside innovation. For example, it adopted software code developed by a nonprofit organization for USAspending.gov, a database of government grants and contracts. The government had initially estimated that it would cost $10 million to create the database and $2 million a year to maintain it, but it adopted the code developed by OMB Watch to run FedSpending.org, which had been funded through a $334,272 grant.[8]

Elsewhere in the world, a European health authority has developed, with our support, an information architecture that allows health care providers to

[7] See Michael Chui, Andy Miller, and Roger P. Roberts, "Six ways to make Web 2.0 work," mckinseyquarterly .com, February 2009.

[8] The grant was provided by the Sunlight Foundation over a three-year period; roughly $200,000 from the grant was used to pay for the initial launch of the Web site.

access aggregated data and build tailored applications to improve clinical care. In another example, the South Korean government's "ePeople" site invites civil petitions online (for example, policy suggestions or corruption complaints), moderates online discussion of submitted petitions, and reports back on its decisions.

Moreover, governments can use Web 2.0 technologies to break down barriers between and within organizations. For example, the US intelligence community has created Intellipedia to share information among previously unconnected organizations, while the US Food and Drug Administration employed Web 2.0 tools to better engage and capture the knowledge of its internal experts.

How can the shift in mind-sets be achieved to enable Web 2.0 initiatives such as these across more government agencies? Agency leaders, both line-of-business and IT, must embrace third-party innovation and participation. They must communicate the benefits of these efforts, encourage risk taking, and enhance the capabilities of their staff to implement these initiatives—for example, by ensuring that they have both the "soft" skills to manage informal networks of partners and the "hard" skills to connect government data with external systems.

To reinforce these mind-set shifts, agencies must reward externally sourced innovation as much as they reward producing applications and content internally, the way P&G has done. A well-known advocate of open innovation—that is, sourcing innovative ideas from outside an organization—P&G CEO A. G. Lafley set the tone from the top when he

[9]In fact, because solutions outside the organization often move more quickly from concept to market, reward systems that consider speed of development could favor innovations from the outside.

publicly announced the goal to have 50 percent of P&G's innovations come from outside the company.[9]

From a technology standpoint, achieving the benefits of open innovation and participation requires IT security systems and policies to ensure that public systems are appropriately protected. Many of these systems and policies have already been developed and are being used in the private sector to balance the estimated return on investment with the probability-adjusted risk of loss (tangible and intangible) from a security risk.

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To embark on the journey to the next level of e-government, public-sector organizations should begin by estimating the cost and time required to achieve their agreed-upon business goals, taking into account realistic user adoption rates, usage, and impact on other channels (for example, reduction in paper-based forms). Agencies should then ensure that their governance models emphasize line-of-business accountability and develop a plan to address capability gaps, particularly in areas such as Web analytics and usability. Based on a comparison with successful innovators in the public and private sectors, they should also assess their technological and organizational readiness to open data and systems to outside developers and to use participatory Web 2.0 tools. By taking these steps, agencies will begin charting their path to the next horizons of e-government.○

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When the citizen is your customer

Seeking to provide better service to citizens, a large government agency is letting the "voice of the customer" guide day-to-day operating decisions.

**Sebastien Katch,
Tim Morse,
and Jeff Sinclair**

Given the expanding role of government in many countries, the volume of "customer" contact—from citizens with questions about unemployment benefits to urgent inquiries following announcements of stimulus packages—will almost certainly increase at federal, state, and local agencies. Unfortunately, many government agencies are already faced with service demand that far exceeds the resources they have to meet it.

In the private sector, when a company cannot afford to hire more customer-service representatives to meet demand, the answer is to allocate existing resources based on a customer's size, profit potential, or some other criterion that affects the bottom line. In the public sector, however, most

organizations strive to treat all citizens equally and are strictly prohibited from profiling of any kind. Since government agencies cannot use cost or revenue metrics to optimize their capacity-constrained service operations, they must use a different, uncontroversial set of measures.

