

The Public Sector Transformation Imperative

Serving citizens through connections, transparency and purpose-led leadership

August 2020

Introduction

The public sector becomes even more important in a crisis. Demand for social services has skyrocketed in response to COVID-19 and the resulting economic turmoil, with governments under pressure to redesign everything from budgets and processes to the way services are delivered.

Responding quickly to these challenges requires public sector organisations to take a cohesive, flexible approach to their operations. They must focus on engaging employees, improving collaboration with internal and external stakeholders and upgrading technology—all of which could be especially challenging for a sector often plagued by bureaucracy, legacy systems and limited funding.

To understand how organisations are applying this holistic management strategy—sometimes known as systems thinking—SAP and Oxford Economics surveyed 3,000 senior executives, including 300 from the public sector; we also conducted in-depth conversations with a handful of executives from the private sector about their progress toward applying systems thinking and lessons learned along the way.

The results of our research show that this interconnected approach to management can increase effectiveness as organisations navigate uncertainty. In fact, a small subset (6%) of respondents qualified as leaders in applying systems thinking, and their efforts have paid off in a number of ways. While public sector organisations are making progress in many areas, most still have work to do when it comes to collaboration and data-sharing.

Systems thinking is a way of seeing the entire web of relationships within and beyond the organisational firewall as a unified entity that operates smoothly, dynamically and as part of a cohesive strategy.

