How can American government meet its productivity challenge?

American government faces a productivity imperative. Growth in program size, new national priorities, and citizens' demand for increased choice, convenience and customer service, will require government to do more and do it better – and all this in an era of, at best, constant levels of spending. There is therefore an imperative for dramatic productivity improvement in government that will deliver better results for citizens.

This paper examines what interventions policymakers can make to design an optimal operating environment that fosters increased productivity at government agencies. Future work will explore what agency managers themselves can do. We outline two critical pillars for government productivity growth: the pressure of increased transparency and support for performance transformation. Previous efforts and current ideas on how to advance these pillars are discussed.

Ultimately, six recommendations are put forward that together add up to a campaign of productivity improvement, designed to meet the challenge ahead.

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Contents

Executive Summary

American government faces a productivity imperative. Growth in program size, new national priorities, and citizens' demand for increased choice, convenience and customer service, will require government to do more and do it better – and all this in an era of, at best, constant levels of spending. Raising productivity will not solve government's most serious long-term fiscal challenges, but it will help; and it is an attractive alternative to a sustained contraction of government, or increased taxes.

Yet we do not have the tools to tell whether government is up to the challenge – because nobody measures government productivity. The Bureau of Labor Statistics (BLS) used to provide productivity statistics, but only up to 1994. The statistics suggest that government lagged private sector productivity up until that point and our hypothesis is that, since then, this gap may well have grown. If the government is to start catching up, it could gain valuable insight by looking at what has been driving private sector productivity.

The McKinsey Global Institute (MGI) has found that private sector productivity growth has been driven by competitive intensity at the sector level and innovative management practice at the level of the firm – creating both pressure on, and capability for, performance. In the public sector, agencies, like firms, are the engines of productivity growth, while crucial interventions by Congress and the White House determine the sector-level operating environment. We propose, therefore,

that policymakers pursue a campaign for productivity improvement built on two pillars. First, the pressure that comes from performance transparency to increase the importance of getting results; second, support for performance transformation at agencies to enable them to reach a higher, and sustained, level of achievement. It is our firmly-held view however that one lever without the other will lead to failure.

There have been efforts to increase pressure through increased accountability. The Government Performance and Results Act of 1993 (GPRA) and the Program Assessment Rating Tool (PART) have been welcome, but they have been unable to significantly alter the political dynamic of the budget process – results remain a secondary factor in decision making. We believe that only a radically improved transparency framework can combat this – making results a political imperative, and, in turn, creating sufficient pressure to perform. Success in this venture depends on creating a more developed information marketplace that makes not only productivity, but all aspects of program performance, far clearer and more accessible to all.

At the same time, agency managers need improved support to get results, not least by removing current disincentives to greater productivity, and by building management capacity. The nature and scale of the management challenge at agencies argues for elevated attention to the current management deficit, as well as the appointment of skilled managerial leaders. We support the idea of a Chief Operating Officer for agencies. We also believe that a broader remit for the Office of Management and Budget (OMB) is desirable, adding the task of supporting management reform at priority programs to its current role of assessing performance and negotiating budgets.

We therefore recommend a number of tangible actions to achieve performance transparency and transformation. Government should:

- Measure productivity again, providing an ongoing, transparent indicator of progress
- Set an ambitious national government productivity target to match private sector rates of growth
- Create more transparency in agency and program performance through greater comparability, accessibility, and independence in the scrutiny of government data
- Give agency managers incentives to make productivity gains
- Build management capability at agencies by introducing the Chief Operating Officer role
- Boost OMB's management function.

Introduction

It has been an extraordinary period for America during which catastrophic events such as 9-11 and Hurricane Katrina have heightened attention on government. Less dramatic developments are also forcing exacting questions of policymakers – a globalizing economy has brought US companies great rewards, but has highlighted the need for new skills in the American workforce; and US health care, on some dimensions the envy of the world, has seen costs rise so much that it has become a drain on US competitiveness, as well as a profound social concern.

These are challenges that the market alone can not meet. A nation, by nature skeptical of government, must now come to see effective government as a national priority, not least for economic reasons.

> "Productivity is a critical lens through which to analyze government, addressing both the quality of the results it achieves, as well as the efficiency with which it operates."

Today, the federal government budget is approximately 20 percent of GDP and on an upward trajectory. It faces a productivity imperative yet it likely trails other major sectors in the economy in terms of productivity growth.[1] The US economy is the most productive in the world and home to the most admired and well managed companies in the world; yet government has failed sufficiently to apply the lessons provided by the private sector.

Many commentators have written about government effectiveness but, to offer a fresh view, we set out to marry research on private sector productivity with our understanding of government as well as interviews with key stakeholders. Productivity is a critical lens through which to analyze government, addressing both the quality of the results it achieves, as well as the efficiency with which it operates. This paper specifically addresses the measures policymakers can take to better structure the environment for effective government. Future work will outline how government managers can drive productivity improvements on the ground.

We are not policy analysts and tend to eschew making policy recommendations. Yet our analysis of the optimal conditions under which productivity growth is achieved by firms, has led us to see a critical role for policymakers in government. Agency managers will be the agents of the productivity effort, but policymakers design the terrain on which they will plot their course.

The Productivity Imperative

Everyone is aware of the fiscal imperatives facing American government. Today's deficit is large, creating pressure on policymakers to contemplate budget cuts and/or increased taxes; difficult debates about radical program reform are being driven by a desire to avoid large tax increases in an era of continuing growth in entitlement spending. The challenge, however, is broader than this. The true nature and scale of the problem needs to take account of three profound forces that will come to dominate American politics in the years ahead.[2]

The first of these forces is, as mentioned, the inevitable growth of entitlement spending. The aging of the population, with the oncoming retirement of the baby boomers, means that large programs such as Social Security and Medicare are destined to grow more rapidly than before. The second, which is creating increased demands on discretionary spending, is the emergence of

1. 2005 estimate shows federal government outlays at 20.3 percent of GDP, Budget of the United States Government, Historical Tables, US Office of Management and Budget via Statistical Abstract of the United States, US Census Bureau, 2006
2. The acuteness of the productivity imperative is also explored in "21st Century Challenges, Transforming Government to Meet Current and Emerging Challenges," Testimony to Congress from David Walker, GAO Comptroller General. GAO-05-830T

new national priorities such as homeland security, the war on terror, immigration policy, and disaster readiness.

> "In civic terms, increased government productivity can help us meet growing national expectations; in fiscal terms, it can both save money today and mitigate the increasing spending demands of an unreformed government."

In civic terms, increased government productivity can help us meet growing national expectations; in fiscal terms, it can both save money today and mitigate the increasing spending demands of an unreformed government.

We want more ports secured; more intelligence gathered; more work permits and border patrol; and more levees and early warning systems. The third, imposing even more demands on government, is the increasing quality expectations of citizens – government's customers. Too often, citizens' experience of public services is high levels of inconvenience and a lack of information compared with other interactions in their daily lives. This exacerbates an already low level of confidence in government. Across society, we have more choice, convenience, and customer service – and we want these from government too. We also have higher aspirations – more effective teachers and higher qualifications for our children, at the same time as better health for ourselves and our families.

All this means inexorable pressure on government to do more and to do it better, but with constant levels of funding at best. The productivity imperative faced by American government is, in essence, therefore, about getting more "bang for the buck." In civic terms, increased government productivity can help us meet growing national expectations; in fiscal terms, it can both save money today and mitigate the increasing spending demands of an unreformed government. Increased government productivity can not, however, solve the challenge of entitlement spending growth – that will require tough choices, several of which may be straightforward to design, but all of which are politically unattractive.