One US federal agency, already widely recognized as a high-performing service organization, has adopted the ultimate customer-centric metric—customer satisfaction ratings—in an effort to become even more responsive to citizens' needs. By monitoring customer satisfaction ratings and linking them to daily operations, the agency is giving its users a voice in day-to-day decisions about how it provides services. The techniques it used—described in this article—are considered best practice and are applicable to any agency that interacts through multiple channels with large numbers of citizens or third parties.

This agency operates two types of service centers located across the country: call centers and paper-processing centers. Together, the centers handle tens of millions of phone calls and paper forms annually. To ensure its ability to respond to this staggering volume while enhancing customer satisfaction, the agency sought our support for two major initiatives: one was to develop a methodology for optimally allocating its limited customer-service resources, and the other was to make better use of interactive-voice-recognition (IVR) technology. Even though these efforts are still in their early days, the agency has already been able to resolve citizens' issues more quickly and efficiently.

A workforce-management model

The first initiative was focused on improving customer satisfaction in both the phone and paper channels. This agency has the unique challenge of relying on a common resource pool for both channels. At the dozens of contact centers scat-

tered throughout the country, most agents transition between fielding calls and processing forms to account for the enormous variability in call volumes over the course of an average week; call volumes on a Monday are often five times greater than those on a Friday, for instance. Although this flexible arrangement maximizes staff utilization, it also poses a tough management challenge: how to allocate resources to achieve the best combined performance of the two channels.

The agency used customer satisfaction as a core metric. We helped derive "customer satisfaction curves" for each channel, plotting customer satisfaction scores against average speed of answer in seconds (for phone calls) and turnaround time in days (for paper forms). Through this exercise, we identified "break points"—the critical junctures

at which precipitous drops in customer satisfaction tend to occur.

Armed with these data, we were able to create a dynamic workforce-management tool that takes a set of inputs—forecasted call volume, current inventory of paper cases, expected resource hours, and so on—and makes mathematically based recommendations for resource-allocation plans and service-level targets for both channels on a weekly, seasonal, or annual basis. The tool can also model trade-offs and instantaneously show the impact on service levels of changes in any of the inputs—say 100 agents call in sick on the same day, or the actual number of calls turns out to be very different from the forecast—enabling the agency to see and evaluate its options in real time (Exhibit 1).

Exhibit 1

Weekly service-level targets

This planning tool helps match resources with customer demand.

Service-level targets depend on resources available . . .

Anticipated number of employee hours

- % of calls answered within break point
- % of paper cases closed within break point

