The evolving demographic, economic and regulatory environment, plus the changing needs of their citizens and corporate stakeholders, are causes of much head-scratching but also opportunities for public sector organisations. In this paper, BearingPoint public sector Partners across Europe give their views on the imperative steps administrations need to take to preside over reform before challenges descend into crises.
Collaboration, engagement, digital technology and the ecosystem hold the keys to service provision

The public sector can no longer act in isolation

As an administrative function common to all nations and jurisdictions, the public sector has historically enjoyed a position apart from other industry verticals. A massive employer, it accounts for a quarter of all employment in Europe’s 28 member states\(^1\) and plays a key economic role. Of course, it also comes at a significant cost – almost 50% of GDP is swallowed by public services\(^2\).

But the lines between the public and private sectors are blurring. In the final years of the 20\(^{th}\) century many types of business – in particular utilities and healthcare, but also transportation and security – saw waves of privatisation occur across Europe, followed by outsourcing, offshoring and more recently public cloud computing. Each has redefined the boundaries between the public sector, external organisations and, indeed, the companies, societies and citizens served.

Whilst blessed with an extended period free of conflict, the European Union is not without its challenges. These include: an ageing population, due to extended lifespans and reduced childbirth; resource shortages and rising costs of basic services; and the global downturn, with its impact on infrastructure, regulatory frameworks and citizen wellbeing. Meanwhile public bodies have been looking to innovate, to benefit from the efficiencies of shared service models and the use of technology to improve operationally and in how they engage with stakeholders.

Against this background, the public sector faces many opportunities to deliver enhanced services and reduce costs whilst increasing the value it brings to the communities it serves.
Reach beyond the norm by developing sharing and partnering competencies

Following waves of outsourcing and offshoring, the traditionally siloed public sector is increasingly looking at ways to collaborate and partner on both service delivery and internal administration. This is in large part cost driven, as authorities look at collaborative initiatives and joint projects, enabled through state-of-the-art technology, as ways to meet reduced budgets. Not only can money be saved in planning, build and operational phases of a project but the range of services can also be broadened in scope and deepened in function.

However, despite frequent overlaps between tasks, public administrations seldom take advantage of cooperating with other organisations to any great extent. Fear of losing power or independence, discomfort about transparency, and lack of experience mean that collaboration opportunities are not taken, even for basic services. It feels sometimes that the 28 EU member countries and 99 regions have each developed individual solutions for implementing European laws and regulations.

Whilst this reluctance to engage with others can be put down to justified fears generated by the failure of shared services initiatives in the past, it can also be due to institutional inertia and an inability to take the required step. It is well understood that cooperative approaches cannot take place in a vacuum – they should always lead to win–win situations and need to be based on trust, which can take time to build. However, if the first steps are not taken, opportunities will be missed to create new, innovative services.

Consequences

- Unnecessarily increased expense may prohibit an organisation from taking on potential services and initiatives alone
- Elevated costs of maintenance, development and operational management of software systems, together with reduced interoperability between internal and external systems
- Inconsistent service delivery across regions leads to a ‘postcode lottery’ of service provision and underserved citizens, as ‘baseline’ services cannot be delivered in a consistent manner
- Delays in innovation and a lack of agility, not least around digital service delivery and eGovernment

Actions

- Identify trial studies with trusted partners to gain insight into how to successfully work through legal, organisational and technical aspects of the cooperation process
- Identify a board-level sponsor for cooperative activities and work towards a portfolio approach where they can be managed alongside other projects
- Implement structures that institutionalise working cooperatively, for example by sharing computer centres, service providers or setting up committees and/or panels, like ministerial conferences or IT advisory boards
- Ultimately, adopt cooperation as a default approach for implementing laws and regulations, even if possible partners deal with the same problem at different times
Transparency and realism: expectation management of costs and targets are key in delivering agile projects

Large-scale infrastructure projects are complex and have sophisticated political, budgetary and legal framing conditions. In a previous edition of the BearingPoint Institute Report, we discussed the impact of a growing funding gap for infrastructure projects, resulting in increased scrutiny on large public investments. From such projects we can learn the importance of controlling requirements and maintaining a clear view of delivery and success criteria.