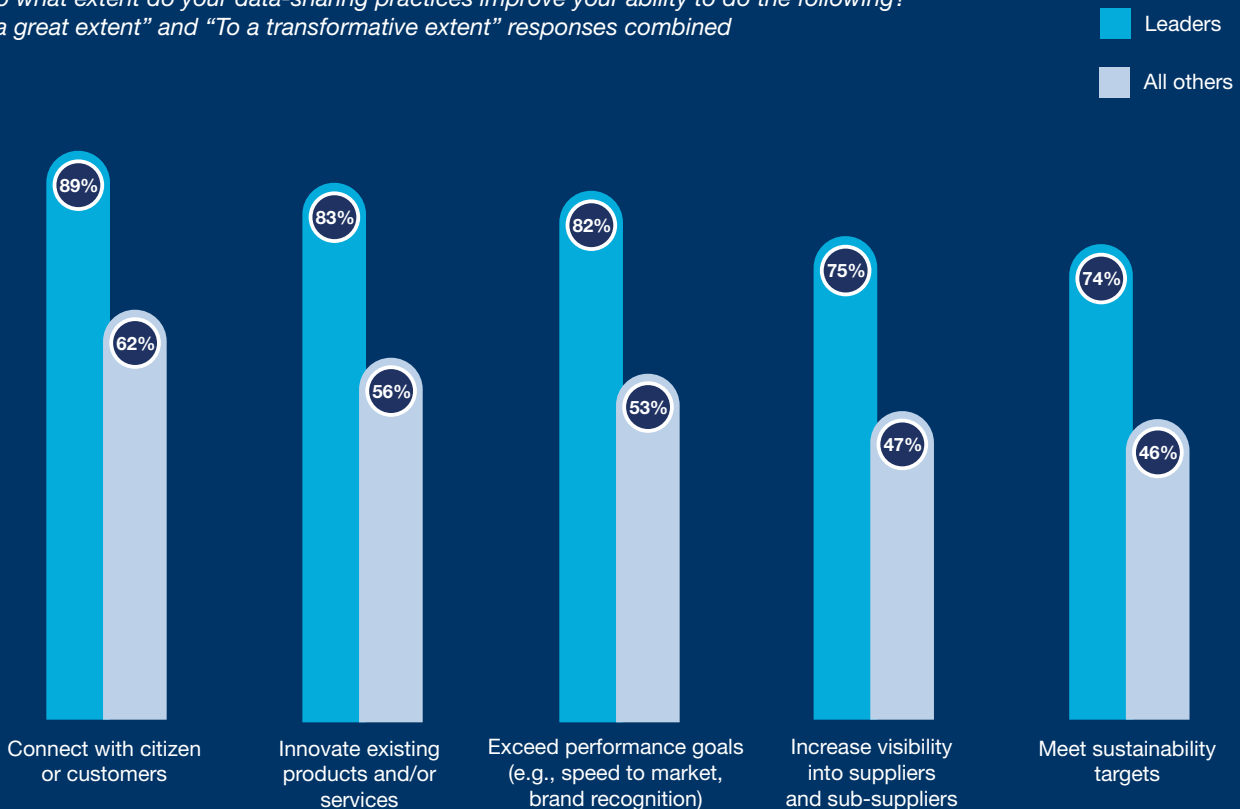
Meet the Leaders

We sifted through our 3,000 survey responses to identify organisations that are outperforming their peers by certain key measures of systems thinking. This leader group makes up just 6% of all respondents, indicating that most organisations are still catching up to the immense management challenges of the digital era. Public sector respondents account for 9% of this group—slightly above our survey average.

Leaders are far more likely than other respondents to say they have integrated communication and data-sharing processes across the organisation, increased transparency into operations, broken down organisational silos and invested in collaborative technologies. Each of them reports that they have created and taken meaningful action on a clear and consistent purpose-driven vision.

Fig. 1: Leaders share information—and reap the rewards

Q: To what extent do your data-sharing practices improve your ability to do the following?
“To a great extent” and “To a transformative extent” responses combined



A single survey cannot establish a clear causal link between behaviors and outcomes, but we can say leaders greatly outperformed other respondents in areas including innovation, employee engagement and retention, and profit margin increases over the past three years. They are more focused on culture and social initiatives and more likely to say their approach to social issues is rooted in how they organise the company.

