



The path to sustainability
Creating a cost-conscious
government culture

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Government has a mandate to steer the economy towards growth while continuing to effectively provide services to citizens. This demands new programs and considerable spending. While government has traditionally succeeded in fulfilling this mandate, the execution of these activities has been supported by its ability to accumulate debt and raise taxes – options that are becoming less feasible in the current global economy. The availability of this safety net has shaped a government culture that focuses on citizens at all cost, driving a mindset that does not fully take into account the need for sustainable cost improvement.

With rising citizen expectations for improved service delivery, and pressure to attract and retain business and grow the economy, government needs a more sustainable lever to fund social programming in today's fiscally-constrained environment. By taking insights from high-performing organizations, government can embed practices to generate sustainable cost savings and reinvest these funds to improve the organization, the economy and the programs it delivers to citizens.

This will require a major cultural shift to a government that delivers to citizens while maintaining a cost conscience. And it can only be initiated by leaders visibly “walking the talk”, equipping teams with cost management skills, using data to inform decisions, cultivating innovation at the grassroots level and resetting performance management to drive desired behaviours.

Where we are:

Barriers to cost consciousness

Practices that do not support sustainable cost management and actually discourage cost reduction expose the lack of a cost conscience in government. It has become part of the culture, operationalized into organizations in such a way that continuous improvement and stringent cost management practices take a back seat to service delivery objectives; where policies have been designed to deter leaders from cutting costs; and where cost management capabilities are not established as core competencies that can be used to realize sustainable cost savings. Specific obstacles to a cost conscience include:

- **Self-interest that clouds an enterprise mindset** – Government organizations tend to focus on their siloed priorities, rather than the government as whole.
- **What people get noticed for** – Leaders are encouraged to achieve service delivery objectives rather than efficiency, and are recognized neither culturally nor behaviourally for managing costs. This results in reputational risk for people who pursue cost reductions.
- **Spend it or lose it budget behaviour** – Leaders lose budget for the subsequent fiscal year if it is not spent in the present year, which can cause irrational spending disconnected from strategy, priority or value for money.
- **Missing the mark with rewards and recognition** – Governments lack performance management systems that reward and recognize cost management behaviour. Additionally, when position classification calculations are based on span of control and budget size, leaders often hesitate to cut resources and operational budgets for fear of compromising their own roles. This encourages leaders to keep staff and unfilled positions regardless of efficiency opportunities.



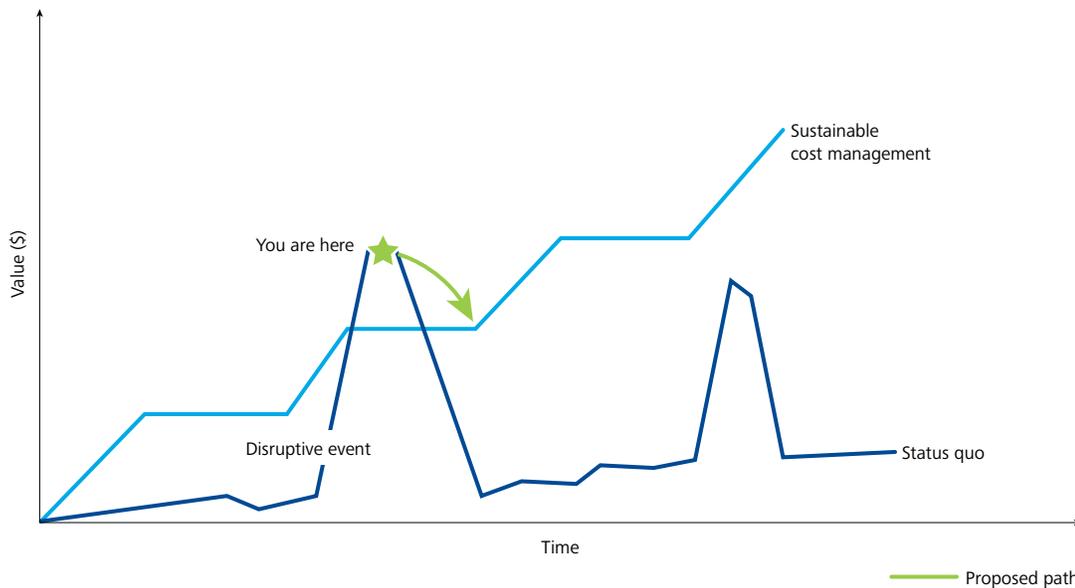
From disruption to sustainability: Why now?

