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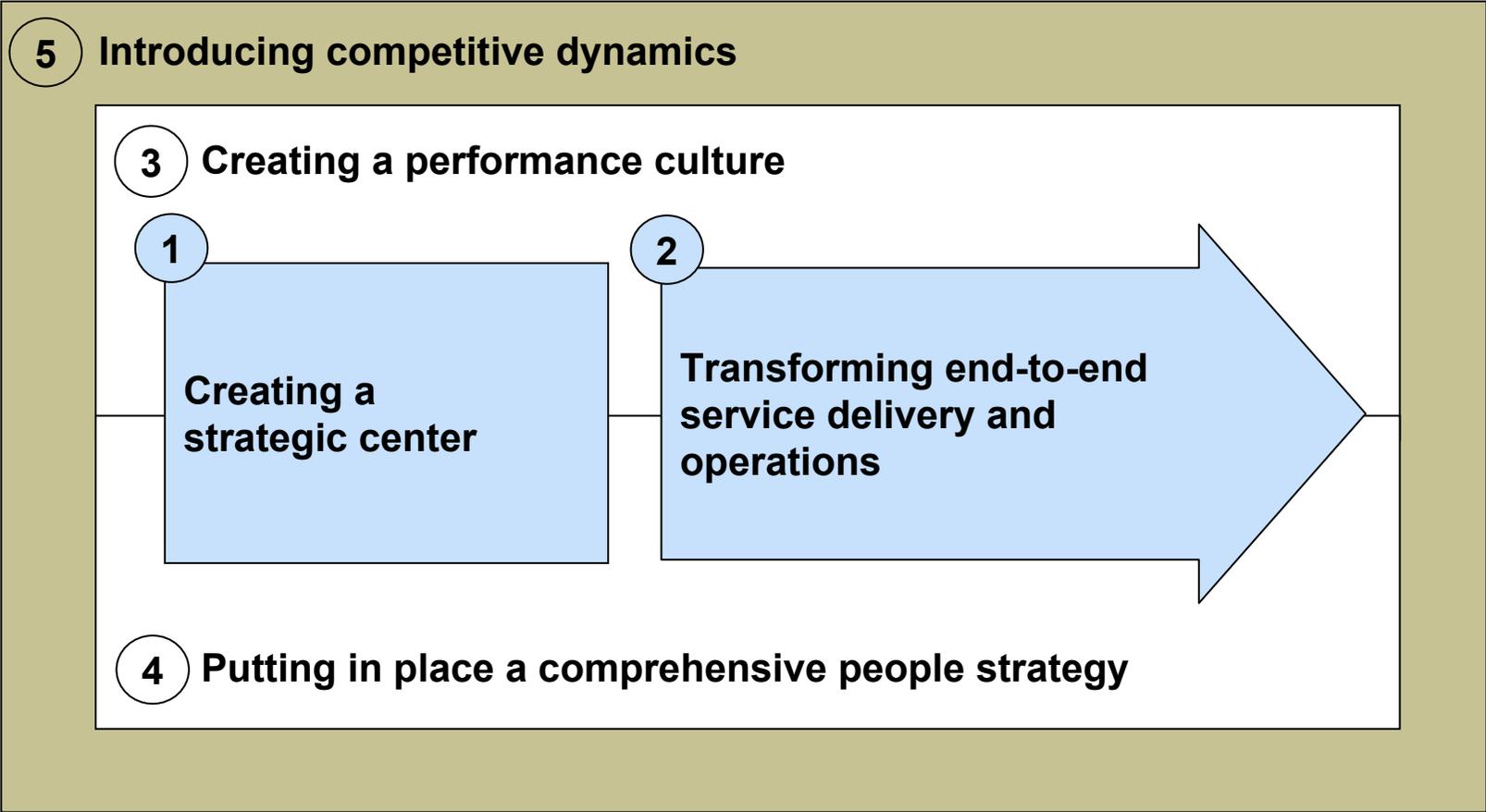
# Transforming Public Sector Performance – Lessons Learnt from Advanced Countries and the Private Sector

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McKinsey & Company Korea

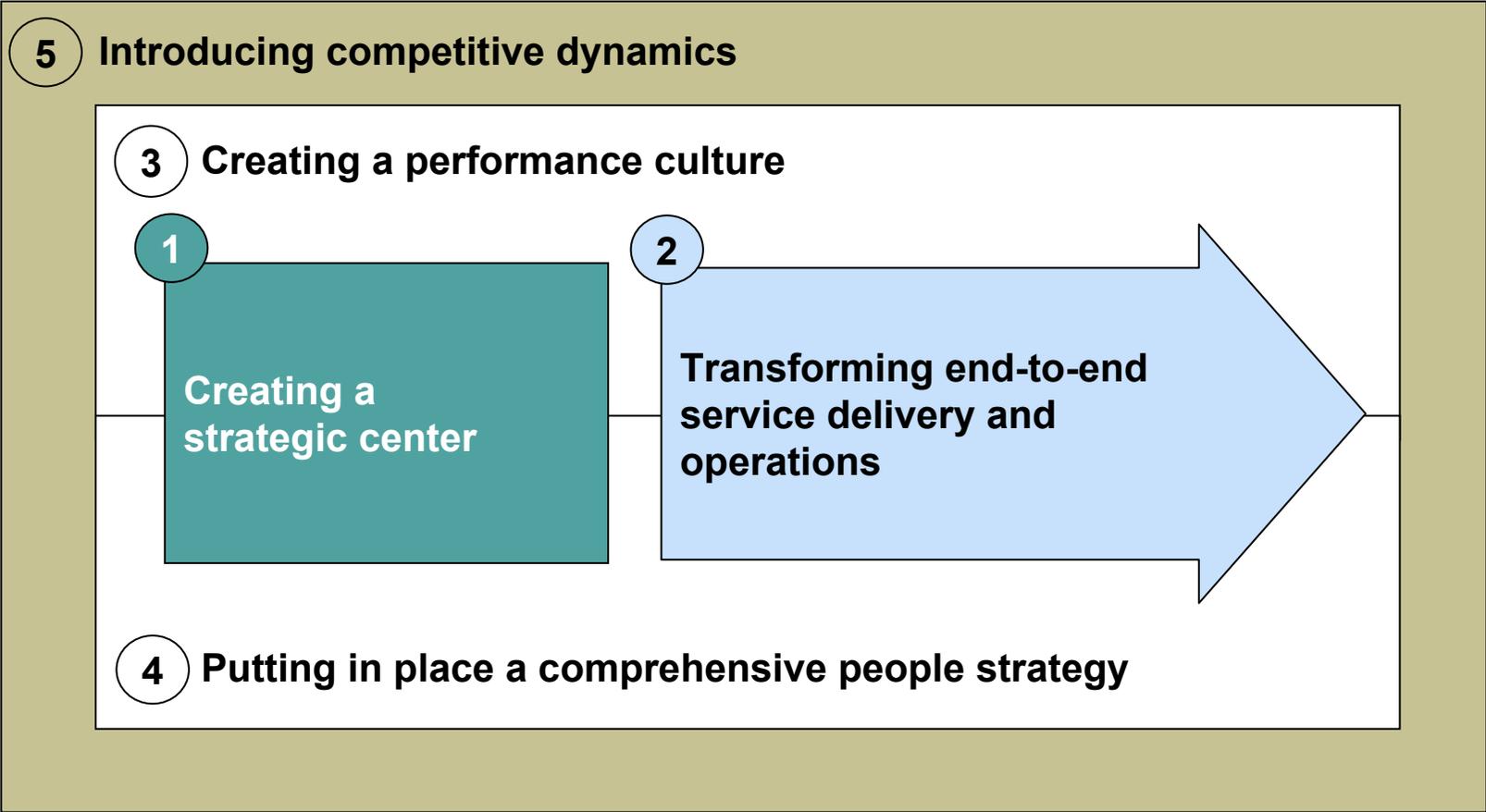
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# OUR EXPERIENCE HIGHLIGHTS 5 LEVERS FOR TRANSFORMING PUBLIC-SECTOR PERFORMANCE