Those scenarios can result in participative decision-making structures that cross different levels of the public administration. These involve a large number of people in the decision-making and can be unpredictable, leading to uneasy compromises and budget overruns – particularly if initial budgets are based on what is seen as acceptable. Recent projects with huge investment budgets, including Berlin Airport and Hamburg Elbphilharmonie, show what can happen if up-front measures are not taken.

Consequences

- Elected politicians are often not in office or committed to a policy or programme over the entire term of the project and so they have difficulties dealing with project risks, operational requirements and practical feasibilities
- Public authorities often over-rate their skills in the field of operational project management. Ambiguous definitions of requirements and underestimated complexity of tasks lead to projects with ‘moving targets’ in terms of objectives, budgets and outcomes
- For political reasons large-scale projects are often not substantially funded in order to achieve the public’s acceptance; this automatically leads to budget problems

Actions

- Agree on common strategic goals and realistic, measurable results across a range of milestones at a senior political level, with the buy-in of all major stakeholders
- Implement a capable and experienced management structure with a robust mandate aimed at the project’s stakeholders
- Define a small, but stable ‘kernel’ as the project’s scope and implement a centralised, agile management process for all technical requirements and project deliverables
- Assure transparent project reporting, including an honest judgement of risks and an evaluation of their mitigation
- Entitle global budgets including contingencies, especially for long-term projects; avoid the mistake of buying the cheapest option; specify work as precisely as possible and take care of adequate tendering procedures

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Engaging in the digital era: structure the organisation around a service provider mindset in line with the habits of the digitally enabled citizen

Our digital world provides ever increasing ways for the public sector to engage with the citizens it serves, from ‘smart refuse bins’ that indicate they are ready to be emptied, to online filing of records and better information provision to communities. Digital administrations can respond more directly to the needs of their constituents and public sector resources can be used more efficiently through automated processes.

However, across Europe government administrations are at different levels of maturity in terms of the application of digital models to deliver agile, easy-to-use, ‘consumerised’ services at lower cost. A clear gap exists, for example, between how Baltic states are delivering eGovernment services and supporting strong digital engagement, compared to Germany and France where digital strategies could be strongly improved.4,5,6

Many organisations continue to define themselves in terms of legacy command and control structures and areas of functional responsibility. This bureaucratic mode of communication and service delivery does not allow public service bodies to take full advantage of the opportunities presented by the digital age. Organisations that present themselves as a department, a ministry or an agency first and a service provider second miss opportunities to engage effectively with the communities they serve, undermining their ability to provide value for money and deliver customer-centric services to citizens.

Consequences

- Inefficiency – digital technologies enable greater reach at lower cost than traditional mechanisms, so not using them adds unnecessary overheads by missing out on potential savings
- Misalignment of services to changing citizen usage trends – for example, locking services behind a rigid ‘office hours’ telephone line
- Costly half-way-house digital programmes that create additional overheads without removing traditional inefficiencies – such as a glossy website with manual back-end processes

Actions

- Consider technology at every stage of the design, development and evolution of new and existing public services that respond to the needs and expectations of citizens in a digital society
- Realign supporting processes – such as budgeting, allocation of funds, workforce management, recruitment and performance management – to the requirements of the service and its customers
- Benchmark services against those provided by private sector organisations – and realise higher customer satisfaction scores, as has been achieved by a number of progressive jurisdictions
Eight imperatives for public sector reform

4 Tackle the demographic time bomb by engaging with front-line managers

The recruitment and retention of talent are key success factors for all organisations and public administrations are no exception. The issue is even particularly acute as long-term demographic trends collide with brain-drain. On one hand, ‘baby boomers’ are starting to retire – for example in France, 30% of the public workforce is over 50. At the same time, past waves of outsourcing have caused a drain of skills and more recent budgetary constraints have further exacerbated the skills shortage, particularly as organisations look to meet the evolving needs of their constituencies.