The global economic crisis forced many governments to conduct extreme and disruptive cost reduction exercises. After a disruptive event, governments typically jump to an unsustainable cost-cutting state before reverting back to the status quo of slow, incremental cost management (Figure 1). Like crash dieting, however, the weight usually comes back over time. To avoid this problem, and the need for future cost reduction events, sustainable cost management practices are required.

The recent cost reduction upheaval in governments around the world has created an opportunity to more organically transition to new cost management focused practices. Accordingly, now is the time for sustainable change.

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Figure 1 – Cost management paths in government



The path to sustainability: Making it cultural

Behavioural and cultural change must be at the heart of any effort to achieve successful and sustainable improvements in governmental cost management. Government needs to strengthen cost management capabilities and foster a culture that embraces efficiency at all levels. The macro-level safety net factor that defined this culture will be difficult to overcome, will require significant change management and strong leaders who demonstrate commitment by prioritizing this cultural shift. These changes must begin by solving key operational issues that currently reinforce inefficient behaviours and culture.

To successfully drive this change within government organizations, the following pillars to a cost-conscious culture should be considered:

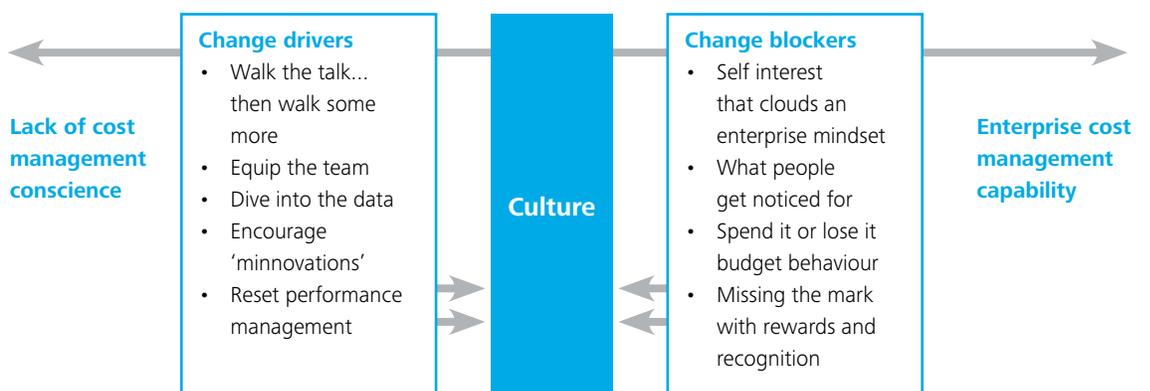
- **Walk the talk... then walk some more**
- **Equip the team**
- **Dive into the data**
- **Encourage "minnovations"**
- **Reset performance management.**

Walk the talk... then walk some more

While each of the pillars to creating a cost-conscious culture has the potential to make an impact, they would be futile without visible sponsorship – government leaders "walking the talk." This requires an initial alignment exercise where government leaders prioritize sustainable cost management practices on a go-forward basis. Beyond sponsoring and implementing change, leaders need to communicate the importance of change in a meaningful and motivational way that will begin to shift the culture. Leaders must make clear that this is not another disruptive event, but a fundamental shift to a new path where recognized savings are reinvested to benefit both the government and citizens. At the end of the day, government employees are taxpayers too; it is in their own self-interest to improve government operations and competitiveness.

Visible backing for these new behaviours cannot just be an one-time activity. Leaders need to celebrate quick wins early on to reinforce the behaviour, and then keep monitoring, measuring and rewarding the desired behaviours using a performance management framework that supports this cultural shift.

Figure 2 – Culture on the cost management spectrum



Equip the team

In the last decade, both the public and private sectors have favoured “Lean” cost management approaches. By embracing the notion of continuous improvement and sharing an organization-wide perspective about how customer value is created, Lean programs reveal ways to improve work by making it easier and more cost effective. The Lean goal is to achieve more customer value using fewer resources by eliminating waste (e.g., aspects of any activity, task or process that adds no value to the final product) and reducing end-to-end processing time. In a government context, this means examining, delaying and simplifying current processes by managing acceptable financial and operational risk.

For managers, developing Lean capabilities isn’t simply about removing costs. It’s about having a cost-conscious mentality and a focus on sustainable efficiencies and continuous improvement – new ways of working to drive cost efficiencies. Managers are expected to spend more time on strategic tasks that help achieve cost-related business priorities and develop capabilities to recognize opportunities to gain efficiencies and make improvements. This should be integrated into the competency framework for managers and be enabled through training.