# LEVER 1: CREATING A STRATEGIC CENTER THAT SETS A FRAMEWORK FOR PERFORMANCE AND PROVIDES AN IMPETUS FOR CHANGE



# THE CENTER OF GOVERNMENTS, MINISTRIES, AND DELIVERY ORGANIZATIONS SHOULD FOCUS ON DIRECTING, ENABLING, AND SAFEGUARDING OPERATIONS

		Description	Rationale
<b>“Engine room”</b> <i>Direct the organization</i>	Strategy/policy development	<ul style="list-style-type: none"> <li>• Creating and integrating strategy based on assessment of future needs and priorities</li> </ul>	<ul style="list-style-type: none"> <li>• Major trends affect entire organization</li> </ul>
	Planning and resource allocation	<ul style="list-style-type: none"> <li>• Planning, prioritization, and resource allocation throughout organization</li> </ul>	<ul style="list-style-type: none"> <li>• Organization funded as whole and must prioritize, plan, and invest coherently</li> </ul>
	Performance management	<ul style="list-style-type: none"> <li>• Tracking performance against targets and major activities, and ensuring corrective action when required</li> </ul>	<ul style="list-style-type: none"> <li>• Leadership is ultimately responsible for performance</li> </ul>
<b>Enabling</b> <i>Create capability</i>	People development	<ul style="list-style-type: none"> <li>• Developing plans to attract, develop, and retain talent</li> </ul>	<ul style="list-style-type: none"> <li>• Talent is a scarce resource to be deployed strategically</li> </ul>
	Organization development	<ul style="list-style-type: none"> <li>• Ensuring that the organization structure is fitting and evolves appropriately</li> </ul>	<ul style="list-style-type: none"> <li>• Provides integrated strategic review of an organization's effectiveness</li> </ul>
<b>Safeguarding</b> <i>Protect the organization</i>	Reputation management	<ul style="list-style-type: none"> <li>• Building and maintaining reputation through effective communication and engagement with stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• External reputation largely framed at an organizational level</li> </ul>
	Risk management	<ul style="list-style-type: none"> <li>• Scanning for and managing risks, as well as ensuring appropriate mitigation</li> </ul>	<ul style="list-style-type: none"> <li>• Only an integrated view provides adequate visibility of potential cases</li> </ul>

# THE FUNDING OF U.K. GOVERNMENT DEPARTMENTS IS TIED TO HIGH-PROFILE PERFORMANCE CONTRACTS: PUBLIC SERVICE AGREEMENTS (PSAs)

Elements of PSAs

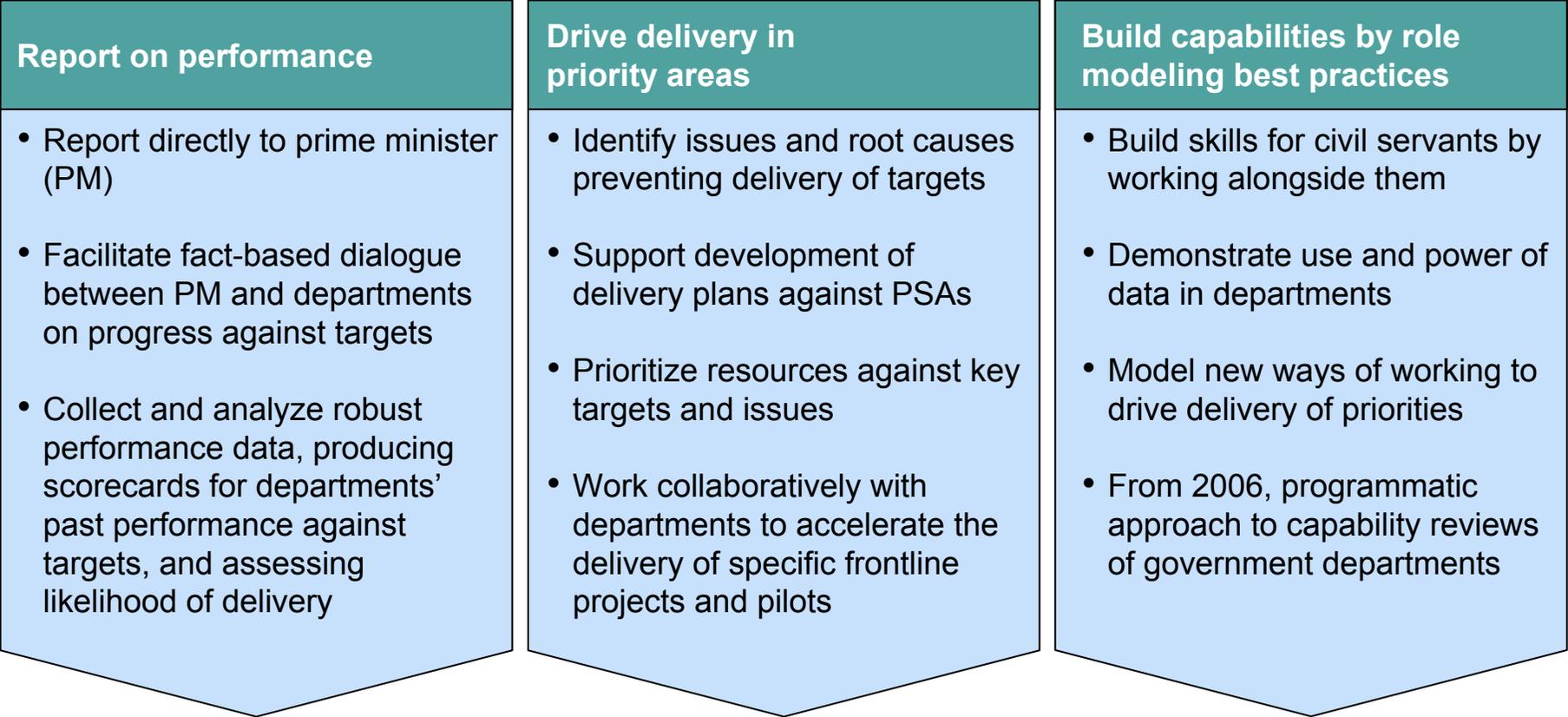
Example: department for education and skills