A result of the increased competition for talent in the market is to put pressure on HR policies and programmes for a range of issues – including recruitment, promotion and career management, training and development, severance and early retirement – as well as on organisational, management and cultural frameworks. In many cases, however, short-term constraints (for example, balancing the books) or local considerations (such as employment levels) are coupled with inefficient, expensive HR policies based on outdated rules. A significant risk is that neither management nor HR have sufficient understanding of the new competencies they require and thus find it difficult to anticipate how to assure future public service delivery.

Consequences
- A level of ‘underskilled’ staff, lacking competencies around new technologies and services, are unable to adapt to new requirements
- Management issues, as employees work in roles for which they are ill-suited
- A vicious cycle in which potential service level risks and increased costs make further outsourcing an inevitability

Actions
- Engage directly with line managers to understand the required shape and skills mix of the organisation, based on the main changes the organisation will face in the short term
- Use these requirements as input to a strategic workforce planning exercise, delivering HR policies that reflect the foundation competencies (quantitative and qualitative) required for public service provision
- Define and instigate HR initiatives across recruitment, training, functional and geographical mobility, and retirement to reduce the erosion of competencies
Fulfil the role of public sector as a catalyst for economic success

Strong public–private relationships are important drivers for economic growth across all aspects of our society. By better understanding the socio-economic ecosystem, public administrations can become more efficient in stimulating growth in the private sector. However this requires a spirit of partnership to be embedded into all levels of public authorities – a spirit that can slip down the priority ladder when budgets are constrained.

Public administrations can be sluggish in recognising their role as enablers for the private sector and with each other as part of a broader ecosystem of service provision. Divided responsibilities also create issues – for example transport and environmental public authorities might have contradicting aims, translating into ambiguous policies that can confuse private business partners.

In addition, public administrations tend to shy away from cooperating with businesses to mitigate potential risks because they fear that conversations required to establish these partnerships may leave them open to questions of corruption. However, better business partnerships, incentives for employers or improved working environments do not have to imply an entry gate for fraud of financial mismanagement.

Consequences
- Reduced capability for innovation attracting less influx of skills
- Reduced tax revenues, either directly or indirectly
- Irreversible loss of national economic power to foreign economic hubs, in an ever more globalised world

Actions
- Enhance internal capabilities to understand the requirements of the economy and establish more interdisciplinary understanding of the public sector’s role
- Take economic responsibility for administrative actions based on their impact in a globalised economy, to turn the local geography into an attractive area for investment
- Establish accountability and incentive structures that match the ability for business to flourish
Avoid deadlocks by adopting a portfolio management approach to service delivery

Government organisations operating in today’s global, digital and dynamic society are responsible for a range of services to meet the complex and interdependent expectations of their ‘customers’ – that is, taxpayers. Today’s mature and developed services market offers choice in terms of how best to deliver these services to return maximum value from public funds.

At the same time, the world is moving quickly and there is a window of opportunity for providing any new service. Organisations can end up with multiple initiatives, not all of which are destined to reach completion: they can outgrow or under-deliver on their initial objectives and requirements. As funding is tight, budgetary savings may result in ongoing projects and existing services being squeezed. Such reductionist actions result in inefficient and expensive opposition from stakeholder groups.

However the key issue does not lie in any one service, but in the skill an organisation employs to maintain an overview of its service portfolio. The lack of such a perspective may result in a potential time bomb, as the organisation becomes less able to fulfil duties in response to changing dynamics, leading to the inevitable consequence of sweeping cuts rather than more careful triage of the service base.

Consequences

- Organisations can undermine the services they seek to provide
- Costs can increase rather than decrease, leading to reduced financial security
- Motivation can reduce as employees and citizens lose faith in service development and delivery

Actions

- Have a clear appreciation and evaluation of the strengths and capabilities required to deliver services
- Revisit the missions, focus on those that add value to the citizens and then re-engineer processes: for example, digital technology provides plenty of opportunities for agile, service-user improvements
- Look at managing existing and new services as a portfolio, each linked to measurable outcomes and concrete deliverables
- Implement outcome-based performance models to reward achievement and results
- In a portfolio of higher-risk/reward initiatives and more foundational, stable, lower-risk services, differentiate between the services and protect their outcomes
Optimise regulations to avoid the complexity deadlock

In a changing world, regulations are subject to frequent adaptation – we only have to look at the considerable effort Europe’s lawmakers are putting into improving and updating regulations following the financial crises of recent years. On a local, national and international level, short-termism can tempt political and administrative actors to redraw regulations as a consequence of media attention to current events.

