

Public Sector (Europe)



The e-government revolution

Creating new strategies for the digital age

February 2015

Julian Kirchherr

Julia Klier

Sebastian Stern

The e-government revolution: Creating new strategies for the digital age

Governments have long known that they can promote economic growth by investing in roads, power grids, and other physical infrastructure. But only recently have they realized that investing in e-government—the digital channels, apps, and websites that link citizens to the public sector—can produce equally important economic rewards. A new company might be able to open more quickly and preserve its capital, for instance, thanks to an online process that eliminates red tape and minimizes transaction costs. Overall, a McKinsey analysis suggests that capturing the full potential of government digitization could free up to \$1 trillion annually in economic value worldwide, through improved cost and operational performance.¹

Although some countries have developed sophisticated online platforms, most struggle to create compelling, widely used digital channels. According to a European Commission study, 13 percent of Internet users in Europe are potential “e-government dropouts”—they have used online government channels but would prefer to use another channel next time, likely because they received poor service. Even more disturbing, the number of EU citizens accessing e-government now stands at only about 40 percent.

These low usage rates may deter many governments from undertaking online initiatives, especially since program costs are high and budget overruns are common.² But usage numbers could surge if governments create stronger online offerings, increasing the return on investment. Take the example of Germany, where the National Regulatory Control Council estimated that the country would have to make a one-time investment of €690 million to create a solid digital strategy. In return, Germany would save €930 million annually. Furthermore, the high costs that characterize most programs result from inefficiencies and errors during project design and rollout. A more thoughtful, strategic approach to program development could eliminate many excess expenses.

Private-sector companies have developed many techniques for attracting customers to their online products, and they

constantly refine their strategies to remain competitive. Despite their embrace of new technologies, including smartphones and apps, these companies manage to streamline development and keep costs to a minimum. Public-sector leaders could gain much by following their example. But to do so, they must take a new approach to strategy design and project rollout.

Building solid, long-term strategy solutions

It’s clear that many digital efforts fail because of poor planning during early stages. Here’s how governments can improve strategy development.

An integrated, unified approach to e-government

The typical government structure—a sprawling network of agencies, each with multiple business units—often complicates online initiatives. In response to a general mandate to “go digital,” individual groups launch separate projects simultaneously, seldom communicating or sharing ideas. The result: many overlaps, little coordination, and duplicate costs as business units pursue the same work in parallel. One agency with which we worked had 25 digital initiatives running simultaneously, creating a multimillion-dollar budget overrun.

Governments could eliminate much waste and potentially accelerate progress by creating a comprehensive digital strategy encompassing all business units and relevant agencies. Top leaders must coordinate strategy design to maintain consistency about priorities, timing, and resource allocation. However, they should also involve frontline staff responsible for implementation in development, rather than work in isolation. Austria succeeded in these respects by appointing a dedicated chief information officer (CIO), who reported directly to the country’s chancellor and vice chancellor, to drive the strategy for its e-government services. The CIO collected ideas and concerns from all relevant agencies throughout strategy development, building widespread support.

¹ Cem Dilmegani, Bengi Korkmaz, and Martin Lundqvist, *Public-sector digitization: The trillion-dollar challenge*, mckinsey.com. This article focuses on internal actions that governments can take to promote digitization. It is distinct from the current article, which focuses on identifying, creating, and continually improving digital services that will appeal to citizens.

² In a study of public- and private-sector initiatives, digital transformations typically reported cost overruns of 27 percent, and one in six projects was as much as 200 percent more expensive than originally expected. Most of the projects involved the US public sector. Alexander Budzier and Bent Flyvbjerg, “Why your IT project may be riskier than you think,” *Harvard Business Review*, September 2011, Volume 89, Number 9, pp. 23–25, hbr.org.

Customer-centric design

Instead of selecting strategies that are inexpensive or simple to implement, governments should choose those that emphasize convenience for customers. Although such strategies remain an elusive goal for many countries, some exceptions exist. Consider the following:

- The Italian government is currently integrating all e-government services into one platform. Since the platform will contain sensitive personal information, each citizen will access it through a unique logon.
- Through Estonia’s well-regarded digital platform, users can sign a legally binding contract online from any location, file a tax return in just five minutes, and vote in national elections.
- Panama allows companies to register a business in 15 minutes through PanamaEmprende, an online system sponsored by the ministry of commerce and industry.³

Before Panama established the online portal, the process took five days.