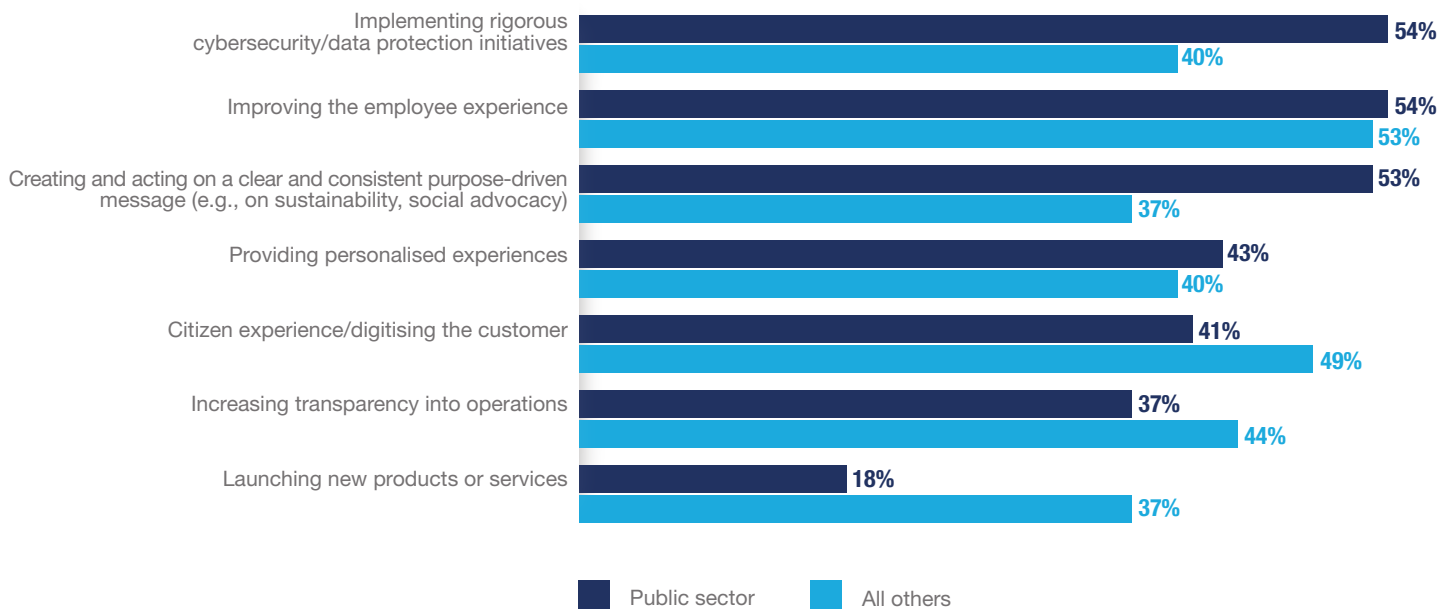
Prioritising purpose

Many organisations claim a commitment to changing the world, but for the public sector, purpose should be everything. It is unsurprising, then, that the sector is far more likely than others to prioritise establishing a purpose-driven vision and strategy around social and environmental issues.

Public sector respondents in our survey are more likely to say excelling in Environmental, Social and Governance (ESG) metrics influences their organisational strategy (20% rank it as their top goal, vs. 4% total). About half (49%) say leading with purpose, by focusing on social and environmental change, is a priority for success (vs. 30% total).

Fig. 2: Purpose and employee satisfaction are priorities

Q: Which of the following business decisions would most advance your reputation as an industry leader? Rank up to three.



Acting on these priorities improves employee satisfaction and talent attraction—all the more important since 61% cite a shortage of skilled talent as a barrier to meeting strategic change initiatives (compared with 50% of the total). Nearly three-quarters (71%) say their organisation’s environmental focus is valued by employees, and 82% say they are effectively providing employees with a sense of purpose. Moreover, most agree that their social (78%) and environmental (74%) reputations provide an advantage when searching for skilled talent.

Boosting collaboration with the HR function could help organisations attract the talent they need. While nearly one in five (18%) say interaction with the HR function is absolutely critical to success at their organisation (compared with just 12% total), others in the sector could be undervaluing HR’s role in meeting workforce goals, as nearly one-third (32%) say interaction with the HR department is not critical to success.

Upgrading the employee experience

Attracting purpose-driven, highly skilled talent is only one part of the equation for success. Public sector organisations must also create the right employee experiences to retain the dedicated employees who keep services available to those who need them most, identify and work to solve pressing challenges, and help citizens respond to crises.

Public sector organisations in our survey seem to understand this imperative. Over half (56%) say employee satisfaction has the greatest influence on organisational strategy, well above the 35% cross-industry average.

Prioritising employees means investing in their experiences. More than half (54%) of public sector respondents say improving employee experience would advance their reputation as an industry leader (Fig. 2). They also are more likely than others to say they have personalised employee experiences (50%) or created a feedback system for employee suggestions (42%)—decisions that have led to increased employee engagement, according to more than one-third of respondents.

But some areas could use improvement. Only about one-fifth (22%) have completely executed decisions that would improve the employee experience, and just under half (48%) restructured their organisation to accommodate the way people actually live and work.

And it is not enough to focus on internal talent sources: contract workers, external partners, suppliers and other organisations within the public sector ecosystem must also be part of the conversation. Just 41% agree that their external workforce is well integrated into operations and culture.

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Focusing on the citizen experience

In general, public sector executives are confident that their brand is perceived positively by the citizens they serve in terms of ethical operations, dedication to social change and net impact on the environment.

Maintaining this trust will demand an ongoing focus on process improvement and transparency—especially as disruptions like COVID-19 require governments to create solutions (e.g., contact-tracing apps) that require citizen buy-in.

For some, transparency is completely overlooked as a key component in building trust with citizens: 13% of public sector respondents have not increased transparency into their operations at all.

Roughly half (54%) of respondents ranked implementing rigorous cybersecurity and data protection initiatives among the top three factors that would advance their industry reputation (Fig. 2). Acting on this initiative—which two-thirds have done completely or to a significant extent—can reduce fraud, waste and abuse, consequently deepening citizen trust.

Leaders—respondents from across industries who best apply the concepts of systems thinking to manage their organisations—are more likely than others to have carried out cybersecurity and data protection initiatives.