A campaign of productivity improvement is clearly more attractive politically, but far from easy to design. Many of those in government we interviewed see productivity as synonymous with efficiency and job losses but this is not the case, as explained in the sidebar "What is government productivity?." Yes, a more productive government should be efficient; but, above all, it should be more effective at delivering high quality services and better results for citizens.

IS AMERICAN GOVERNMENT PRODUCTIVE?

So how is American government doing to date? The reality is that no one can tell because we have stopped keeping score. The BLS used to measure productivity in the federal government through its Federal Productivity Measurement Program (FPMP), but stopped doing so in 1996. The final data published was for 1994.

Government productivity has always been something of an illusive concept, one that economists have tended to side-step, and which almost all of the policymakers and government managers to whom we spoke were skeptical about being able to measure. This is understandable. Productivity calculations divide outputs (the number of goods produced or services supplied) by inputs (labor and capital). In calculating outputs, we often multiply quantity by the price of a good or service, as price represents the value ascribed by the consumer, as well as the value that can be derived by the producer. However, price changes often don't reflect quality changes and, in these cases, adjusted prices are used to account for quality evolution.

There are two particular challenges in measuring output in government. First, many public sector activities – like national security or law making – simply don't have a quantifiable output. Second, even when an output in a sector such as health care or education appears evident, its measurement is pointless without an assessment of whether it adds value to citizens and how that value changes over time. Governments aren't rewarded for generating more activity, per se, but for providing more of what people

WHAT IS GOVERNMENT PRODUCTIVITY?

Although many people think that improving productivity is synonymous with cost cutting and layoffs, this misconstrues its real meaning. Productivity is the amount and quality of the goods and services that can be generated with a given set of inputs. Improved productivity can certainly be achieved by reducing inputs, but it can also come from increasing the quality or quantity of the output. In fact, layoffs made purely to cut costs often lead to poorer service and thus to lower productivity.

When we recall the US productivity surge of the late 1990s, most of us correctly attribute it to a set of improved products and services that brought increased profits to companies and a higher standard of living for many - the development of more powerful computers, more innovative retail formats, and increased securities trading, come to mind. And all of this came at a time of low unemployment, when layoffs were not unusually high.

Still, when many people think about government productivity, they intuitively think only about costs. The phrase "productivity gain" is used interchangeably with "savings" and this is regrettable. There are doubtless many more cost savings to be found in government, which we address in this paper; but the greater productivity imperative is for government to deliver better results – both in terms of quantity and quality. We need more effective tax collection, better veterans' healthcare, higher levels of student literacy, and so on.

In the United States and across the world, there has been a welcome move toward thinking about the quantity and quality of output. This process has been widely described as "outcomes-based government" – assessing the results that governments achieve for citizens, rather than simply the activities that they generate. Best practice here means that the metrics of "tax returns processed", "employment assistance grants issued," and "students taught," have been replaced by "percentage of expected revenue collected," "people back in work," and "levels of student literacy."

Effective measurement of government productivity, which we propose in this paper, should be able to capture these quality improvements in the same way that experts do in the private sector. In the US semiconductor industry, for example, productivity growth averaged 75 percent a year from 1993 to 2000 because of advances in the processing speed. The price of chips stayed roughly the same but, since they were more powerful and valuable to consumers, their productivity increased. This is because those measuring the productivity increase established a quality-adjusted price measure that captured the improvement of the processing speed. In government, moving tax returns online provides an analogy. This initiative does not, in a superficial sense, alter the activity output measure - there may be no increase in the total number of tax returns assessed – but the increased processing power leads to an increase in expected revenues collected. For taxpayers this also means faster refunds and increased convenience. In both technical and layman's terms, therefore, this is a highly productive outcome for all.

Most governments today do think about both results and costs but often in separate endeavors. The magic of productivity, however, is that instead of involving parallel efforts to increase results, on the one hand, and to control costs on the other, it connects these elements both conceptually and as a metric. Productivity is ultimately achieved when government continues delivering high quality services but more cheaply; works out how to improve services for the same outlay; or transforms service delivery with carefully planned and monitored increases in investment.

want – outcomes. In education, for instance, the number of pupils taught might be an obvious measure of output – but using it for productivity measurement would lead to the conclusion that larger class sizes are more productive. In fact, we know that large classes can detract from learning, which is what citizens really want. So, a more valuable output measure would be adjusted for exam results or some alternative indicator of learning.

> "Measuring government productivity is difficult – but many once felt that we would be unable to measure services sector productivity and it is now routine."

When the BLS measured productivity, its approach was ahead of its time compared to other governments and the service sector, establishing real government output measures across much of the federal government. (The sidebar "Measuring government productivity" provides more detail about the BLS program.) However, BLS did not use outcomes (such as learning) to adjust its outputs. At the time, many statisticians around the world believed that governments' ability to impact outcomes was indirect; in education for example, factors outside of government control – such as the home environment – affect outcomes like exam results. BLS measured outputs within the government's gift, such as forms processed and grants issued. This provided a very rich data set on the government's efficiency – useful for managers who needed to make efficiency gains – but not on the government's effectiveness. Ultimately, BLS stopped what was a discretionary program in light of department-wide budget cuts.

While it is true that government cannot totally control outcomes like greater literacy or improved health, if services are not at least designed to impact these outcomes, then surely government is failing. Other countries have therefore developed their productivity measurement methodology to account for these desired outcomes, as our sidebar shows. This highlights the irony of the end of the FPMP. As the government began to do better at orienting itself around outcomes, it could have used these outcomes to help quality-adjust the FPMP output measures. Measuring government productivity is difficult – but many once felt that we would be unable to measure services sector productivity and it is now routine. Today, if American government is to meet its productivity imperative, it will need to begin keeping score again.

HOW DOES GOVERNMENT PRODUCTIVITY COMPARE WITH THE PRIVATE SECTOR?

It has been amply recorded that the US private sector saw productivity surge in the late 1990s and this continues today, with productivity growth since 2000 averaging 3.1 percent.[3] In trying to judge whether the government has kept up – without formal measurement of productivity – all we can do is try to extrapolate from a number of other sources.

First, we can examine the data that is available: government productivity alongside private sector productivity in the United States until 1994. This shows that productivity in the public and private sectors rose at roughly the same pace until 1987, when a gap appeared. The private sector's productivity rose by 1.5 percent annually from 1987 to 1995, and by 3.0 percent annually thereafter. Meanwhile, the public sector's productivity remained almost flat, rising by just 0.4 percent annually from 1987 to 1994 (see exhibit on page 10).

Since 1994, the government has taken a number of bold steps to improve management of the public sector, including the National Partnership for Reinventing Government led by Vice President Gore; the GPRA; and

3. Calculated using non-farm business output per hour, percent annual growth, from Bureau of Labor Statistics via Economy.com

MEASURING GOVERNMENT PRODUCTIVITY

Measuring government productivity is complex but we can draw on a great deal of experience to inform a new approach to measuring federal government productivity. Policymakers should review the FPMP as well as other governments' efforts to improve methodology since the FPMP was terminated.