Employee hours for the week, thousands

. . . and actual call volume

Optimal service-level targets

Resource availability
- 110%
- 100%
- 95%
- 90%
- 85%

Call volume, thousands
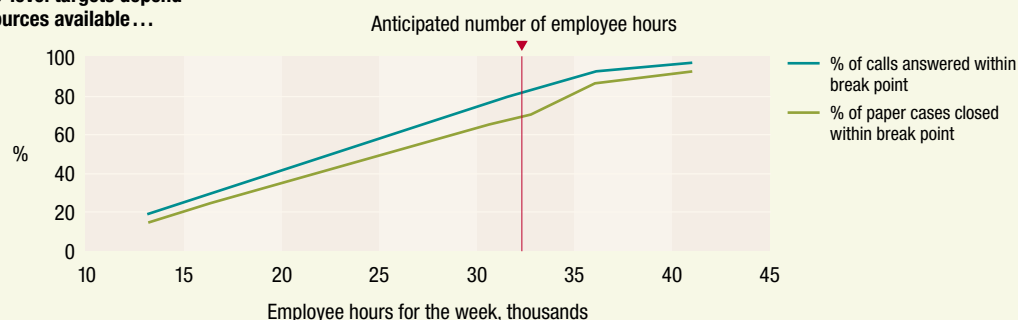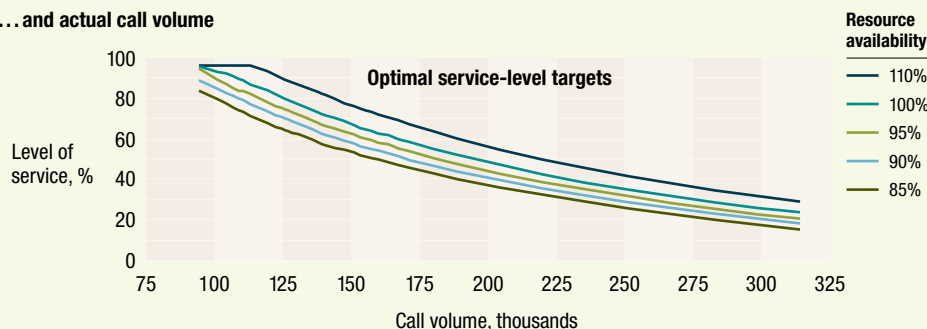
With the resource-allocation approach and planning tool in place, the agency then had to develop a rigorous management process to support it. This involved bringing together departments that historically operated independently of each other. Although they shared resources and budgets, the phone and paper channels had different managers who were headquartered in different states. The solution was to have the two departments share responsibility for generating the inputs that drove the workforce-management model. Managers of both channels now use their expertise to come up with weekly demand projections (for example, the number of phone calls the agency expects during the coming week) and operational assumptions (such as the expected staffing level for the week). In a weekly meeting, stakeholders from each department co-vet the assumptions and data inputs. Executives from each department then jointly make resource-allocation decisions and devise contingency plans in the event that the following week's staffing or demand deviates from projections.

Using this approach, the agency has been able to align quickly on operational decisions, allocate resources in an informed way, and strike a healthy balance between its two main customer-service channels. The result: more citizens are served in a timely manner.

Improving the caller experience

The second initiative the agency undertook was to make better use of IVR technology, which it had deployed over 20 years ago. While the technology did indeed enable self-service and thereby increase agent capacity, it also became a persistent pain point for callers.

In our work with the agency, we found that the main problem was that the IVR menus were confusing and complicated. The most popular inquiries were not listed first, so callers had to listen to options that were irrelevant to what they needed. The options were wordy, riddled with jargon and unclear terminology, and sometimes redundant, leaving callers unsure about which buttons to press. Furthermore, burdensome security requirements—for example, callers had to provide an obscure personal identification number (PIN)—led many callers to simply hang up.

It became clear that simplifying the IVR menus was imperative, but security was a huge concern for this federal agency. Because the agency housed very personal and sensitive information, standard industry best practices—for example, authenticating a caller's identity at the beginning of a call—were rejected, as such practices could be misinterpreted as invasive call monitoring. The automation of the most common transactions, which is one of the best ways to increase agent capacity, had to be carefully evaluated because the agency was wary of potential security breaches.

