Improving government productivity: A systemwide approach

January 29, 2025 | Article

By Eoin Daly
with Claudia Havranek and Elena Chong

Share Print Download Save

Improving public sector productivity has rarely been easy, but implementing change in three areas could have a considerable impact.

McKinsey & Company – Listen to the article: Improving government productivity: A systemwide app... SOUNDCLOUD

Audio

Making government more productive offers substantial rewards for the public. A McKinsey study across 42 countries found that if public services could reach the productivity levels of the leading performers in their peer groups, the improvement would be worth an estimated $3.5 trillion per year.[1] Since then, governments have spent more on public services, especially during the COVID-19 pandemic.[2] Allowing for this increase and inflation, the productivity gap could be well over $5 trillion per year in 2024. These additional resources could be redirected to further improve public services, invested to meet longer-term needs (for example, those of aging populations), or used to tackle intensifying fiscal challenges.

Globally, governments have worked to become more productive. Yet, with some exceptions, productivity has continued to stagnate.[3] In the public sector, productivity may be difficult to measure but generally includes improved operational efficiency *and* effectiveness.[4] A decline in productivity puts pressure on government budgets and may prevent people from receiving the best possible outcomes from public services such as healthcare and education.

Of course, there have been many challenges to improving productivity, such as the global financial crisis, the pandemic, and the war in Ukraine. However, low productivity in the public sector is a long-term

DOWNLOADS

Article (7 pages)

How relevant and useful is this article for you?

☆ ☆ ☆ ☆ ☆

MOST POPULAR INSIGHTS

1. **The state of AI in 2025: Agents, innovation, and transformation**
2. **Agents, robots, and us: Skill**

phenomenon stretching back at least three decades. In this article, we discuss a systematic approach to improving productivity by using three strategies that have been effective in both public and private sector organizations. While we point to specific examples from the United Kingdom and from the private sector, we suggest that the overall approach proposed here would apply to most public sector organizations.

partnerships in the age of AI

3. **Superagency in the workplace: Empowering people to unlock AI's full potential**
4. **The State of Fashion 2026: When the rules change**
5. **The agentic organization: Contours of the next paradigm for the AI era**

Is the gap set to grow?

Public sector productivity in the United Kingdom, as in many countries, has been declining since 1995. According to our research, between 1995 and 2008, public sector productivity decreased by an average of 0.1 percent per year. Since the 2008 financial crisis, the decline has accelerated to 0.9 percent per year. Overall, public sector productivity has decreased by about 20 percent since 1995. In contrast, private sector productivity in the United Kingdom has increased by 50 percent over the same period, and in the United States, it has increased by 150 percent. The public has noticed this disparity. In a survey conducted in November 2023, 78 percent of respondents stated that public services had deteriorated.[5]

Looking ahead, given the rapid advancements in new technologies, including generative AI, the gap between public and private sector productivity may widen further (see sidebar "Case study: Transforming customer service with generative AI"). Currently, 65 percent of private sector companies report regular usage of gen AI in more than one business function, with many experiencing both cost decreases and revenue jumps in the business units deploying the technology.[6] In contrast, only 37 percent of UK government bodies surveyed in 2024 had deployed any type of AI (and typically for only one or two use cases).[7]

Sidebar

Share

Case study: Transforming customer service with generative AI

That is not to say that the private sector has all the answers. Productivity growth has varied considerably over time and across countries and sectors. But on average, the public sector appears to be trailing significantly, and the gap seems set to grow. The imperative for a step change in public sector productivity has never been greater.

Be aware of mindsets that may hinder productivity growth

Governments would *like* to improve productivity—there have been and continue to be many well-meaning efforts to do so. And there have been some notable successes. However, in general, enduring and systemwide improvements in productivity at scale have been hard to achieve. Public sector leaders often put forward a number of reasons to explain why it is so difficult and perhaps not even worth the effort:

"Improving productivity really means spending less, so services will inevitably suffer."

The thinking in some government departments appears to be that any reduction in budgets must inevitably, and perhaps immediately, lead to a degradation in services. For this to be true, it would imply that agencies were operating at the frontier of efficiency or that the constraints they were operating under were so severe that there was no real opportunity for productivity improvement. Neither of these seems to hold. The answer may be to anchor at least some productivity improvements on *delivering more* for the same budget or less. The right changes could improve service delivery *and* efficiency.

"We could save money by automating our service delivery, but customers unaccustomed to using digital services would struggle to cope."

The simple answer to this problem is often segmentation—providing a digital service for those who are comfortable with it (a growing majority of the population). This can improve customer experience, deliver better outcomes, and save money. The resources saved can then go toward providing a higher-quality, in-person service to customers who need it.

"We see the opportunities, and we do make investments, but we always struggle to deliver the benefits."

It's important to be rigorous in making the business case when identifying and quantifying the expected benefits of an investment for customers, for employees, and from a value-for-money perspective. Accountability for delivery of the benefits also needs to be clear: It should lie with the function responsible for delivery, not with the technology function or another support function. The targeted benefits (savings, improvement in service) should be hardwired into individual KPIs (from the top of the organization down) and into departmental budgets.

"Our annual budget processes make it very difficult to make even medium-term investments to improve productivity."

This is a genuine issue in many governments. Multiyear resource allocation, whether through programs or systemwide, may need to be more widely adopted, especially when there is a clear business case for productivity improvement.

"We are not provided with incentives to innovate. We can only get funding for measures that are proved to work."