1) The story of the FPMP[4]

By the time it was halted in 1996, the FPMP program was run by a team of five economists and statisticians. They compiled data manually, drawing on budget information and their liaison with the agencies that had volunteered to participate. The data was arranged in 2500 output measures, weighted for labor intensity, alongside relevant inputs, and represented 70 percent of civilian government activity. The program was ahead of its time compared with other governments and the service sector. The data, which wouldn't have been collected otherwise, provided benchmarks across government; became critical management information for agencies; and stimulated cross-functional discussion in government in areas such as communications and accounting. To protect the trust of its agency relationships, the BLS only published the data in aggregate, with individual agency performance apparent only to their respective leaders. The data source was mainly the budget books - with the advantage that agencies couldn't alter the numbers. The team recalls that, on reading the data for the first time, they could get an instant gauge on developments at agencies, quickly identifying a discontinuity such as a legislative change and quantifying its impact. They could also spot staff shortages.

The BLS team did not try to account for outcomes in their output measures. That left efficiency as the overriding subject of the measurement, and this became less relevant as outcome-oriented performance measurement became the vogue in the mid 1990s. Eventually, budget cuts in the department led to a decision to end the program.

2) Learning from around the world

The 1993 System of National Accounts (SNA), the common international standard, recommended that countries move away from incorporating the public sector in the national accounts, using the formula of outputs=inputs, and countries around the world are now working to this end.[5] In Europe, a 2002 European Commission Decision required that, by the 2006 accounts, direct measures of output should be introduced in the case of individual services.[6]

The United Kingdom has been a pioneer in this regard, measuring output directly since 1998.[7] In 2003, the National Statistician invited Professor Tony Atkinson from the University of Oxford to lead a review into measuring government productivity in the national accounts in the light of experience up to that time. The Office of National Statistics (ONS) was also keen to review the position, given that the decision in 1998 to move away from an outputs=inputs approach had led to a reduction in estimated GDP of 2 to 3 percent compared with what it would otherwise have been. To put this in context, this change in measurement is sufficient, according to the ONS, to account for half of the gap in the rate of growth between US and UK productivity in recent years (the US still uses outputs=inputs). The issue was politically sensitive

4. Analysis drawn from an interview with members of the FPMP in May 2006 and from several articles on the program including Darlene Forte, "The Challenge: Measuring Productivity in the Federal Government", Bureau of Labor Statistics. See also "Productivity and Quality Improvement in Government," Edited by John S W Fargher, Institute of Industrial Engineers, 1992
5. The "1993 System of National Accounts" is a conceptual framework that sets the international statistical standard for the measurement of the market economy. It is published jointly by the United Nations, the Commission of the European Communities, the International Monetary Fund, the Organization for Economic Co-operation and Development, and the World Bank, http://unstats.un.org/unsd/sna1993/toctop.asp
6. "Atkinson Review: Final Report: Measurement of Government Output & Productivity for the National Accounts," Palgrave Macmillan, 2005, P. 182.
7. Analysis of the UK program is drawn from the Atkinson Review and from an interview with CeMGA leadership, May 2006

because the new direct measures of public output which ONS started using implied sharp falls in public sector productivity and this placed a political premium on reviewing how well based these new measures were.

The one-year review established a set of core principles and disciplines to ensure the robust measurement of government productivity and is now being adopted by ONS. ONS has also established a UK Center for the Measurement of Government Activity (UKCeMGA), expanding the number of people dedicated to this effort from four to 30 people - and forecast to reach a steady state of 60. The review's main conclusion was that activities were relatively straightforward to measure, but that they needed to be quality-adjusted to provide a real sense of value added. The review and CeMGA believe that this is difficult but not impossible and are making very good ground in syndicating quality-adjusted output measures in core areas of the public sector.

By producing articles on public service areas such as health and education that explore the thinking about a particular output measure and different options for improvement, CeMGA creates a dialogue with the relevant government department as well as the broader research community in that area. Together, they refine and build consensus around a preferred quality-adjusted output measure. Once consensus emerges, CeMGA enters it into the national accounts, and adjusts the data retrospectively. Significant ground in quality adjustments in health, education and social services has been made and, interestingly, the government's leadership now wants to make ONS and, by extension, CeMGA, independent. This may reflect concerns that positive results, which show up in official statistics, are not trusted by the public, and that transparency and independence together are prerequisites if the government is to both demonstrate its achievements and get credit for them.

the President's Management Agenda adopted by President Bush since 2001. However, there are few statistics that clarify the impact of these efforts. There is no data on outputs but, on inputs, we know that government spending as a percentage of GDP has fallen from 21.8 percent in 1990 to 20.3 percent in 2005.[8] The government workforce has also declined slowly over the last ten years, dropping by a total of 6.7 percent since 1996.[9] It should be noted, however, that this decline runs parallel to a growth in federal contracting. Spending on contracting as a percentage of total federal government outlays increased by 30 percent between 1993 and 2004.[10] Many observers believe that declines in headcount have been matched by increased numbers of contracted workers, but it is difficult to un-pick what portion of this increased contracting spend is people.[11]

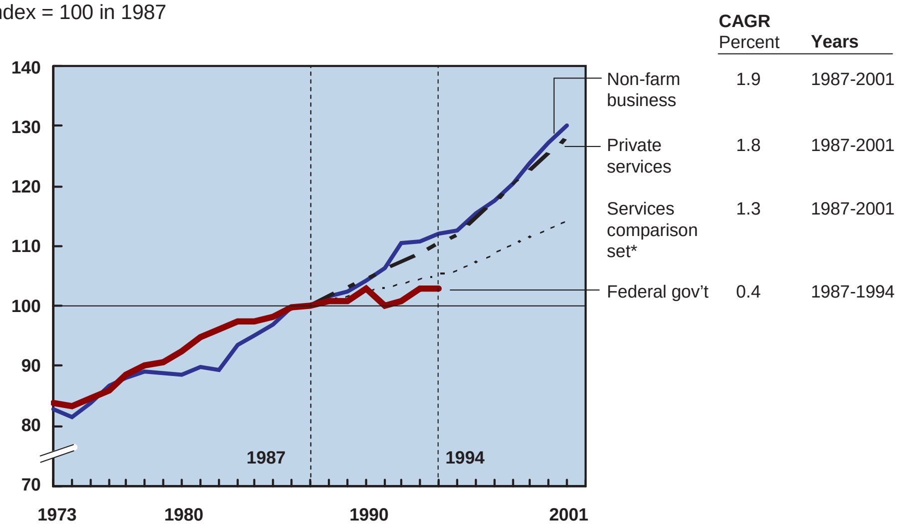
Anecdotal evidence on outputs is mixed. Most observers we interviewed guess that the government's productivity has increased since 1994, in the light of improved working practices across society (especially in communications), and a renewed culture of performance. However, almost all expect that the private sector has done better, and we tend to concur. Despite the fact that the government is increasingly aware of best practice in management, is trying to adopt it, and has improved its professionalism, we have not seen the widespread step changes in productivity levels seen in many large corporations, outside of a number of impressive efforts in several agencies. For example, in technology, we have seen good progress in moving citizen services online, but fewer advances in IT-enabling core, back-office processes. In short, the government is running harder

8. Budget of the United States Government, Historical Tables, US Office of Management and Budget via Statistical Abstract of the United States: 2006, US Census Bureau
9. Federal Employment Levels, Bureau of Labor Statistics, Jan 96 - Jan 06
10. Federal Procurement Data System, OMB
11. This question is discussed in Paul C Light, "The True Size of Government," Brookings Press, 1999

THE GAP IN GOVERNMENT SERVICES PRODUCTIVITY

U.S. productivity, 1973-2001

Index = 100 in 1987



* Comparison set made up of education services, health services, and all other private services weighted according to the share of public spending on education, health, and all other services (not including transfers)

Source: U.S. Bureau of Labor Statistics; Jack Triplett (Brookings Institution)

but still failing to catch up with the management and technological advances of the private sector.

