

India: Organizing for Effectiveness in the Public Sector

Traditional public-sector organizations can be redesigned to perform more successfully—even when market forces are lacking.

By Keith Leslie and Catherine Tilley

By privatizing state-owned monopolies and deregulating whole industries, governments the world over have brought market forces to bear on electricity, telecommunications, and other economic activities formerly carried out in the public sector. This increased market pressure has in turn raised productivity as organizations in once-sleepy fields apply performance-enhancing tools long employed by private enterprise.

Governments, though, are frequently less willing to privatize or deregulate activities such as law enforcement, tax collection, public administration, and, in many countries, education and health care. Here they understandably give precedence to social rather than financial objectives. As a result, public-sector organizations in difficult-to-privatize areas of the economy usually can't discontinue expensive services, dismiss underperforming staff, seize offshoring opportunities, or offer the high salaries needed to attract top talent from the private sector.

But this lack of alternatives needn't lead to indifferent performance. Public-sector organizations have ample opportunity to raise their productivity. Like companies in the private sector, they can apply innovative practices in areas such as information technology and purchasing (see "Boosting government productivity"). More broadly, they can address the causes of poor performance by redesigning themselves. The private sector's experience shows that organizational redesign, when done right, can dispel inertia and complacency, rejuvenate employees, and focus their minds on crucial areas for improving productivity.¹ For public-sector bodies it will be necessary, among other things, to rethink the central bureaucracy's roles and responsibilities, to find ways of strengthening the top team, and to separate the design and provision of services.

Public-sector challenges

Both politicians and the public pressure the government to do more for less. Public-sector organizations find it hard to comply, however, because they are insulated from the competition that fuels innovation in the private sector. They must therefore organize themselves in ways that stimulate performance from within. To that end, they will have to confront several challenges.

First, public-sector organizations are often monopolies that administer and deliver essential services such as education, health care, law enforcement, and social welfare to entire populations. Usually large and complex, they tend to ossify and to become still larger as the years pass, partly because they are reluctant to prune deadwood. The result is not only waste but also fuzzy boundaries between units and a lack of clarity in roles and responsibilities—all of which hinders performance.

Second, public-sector organizations usually have broad social objectives, such as reducing crime, that make it harder for them to rank goals than it is in the private sector, where the economic bottom line provides a natural focus. In an environment involving difficult trade-offs, public-sector executives sometimes struggle to focus on the right things and to track results. Deciding whether an increase in nonviolent crimes should be tolerated if violent ones fell significantly, for instance, is far more difficult than aiming to increase shareholder returns by 10 percent. There are many quantifiable measures of success in the public sector, but rarely a single, uncomplicated bottom line.

Third, the workforce of the public sector presents specific challenges. Many managers and frontline staff enter public-service careers for the pleasure of helping others and the relative job security—not for the pay, which can be fairly low. Novel management practices such as offshoring pose political problems because they can lead to job losses at home. And the public sector tends to have a highly static workforce: many civil servants spend their entire working lives in the same organizations, and strong unions frequently limit the freedom to hire and fire. An unchanging workforce in a rapidly changing world means that many public-sector bodies lack the skills they need.

Five ways to redesign

In sum, it is hard to inject a sense of momentum into large, complex bodies that are insulated from competition and have mixed, nonfinancial missions. We nevertheless believe that organizational-design ideas, if implemented together, can help reduce managerial complications and focus the staff on doing the right things in the most efficient way. The following five redesign levers, tailored to the public sector and already applied in a few cases, have successfully liberated these organizations from their habitual limits.

Strengthen the top team

Many public-sector leaders, like their private-sector counterparts, actually face savage competition—for resources and influence—with managers from other parts of the organization. The result can be a lack of unity and purpose, with demoralizing effects on the staff.

A successful reorganization, by contrast, requires top managers of an organization to work together and take responsibility for developing a strategy that can turn its mission into a set of operational objectives and make it more efficient. Sharing knowledge and experience at the top is particularly necessary for dealing with issues that cut across departments, since in such cases lower-level managers are experts in their own areas but rarely have a broad understanding of the whole system. Take, for example, what would be required to treat heart disease coherently in Britain. A wide range of units and functions in the Department of Health and the National Health Service would have to be involved: to name but a few, central policy makers; health campaigners providing the public with general information on the hazards of smoking, high-fat foods, and a sedentary lifestyle; general practitioners in primary health care; and the cardiology units of major hospitals.

Top teams coalesce by working together.² It is important to establish collective responsibility for issues—particularly decisions about the allocation of resources—that concern many parts of the organization. When the members of the top team agree on a budget within the context of a shared strategy and no longer believe that they must compete for resources, they can begin to work together more effectively. A common purpose that transcends individual goals builds mutual trust, makes conflict more manageable, and creates a platform for the drive, focus, unity, and inspirational leadership essential to change big organizations with low worker turnover and few financial incentives.