Government finance professionals should be called upon to act as business partners, offering timely information and advice to leaders on key operational and strategic decisions. Finance needs to be the expert on cost management. The relationship between Finance and the business should be collaborative and proactive, with Finance providing strategic analysis, interpretation and advice, as well as data analytics capabilities and expertise – helping to drive the new cost conscience of the organization.

Use existing data to identify actionable insights and provide foresight

When both employees and leaders understand the relevant cost management concepts and competencies that drive cost efficiency and begin to focus on continuous improvement (e.g., Lean initiatives), behaviours will change for the better. However, before these new ways of working can become part of the culture, appropriate behaviours must be recognized and rewarded, leadership has to walk the talk and relevant processes and systems need to support the change.

Dive into the data

Given the current context of budget cuts and fiscal constraints, leaders need to get more value out of existing resources. Data analytics can help governments leverage their existing information assets to make better decisions based on a more complete picture. They can also help governments improve transparency and compliance by synthesizing and analyzing large volumes of data. Taken together, this positions governments to realize sustainable cost savings.

By improving the way they leverage their data assets, government organizations can better answer questions like: Which programs should stay above the funding line based on expected performance? How should we manage our portfolio for given budgetary levels over the next several years? What programs deliver the highest return for each invested dollar?¹ Similarly, when managers better understand the data, they can better manage costs.

To extract data insights, organizations must first create a nomenclature to ensure all the data speaks the same language and can be accessed, normalized and shared efficiently. Acquiring data analytics capability is a key enabler for government organizations interested in deriving actionable insights from existing data. A focus on analytics does not necessarily imply investments in new technology, but it does mean building processes and individual capabilities. It also requires a shift in culture at the organizational level to make it the norm for people to use existing data to gain insights and provide foresight. Leaders need to develop and reinforce these disciplines before people can effectively use data to drive cost savings.



Case study

Workers' Compensation Boards of Canada²

The Workers' Compensation Board in a Canadian province faced a \$12B unfunded liability due to a persistent annual funding shortfall relative to the cost of claims. A project undertaken to leverage the organization's data assets and develop new corporate strategies for reducing the impact of the unfunded liability found that key data about individual claims was scattered across multiple systems and that key performance indicator (KPI) reporting was facilitated through data extracts and manually maintained spreadsheet reports. The project aggregated and refined for analysis 278 data sets to create 4,646 attributes for the 2,880,000 records relating to claims in one environment. It created a single view of a claim by developing an executive KPI dashboard with the ability to drill down to the transaction level. Through the application of data analytics, the project identified trends and patterns in business operations. For example, the analysis demonstrated high variation in the cost of claims due to specific practices employed at field offices. By standardizing processes in the offices responsible for high claims, significant cost-savings opportunities were identified.

Motivate and empower people to challenge the status quo

Encourage "minnovations"

Innovation has many definitions, but at the core of each are three themes: creative action, change and a commitment to continuous improvement. 'Minnovations' are 'mini-innovations' – relatively small but impactful changes cultivated from the front line. Notably, the National Audit Office (NAO) in the UK has reported that 50% of public sector innovations are triggered by senior and middle managers, followed by Ministers at 8% and only 5% by front line staff.³ This is in stark contrast to many high-performing private sector organizations that recognize that a 25-year front line employee is better placed than middle and senior managers to identify tactical improvements. In the context of creating a culture with a cost conscience, innovation exercises – particularly minnovations – present opportunities to generate sustainable cost savings and improve cost management practices. This culture of grassroots innovation in government requires organizational commitment to innovation as a priority, as well as the mechanisms to drive change.

Innovation is enabled by a combination of technology, process and culture, but it begins with creative thinking. People need an opportunity to present ideas and to be proactive, collaborate, develop and provide input to ideas to help manage costs. Harnessing this creativity can be enabled through blogs, wikis, peer-to-peer networks and other mechanisms that allow people to review, comment and build upon others' ideas.

To encourage a minnovations agenda in government, follow-through is critical. If the ideas put forward and voted on by employees are not recognized and implemented, people will quickly lose interest in the minnovations agenda. Formal structures and processes to review, prioritize and implement a portfolio of innovations is required, along with a visible leader to sponsor and drive the cost management minnovations agenda. Incentives, via recognition or rewards, should also be provided to get and keep the ball rolling, empower people to participate, motivate staff to challenge the status quo and cultivate a positive environment for fostering new ideas.