The economy suffers as a consequence. In broad terms, prosperity receives a boost if productivity growth is increased in those public goods that underpin economic success: for instance, in science, education, and infra-structure. In more direct terms, higher government productivity is of immense value. We have previously estimated that a 5 percent productivity gain over ten years would be worth $100 billion, whereas a 15 percent productivity gain would be worth $300 billion.[12]

These levels of productivity improvement are entirely plausible. Our 15 percent figure envisions a scenario in which government services are able to achieve the same productivity growth rates as private sector services did in the period between 1987 and 2001. Many have argued that the public sector will never match the productivity gains of the private sector but we are not convinced. Our 5 percent figure takes account of the doubters, making the modest assumption that government services are only able to achieve half the productivity performance of comparable private sector services. However, on the basis of our discussions with government leaders and our work with agencies, we believe ambitious levels of productivity growth are achievable. Of course, achievable does not mean easy – large productivity gains in the public or private sector are immensely difficult to generate.

WHAT CAN GOVERNMENT LEARN FROM THE PRIVATE SECTOR?

The gap between the productivity gains achieved by the private and public sectors is a source of concern, but also an opportunity. Although the public sector has unique characteristics, there is much still to be learned from the private sector. Indeed, many of the productivity gains that government has achieved to date have come from managers who have deployed best practice borrowed from the private sector.

The McKinsey Global Institute (MGI), an independent economics think tank within our firm, has been

12. See Thomas Dohrmann and Lenny Mendonca, "Boosting government productivity," *The McKinsey Quarterly*, 2004, Issue 4. These productivity gains are given a dollar value, by assuming, for the purposes of calculation, that they were captured as savings. In fact, the private sector productivity benchmarks used represent some mix of increased output as well as decreased input. The savings numbers were calculated from government consumption figures in OECD comparative national accounts and exclude transfer payments.

measuring private sector productivity around the world for more than 15 years. As Bob Solow and Martin Baily have observed, the MGI approach is distinct from most calculations of productivity because it builds up a micro picture at the firm and sector level, producing results that have proven to be consistent with aggregate productivity data.[13] Building on McKinsey's industry expertise around the globe, MGI seeks to gain an in-depth understanding of how productivity differences emerge from different operational and managerial practices, and how the policy and economic environment facing companies shape the incentives for their decisions. This has enabled MGI to uncover the critical sector-level barriers to improved productivity that have gone unnoticed in typical macroeconomic analyses.

MGI's analysis of sector-level productivity in more than 20 countries (including the United States, the United Kingdom, France, Germany, Japan, and China), and in nearly 30 industry sectors (including retail, banking, healthcare, machine equipment, semi-conductors, and hotels), shows that competitive intensity is the prime catalyst for productivity growth. Competitive pressure forces companies to innovate new products or cheaper ways to produce existing products; it also encourages these innovations to diffuse rapidly and scale up, lifting productivity even more.

It is precisely this dynamic that helps explain the recent boom in US private sector productivity. MGI has found that most of this boost came from a few highly competitive sectors, including retail and wholesale, finance and insurance, and computers and electronics.[14] In each one, productivity gains can be traced to managerial and technological innovations that improved the basic operations of the companies. In retail, increasing competitive pressure led to the adoption of more productive business practices by almost all players: transition to large scale formats; reaping scale benefits in warehouse logistics and purchasing; and improved sourcing through electronic data interchange (EDI) with suppliers. In securities, the rapid growth of on-line trading boosted productivity, as one employee could now broker ten times more trades than before; and competition from on-line discount brokers like Charles Schwab and E*Trade was critical in ensuring the rapid diffusion of these practices to traditional brokerage houses. In the semiconductor industry, increased competition from AMD led Intel to reduce the average time of bringing new, more powerful chips to market, a process enabled by electronic design automation (EDA) tools.

Everywhere that MGI has seen productivity growth, this virtuous cycle of competition, innovation, dispersion, and enhanced productivity has been present.

Core Pillars of Government Productivity Growth

Change in the private sector has been driven by great managers, but enabled by the right sector-level conditions that engendered competitive pressure. Likewise in government, it is agency and program managers who will deliver more productive government; but it is policymakers who need to put pressure on them to perform by fostering a climate that mirrors competitive intensity. Of course, competition may not be the most desirable framework within which to deliver public services – and in any event, for the right and wrong reasons, governments seldom allow program failure to mean program extinction.[15] However competition is a means to an end – namely pressure and motivation to perform – and government needs to find other ways to ensure that performance in agencies has the right

13. Martin Neil Baily and Robert M. Solow, "International Productivity Comparisons Built from the Firm Level," *Journal of Economic Perspectives*, Volume 15, No.3, Summer 2001
14. "US Productivity Growth, 1995 - 2000," McKinsey Global Institute, October 2001
15. There is a spectrum of ways to inject competition into government, although we do not explore them in detail here. We believe they have finite potential but can generate real increases in government productivity.

incentives and consequences. Everyone we have met in government has a high level of commitment to improve results, even in the absence of the financial incentives of the private sector and in the most trying of circumstances. Yet their efforts will be far more effective with the right incentive structure for individuals, teams and agencies.

> Increasing transparency and accountability in Washington will be undesirable unless matched by the goodwill and resources needed to turn around under-performing programs.

Given our assessment of the importance of competitive intensity and innovative management to productivity growth in the private sector, we believe that a successful campaign for productivity improvement in government requires:

1) The pressure of performance transparency – there need to be alternative mechanisms to competition to create comparable pressure on managers to perform. We believe the most effective way to achieve this in the federal government is to generate far greater transparency about performance than exists today;

2) Support for performance transformation – we must, in return, enable managers to achieve a sustainable higher level of performance by giving them increased incentives and capabilities.

These two pillars represent a profound *quid pro quo* that raises the stakes for government agencies but, at the same time, gives them more help to be successful. Many of the people with whom we talked believed that increasing transparency and accountability in Washington will be undesirable unless matched by the goodwill and resources needed to turn around under-performing programs. We have seen pressure and support deployed in tandem in government reform efforts around the world, and it is clear that the consequences of having one without the other can be severe. Pressure without the support to achieve improved results leads to demoralization; conversely, giving an agency or program ample support but no pressure can lead to complacency.

These two pillars can also form the same virtuous cycle seen in the private sector. Transparency in government will better enable performance transformation, as it creates more stark and actionable evidence of the transformation required, benchmarks for what can be achieved, and evidence of best practice. In short, more transparency will help diffuse best practice management across government.

Pillar 1: The Pressure of Performance Transparency

While there is an abundance of information about every government program, there is little genuine transparency about how they are performing. There have been a number of initiatives in recent years to put pressure on government agencies to perform by increasing accountability. However, these have had mixed success, mainly due to their inadequacy in changing the way the budget is allocated. The US system of government – a separation of powers combined with the federal system – makes the connection between budget and performance far less straightforward than in other political systems. However, we have come to believe that increased transparency about government performance leads to greater budget and performance integration.