One manager for a British regulator encapsulated his organization's performance problems with the comment, "We are good at responding in a crisis, but we seem to have a problem translating this into our daily work." Performance had no connection to the impact or results of the organization, employees weren't united in pursuing its objectives, and resources weren't always allocated in accordance with its real priorities. Clearly, the top team needed to play its leadership role more effectively, particularly in setting and communicating priorities. The organization held a series of workshops to understand and overcome the barriers that prevented the staff from working together effectively. Then it developed a communications plan presenting its strategic agenda in a way that appealed directly to the employees and enabled them to relate their own work to its overall purpose and direction. A more effective top team led the operational changes needed to make the regulator more efficient.

Separate the design and provision of services

Once organizations have strengthened the top team, they can improve their points of service delivery. In this area, mimicking or even embracing market forces helps to stimulate accountability and performance. In recent years, for example, some European governments have concluded that while they should continue to finance and specify the costs and levels of certain services, it may be appropriate for others to deliver them. A growing number of private companies, foundations, and public-private partnerships thus now compete with public-sector organizations for

state funds to build and run hospitals, kindergartens, nursing homes, prisons, and schools, for example. The public sector's role, increasingly, is to design the system—to be its architect, not the end-to-end owner.

Other ways of simulating competition can be found in the case of monopoly activities. During the past 20 years, for instance, governments have established a number of executive agencies led by chief executives charged with, and held accountable for, supplying certain kinds of services. In Britain, these agencies include the Prison Service (which runs the prisons), the Court Service (administrative services to the courts), and the Central Office of Information (communication and marketing services to a range of government departments). The beauty of separating the design and provision of services is that government ministries can concentrate on the development of policy, while the executive agencies are free to focus solely on operations and can be more easily held accountable for their performance. In addition, an executive agency's more manageable structure makes it easier to engage the front line in change.

Public-sector institutions can raise their productivity in purchasing, where their **clout** as a huge buyer can be used to squeeze suppliers

The separation of roles also helps public-sector institutions focus on improving their productivity, most notably in purchasing, where their clout as a huge buyer can be used to squeeze suppliers. Britain's Ministry of Defence embraced this idea when it introduced a new structure for buying military supplies. Until 1998, project directors with limited power and resources handled such purchases. These officials had to juggle the financial and technical demands of the ministry's powerful functional players, and it was unclear who had ultimate responsibility for the delivery of new weapons systems and who could demand changes in their performance and thereby their cost.

A new program called Smart Acquisition³ created two separate and accountable organizational entities. One is a unit within the ministry: the Equipment Capability Customer (ECC), which defines the military and technical capabilities required to make good on the country's defense commitments and, as the customer, determines what is affordable. The other is an executive agency—the Defence Procurement Agency (DPA)—that takes the role of supplier by defining the actual equipment that can deliver the necessary capabilities and by managing the tendering and procurement process. This approach has promoted accountability, faster decision making, and a better view of defense procurement as a whole, all of which helps solve the complex problems that arise in what are sometimes decade-long defense projects.

Define the role of the organizational center

This separation of roles should also be applied to a public-sector body's organizational center, or headquarters, which plays a vital role in setting policy for the operational

units and in directing their interaction. In our experience, both private- and public-sector organizational centers tend to become bureaucratic unless they regularly review their structure. In the public sector, they tend to be very large, often with huge budgets and staffs. Service providers and operating units are often located at headquarters as part of the organizational center, with its managers ultimately responsible for their results. Clarifying its distinctive roles is liberating for management and staff alike because everyone can focus on the most appropriate activities. The crucial point is to ensure that policy making and the delivery of services have a different ethos and orientation.

In both the private and the public sectors, the most effective way to redesign a head office is to examine each of its activities and to assess whether more value would be created if they were located elsewhere. Only "shaping" and "safeguarding" activities should belong to the center. Service activities, such as HR, payrolls, and R&D, should be located in operating units or, if considerable economies of scale can be achieved, in separate service units shared across the organization. Such a division avoids uncertainty about roles and improves the organization's performance, since managers of operating units are often more eager to raise their efficiency than are headquarters executives, who might be less interested in supposedly mundane service tasks. In Britain, the Department of Health recently reduced the number of employees at its headquarters by 38 percent specifically to redeploy them in regional units and thereby improve its frontline operations.

Integrate performance management

In the public sector, performance management—the setting of specific targets and indicators that measure achievement—is often noticeable by its absence. Many public servants believe that it is neither appropriate nor practical, because their work usually doesn't have financial objectives. When performance-management tools *are* applied in the public sector, they often involve a numbing web of irrelevant and demoralizing processes that seem to have little to do with actual operations. One European post office, for example, used 3,300 metrics, including measures of cost and activity, yet none of them gave it a sense of what really drove its performance. Managers disliked the system because collecting and analyzing the information was hard and because even after they had assembled the numbers it was difficult to pinpoint the sources of problems.