If left unchecked, regulations can become onerous by attempting to cover all possible cases (including exceptions), adding complexity and causing the letter of the law to overshadow its spirit. In this situation, regulations are difficult to enforce or are applied according to local interpretation, further catalysed by the complexity and lack of harmonisation in regulation between countries. Rules then may become treated as a permission to push the boundaries and, in turn, this opens the door to fraud – for instance in the case of ‘fiscal optimisation’ through offshore headquartering.

The outcome is a law of diminishing returns, hindering not only businesses and citizens, but also making it harder for administrations to do their jobs.

Consequences

- A profusion of detailed regulations negates the value of rules; as a result civil servants sometimes may take an empiric approach, which can trump the legislator’s intent
- Legal fees generated by judicial proceedings around regulation application create an unnecessary burden to administrations and corporations alike
- Information systems have to manage specific rules, with numerous parameters and exceptions, making them expensive and unwieldy to manage
- The resulting uncertainty is bad for both businesses and individuals, with the most vulnerable parties being the least able to keep up with legislation

Actions

- Avoid ambiguous formulations in all texts by providing clear guidance to affected stakeholders
- Test the application of regulations with affected stakeholders before publishing them
- Evaluate the impact and cost of existing complex regulations, monitoring the effects of proposed changes
- Engage nationally and internationally to enable the longer-term alignment of regulations across borders
- Ultimately, transform the way regulatory offices see their role: as service providers to citizens and companies and enablers of good practice

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Assess the societal ROI of opening your data vault

A mountain of data exists both within and outside public organisations, with more being added all the time. For example, trains and buses are fitted with GPS transmitters that generate data and accessible data is added continually to disease-transmission information, geological surveys and public statistics. Data is becoming a vital resource: the new gold or oil to be mined, drilled and piped to where it is needed.

The opportunity created by this wealth of information cannot be overstated. Public agencies can support their economies by opening up their data vaults and can also benefit from using the increasingly large external pools of data that now exist. For example:

- Welfare, education and health care services (public and private) can analyse public data sources to tailor services to the specific regional needs of citizens
- Transport, communication and utilities planning can use available public data to bring down the cost of infrastructure and meet the requirements of citizens and businesses

Even as administrations review their processes and structures for information centricity, they are facing fundamental questions, such as: ‘Should data accumulated with tax payer’s money be given away for free?’ In parallel, the markets that may use these new troves of data are not yet established and so risk being monopolised by private organisations such as global internet players, which could stifle the notion of openness and free access. A final area of concern is privacy, particularly if large amounts of personal data are on public registers. Agencies may be tempted to avoid all such challenges by keeping their data locked away.

Consequences

- Reduced value derived from existing data pools, which could be used by third parties to create added-value local services
- Private investors could use their own data to offer similar services (e.g. for geographic or environmental data), devaluing better quality public resources
- Reduced agility of the administration, for example responsiveness to unexpected events from freak snowfall to crisis situations

Actions

- Identify data pools that are currently under-exploited within the organisation, and assess the potential of releasing the information to a wider audience, even if on a limited basis
- Define business models under which the data can be used for free or for a fee to establish economic certainty for investments
- Implement information-sharing mechanisms, for example, put in place management configuration of new data releases
- Lead the privacy discussion to identify required restrictions and define rules to utilise data without undermining citizen rights
Notes
9. ‘News | World | Europe | The €500m concert hall that was only meant to cost €40m’, Independent, London, UK, web, Tony Paterson, 05/04/10, http://ind.pn/1ylbba2
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