CREATING PERFORMANCE PRESSURE: THE ACCOUNTABILITY MOVEMENT

The rhetoric of accountability is omnipotent in government, although much of its real potency is directed to alleged fraud, waste, abuse and scandal, rather than results. But significant progress has been made, initially by GPRA, and latterly by the PART.

GPRA requires that every agency has a long-term plan to achieve a set of stated outcomes; performance goals for each of these outcomes; and an annual Performance & Accountability Report on progress in reaching these goals. These plans and reports are monitored by Congress (and the GAO on Congress' behalf), and stress-tested further by the PART.

> "GPRA reporting allows agencies to set outcome measures and performance goals but these don't always get challenged to ensure the outcomes are the desired ones and that the goals are truly stretching."

These tools, rooted in sound management thinking, have helped raise the level of attention to performance at agencies, forcing many of them to gather and monitor results data for the first time. The tools have also enjoyed real, if not complete, success at converting the culture of government to be outcome focused rather than activity focused. There does however appear to be a wide disparity in the adoption and quality of outcome measures; nevertheless, Maurice McTigue, who leads the Government Accountability Project at the Mercatus Center at George Mason University, argues that the GPRA has succeeded in increasing the "outcome" focus in government.

McTigue's concern is that it has failed to develop a much needed, cross-government results agenda that aligns all program activity behind a relevant, single outcome, regardless of agency boundaries; and then establishes priority outcomes for government as a whole.[16] Adopting a government-wide outcome approach would therefore allow the government to identify and rationalize overlapping programs, which many believe would yield improved productivity. Indeed, the Comptroller General David Walker has suggested that the federal government needs a fundamental baseline review of what it does, and who should do it – a process that would require a major Congressional study.[17]

GPRA reporting allows agencies to set outcome measures and performance goals but these don't always get challenged to ensure the outcomes are the desired ones and the goals are truly stretching. The PART tries to pick up this task. For each program, it assesses program design and purpose, strategic planning (including the quality of the performance goals and connection between long-term and annual plans), program management, and performance results. The PART is proving to be a very effective tool although there are still challenges typical of a system in its early stages. Assessment is naturally more difficult when outcome measures are poor or undeveloped and good data is not collected by the programs. Assessors at OMB are often, in the words of an alumnus, in "triage" mode, with insufficient time to probe as deeply as one might like to find consistent and compelling evidence of program performance. It is also hard to develop comparable and consistent approaches to measuring such disparate activities.

Despite their strengths, the impact of these tools appears stymied in a number of ways.

First, according to McTigue, appropriations are very rarely connected to stated outcomes although this needn't be the case – it is not true, for instance, in New Zealand. The government there has sought to connect the two through Purchase Agreements, which will stipulate the quantity and quality of the outcome purchased and determine the results to be achieved by the equivalent of the Secretary and Deputy Secretary and the agency. These are subject to amendment by legislative appropriators, who will therefore dictate the

16. Interview with Hon Maurice McTigue, Distinguished Visiting Fellow, Mercatus Center, May 2006
17. See "21st Century Challenges, Reexamining the Base of the Federal Government," GAO, GAO-05-325SP.

outcomes, qualitatively and quantitatively, that they expect in return for funds given.[18]

Second, many agencies that we interviewed admit that while performance goals and measures are regarded as an essential part of their compliance with Congress and White House demands, they still do not drive the management of the agency. GPRA and PART have created a sub-sector of government workers, departments and processes designed to fulfill reporting requirements, without necessarily changing how top managers operate. When performance management does penetrate to the "top table", it is usually due to a strong managerial orientation on the part of a senior leader who, at his or her discretion, adopts the spirit and letter of the tools into the way the agency is run.

DILUTING PERFORMANCE PRESSURE: BUDGET POLITICS

At the heart of these limitations is the real-politick of a budget process that de-prioritizes performance as the driving force of appropriations. GPRA and the PART have created a far better dialogue about results without adequately altering Washington's budget dynamics. The Administration had envisaged that the PART would enable a greater level of budget and performance integration but, in reality, budget and performance have become structurally disparate. The White House uses the PART to better integrate its own budget and performance planning, yet lacks ultimate budget authority. The Congress has budget authority, but it is often different committees that review agency performance and program budget. According to the GAO, the PART, despite its strengths as a performance assessment tool, has not been designed or applied with sufficient input from Congress, which consequently fails to draw on it effectively in the budgeting cycle.[19] On the other hand, several agencies we spoke to complained that too few Congressional dialogues are performance-driven despite the wealth of information now available. This disconnect is best exemplified by the fact that, to date, the timing of PART reviews and program reviews in Congress has not been aligned.

"For some programs, getting results has no real impact on getting budget; for others, getting results is necessary, but not sufficient."

More fundamentally, other forces hold sway in the budget process. Ideology or policy differences over a particular program continue to dominate budget decisions long after a program is first established; potential public reaction to increasing or reducing a program's budget weighs heavily on a politician's mind; and, above all, benefits accruing to a particular district can often be the most critical driver in budget negotiations. Government managers with whom we spoke said budgeting is about what you can get, rather than what you need. For some programs, getting results has no real impact on getting budget; for others, getting results is necessary, but not sufficient.

So the relationship between the budget and results tends to be weak. This is not necessarily the result of bad behavior – accountability was not designed exclusively as a means to achieve government results, but also to serve other core objectives in the American model of government. From the legislature's point of view, Congress exists to monitor and control the power of the executive branch, acting as guardian of the public's money, and ensuring that each state and district's interests are secured. Likewise, in the eyes of the executive branch, a President may face challenges more urgent and specific than widespread improvements in government performance, and agency leaders are ultimately accountable to the President's priorities.

18. For more on purchase agreements in New Zealand, see "Purchase Agreement Guidelines: With Best Practices for Output Performance Measures," at www.treasury.govt.nz/publicsector/pag/default.asp
19. See "Performance Budgeting: PART Focuses Attention on Program Performance, but More Can Be Done to Engage Congress," GAO-06-28

There are, however, occasions when performance dominates the political agenda – both 9-11 and Hurricane Katrina sparked intense political interest in government competency and effectiveness. Congressional committees instantly called hearings and the President swiftly responded. Appropriators will no doubt follow suit – it is highly likely that the Federal Emergency Management Agency (FEMA), the Central Intelligence Agency (CIA), and the Federal Bureau of Investigation (FBI), for instance, will now encounter more concerted reviews of performance in their budget processes.

> "The reality is that we have much more information, but not equally more insight; an abundance of disclosure, but a corresponding lack of clarity."

These incidents – although clearly extreme – give an insight into a way forward suggesting that, when government performance is made truly transparent and highly visible, it then becomes a political imperative.

TRANSPARENCY BRINGS PRESSURE

"Naming and shaming" is a powerful force in Washington. One senior government leader endorsed this notion when referring to the President's Management Agenda scorecard – a traffic light indicator of how well an agency is executing the President's five management priorities. He said, "I may not agree with all of it but no one in town wants to be the guy in the red". Transparency is vital if individual agencies and leaders in Washington are to be accountable, not only to citizens but also to their peers, and therefore be put under pressure to perform.

On the face of it, there is more transparency today than ever before. When the BLS was measuring agencies' productivity in the 1990s, the data was voluntary, anonymous and aggregate – Congress and the public could get a picture of how productive a large share or particular process of the Federal Government was, but not specific agencies or programs. Today, OMB provides disaggregated information by putting PART assessments for every program online at www.expectmore.gov and, as already discussed, agencies now publish their own annual reports. There is increased financial reporting and an enhanced capability at GAO to generate good reports on performance matters.