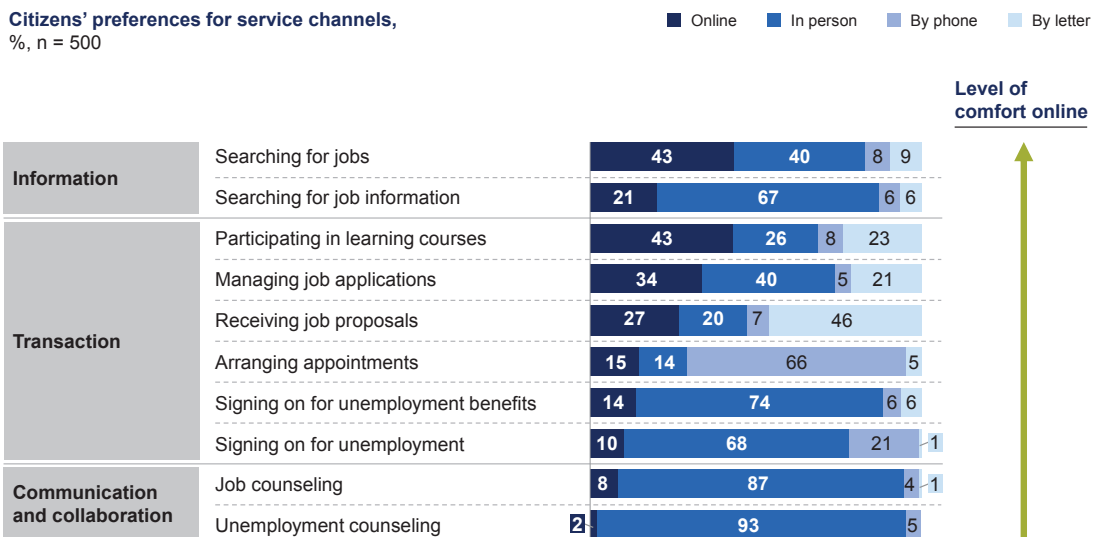
A combination of traditional and online channels

No matter how successful governments are in implementing e-services, their strategies should always include some multichannel options because many citizens prefer in-person or phone interactions for particular transactions. For instance, a European unemployment agency found that 43 percent of citizens were comfortable searching for jobs online, but only 2 percent wanted to receive unemployment counseling over the Internet (exhibit).

Unrivaled technology

Governments should involve outside vendors in strategy development. Private-sector companies may have more thorough knowledge of the latest technologies than government agencies, and they can help ensure that these are included in public-sector platforms.

Exhibit Digital strategies should incorporate multichannel options.



Citizens are most comfortable with searching information online and least comfortable with communication and collaboration occurring online

Source: Julia Klier, Regina Pflieger, and Lea Thiel, *Will everything be digital?*, 12th International Conference on Wirtschaftsinformatik, Osnabrück, Germany, March 2015, (www.fim-rc.de/Paperbibliothek/Veroeffentlicht/482/wi-482.pdf).

Rollout and customer management for a new age

Digital rollouts in the public sector often begin with bold promises such as “file your taxes in just one hour” or “reach your job adviser anywhere, anytime.” Unfortunately, most programs fail to deliver on these claims, often because governments try to accomplish too much at once. A more effective method would involve emulating high-tech start-ups and other entrepreneurial businesses, which take a stepwise approach to innovation. Specifically, governments should oversee a sequential rollout, in which a program is launched at small scale in one part of the organization. In addition to sustaining momentum, a sequential rollout reduces costs and minimizes risks because there is less danger that the government will invest significant amounts in a strategy that ultimately proves useless.

After the pilot, all groups involved in program development should analyze the results, identify problems, make adjustments, and relaunch the project (ideally on a larger scale). As with strategy design, top leaders will drive much of this process, but frontline staff should be involved. It is particularly important for IT experts to seek feedback from the groups that will use the platform, as well as from external customers, since updates to prototypes are easier and less costly than those to full-fledged products. Organizations that fail to do so could inadvertently delay their projects or derail them entirely, as occurred when IT experts at a ministry in the Middle East decided that they had to specify all design elements in detail before sharing the platform with potential customers. When they finally reached out a year and a half into development, their customers declared the solutions too radical. The project was scrapped and relaunched months later, on a much smaller scale.