Sidebar

Share

Case study: Using advanced generative AI tools in problem-solving

Again, there is some truth to this, but it is also the case that many public sector organizations are themselves reluctant to push for innovation. They may lack the will or capacity to pursue alternative ideas and may prefer to fall back on tried-and-trusted solutions; this is evident, for example, in the extent to which manually intensive processes still prevail in areas that readily lend themselves to automation (see sidebar "Case study: Using advanced generative AI tools in problem-solving").

Create a system that enables productivity growth

The responsibility for creating and enabling higher productivity lies with central governments, as well as with individual departments and agencies. At the federal or central level, some practical imperatives for leaders emerge:

- Set a clear aspiration for improving service quality and outcomes for the public.
- Commit to multiyear resource allocation to enable future investments.
- Explicitly encourage spending proposals that include innovative ideas and push back on those that do not.
- Hold departments and agencies accountable for delivering on their commitments, especially regarding benefits.
- Emphasize the need for rapidly scaling proposals that are proved to work, rather

than conducting endless pilots or proofs of concept.

- Be thoughtful about leadership rotation, enabling leaders to stay in their positions long enough to deliver real improvements.
- Invest in new capabilities by identifying talent, building skills, and attracting new talent, including through new career paths and enhanced value propositions.
- Celebrate successes, accept failure (provided lessons are learned quickly!), and help spread best practices.

Look holistically for productivity improvements

At the department or agency level, the first step toward pursuing productivity improvements is to review current activity. Many government departments say that they are overextended. A rapid review of activities aimed at identifying what should be stopped or reprioritized is the first step. This often unearths legacy initiatives and activities that no longer contribute to the delivery of the department's priorities.

To deliver the right outcomes, departments and agencies can consider their customers, tools and assets, and the people across their organizations. Strategies include the following:

1. *Deliver services targeted to the customer.* This is fundamental and will likely involve digital innovation to deliver tailored solutions to customers. This includes segmenting the customer base, forecasting demand, optimizing the use of digital and physical infrastructure, and delivering a more personalized customer experience as much as possible (see sidebar "Case study: Focusing service delivery on the customer"). A Nordic country redesigned the care home application process and reduced the time required by 70 percent. A British bank improved its customer experience score by 37 percent, boosted employee engagement by 29 percent, and saved more than $3.1 billion in costs by redesigning its customer journeys and transforming its organization to deliver.
2. *Use assets efficiently and get value for money from procurement.* Assets can include estates, infrastructure and property, and nonproperty asset management. Sometimes simple measures such as a capital charge for using property can encourage systemwide optimization. In procurement, there is often a huge opportunity (including in IT systems) through a strategic approach to category management, demand management, and vendor performance management. One Western European government saved up to 25 percent in costs and improved customer satisfaction by introducing category management.
3. *Organize to develop and upskill talent.* Many organizations can simplify their hierarchy by reducing the number of management layers and shifting to cross-functional teams. A British energy company that moved to cross-functional teams—each with clear objectives, resources allocated against those objectives, and performance-managed delivery—cut the time for fulfilling procurement orders by two-thirds and reduced work backlogs by 30 percent. Close to 100 percent of the staff surveyed preferred the new ways of working. Along with these actions, upskilling employees could help them fulfill the future needs of their role.

Sign up for emails on new Public Sector articles

Sidebar

Share

Case study: Focusing service

How can this agenda be advanced at an agency or department level? We suggest a phased approach. First, understand the *full potential* for productivity improvement delivery on the customer

across the organization, and on that basis, set an aspiration anchored on improving both service delivery and efficiency. Then, develop a prioritized set of initiatives, with clarity on the required investment and a benefits case that is owned and signed off on by the business line. Finally, move to implementation, with the line being accountable for benefits delivery, savings reflected in budgets, and with a bias toward scaling delivery wherever possible.

The case for improvement in public sector productivity has never been stronger, and the opportunity has never been greater. A systemwide approach could establish the right conditions and enablers of success, allowing government departments and organizations to swiftly pursue changes in productivity. The starting point should be an aspiration to dramatically improve the quality of service and value for money delivered to the public.

How relevant and useful is this article for you?

☆ ☆ ☆ ☆ ☆

ABOUT THE AUTHOR(S)

Eoin Daly is a senior partner in McKinsey's London office, where **Claudia Havranek** is a consultant and **Elena Chong** is an associate partner.

The authors wish to thank Alexander McNeill, Amit Hooda, Ciara Conlon, Jonathan Dimson, Kelan Patel, Naba Salman, and Sophie Millns for their contributions to this article.

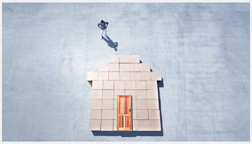
This article was edited by Rama Ramaswami, a senior editor in the New York office.

Talk to us

EXPLORE A CAREER WITH US

Search openings

RELATED ARTICLES

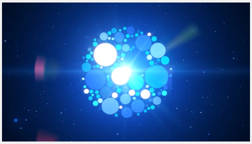


Article

Government productivity: Practical methods to deliver more with less

Blog Post

Rekindling US productivity is a $10 trillion opportunity



Article

2024 and beyond: Will it be economic stagnation or the advent of productivity-driven abundance?

McKinse

iPhone, i

y Insights - Get our latest thi
Pad, or Android device.

nking on your

Download on the
App Store

Email address

GET IT ON
Google Play

Su

scribe

© 1996-2026 McKi

nsey & Company