<b>Aim</b>	Help build competitive economy and inclusive society by creating opportunities for every person to learn; releasing potential in people...achieving excellence in standards of education and levels of skills		
<b>Objectives</b>	<b>Objective 1:</b> Safeguard children and young people, improve their lives and general well-being, and break cycles of deprivation	<b>Objective 2: ...</b>	<b>Objective 3:...</b>
<b>Performance targets</b>	<b>Target 1:</b> <ul style="list-style-type: none"> <li>• Improve childrens' communication, social, and emotional development so that by 2008, 50% of children are reasonably developed at the end of foundation stage</li> <li>• Reduce inequalities between the level of development achieved by children in the 20% of most disadvantaged areas and rest of England</li> </ul>	<b>Target 2:...</b>	<b>Target 3:...</b>
Floor target			
<b>Responsibility</b>	Secretary of state for education and skills is responsible for delivery of this PSA. Within the overall PSA, secretary of state for work and pensions is jointly responsible for the first target		

Sources: U.K. treasury 2004 spending review; 2004 PSAs

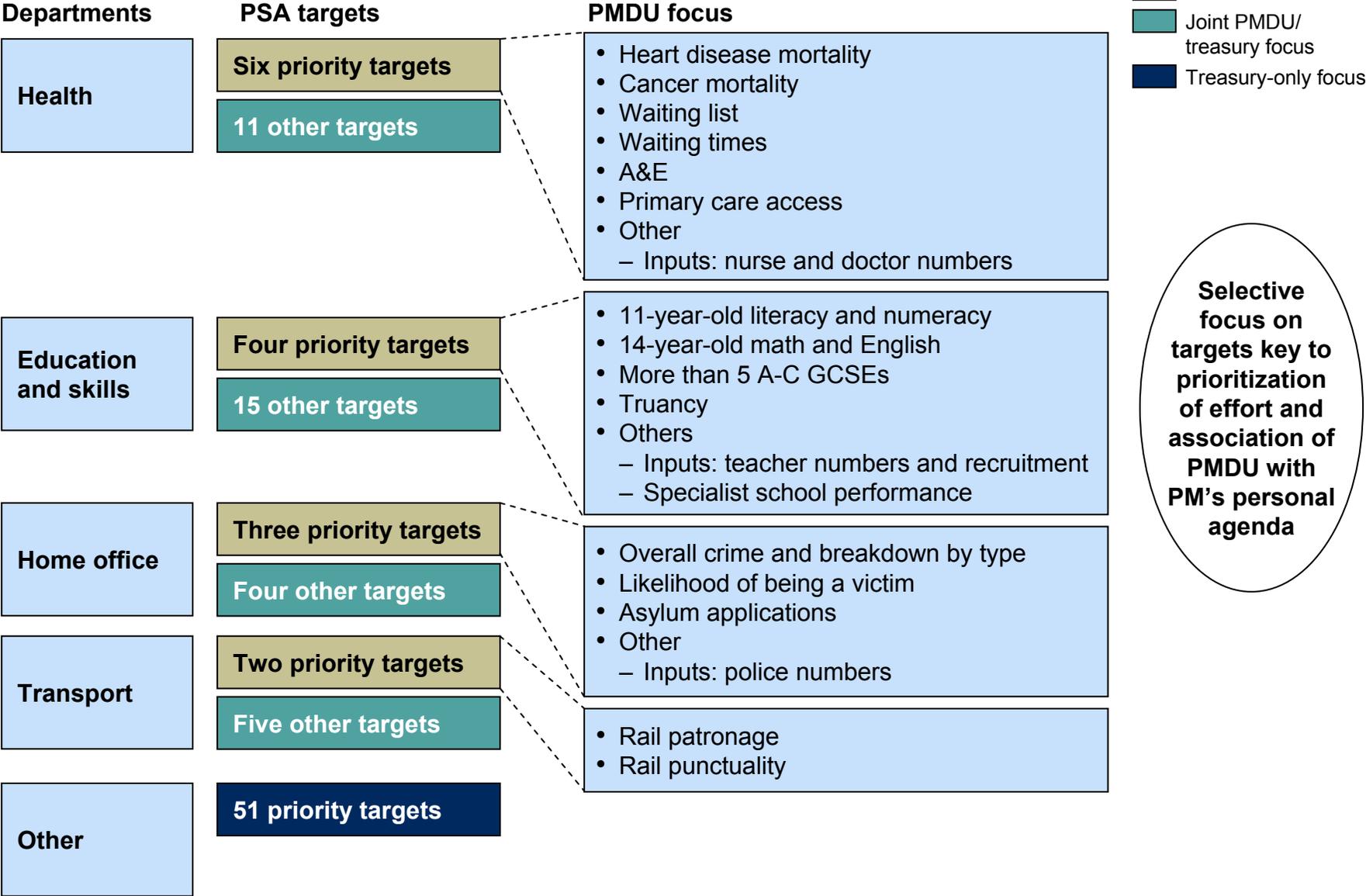
# THE U.K. PRIME MINISTER DEFINED 4 AREAS OF FOCUS AND SET UP A DELIVERY UNIT TO DRIVE PRIORITIES IN THESE AREAS

## Roles of the U.K. prime minister's delivery unit (PMDU)



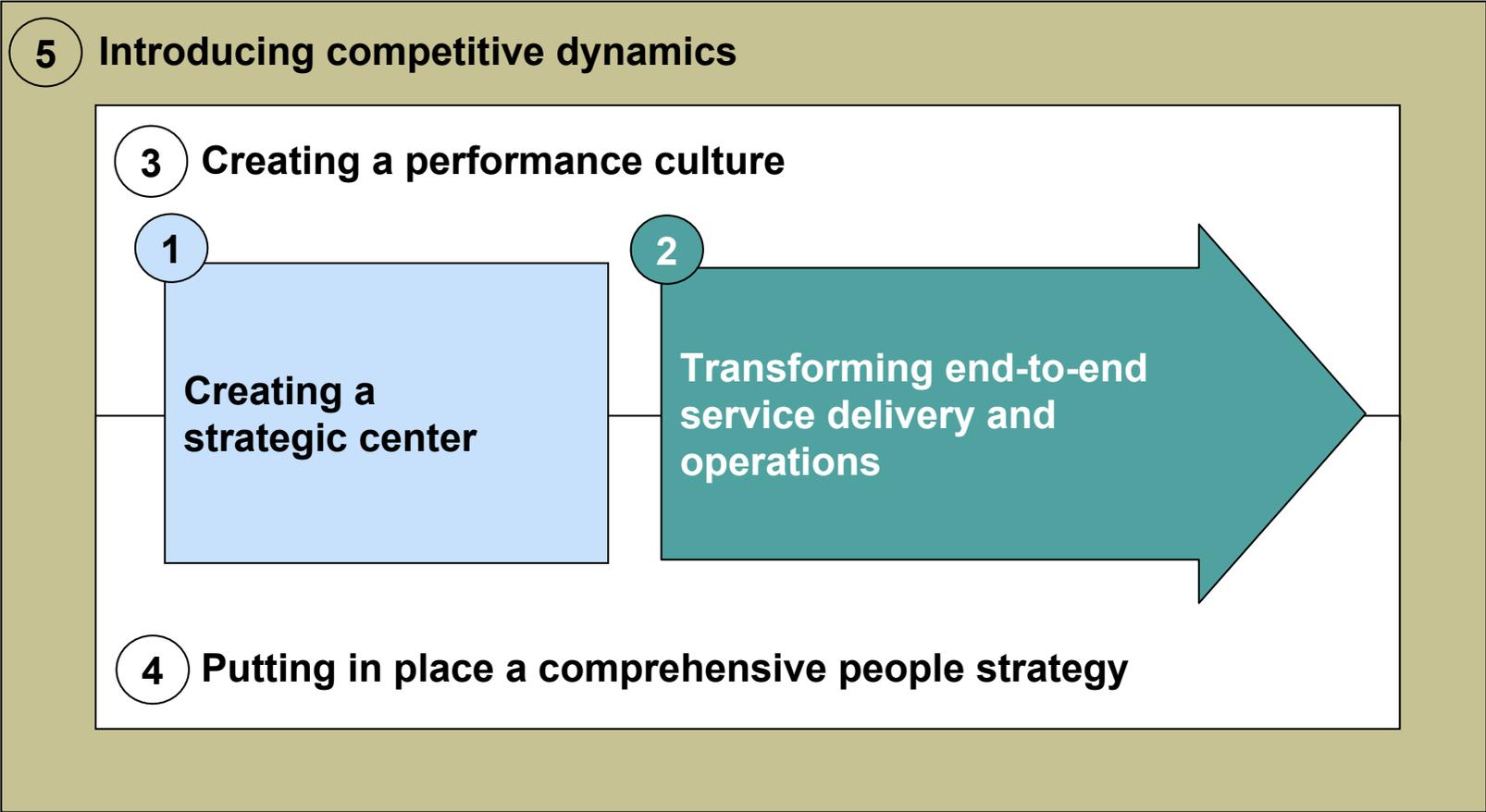
**Specific focus on the PM's priorities in four departments: health, education, transport, and crime**