Yet the reality is that we have much more information, but not equally more insight; an abundance of disclosure, but a corresponding lack of clarity. Our current transparency is somewhat illusory because government performance information lacks three separate, but interconnected, characteristics:

- Comparability
- Accessibility
- Independence

Comparability and benchmarking are completely underdeveloped. There is a lack of longitudinal data – showing how well an agency or program is performing against previous years, or against targets. There is a lack of intra-government benchmarking – how a program or function in government is performing against comparable peers or within different levels of government, and this is the case despite commonalities in activities (grant making, form processing, etc) and program types (R&D programs, regulatory-based programs).[20] There is also a lack of inter-government benchmarking data comparing performance between countries; and a lack of public-private benchmarking, despite many common processes. Of course, comparability is not straightforward. One of the strongest arguments for a government productivity

20. In Italy, for example, consistency in measurement is under development through a uniform classification of revenues and expenses at every level of government, allowing for benchmarking across the same government level or between regions and/or municipalities

measurement program is that it is one of the best ways to compare disparate activities. Where complete comparability is beyond reach however, there is still potential for increasing consistency of measurement.

> "Government reporting lacks the discipline imposed by infomediaries in the private sector. There is a very small community of analysts who extensively monitor government results - there are even very few journalists who take on this role."

Accessibility is essentially the ease with which one can understand how an agency/program is performing. This is partly a question of comparability. It is difficult to know whether a program's performance at a given moment is good or bad, without more context. But information is highly dispersed – one has to look to several different sources to round out a good analysis of performance. It is also a function of the user-friendliness of language. Appropriations remain mysterious to onlookers beyond a small body of experts, despite being disclosed and debated by several public bodies.

Independence, in turn, is also important. The three-part scoring of the President's Management Agenda and the five-part grading of PART assessments are an accessible way to present performance data, and a good, if qualitative, comparison of programs. Yet some people mistrust the information because of where it comes from. Similar concerns are expressed about the output of public bodies that serve the Congress.

The absence of these characteristics is the consequence of an underdeveloped information marketplace in government that does exist in the private sector. Even in simple reporting terms, the Securities and Exchange Commission (SEC) requires companies to produce detailed information about historical performance, as well as data and analysis that provide a window into future performance. These filings are, in turn, analyzed by a large number of "infomediaries" – including market and credit analysts, rating agencies, corporate directories, industry associations, an extensive financial press, and bloggers – who interpret them for investors and the public. In anticipation of all this scrutiny, most companies go beyond SEC requirements and publish even more information than that required by the regulator. Customers then provide the ultimate feedback loop, not only acting as a ready source of market research, but also because they vote with their pockets.

The situation in the government sector couldn't be more different. Agencies' annual reports vary greatly in the quality and detail of performance information, and are often compiled by a junior team which in no way matches the quarterly results preparation of a corporation which is driven from the CEO down. Financial reporting is increasingly improved, but is cost-focused; and, as discussed, more could be done in the thorny area of measuring outcomes – the government equivalent of revenues and profitability. Perhaps above all, government reporting lacks the discipline imposed by infomediaries in the private sector. There is a very small community of analysts who extensively monitor government results – there are even very few journalists who take on this role. Yes, GAO and OMB analyze results, and do so with evident quality, but with the limitations discussed above. As for customer feedback loops, these are rare in government, although more agencies are trying to measure customer satisfaction.

INFOMEDIARIES BRING TRUE PERFORMANCE TRANSPARENCY

How can this be changed? One option would be to establish a separate entity to monitor and interpret agency performance data. One interesting model is Morningstar, which analyzes stocks and mutual funds; provides investors with relevant data, benchmarks, and analysis; un-picks complex products, aggregating and interpreting information for investors; and allocates ratings for each product. Morningstar ratings count: five-star funds increasingly attract the greatest investment flows.[21]

In the non-profit sector, this model has been replicated to an extent by GuideStar, which compiles extensive information about non-profit organizations, derived primarily from their legally-required reports; and provides a full database search service for potential donors, among others, to allow them to understand the nature and performance of non-profit bodies using various classifications. GuideStar already provides independence and accessibility, but still strives to develop greater consistency and comparability in performance measurement.

Couldn't there be a Gov-Star?[22] Such an entity could, over time, deliver the three critical characteristics of true transparency: comparability, accessibility and independence. It could also monitor Congressional appropriations, tracking how well linked they are to results. We find the idea compelling, although there would be some hurdles.

First, in creating a robust infomediary for the federal government, there is a trade-off between independence on the one hand, and trust and access on the other. The BLS derived some of its productivity data from budget information – evidence that a more independent body could access considerable program information; but BLS had built up a high level of trust within the Government, which enhanced its expertise and access to information. OMB has access to an extensive range of information, but is unlikely to be regarded as sufficiently independent by citizens or legislators. GAO appears to offer a good alternative, given its depth of understanding and good working relationship with agencies. The fact remains, however, that it is a servant of the legislature – more so than some of its peers in other countries – and therefore its ability to become the critical infomediary of government performance may rely on its attaining greater independence. Likewise, the Congressional Budget Office (CBO) is regarded highly by many for its analytical capacity and boldness but is also a servant of the Congress. There may be alternative public bodies – or a new one could be created. Complete independence is also possible; foundation funding could be sought for a non-profit institution to take on the role.

We do not have a strong view about the governance of such an entity but would highlight the principles for its success: it should be a-political; not within the capture of one branch of government; it must have some form of permanence; it must have access to government performance information; and it must be well resourced, although total cost would be modest compared to impact.

Second, some have argued that, unlike the private sector, there is no comparable demand for an information marketplace in government. This implies that citizens and legislators have less of an interest in performance information than investors. This may be true but is itself indicative of the problem and of great concern. Policymakers, government managers, and citizens should have more demand for this kind of information and good government mandates stimulating that demand through greater supply. The internet is the classic case study of how information supply can stimulate information demand: the public did not demand bloggers and Wikipedia, but these information providers have now created our unrelenting demand for their services.

Pillar 2: Support for Performance Transformation

As transparency increases, so will performance pressure and the need for greater assistance to help agencies to thrive in a new, more accountable environment. Yet incremental, year-on-year improvements in results are too modest an aspiration if government is to address the productivity imperative. What is required in many areas

21. According to research by McKinsey's Asset Management Practice
22. Or, as one senior government appointee suggested to us, a bond rating for every agency

of government is a transformation of performance. The term "transformation" is used frequently in government as well as the private sector and requires some definition. We define transformation as a conscious transition to a sustainable way of working at a significantly higher level of performance. In other words, government agencies would achieve far greater results and levels of productivity than they do today.

> Agencies *are* allowed to keep gains made from competitive sourcing and reducing improper payments, so there seems no principled reason not to apply the same kind of incentives to budgets.

This requires a fundamental shift in ambition, culture, capabilities, and processes within the organization and, therefore, much of the effort will take place at agency level. Again, however, there are important interventions that Congress and the White House can make to the operating environment at sector level that will enable transformation efforts to flourish.