We conducted a few rounds of usability tests to see how certain changes to the IVR menus would affect the caller experience. The tests indicated that asking more intuitive but equally robust security questions (for instance, a Social Security number and date of birth, rather than a PIN) for certain automated transactions could dramatically increase IVR utilization and completion rates. If implemented across all the call centers, that single change could translate into an additional 600,000-plus calls each year completed via IVR that did not have to be routed to agents.
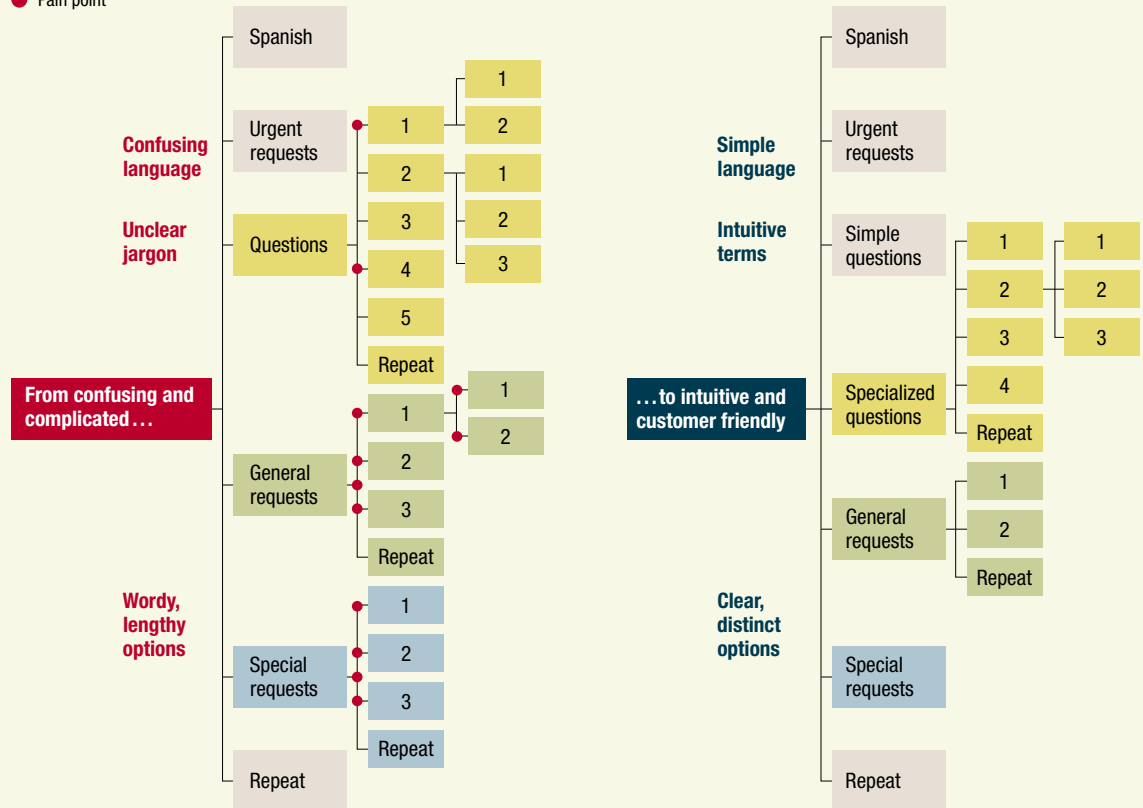
The tests also showed that by making the IVR menu options clearer and more concise, eliminating or replacing confusing terms and agency jargon, and putting the simplest and highest-volume inquiries first, the agency could reduce the time an average caller spends in the IVR by up to 30 percent, and

Exhibit 2

Redesigning the IVR menu

Making options clearer and more concise transformed a frustrating experience into a customer-friendly one.

● Pain point

Left diagram — From confusing and complicated …

- Spanish
- **Confusing language** — Urgent requests ● 1 → 1, 2
- **Unclear jargon** — Questions ● 2 → 1, 3 → 2, 4 → 3, 5, Repeat
- **Wordy, lengthy options**
- General requests ● 1 → 1, 2; ● 2; ● 3; Repeat
- Special requests ● 1; ● 2; ● 3; Repeat
- Repeat

Right diagram — … to intuitive and customer friendly

- Spanish
- **Simple language** — Urgent requests
- **Intuitive terms** — Simple questions → 1 → 1, 2 → 2, 3 → 3
- Specialized questions → 1, 2, 3, 4, Repeat
- **Clear, distinct options** — General requests → 1, 2, Repeat
- Special requests
- Repeat

enable up to 24 percent more callers to get to the right place the first time (Exhibit 2).

By starting out with small tests and pilots instead of a full-scale effort, the agency was able to sidestep lengthy approval processes and work around resource constraints while proving impact and gaining buy-in for implementation. It is now embarking on a two-year effort to roll out the changes.

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The agency is currently considering additional initiatives to further enhance the customer experience. Among the initiatives being explored are a closer integration of phone and paper services, the deployment of technology to allow paper cases to move across service centers, and the elimination of variability from customer-service support processes. With service demand rising and budgets falling, government organizations around the world would do well to emulate this agency's example and raise their game in service operations. Listening to the customer would be a good first step. ○

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Performance improvement and the stimulus

Public institutions receiving stimulus funds have a historic opportunity: they can introduce metrics that will continue to drive performance even after the economic crisis.