# WITHIN PRIORITY DEPARTMENTS, THE PMDU FOCUSED ON A SUBSET OF TARGETS



Sources: PMDU Web site; spending review of 2004 PSAs; PMDU press briefing, July 2004

# LEVER 2: TRANSFORMING END-TO-END PERFORMANCE BY PURSUING LEAN OPERATIONS AND A COMPREHENSIVE APPROACH TO PROCUREMENT REFORM



# LEAN TRANSFORMATIONS DRAW ON LESSONS FROM REDUCING WASTE IN MANUFACTURING

Eight types of waste, and examples from the public sector



**1 Overproduction**  
*Overly long policy documents*

**2 Transportation**  
*Excess journeys from prison to court*

**3 Inventory**  
*Excess military spares*

**4 Waiting**  
*Idle time for doctors and operating theaters*

**5 Overprocessing**  
*Nonessential checks of immigration documents*

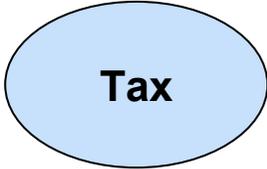
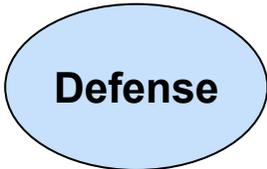
**8 Intellect**  
*Failure to make full use of frontline staff expertise*

**7 Motion**  
*Excess movement of tax assessments within an office*

**6 Rework**  
*Repeating benefits assessments*

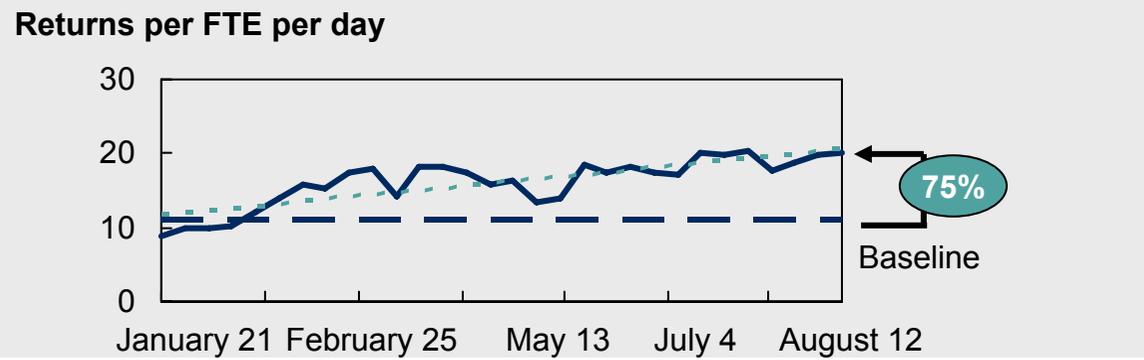
- Areas in which we have applied this approach
- Defense
  - Health
  - Tax
  - Welfare
  - Borders
  - Policy

# THREE EXAMPLES OF TRANSFORMING OPERATIONAL PERFORMANCE

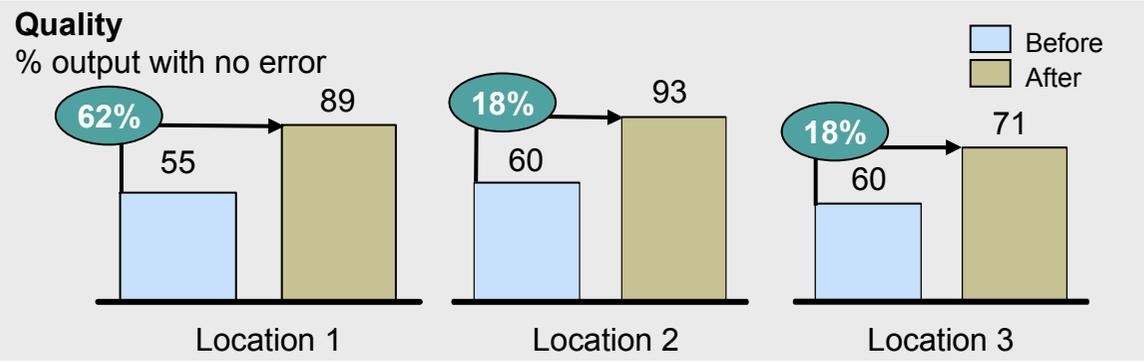
	Key levers	Potential for impact
	<ul style="list-style-type: none"><li>• Productivity improvement in end-to-end back-office activities</li></ul>	<ul style="list-style-type: none"><li>• <i>Efficiency</i> – 75% increase in returns processed per full-time equivalent (FTE)</li><li>• <i>Effectiveness</i> – up to 60% reduction in error rates</li><li>• <i>Customer service</i> – more than 75% reduction in lead times</li></ul>
	<ul style="list-style-type: none"><li>• Capacity utilization in a context requiring simultaneous and sequential involvement of:<ul style="list-style-type: none"><li>– Multiple professional groups</li><li>– Customers</li></ul></li></ul>	<ul style="list-style-type: none"><li>• 50% increase in utilization of operating theaters</li><li>• Lead time for CT scans reduced from six to two days</li><li>• Approach applied in multiple hospitals and functions in different countries</li></ul>
	<ul style="list-style-type: none"><li>• Productivity improvement in end-to-end defense logistics</li></ul>	<ul style="list-style-type: none"><li>• Significant performance improvement in efficiency and effectiveness</li></ul>