Developing key performance indicators for digital tools

As governments shift to online channels, they must update the key performance indicators (KPIs) used to evaluate government workers. But implementing a new performance system appropriate for the digital age is challenging in both the public and private sectors. According to one recent McKinsey survey, less than 40 percent of executives say their companies have set targets for their digital products or designated “owners” responsible for their success. Instead, they rely solely on the KPIs they have traditionally used, such

as the number of problems resolved through call centers or the speed with which employees reply to written mail. Such traditional KPIs will remain important and should still be tracked, since many customers may prefer in-person, phone, or postal interactions, but they are no longer sufficient to evaluate customer service.

The experience of a government agency in Europe illustrates the problems that can occur when traditional KPIs are the only metrics tracked. The agency successfully implemented a new online system to promote customer collaboration but, in keeping with its traditional KPI system, only gave employees credit for face-to-face interactions. Even replies to e-mails were considered irrelevant. This practice inadvertently sent a signal to employees that the online channel was unimportant, and it failed to gain traction after a strong start.

Although governments should begin thinking about digital KPIs at the earliest stages of strategy development, the selection process requires long-term deliberation. Ideally, managers will suggest a few promising candidates when a project is launched but not finalize them until the transformation has been under way for about three to five months, when it will be more obvious how citizens are using the system. Possible KPIs for online service include the number of e-mail interactions per day with customers and customer ratings of digital service (as documented by periodic surveys).

Winning public support with marketing

Digital services may be a hard sell in the public sector. In fact, the European Commission found that 38 percent of European Internet users are “nonbelievers”: they have never used e-government and do not intend to do so anytime soon. To address this reluctance, governments should launch strong marketing campaigns with the dual goal of winning converts from the nonbelievers and publicizing their new channels to those who are already willing digital consumers.

The best marketing programs will contain a clear-cut value proposition that resonates with customers. Dubai, for instance, created a comprehensive advertising campaign for its online platform that focused on the theme of “making life easier.” Other countries may find that winning strategies focus on similar themes, such as the speed of transactions (cited by 80 percent of e-government users as a major reason for using online channels in an EU survey), cost savings (62 percent), and flexibility about the time and place of the transaction (75 percent).

Collecting customer feedback

Customer feedback is important after a launch, just as it is during rollout. But many governments do not evaluate the success of their online projects until one or two years have elapsed—a time frame that is not appropriate for the fast-paced digital world. With the growth of social media and sophisticated online retail channels, customers now expect to provide online feedback immediately, read reviews for products and services, and have their suggestions addressed promptly.

Some governments, realizing that they should be more aggressive in addressing customer needs, have posted feedback forms on their websites. Others are taking a more advanced approach by going to popular social-media apps and websites. One Middle Eastern IT ministry asks citizens to share their views on the government's digital products via Facebook and Twitter. It then generates a monthly report based on this feedback and uses the findings to enhance its digital offerings. For instance, feedback inspired the agency to put links to key services on the web portal's start page, where they could be more easily located. The agency also replaced written instructions with illustrations whenever possible, since customers complained that the text was difficult to grasp.

Agencies that constantly incorporate customer feedback must keep one or two IT people on the project indefinitely. Although this raises costs, it helps the program gain traction and reduces the online dropout rate. The frequent improvements may also generate more positive publicity than intensive marketing efforts, since citizens will rapidly spread the word about well-designed systems.



When people are shopping for a new television, looking for a hotel, or trying to purchase concert tickets, the online channel is often their first choice. This is especially true for those under 30, who cannot remember a world without the Internet. If the public sector continues to lag behind in offering online options, it could alienate citizens who understandably want the same digital service they find in retail and elsewhere. This does not mean, however, that governments should scramble to move services online without careful thought. While a cohesive, well-refined strategy may take longer to develop, especially since it requires collaboration among multiple groups, the long-term results—with regard to both customer service and organizational efficiency—make it worth the wait.

Julian Kirchherr is a consultant in McKinsey's Berlin office, **Julia Klier** is a consultant in the Munich office, and **Sebastian Stern** is a principal in the Hamburg office.