**Benjamin Cheatham,
Mike Kerlin,
Deep Shenoy, and
William Wolf**

According to conservative estimates, more than 30 countries have put together nearly $2 trillion—or more than 3 percent of global GDP—in fiscal stimulus packages. These include packages from the United States ($787 billion), China (4 trillion yuan), Germany (€82 billion), Mexico ($54 billion), France (€26 billion), and the United Kingdom (£25.6 billion). A major component of these packages is increased government spending in the form of stimulus funds awarded to many government organizations at the federal, state, and local levels.

In return, these organizations will be accountable—both to the federal government and to the public—to show that they are using stimulus

funds wisely. The Obama administration, for one, has said it is committed to "an unprecedented level of transparency and accountability."[1] But because stimulus accountability is being mandated at the national level in the United States, the metrics tend to revolve around broad indicators of impact (for example, number of jobs created) and general downsides (such as preventing waste, fraud, and abuse).

We believe public agencies, state governments, and other recipients of stimulus funds should not only track their performance against these high-level metrics but also take advantage of the stimulus to establish metrics that will serve as performance-improvement tools beyond the stimulus. In our work with public institutions in various sectors that have been given priority for stimulus funding—including infrastructure, energy, education, and health—we have found that sustaining operational excellence depends on three critical steps: deriving performance metrics from "value drivers," which are the factors that contribute to achieving an organization's desired outcomes; tracking performance against these metrics; and then making those metrics matter to the organization. Under normal circumstances, taking these steps might be seen as low priority or even controversial, but the stimulus gives leaders of public institutions a historic opportunity to overcome the cultural inertia that often gets in the way of measuring and managing performance.

Deriving metrics from value drivers

Agencies should not miss this window of opportunity to establish metrics that will matter even beyond stimulus accountability. To do so, an agency should first analyze its objectives and value drivers. It must then convert these sometimes abstract value drivers into meaningful, measurable metrics.

For example, the "value tree" for one US state's department of transportation started with the department's five core objectives: safety, mobility, infrastructure durability, efficiency and effectiveness in its internal processes, and employee satisfaction. The first three are public objectives, while the last two describe important internal objectives. For each of the five, the department identified the underlying factors that drive performance.

Infrastructure durability, for example, is driven by maintenance and preservation, usage, fit of design and construction to conditions, and quality of planning and management (exhibit). These value drivers were then disaggregated into metrics such as load per vehicle and pavement roughness. Infrastructure durability is one example of

an objective for which "shovel ready" projects would do well to provide concrete measurements, since project evaluators will want to be sure that projects financed through stimulus funding will endure.
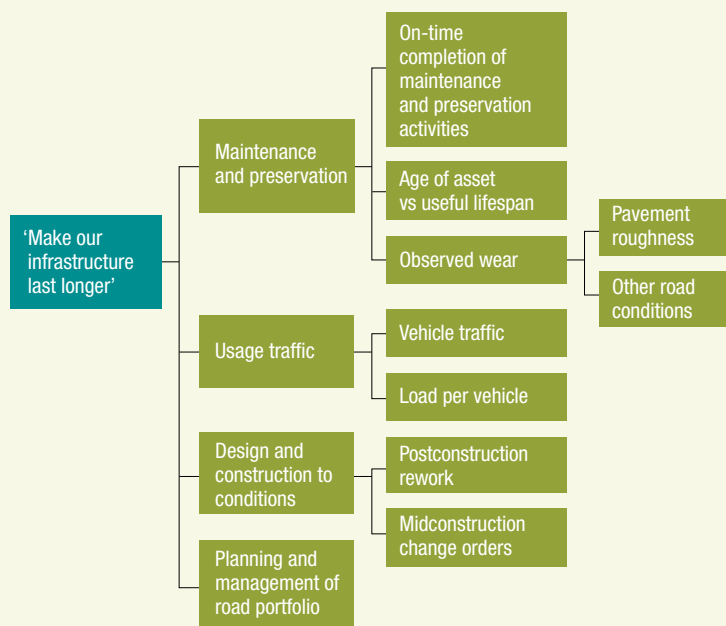
Tracking performance