PRODUCTIVITY INCENTIVES

The first intervention is to increase the incentive for managers and personnel to achieve greater productivity, by allowing them a share in the gains to be redeployed to the front line of programs. Around the world, managers fear the consequences of under-spending, living by the mantra of "use it or lose it"; US agencies and programs are no different. Any savings made are regarded by both the OMB and Congress as the government's money – indeed the people's money – and no-one is incentivized to come in under budget. However, agencies *are* allowed to keep gains made from competitive sourcing and reducing improper payments, so there seems no principled reason not to apply the same kind of incentives to budgets.

We have spoken to OMB leaders under both Republican and Democratic administrations and they believe this measure would have a real impact and that it would be possible to convince the public that savings should be redeployed, as long as they went to the front line.[23] Such a scheme would obviously require alignment between OMB and the Congress. Perhaps counter-intuitively, we think it would be more achievable in an era of deficit reduction. Agencies could set stretching efficiency targets with the incentive of keeping savings over and above what was demanded. Indeed, meeting these stretch targets requires the kind of major effort that could yield extra savings.

There may be a need for longer budgeting cycles, given the time taken to achieve these savings. In the United Kingdom, for example, the Gershon Efficiency Review established savings targets for government departments. In the most recent spending allocation round, the Treasury allowed excess savings achieved over a three-year period by several agencies to be reinvested.[24] A proposal for a biennial budgeting process in the United States is included in the Stop Over-Spending Bill, currently before Congress.[25] We have no firm view on multi-year budgeting and recognize it is a complex question. However, even if the measure were not to be introduced across government, it may be worth exploring whether a multi-year approach could be taken for those aspects of government service delivery (much of which is in politically uncontested territory) where large productivity gains are possible if addressed over a longer time frame.

Likewise, personnel are offered too few incentives to increase their own performance beyond a sense of

23. The point was also made by Mitch Daniels, then OMB Director in "Homeland Security: Do It Right," *The Washington Post*, July 23, 2002
24. See "Government agencies face 5% cutback" By Nicholas Timmins, Financial Times, March 22, 2006
25. S.3521 introduced in the Senate on 15 June 2006. The biennial budget process was earlier proposed in s.877

greater fulfillment in their work, which for many is, of course, sufficient. The effort to provide differentiating rewards for personnel based on performance is already underway. However, while the principle appears to be enjoying consensus, the methodology remains questioned. We do not address the current pay for performance debate in detail here but we do hope the most effective approach can be agreed, as this will be a powerful tool in assisting agencies to succeed. It is important to bear in mind that the financial gain for employees (likely in most cases to be modest compared to the private sector), is important as much, if not more, for the recognition it confers. Indeed, recognition is a powerful motivator in the government workforce, which is so mission-driven. Beyond compensation, government should explore how productivity growth can be better recognized in non-financial ways, for agencies, programs, teams, and individuals across government.

INCREASING MANAGEMENT CAPACITY AT AGENCIES

The second intervention is to increase the pool of management skills at agencies. In a series of interviews we conducted with agency and department leaders, every interviewee suggested that, even when the system has the right incentives to perform, agencies can fail due mainly to shortages in capabilities. The most important of these is managerial talent, whether that is in bench strength across the organization or in a highly capable and united management team that can create a performance culture.

Leading a government agency is incredibly demanding and complex and a number of different agendas for enhancing management have been aired in recent times; indeed we have written elsewhere in more detail about government management.[26]

> "Instituting this new role (COO) would be a major step forward in achieving the performance transformations required in many agencies; and that, given that many agencies resemble large companies in scale and complexity, it is indeed an imperative."

In 2003, the GAO convened a roundtable addressing the challenges of federal governance,[27] during which participants highlighted three major themes:

- Attention on management issues and transformational change is necessary in many agencies;
- Dispersed management and transformation efforts within agencies should be integrated;
- Government needs to institutionalize accountability for addressing management issues and leading transformational change.

The roundtable was built around the proposal of having a Chief Operating Officer (COO) for agencies, with the credentials and expertise to make these three themes a reality. To date, no agreement on the idea of a single COO has emerged in Washington and there is debate around whether the role should be a term appointment, perhaps one that crosses administrations and if it should be a political appointee.[28] However, we believe that instituting this new role would be a major step forward in achieving the performance transformations required in many agencies; and that, given that many agencies

26. For example, see GAO Comptroller General's Forum "High Performing Organizations," February 2004 GAO-04-343SP. Also see Frank Ostroff, "Change Management in Government," *Harvard Business Review*, May 2006. For McKinsey work, see "Boosting Government Productivity," Ibid and other articles on government management in *The McKinsey Quarterly*
27. "Highlights of a GAO Roundtable - The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges," GAO-03-192SP
28. The current President asked agencies to nominate a de facto COO to sit on the President's Management Council, an indication of the momentum for the idea.

resemble large companies in scale and complexity, it is indeed an imperative. We are agnostic about how the role is constructed, but believe three principles should be considered. First, it is important to establish a close partnership between the COO and the agency leader – the de facto CEO. Second, the person appointed must meet explicit criteria comparable to being the COO of a large corporation, whether experience was gained in the private or public sectors. Third, there should be recognition of the need for a prolonged tenure in the role, given the length of time that change programs take in organizations.

> "OMB has clearly increased its focus on management, yet most agencies would still describe its dominant priority as budget, not management, and its overriding operating model being about pressure, not support."

Beyond the COO – but by extension – it may often make sense to increase the use of Critical Pay Authority to bring in the necessary management talent required to drive a transformation. This authority allows agencies to recruit personnel with particular skill sets for a limited period above the government pay-scale; it has been used for transformation efforts at the Internal Revenue Service (IRS) and the National Aeronautics and Space Administration (NASA). It is an important aid to transformation, as it rapidly builds a critical mass of capability and enthusiasm for change. However, it is a short-term fix and its use should be limited to ensure that it does not work against the longer-term objective of building the management capacity of existing government personnel. The authority is more broadly available today, managed by the Office of Personnel Management (OPM); yet it is currently under-utilized, something that also merits further investigation.

BOOST THE "M" IN OMB

A further intervention would be to evolve the role of the White House. Other governments around the world are beginning to address the productivity imperative by building a central capacity to complement the budgeting arm of the government and act as a catalyst for improved performance. Typically, this capacity resembles a SWAT team with superior government management expertise, charged with pursuing a focused agenda to bring management capability and support to government priorities. In the United Kingdom, for example, the government has, in recent years, created a number of units to provide agencies with more support, as well as sharper accountability. One of them – the Prime Minister's Delivery Unit (PMDU) – has been described by several commentators as the international frontier of performance management in government.

In the United States, OMB has clearly increased its focus on management, yet most agencies would still describe its dominant priority as budget, not management, and its overriding operating model being about pressure, not support. OMB's management staff totals 60, compared with 360 budget staff. However, budget staff members are also employed in frontline management assessment, administering the PART and measuring performance against the President's Management Agenda scorecard. Some who have worked within OMB are in favor of this integrated role, fearing that a separate management arm would lack the political leverage of those engaged in the budget process. They nevertheless recognize that program assessors are currently too stretched to take on a full counseling management role.

We believe that it is very difficult for the same people at OMB to be responsible for budget negotiation – an exercise in posture and pressure – and management capacity building – which is about partnership and support. In the United Kingdom, the PMDU solely plays the partnering function because the budget is handled by the Treasury. It is our view that the OMB could combine budget pressure and management support under one roof – and still emulate PMDU's approach in several important ways:

- First, develop a focus on improving results in the priority programs of the President or those agencies in greatest need of transformation. This focus would supplement the functional, inter-departmental approach of the President's Management Agenda currently adopted by the White House;

- Second, rather than simply establishing what has been achieved in assessing programs, use targets and implementation milestones to establish how "on-track" programs are to achieve stated outcomes;[29]

- Third, bring some of the government's most talented managers to aid the capability building process that PART has catalyzed, so that struggling high priority programs get support as well as pressure.