Building an interconnected organisation

Integrating functions, boosting collaboration and simplifying processes are all essential to building an interconnected organisation.

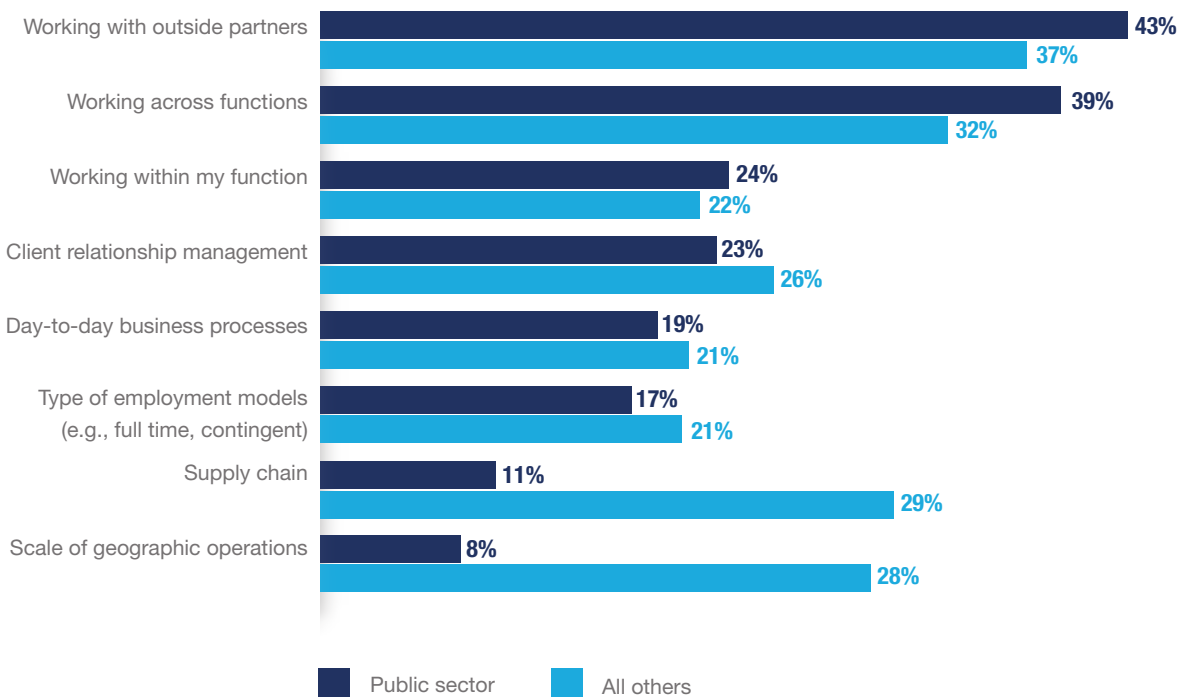
More than three-quarters (77%) of public sector respondents say they have integrated their business processes in all or most of their functions, and many say they effectively manage these processes end-to-end (91% vs. 83% total), facilitate collaboration across the organisation (84% vs. 78% total) and align management tactics with organisational goals (83% vs. 76% total)—although they are more likely to say they are somewhat effective, rather than very effective, in carrying out these initiatives.

At the same time, just 21% say their organisation’s operations across functions are completely integrated in terms of communication, data-sharing and process management, and 41% identify a lack of effective collaboration across functions as a barrier to carrying out strategic change initiatives.

The sector’s complexity in a number of key areas—along with its reliance on legacy systems and bureaucratic processes—may help explain these silos. For instance, public sector respondents are more likely than others to say working with outside partners and across functions is highly complex for their organisation (Fig. 3). About one-quarter (26%) say their reliance on outdated ways of working is a barrier to carrying out strategic change initiatives.