For many US agencies and state governments, the stimulus is serving as a catalyst to building more robust monitoring systems, since the Office of Management and Budget (OMB) is asking agencies to submit financial and activity reports on a weekly basis and posting these on Recovery.gov. (By contrast, the OMB's program-assessment Web site, ExpectMore.gov, updates performance information only biannually for most programs.)

Exhibit

A value tree

Agencies should disaggregate value drivers into performance metrics.

	Maintenance and preservation	On-time completion of maintenance and preservation activities
		Age of asset vs useful lifespan
'Make our infrastructure last longer'		Observed wear → Pavement roughness / Other road conditions
	Usage traffic	Vehicle traffic
		Load per vehicle
	Design and construction to conditions	Postconstruction rework
		Midconstruction change orders
	Planning and management of road portfolio	

Source: US state department of transportation; McKinsey analysis

Most US states have launched stimulus accountability Web sites with an emphasis on "tracking the money." Georgia's new Web site enables the public to report stimulus-related fraud and abuse, and Massachusetts's site provides details on new contracts to allay fears of patronage. But long-term outcomes are barely mentioned on the state Web sites. We recommend a shift to reporting on such outcomes—shortened commute times, higher levels of school performance, water quality improvements—so that stimulus accountability will result not only in greater efficiency but in increased effectiveness as well.

There are signs that some organizations are embracing the opportunity. For example, the US federal stimulus package includes $12.2 billion for the Individuals with Disabilities Education Act (IDEA). In response, the Maryland State Department of Education accelerated its joint effort with the Johns Hopkins University Center for Technology in Education to develop a new system for monitoring and reporting on IDEA program performance. Other agencies can similarly step up their measurement efforts. The stimulus package has directed more than $2 billion to drinking-water projects, for instance. Organizations working in this arena should use the stimulus as an impetus to invest in more granular measurements of system operations, such as leakage minimization and water-pressure adequacy.

That said, agencies must balance investment in new tracking systems with use of existing systems and find creative ways to monitor and report performance. First, they should review the new metrics they developed while identifying value drivers and determine whether any existing metrics can serve as meaningful proxies. For example, because employee satisfaction is a worthy objective but not easily measured, many companies consider rate of unplanned attrition a useful proxy.

Second, they should review external performance measurements. Many public watchdog organizations keep a wide range of measurements that agencies can use and begin to see as helpful rather than threatening. Some consumer-focused government entities now use the University of Michigan's American Customer Satisfaction Index, for example. Third, agencies should determine and prioritize short-term and long-term measurement investments. Short-term investments for agencies in the energy sector, for instance, could include systems to track straightforward financial and activity metrics (number of projects launched, for example) whereas longer-term investments might be focused on tracking the penetration rate of renewable technologies in commercial and residential buildings.

Making metrics matter

Metrics truly transform performance not when they are contained within information systems but when they become part of an organization's culture and way of doing business. Investments in performance-management systems will prove to be a waste if leaders are not willing to correct or fully change course based on performance against metrics.

Agencies should choose a small set of priority metrics (between 10 and 15) that offer a quick, easy-to-understand picture of the health of the stimulus effort and of the agency as a whole. They should then report on performance against these priority metrics via a simple "dashboard"—similar to a chart of medical vital signs—that is accessible to stimulus regulators and the public. Dashboards should incorporate contextual information such as performance compared with previous years, against targets, or relative to other agencies; otherwise, the information will offer little insight or clarity into how the agency is doing.

Many government organizations have taken an important step by tasking a respected senior leader with overseeing the use of stimulus funding. The next step is to make individual departments, managers, and employees accountable for performance. This can be done in several ways: through formal review sessions with responsible departments, incorporation of stimulus-related metrics into individual employee performance reviews, or internal posting of comparative metrics of peer departments to generate healthy competition. Some government organizations are even publicizing the names of individual managers responsible for specific metrics.