This new model for OMB resonates with the role of the corporate center in any private sector organization. In our research with leading companies around the world, the corporate center should play three strategic roles in its relationship with business units: safeguarding, servicing, and shaping. OMB clearly takes responsibility for this triumvirate on budgetary matters, but not so on management. It is important to note that much of this is resource-constrained. As we have suggested, all those familiar with OMB to whom we spoke acknowledged that it doesn't currently have enough funding to play a more supportive management role.

Recommendations

Political leaders in both Congress and the White House have the power to design the optimal operating environment in which agencies can improve their productivity. Both need to embrace the effective government agenda as a higher national priority and then work together to envelop agencies in a unified pressure to perform, as well as to provide them with necessary support. While intense policy fights dominate the airwaves in Washington, the reality is that the lion's share of government operations is in ideologically uncontested territory. This is the place to start a campaign of productivity improvement. We would recommend the following measures be explored immediately.

TRANSPARENCY

1) Measure government productivity: building on where BLS left off, but drawing on international standards and best practice, we should resume measuring productivity within government. A good first step would be for Congress to launch a review, similar to the Atkinson Review in the United Kingdom, which made significant methodological progress in establishing principles for measurement. Such an exercise could establish whether measurement should include all levels of government or simply the federal level; this decision, in turn, would have a bearing on whether the effort should be undertaken as part of the national accounts, or separately. If separately, there is a trade-off to be made between independence and access when determining which body carries out the measurement. As in the United Kingdom, we would encourage whichever institution is chosen to engage in broad consultation with relevant government agencies and the broader research community to define the right output measurements, adjusted for quality. One rich vein of data that could inform these output measurements would be the Key National Indicators foreseen in the Key National Indicators Initiative.[30] These are intended to be markers of national progress, including in areas where government has a major impact.

Unlike the voluntary FPMP, this effort should be compulsory. The aspiration should be to make data

29. This forward looking approach is adopted in the President's Management Agenda scorecard but less so in PART
30. See http://www.keyindicators.org/

transparent as soon as any given output measure is agreed, in order to create the pressure for continual improvement. If possible, data should be presented by agency, by program, by government function, and in aggregate. There should be benchmarks within government, with other governments, and with comparable private sector activities; and performance should be tracked over time.

We have not simulated in detail what this might cost. The BLS unit that ran the FPMP comprised only around five people but the UK experience suggests that this may grow ten-fold. We are sure that the benefits will outweigh the modest cost.

2) **Adopt an ambitious productivity growth target:** the President and Congress should set a government-wide productivity target for a meaningful period such as the potential eight-year maximum life of an administration. This would act as a political "call to arms", and have the managerial advantage of compelling sustained effort. We believe it is realistic. Experience shows that, by year four, the measurement system should be in excellent shape; and our experience of working with corporations has demonstrated that, by year eight, major transformations in performance are possible. It is hard to estimate how high the bar should be set – it is tempting to use productivity growth in the private sector as the target. However, if our hypothesis that government productivity has been lagging the public sector for nearly 20 years is correct, greater rates of growth could be within reach in the medium-term, and an even more ambitious target might be appropriate.

3) **Bring true transparency to government performance:** productivity measurement will increase the richness of public data but should be only one indicator of government performance. There are times when increased investment in services is needed and any consequent decline in productivity should therefore be placed in context. Achieving better performance data for each agency and program should be a continuous and concerted effort, driven by both the administration and Congress. This should begin with a stock-taking exercise, agency by agency, to ensure that their outcome measures are robust, measurable, and backed up by a reporting regime that increases transparency and political impact. A second step would be to create an influential Infomediary to analyze program information for citizens, stakeholders, and decision makers in both branches of government. A truer transparency framework should be based on the three guiding characteristics of comparability, accessibility, and independence.

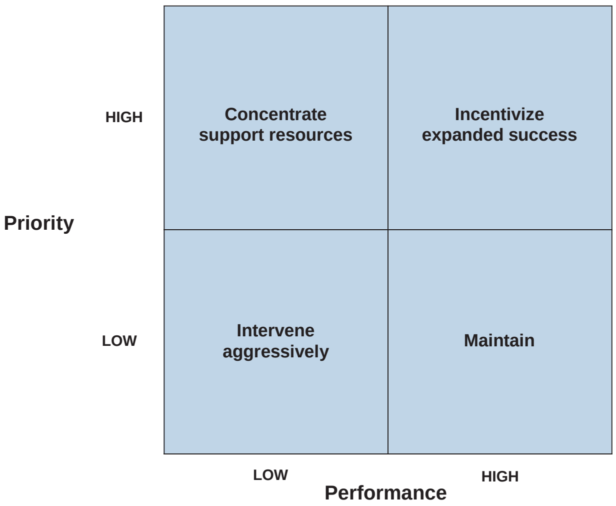
TRANSFORMATION

4) **Create incentives to boost productivity:** the government should extend the incentives currently available in competitive sourcing more broadly so that agencies can redeploy a share of productivity gains. We have no firm view on the right way to do this but it is ripe for detailed investigation. The agreed approach could be piloted with high-performing agencies. Likewise, we express our support for pay-for-performance systems that use pay and other rewards (such as advancement) to complement the existing high levels of motivation in getting the best from agency employees.

5) **Invest in agency management capability:** each agency should be managed by a COO with the skills and experience of those in major corporations. The COO would drive the performance transformation efforts of the agency. Over time, he or she should also ensure that the agency is performance-managed against the stated outcomes in its long-term strategic and annual plans, making GPRA and PART an operational reality. Likewise, in periods of transformation, more use should be made of Critical Pay Authority to build the capability and champions for change.

6) **Boost the "M" in OMB:** there should be greater emphasis and corresponding resources for management at OMB. This, in turn, would allow OMB to support transformation efforts to those programs assessed in the PART process to be low-performing but high priority. In broad terms, OMB would then adopt a strategic approach to all government programs as follows:

STRATEGIC APPROACH TO GOVERNMENT PROGRAMS



We do not believe this would require a dramatic increase in staffing and should be sufficient to give priority programs short, but concentrated, periods of support. One fringe benefit of such a unit would be its ability to attract top managerial talent from outside government and so become a nursery of future agency management. ■

ACKNOWLEDGEMENTS

In writing this paper, we interviewed approximately 50 people including senior leaders and performance managers in government agencies; current and former leaders of OMB and GAO; leaders of reform initiatives in other countries; and academics, observers, and commentators on the federal government.

We also drew heavily on a large amount of publicly available data such as agency Performance & Accountability reports, PART information on the OMB website, and a wide range of GAO reports on its website. Thank you to all of those who gave us their input, and to OMB, GAO and others, whose work we have drawn upon. We hope that we have appropriately attributed your work. Any ideas or proposals that we cite as our own, that draw on previously published work we were unaware of, we apologize for and ask that concerned parties contact us immediately so that we may act accordingly.

KEY PUBLICATIONS AND URLs

Key information on the President's Management Agenda, the PART (including agency PART assessments) and ExpectMore.Gov, was taken from www.whitehouse.gov/omb

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