# IMPACT OF APPLYING LEAN METHODOLOGIES TO PROCESSING TAX RETURNS FOR A G8 COUNTRY'S TAX AUTHORITY

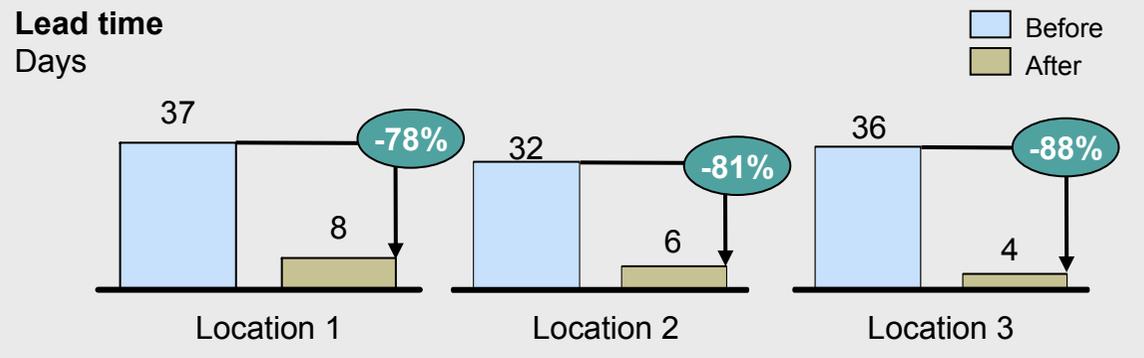
**Efficiency**  
*Productivity improvements have been sustained*



**Effectiveness**  
*Real-time checks within teams have delivered quick and significant improvements in quality*



**Customer service**  
*Continuous-flow-based processes have reduced lead time significantly*



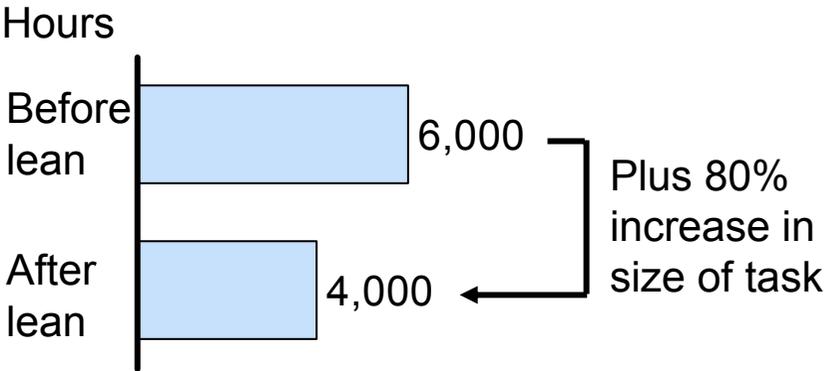
# IMPACT OF INTRODUCING LEAN THINKING TO MAJOR DEFENSE MINISTRY

## Example improvements

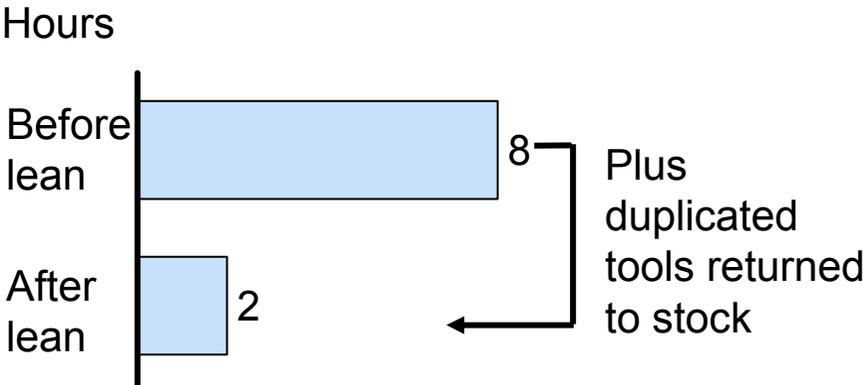
- Combined upgrade and repair activities into single location and undertook them simultaneously
- Work planned; technicians given prepared kits with all the parts needed during scheduled shift
- Installed lean “pulse lines” in each area
- Collocation of major supplier, repair facility, and end users (pilots)
- Workers encouraged to highlight issues and design processes in their areas

## Example impact

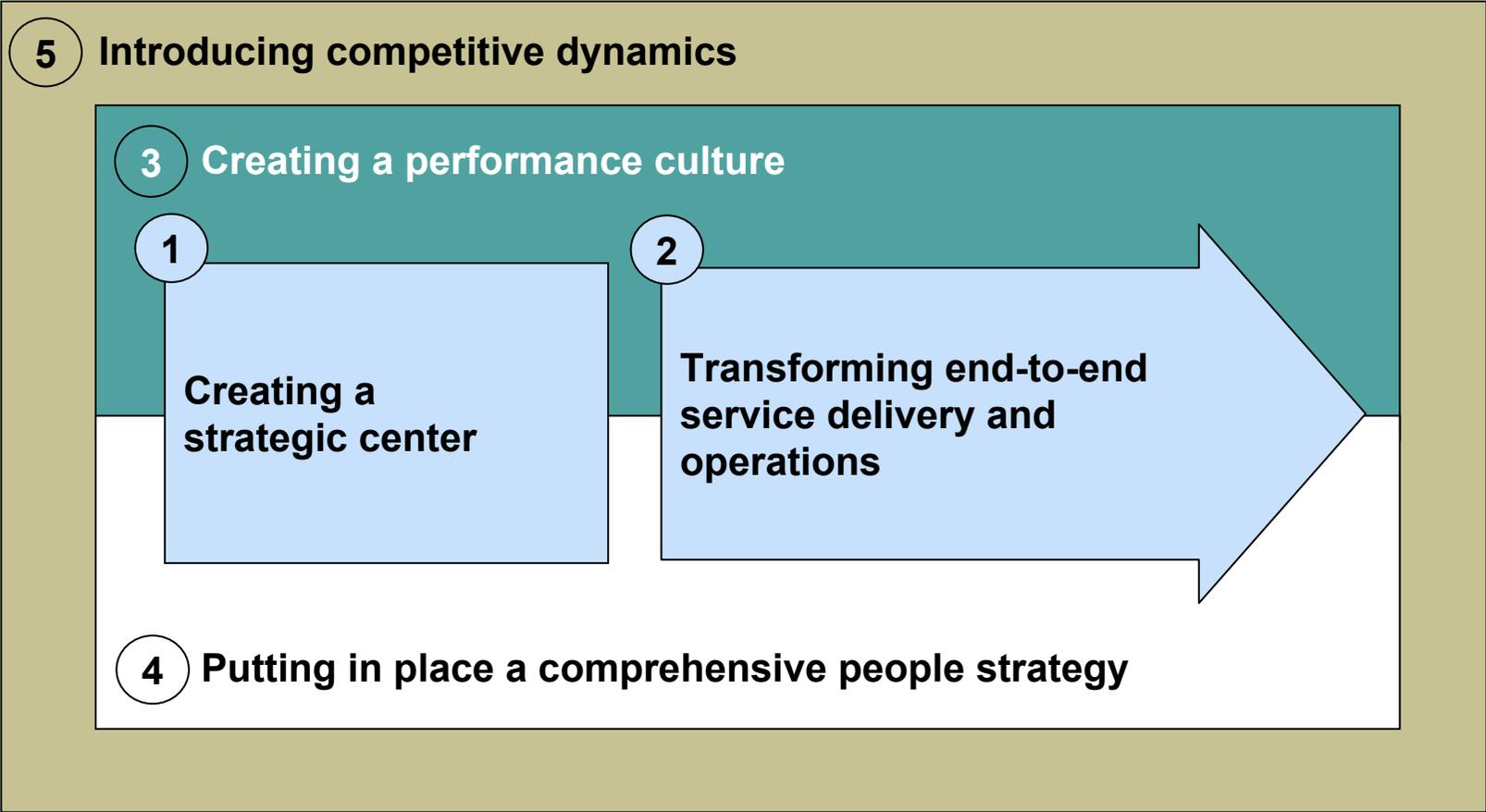
### Time for routine airframe maintenance