One US regulatory agency is easing employees into metrics-based performance evaluation by starting with a "no risk" year—it is tracking metrics this year but offering neither reward nor penalty. Another US agency is considering an aspiration-based approach, rewarding managers who exceed their targets but not penalizing those who fall short.

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We appreciate that stimulus accountability in itself presents a measurement challenge for government organizations. Many will have to undertake additional data-gathering exercises and develop new job-creation metrics. But the most successful agencies will be those that push their thinking and their management to ensure that performance metrics become not just another set of reports to file in the context of the stimulus but rather an active organizational improvement tool. ○

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Making a difference in a crisis: One person's story

The author finds that in crisis-recovery efforts, the barriers—and the solutions—often involve operational details.

Becca O'Brien

In August 2005, Hurricane Katrina hit landfall, commanding America's attention. With its 400-mile-wide footprint, Katrina inundated the Gulf Coast and overwhelmed the federal levees that protect New Orleans, flooding approximately 80 percent of the city. Across the Gulf Coast, more than a million people were displaced. A federal disaster declaration covered 90,000 square miles, an area the size of the United Kingdom. Katrina was one of the deadliest hurricanes in US history, killing more than 1,800 people, the majority of them in New Orleans.

The disaster placed an unprecedented burden on local and state government. In New Orleans, the economy ground to a halt; the city's education, health care, infrastructure, and public-finance functions were all in critical condition.

Now, almost four years later, the recovery of New Orleans continues. Its lessons so far are invaluable to any local or regional government responding to an emergency, whether by rebuilding homes after a natural disaster, repairing facilities destroyed by war, or—of particular relevance today—administering stimulus packages in an economic crisis.

Moved by the massive devastation that Katrina wrought, in January 2006 I took a leave of absence from McKinsey to serve on the White House task force for Gulf Coast rebuilding. Over the ensuing year, the task force tackled issues ranging from temporary-housing provisions to homeowners' insurance to hospital finance. The federal government had appropriated approximately $100 billion dollars for Gulf Coast recovery,

Neil Webb

but from my vantage point what remained frustratingly elusive was the answer to one question: why was the city's recovery moving so slowly? I grew determined to find a role in New Orleans that would allow me to investigate the hold-ups and apply my knowledge and skills to helping the city speed up its recovery process. Between 2006 and 2008, I served as executive counsel and director of policy in the mayor's office and devoted my days—and many nights—to rebuilding New Orleans.

An unprecedented challenge

Within the first few days, it became clear to me that city leadership had been struggling to execute what outsiders perceived as the obvious high-leverage moves. In part this was because of the sheer volume of work: immediately after the storm the city laid off 3,000 employees— half of its workforce—in a bid to avoid bankruptcy and salvage its bond rating for recovery projects. It was also due to the stress of individual disaster recovery: many City Hall employees were rebuilding their own homes while living in emergency trailers, caring for displaced elderly parents, and helping rebuild churches and community centers. But these factors explained only a portion of the problem. The slow pace of recovery in New Orleans was largely due to an operational barrier: the difficulty of scaling public procurement and contracting functions in the face of an unexpected and unprecedented challenge.

The Federal Emergency Management Agency (FEMA) has a program that reimburses local governments for repairs to disaster-damaged public facilities, including streets, parks, and government buildings. The total estimated value of reimbursable repair work to city-owned infrastructure after Katrina is currently $1 billion and increasing. But the operative word is "reimbursement": FEMA's dollars materialize only upon

submission of paid work orders or receipts for completed repairs. In other words, a local government has to have money to get money. This might not be an insurmountable requirement for smaller disasters, but in New Orleans's case it was a significant obstacle. The city had very little cash, and its scarce spare dollars were tied up in a few large, complex construction projects. At the pace public-infrastructure recovery was moving at the end of 2006, it would have taken generations to complete all the projects needed to restore the city's services.

