

Government

Governance and government transformation: Private lessons for the public sector

By Robert B. McPherson and Tina Ehrig

Robert McPherson, a senior executive vice president in the Accenture Government operating group, is located in Washington, D.C. robert.b.mcpherson@accenture.com

Tina Ehrig, a senior manager in the Accenture Strategy service line, is located in Washington, D.C. tina.ehrig@accenture.com

Look closely at any successful corporate transformation, and you will find it built upon a solid foundation of effective governance. The private sector has spent years working to develop better models for governing corporate investments and other critical decisions, as well as for monitoring the results of those decisions. Today, companies that have gotten governance right have an edge over competitors in reaching and sustaining high performance.

Following that strong lead from the private sector, government agencies are also seeking to create more effective governance models that can increase their chances for successful transformational efforts—in strategy, sourcing, information technology, workforce performance, finance and many other areas. Yet such governance models cannot simply be lifted from the corporate arena and applied to the public sector without modification. Unique cultural and structural characteristics of government organizations must be accounted for if governance models are to be successfully applied.

Impediments to successful public-sector governance

Unique financial cycles required in the public sector can challenge typical governance structures. At the US Department of Defense, for example, the horizon of operational budgeting is six years. As time goes on and changes occur, re-forecasting of requirements is necessary. Moreover, in the actual year of financial execu-

tion, there is very little flexibility for funding short-term discretionary projects. Requests for major discretionary investments require detailed upfront analyses and strong business case justifications.

Incentive structures in many government agencies do not always encourage economic efficiency or take into account what is right for the organization as a whole. The reward for being efficient and not spending an entire budget within a given fiscal year may be to have that budget cut the following year. In practice, such a policy merely encourages organizations to increase the spending pace toward the end of each fiscal year.

Another impediment: Government agencies that look for opportunities to cut costs often have a difficult time managing savings effectively. For example, investments are not coordinated among diverse business units, or "commands," as they are called in some organizations like the Department of Defense. This lack of coordination often produces redundant efforts and double-counting of benefits.

In addition, initiatives that identify potential areas for cost-cutting often do not come with concrete delivery plans; this results in budget cuts before the benefits of such reductions are actually realized. What's more, tracking real savings has been a challenge in most government organizations. The reasons for this difficulty

include a high rate of management turnover, as well as financial systems that lack processes for tracking investments over time across the enterprise.

A game plan for more effective public-sector governance

These challenges can be overcome by applying insights and lessons learned from the commercial sector and adapting them for the unique structural and cultural realities of the public sector. What follows are the governance imperatives we have identified as most important to public sector executives.

Transform the governance board in composition and approach.

The size and span of a government agency typically affects the complexity of the governance model. For example, larger agencies may require multiple boards, each serving complementary yet distinct roles. Typically, a corporate board chaired by the chief executive officer is charged with setting policy and direction: crafting the transformation strategy, monitoring progress and removing barriers to the transformation. A working-level enterprise transformation board, usually headed by the COO, focuses on execution. Both types of boards should maintain a focus on mission-critical issues, with other decisions handled by supporting working groups.

Members of these boards should include a diverse set of stakeholders that can represent unique perspectives. However, inclusiveness does not mean a "cast of thousands." A common pitfall in existing approaches to public-sector governance is involving too many people who do not have decision-making authority. As a consequence, those boards tend to be more informational rather than decisional, with agendas that are cluttered with items that are not top priority.

Track results along the journey with a cross-functional transformational program office.

Successful transformational programs are planned and managed as a journey—one involving multiple program elements

executed in phases. Leaders in public-sector governance help manage the journey more effectively by designating a transformational program office (TPO) comprised of cross-functional members, reporting to the enterprise transformation board. The TPO evaluates potential initiatives, provides recommendations to the appropriate board as to which initiatives should be funded and who should be accountable for delivery, establishes outcome and execution-based metrics, helps establish a drum-beat of regular communications, and tracks initiative performance and transformation results.

Make discretionary investments a priority.

Recent Accenture cross-industry research underscores the value of creating an investment pool for strategic investments, with a portion of operating budgets set aside for high-value, discretionary investments. According to the study,¹ discretionary IT investments in the private sector have been shown to help improve overall productivity and quality, thus increasing profitability and shareholder value. Discretionary investments in the public sector provide the opportunity to create new capabilities and value, and can eventually reduce the overall operational budget. This requires making some tough decisions, however, such as canceling contracts to free up funds, or discontinuing failing, non-value-added projects.

One key to success is avoiding the temptation to treat the discretionary investment pool as a slush fund to be dipped into whenever overspending in other areas occurs. Instead, discretionary spending must be backed by a rigorous, measurable process that uncovers the best value-creating opportunities for the organization and establishes a priority system for transformational initiatives. During budgeting cycles, assign the highest priority to investments that offer the best opportunities for generating value, that best align with strategic priorities and that fuel the transformation. The enterprise governance board should

be directly involved in making discretionary investment decisions.

Develop incentives and metrics to drive the right behaviors.

Accountability drives action. Identifying simple, meaningful metrics that are driven from the top-down and are relevant to specific stakeholders is critical to success. Like their private sector counterparts, government executives often suffer from metrics overload, which can lead to delayed decisions. The most successful decision makers focus on a set of five to seven of the most important metrics, with drill-down capabilities to lower-level metrics as needed.

When it comes to producing transformational results, government agencies can keep pace with their counterparts in the private sector with new approaches to governance that take into account the unique character of the public sector. A government agency may not find it easy to move away from a decades-old culture, structure and mode of operations. But the trail blazed by private-sector companies has given government agencies clear direction for the journey. The emphasis on top-level involvement, strategic focus, delivery, communication and performance management can empower governments to achieve transformations akin to those in high-performance businesses.

Outlook Point of View
April 2006, No. 2
Copyright © 2006 Accenture
All rights reserved.

The *Outlook Point of View* series offers insights about leading trends and innovations across all industries.

David Cudaback, **Editor-in-Chief**
Craig Mindrum, **Managing Editor**
Jacqueline H. Kessler, **Senior Editor**

For more information on *Point of View* and other *Outlook* publications, please visit our website: <http://www.accenture.com/Outlook>

Accenture, its logo, and High Performance Delivered are trademarks of Accenture.

The views and opinions in this article should not be viewed as professional advice with respect to your business.

¹ "Business Value of IT," Accenture 2002