### Time for explosive release unit maintenance



# LEVER 3: CREATING A PERFORMANCE CULTURE BASED ON STREAMLINED, EFFECTIVE PERFORMANCE MANAGEMENT



# KEY ELEMENTS OF A PERFORMANCE CULTURE

## Effective performance management must ...

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**Metrics**



... cascade a focused set of balanced, matched metrics linked to key drivers of performance

**Targets**



... create opportunity-based stretch targets owned by those delivering them

**Reviews**



... orchestrate fact-based performance reviews to help leaders and managers “face reality together”

**Links**



... link performance and health processes of business and people management so they are complementary and mutually reinforcing

**Rhythm**



... drive performance and health processes with the sequence, timing, and pace to allow the organization to be directed and operated effectively and efficiently

**Culture**

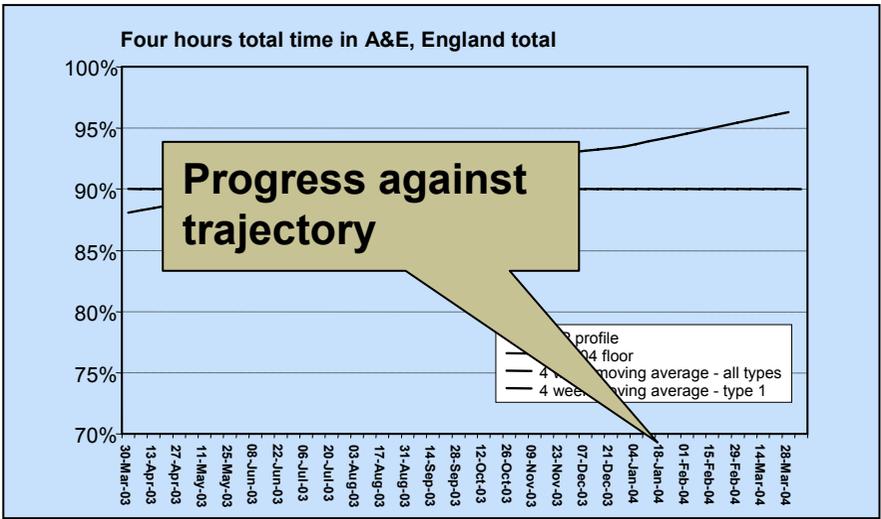


... ensure that the performance management system acts in concert with other interventions to create a powerful, positive mechanism for cultural evolution

# TAKING A COMPREHENSIVE VIEW OF PROGRESS IN ACHIEVING KEY TARGETS

EXAMPLE

## Focus of progress reports



**Performance has been sustained at 90% since July, but it is now static and increasingly off trajectory**

**An analysis of progress**

- Performance of department...
- National aggregated performance... October 2003, 44% of type Xs are still below 80%
- Method for dealing with... approaches now clear, public consultation completed, and final decision made
- Evaluation of new initiative for improving processes in every department currently underway

**What will success look like in six months?**

- Average performance 95% and rising
- No department below 85%; no more than 10% of departments below 90%
- Incentive system operational, and results evaluated
- Clear arrangements established for maintaining performance
- Communication system operational, and no late
- Res...

**Clear measurable statement of what success looks like**

**Action required**

**Urgent**

- Communicate the 98% decision clearly to the front line
  - Agree on performance ratings with audit body for 2003-04 and 2004-05, agree on any other incentives needed in 2004, and communicate these to the front line
  - Plan and roll out effective management intervention system
  - Manage performance of the departments against trajectories through the process: continue reporting at unit level to prime minister's office and these actions will agree upon further actions, including a risk analysis, at that stage

**Steps necessary to achieve success**

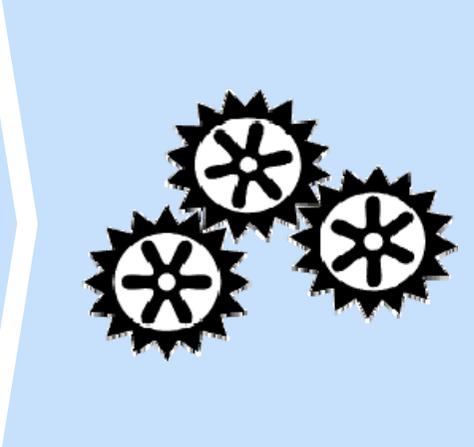
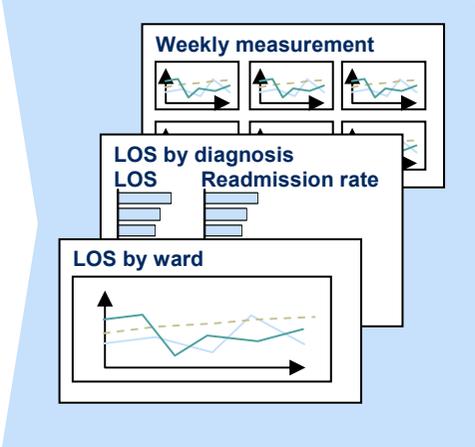
# PUTTING IN PLACE EFFECTIVE PERFORMANCE MANAGEMENT AT THE DELIVERY LEVEL HAS A POWERFUL IMPACT

HOSPITAL EXAMPLE

## Provide the right data at the right time

## Ensure the right conversations and linkages

## Create conversations that generate solutions to problems



- Weekly length of stay (LOS) scorecards showing ward performance
- LOS by consultant to show differences in practices
- Ward LOS by patient to focus on those with long stays