But obtaining funds was not the city's only problem; spending them was another. The contracting process for large projects was laden with legal requirements designed to avoid corruption, including a provision that was interpreted as requiring 100 percent of funding up front before a project could advance. And New Orleans had adopted a cumbersome paper-based approval procedure whereby the department head, the CFO, the chief administrative officer, the civil service, and the city attorney all had to sign off before the mayor rendered the contract live with his signature. My team took to running critical contracts around the building to secure the required signatures in person, since leaving the process to internal mail took weeks.

And this was just to commence a contract. Each contract, once in place, required intensive management—from the maintenance of auditable paper trails to scheduling and quality control of the work itself. Somehow the city needed to ramp up its processes while still ensuring transparency and accountability, or else housing and infrastructure recovery funding could get stuck for years.

Over the course of the next year, my team crafted an approach to this dilemma, an approach which

In emergency situations, we need and expect public policy to be executed at light speed—the challenge is to create the right balance between accountability and transparency on the one hand, and responsiveness on the other

to date has eased—though not eliminated—the crisis of public spending. The strategy consisted of one part budgeting and project financing, one part contracting, and one part personnel.

Delivering operational improvements

New Orleans effectively had multiple flavors of funding with which to complete infrastructure work—its own bond money, FEMA funds, federal community-development funds, and several types of funds from the state of Louisiana—each with its own set of purposes and restrictions, and all of which needed to be coordinated into a single strategic construction program. To do so, my team created the first integrated capital and operating budget in the city's history, providing transparency into which projects were fully funded, where funds were currently deployed, and where gaps in project financing remained. Previously, the city had separate capital and operating budgets. The creation of an integrated budget enabled the city to evaluate projects that required financing through both capital funds and operating funds. Among other tasks, my team designed, codified, and implemented procedures for accessing a new type of state funding. To date, the city has spent close to $300 million on recovery projects.

New Orleans also needed to expand its project-management capacity significantly. The city selected a global engineering firm to administer the hundreds of design and construction

projects efficiently and with the urgency required. Once the contract had been negotiated and the engineering firm was on board, I facilitated meetings between its staff and the city's finance, legal, and planning teams to ensure that roles, responsibilities, and deliverables were clear and that the teams could work together seamlessly.

But contracting for capacity is not enough. Every government contract needs a capable contract administrator with the appropriate level of authority, access, and incentives to protect the interest of the public and ensure that the contractor delivers value. The mayor agreed to create a new position—a director of capital projects—to oversee the city's facilities work. The Civil Service Commission approved the creation of this new non-civil-service role, and the city filled the position in spring 2008.

Striking the right balance

Issues of financial and operational capacity are often determined by legacy rules and procedures designed in "peace time," which can substantially impair a government's ability to respond to a crisis. Each of the changes made in New Orleans city government was accompanied by significant internal debate, and it took months of process redesign—requiring the skills of the city's top lawyers, administrators, and policy makers—to craft a system that could deliver the recovery projects the public was waiting for.

Government does not spend money quickly, and most of the time we don't want it to. But in emergency situations, we need and expect public policy to be executed at light speed. The challenge is to create the right balance between account-ability and transparency on the one hand, and responsiveness on the other. As we watch govern-ments tackle the economic downturn with a series of stimulus packages, this distinction will become particularly relevant. States and cities charged with administering public stimulus funds should start to build their internal capacity immediately by integrating their budgets, perfect-ing the processes and procedures that govern access to their financing vehicles, contracting for the services needed for project delivery, and creating appropriate leadership positions and iden-tifying talent to fill them.

Government at all levels benefits tremendously when public servants apply energy, analysis, and creativity to solving operational problems. To my own surprise, both my greatest contribu-tions and my greatest satisfaction came in design-ing, negotiating, and implementing operational improvements. When I look back on my time in New Orleans, what I miss most is the fulfillment that comes with putting the right process or the right expertise in place and watching the system begin to function differently to help a city rise to the greatest challenge in its history.○