Moreover, many conventional approaches to managing performance really do assume that an organization wants to maximize its profits or to manage its inputs—for instance, by controlling costs. But the public sector is more complicated: organizations are often concerned with outcomes as well as with inputs and outputs. Consider, for example, a program to improve the treatment of heart disease. In hopes of delivering the output of giving patients better access to treatment, officials might increase spending to pay for more cardiologists or better technology. Nevertheless, these inputs and outputs might not realize the desired outcome of healthier hearts if

general practitioners don't diagnose problems effectively and refer appropriate patients to cardiologists.

A public-sector organization can realize its intended outcomes only by analyzing the essential elements of the system as a whole and the way they interact, developing a clear view of what the system is meant to achieve, and creating a scorecard with a few metrics simple enough to help managers analyze what is really happening. The process of setting targets and of tracking and evaluating performance against them not only compels and stimulates management and staff to do a better job but also yields continual insights into the trade-offs that any strategy requires.

Sometimes the number of performance metrics will have to fall. The European post office mentioned earlier reassessed its 3,300 metrics, identified the key indicators that really drive value, and then made the relevant people accountable for a dozen or so of them. This simplification allowed staffers to provide more frequent and accurate reports directly to the managers making operational decisions, who could then recognize and solve problems swiftly, thus increasing the organization's efficiency.

Of course, one major difference between managing performance in the public and private sectors is that bonuses are more common in the latter. Some research⁴ suggests that performance-related bonuses aren't particularly effective in the public sector, partly because it can't afford to make them high enough to provide a real incentive. We, however, believe that performance-management systems can motivate employees even without a financial "carrot"—for example, by identifying top performers, who can then get more interesting career opportunities. Furthermore, merely discussing performance can motivate employees by showing them that what they do matters.

Learn new skills

The public sector has very little labor mobility, so building a staff with the necessary **skills** means helping current employees learn new ones

A successful reorganization calls for managers and frontline staff who have the necessary skills. In the public sector, which has very low labor mobility, building such a staff means helping current employees to learn new skills. But instead of adopting the widely practiced approach of "everybody gets to go on a training course," organizations should concentrate on helping people develop the skills they need to increase their accountability and focus.

One Royal Air Force base in the United Kingdom, for example, developed a skills-building program as part of a broader effort to introduce new working methods that could increase the efficiency of the whole service. The facility's leadership chose a core of about 150 men and women: officers, station executives, people whose job was to ensure that new work practices took hold, and senior technicians. They were

then taught, for instance, how to reduce wasted time and materials in key processes, such as maintaining equipment.

Thirty activities requiring improvement (such as the flow of materials and information) were identified, and participants in the program were assessed on all of them. A wider group of people—from the leadership of the base to sergeants, corporals, and junior technicians—received training to learn how the new work pattern would fit into their daily routines. Trainers supported the entire staff as the changes unfolded, but the training was limited to what each person needed to do the job. Productivity improved rapidly because the core team's members had raised their game and focused on activities in which they knew they could make a difference. One of the base's problems, for example, was the need to repair cables very frequently. After making the procedures for fixing them more efficient, the team set out to discover why they kept being damaged. It found that drivers of cars and trucks regularly ran over them and soon put a stop to that abuse.

Overall, the program increased the spare labor capacity of the base by more than 65 percent. As a result, it no longer had to contract out work, saved millions of pounds, and ensured that critical equipment was available in time for use. No jobs were lost, and the base became a more effective organization.

Each of the five levers can be used individually to address specific performance challenges. But only in combination can they help public-sector bodies become focused and accountable—and effective at delivering the services the public demands at a cost it is willing to bear.

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Notes

¹ Jonathan D. Day, Emily Lawson, and Keith Leslie, "When reorganization works," *The McKinsey Quarterly*, 2003 special edition: The value in organization, pp. 20–9.

² Erika Herb, Keith Leslie, and Colin Price, "Teamwork at the top," *The McKinsey Quarterly*, 2001 Number 2, pp. 32–43.

³ Smart Acquisition is based on seven basic principles, including the separation of the roles of "customer" and "supplier." This principle has been fully implemented by Britain's Ministry of Defence and acknowledged as a clear success, both in internal ministry reviews and in the public arena. Yet cost overruns and delays continue, in part because of legacy projects started before the program was introduced and in part because the ministry failed to implement another Smart principle: spending more money in the early phases of technically complex projects. The idea behind this approach is to create prototypes and to ensure that all risks from individual

technologies and the integration of the system as a whole are understood and mitigated before projects are approved and before targets for costs, delivery dates, and performance are locked in.

⁴ Robert D. Behn, "On the limitations of: Pay for performance," *Bob Behn's Public Management Report*, 2004, Volume 1, Number 5.

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