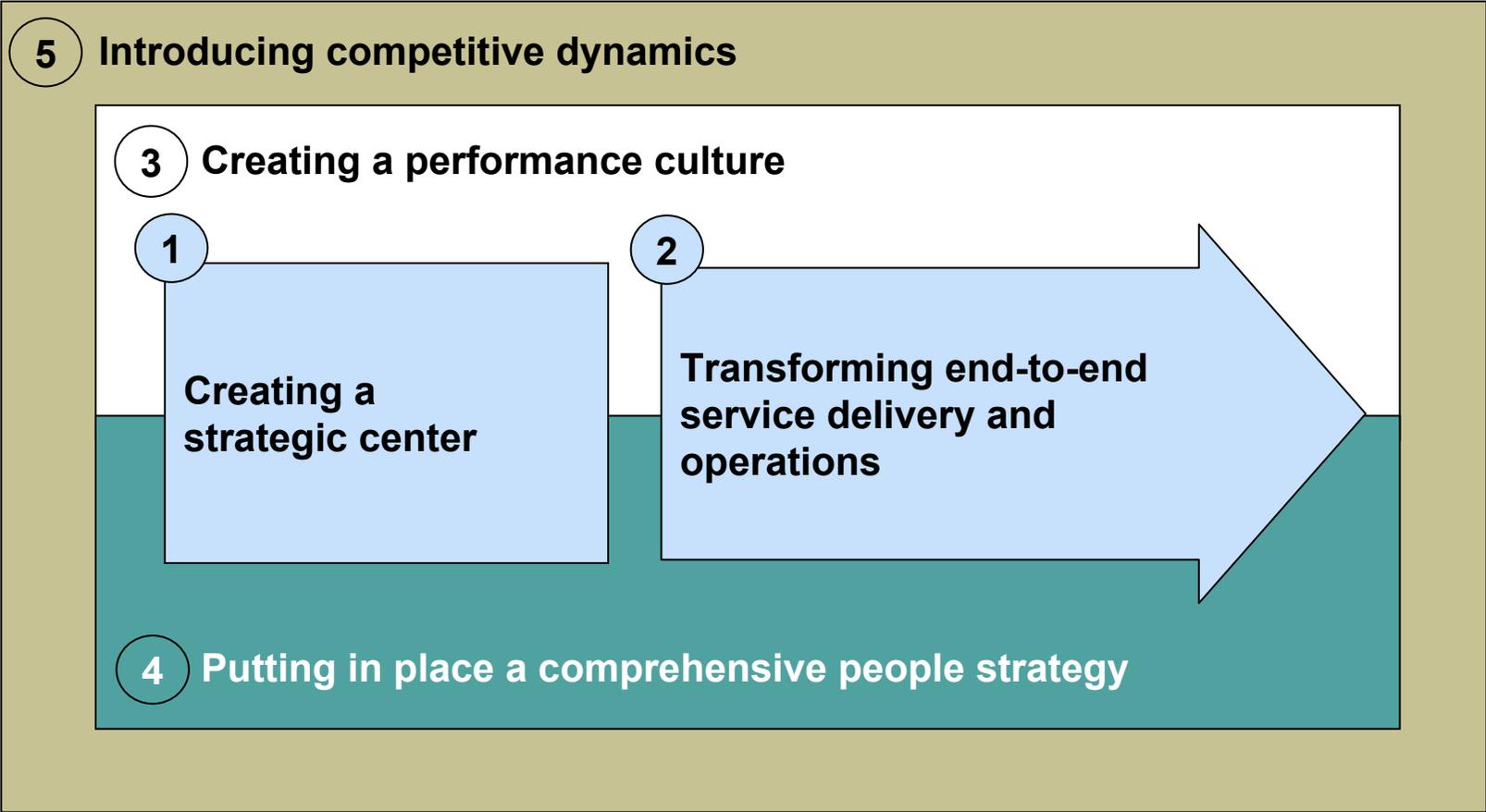
- Weekly ward meetings led by head of nursing
- Monthly ward monitor to measure quality
- Transparent discharge dates to improve coordination

- Collaborate on solutions for patients with long stays
- Remove key system blocks
- Focus on differences in medical pathways and practices

- LOS reduced from 11 to 9 days in general medicine wards within the program's first 100 days
- In the same period, admissions rose from 33 to 37 per week

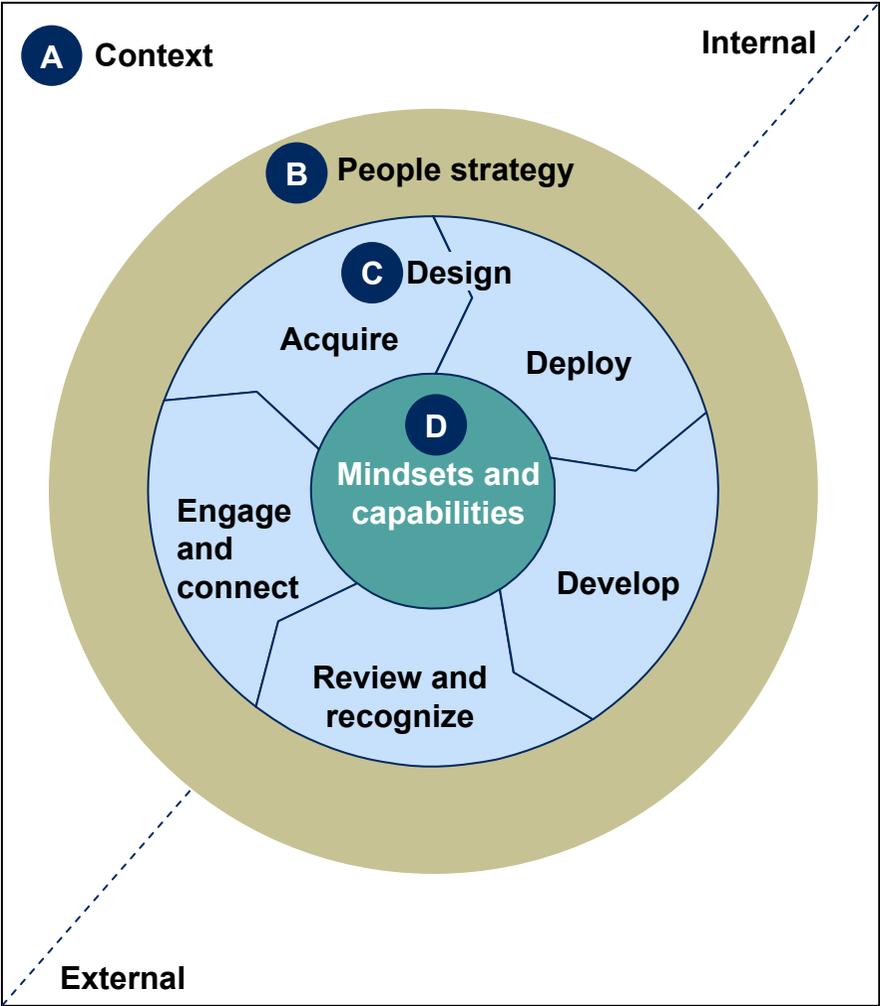
**Align culture, mindsets, and behaviors**

# LEVER 4: PUTTING IN PLACE A COMPREHENSIVE PEOPLE STRATEGY THAT ENSURES THE RIGHT SKILLS ARE IN PLACE THROUGHOUT THE ORGANIZATION



# TAKE AN INTEGRATED APPROACH TO DEVELOP SKILLS AND CAPABILITIES

## Framework



## Scope

- A Context**
  - External: environmental context/developments
  - Internal: organizational strategy and culture
- B People strategy**
  - Prioritized management choices
- C Design**
  - Acquire**
    - Recruitment, selection, and induction
  - Deploy**
    - Job rotation
    - Mobility
    - Allocation to roles and succession planning
  - Develop**
    - Formal learning program
    - On-the-job development and mentoring
    - Career paths
  - Review and recognize**
    - KPI and target setting
    - Performance review against targets and potential
    - Pay, rewards, and consequence management
  - Engage and connect**
    - Commitment building
    - Innovation and knowledge sharing
- D Mindsets and capabilities**
  - Implementation and execution of talent management