Reset performance management

What gets measured gets done. To make the pillars of cost consciousness real, governments need to update their performance management framework and use it as a tool for defining desired behaviours and outcomes. They should also consider cost management best practices to define a new framework that promotes cost improvement activities and creates a more efficient, higher-performing organization.

Performance management effectiveness begins with three basic principles: a focus on results, a culture of accountability and organizational alignment. Strategic direction and goals should be set at the top and aligned throughout the departments. Desired outcomes for each area need to be defined based on strategy, priorities and drivers. Across government, efficient and effective cost management needs to be one of these priorities.

What gets measured gets done



Case study

U.S. Transportation Security Administration (TSA)⁴

The TSA launched an “Idea factory” in 2007, a secure online site that allowed employees to submit ideas for improving agency operations and processes. Employees review ideas on the site and vote for those most worthy of management attention. These ideas are then publicized and recognized. In less than two years, nearly 8,000 ideas were submitted, receiving over 69,000 comments. Of the presented ideas, 39 have been implemented.

An outcomes-based performance management framework would reward effective budget use, rather than punishing those departments that do not fully use their budgets. Government and departmental accountability for these outcomes should be created through effective and transparent communication and reporting – both internally and externally.





Case study Scotland Performs⁵

Scotland created a national performance framework in 2007, to which all public services in the country are aligned, encouraging more effective partnering. This vision for Scotland is described and measured in five parts which support and reinforce each other:

- **The Scottish government's purpose** sets out the direction and ambition for Scotland.
- The **purpose targets** are high level and show progress towards the purpose.
- **5 strategic objectives** describe where the Scottish government will focus its actions.
- **16 national outcomes** describe what the Scottish government wants to achieve.
- **50 national indicators** enable the government to track progress towards the purpose and national outcomes.

With the objective of creating a high performing organization, the Scottish government has an individual performance appraisal system that is used to appraise, develop and reward all staff in its main bargaining unit. This system includes creating individual plans aligned to organizational objectives, in annual performance reviews and performance pay. The Scottish government also has a nine month probationary period for new hires and monetary consequences for poor performance, including no reward pay and salary freezing.

To establish these government-wide strategic priorities and outcomes, a central role is required. Similar to the COO of a private sector organization, this role should look at government horizontally and have the required power to make changes based on strategic direction and to influence the reinvestment of cost savings. Some government models (e.g., Westminster model characterized by ministerial accountability) may be challenged by this, but it is critical for driving horizontal change.

In addition to realigning to measure against defined organizational outcomes, performance management systems should broaden compensation rewards beyond the individual leader. Incentive pay in high-performance organizations is tied to organization performance, team performance and individual performance. Broadening the incentive pay structure and rewarding team performance can increase collaboration and encourage more effective, horizontally focused management. By adopting leadership performance management frameworks that encourage more efficient and effective cost management, cultural attitudes will shift away from a narrow focus on service delivery and the fear of reputation damage.

In some government organizations, there is a "job for life" culture that can lead to an inefficient and unproductive workforce. With a defined outcome of efficient and effective cost management, creating a more productive workforce should be a government consideration. High-performing organizations typically have mechanisms to measure performance at the individual level and replace bottom performers. For their part, government professionals look to leadership to deal with poor performers. Despite the fact that the current union environment of most governmental organizations poses a challenge to implementing this practice, there are actions that can be taken to foster a more performance-oriented culture. To drive cost conscious behaviours and mindsets, performance management should extend to the individual level with defined plans and measurable targets aligned to strategic organization outcomes, including a clear focus on cost management.

Putting it into action: A collective responsibility

It is the collective responsibility of tax-paying citizens, both inside and outside government, to strive to improve the country/region for this and future generations. Calls to action include:

✔ **Politicians**

Set the journey and demand results. You need to demonstrate sustained support and an appetite for assuming some degree of managed risk.

✔ **Government leaders**

Align to the journey and set the balance between the enterprise and individual organizations. You need to walk the talk.

✔ **Government professionals**

Get involved and share your ideas – regardless of your level. You need to take the lead through creative action and collegial encouragement of others and participate in initiatives in your own organization.

✔ **Citizens**

Support reform to government service delivery and recognize the need to balance cost management with program delivery. You need to voice what is important to you and participate in the process.

✔ **Private sector**

Provide best practices. You need to engage in new service delivery models and share views on cost management practices with government.

The point is to not to forget about service delivery. The proposed culture shift balances program delivery with cost management. Cost savings realized through the implementation of these initiatives can be reinvested to provide better value to citizens.





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