# PERSPECTIVES ON TALENT MANAGEMENT THROUGHOUT THE PUBLIC SECTOR OF A G8 COUNTRY

DISCUSSION STARTER

## Recruitment and selection

- Strengths in attracting and retaining talented people
- Enduring attractions of the work
- Strong nonfinancial rewards

## Performance management

- Lack of transparency and differentiation
- Limited understanding of what “good” looks like
- Mixed will/skill for tough conversations

## Talent management and succession

- Tension between individual choice and managed market
- Lack of clarity on priorities and pivotal roles
- Mixed quality and usage of succession plans

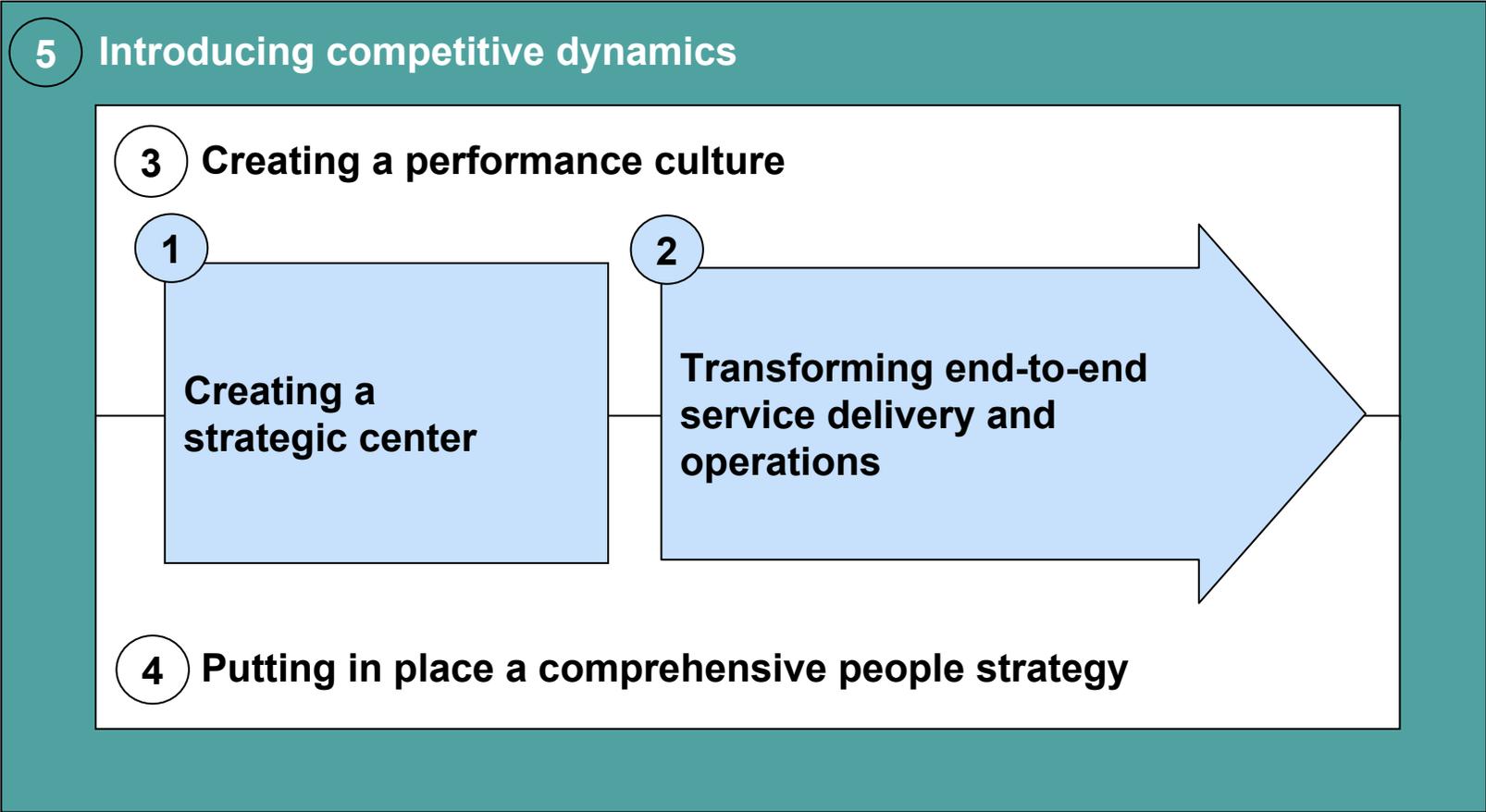
## Leadership, development, and training

- Limited career guidance
- Limited coherence between formal and on-the-job development

## Broader issues

- Mixed quality of HR function
- Insufficient high-quality time spent by top management on strategic talent issues
- Limited link between people and business strategies

# LEVER 5: INTRODUCING COMPETITIVE DYNAMICS THROUGH RELATIVE APPLICATION OF INTERNAL OR EXTERNAL COMPETITIVE MECHANISMS



# THERE IS A SPECTRUM OF OPTIONS FOR INTRODUCING COMPETITIVE DYNAMICS



	<i>Use internal competition</i>				<i>Use private-sector competition</i>
<b>Mechanism</b>	<ul style="list-style-type: none"> <li>• <b>Effective performance management</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Competition between public-sector providers</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Competition between providers from public and private sectors</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Outsourcing services</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Privatization</b></li> </ul>
<b>Examples</b>	<ul style="list-style-type: none"> <li>• Aggressive targets and consequence management</li> <li>• Introducing peer group competition</li> </ul>	<ul style="list-style-type: none"> <li>• Creating a separate commissioner/provider role (e.g., primary health-care managers who commission different hospitals)</li> <li>• Allowing members of the public to choose services (e.g., schools to attend)</li> </ul>	<ul style="list-style-type: none"> <li>• Creating a competitive market between public and private hospitals or schools</li> </ul>	<ul style="list-style-type: none"> <li>• Outsourcing services such as IT, repair contracts, or call centers, with competition for contracts and effective management of ongoing relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Implementing full or partial privatization of state-owned enterprises</li> </ul>

# SEVERAL CRITICAL ELEMENTS CONTRIBUTE TO THE SUCCESS OF A CONTESTABLE COMPETITIVE SYSTEM

## Key elements for success

- Correct identification of appropriate market mechanisms for given system (e.g., public-public vs. private-public competition)
- Plurality of accessible providers
- Independent commissioning based on provider performance
- Flexible funding flows (e.g., payment by results)
- Effective regulatory mechanisms
- Failure management: opportunity for market entry and exit

## Rationale

- Historical and external circumstances may make certain types of market dynamics more appropriate than others
- Fundamental requirement to allow competition and consumer choice
- Stimulates provider competition
- Drives provider performance by enforcing service delivery contracts
- Ensures that resources follow performance
- Instills financial discipline
- Sets standards for service quality and performance metrics
- Critical to allow failures to drop out in a healthy market to make room for new players