Fig. 3: Complexity in collaboration

Q: Please describe the level of complexity in your organisation in the following areas. “Highly complex” responses



James Fairweather, chief innovation officer of Pitney Bowes, the \$3.2 billion postage meter and mailing business based in Stamford, CT, emphasises the importance of simple and efficient processes to managing complexity across an organisation—lessons that can be applied in the public sector as well. “You have to know the processes you want to follow, and the processes have to be both clear and

simple,” says Mr. Fairweather. “And then you have to have a good communication system that can inform all parties about where you are in each step of a process, so everyone can stay on the same page.” This approach to simplifying processes has supported closer collaboration between the finance and engineering teams at Pitney Bowes, which in turn has improved forecasting and decision-making across the organisation.

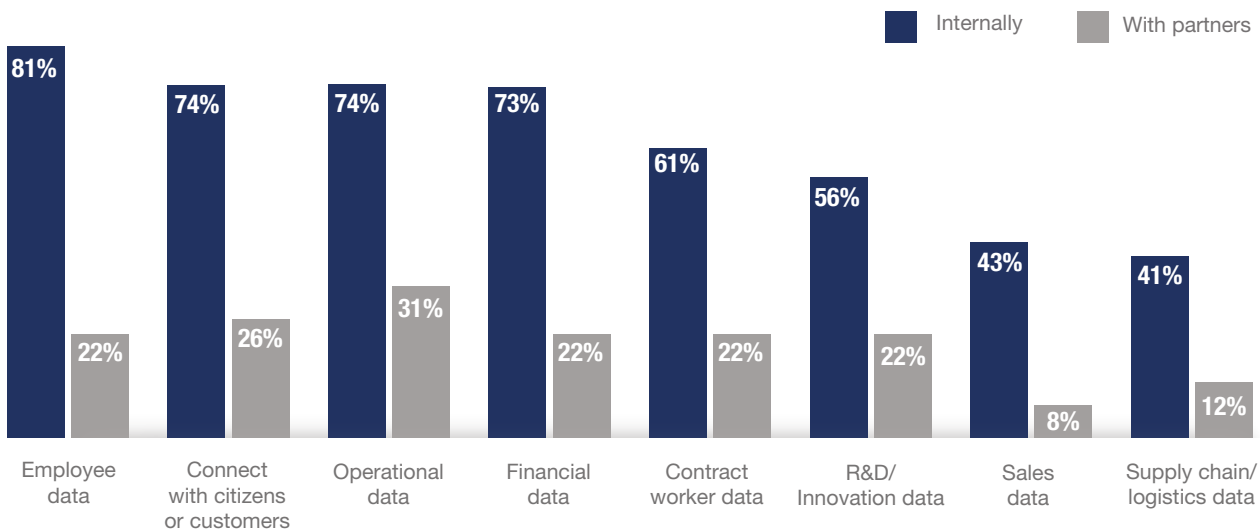
Data-driven and digital

Effectively distributing public resources is easier when data can flow across entire ecosystems to improve decision-making, increase efficiency and reduce fraud and abuse. New Zealand’s government, for example, changed its laws to increase data-sharing between agencies, resulting in improved welfare outcomes for citizens.¹ In the US, there are calls to improve data-sharing efforts and infrastructure between public health agencies and the federal government to facilitate meaningful COVID-19 tracking.²

While regulations on data privacy, like Europe’s General Data Protection Regulation (GDPR) protocols, might serve as a constraint on data-sharing, public sector organisations must find ways to securely and ethically exchange information in order to maximise collaboration within their ecosystems. But data-sharing with partners—which could include, for example, other public-sector departments or private companies—is dramatically lower for the public sector (Fig. 4). In fact, a full 21% have no plans to increase data-sharing with their partners.

Fig. 4: Data-sharing with external partners needs improvement

Q: How effectively are you sharing the following sources of data internally, if at all? With your partners? Rapid, fluid data-sharing” and “Moderate data-sharing” responses combined



Many do not have the processes in place to effectively share data. For example, just one-third have retrained employees to work with data or invested in technologies to analyse data (Fig. 5). Over one-third (36%) cite insufficient or weak analysis of data as a barrier to carrying out strategic change initiatives.

Data-sharing practices and technology investments pay off in many areas, including improving citizen and employee experiences. Other benefits to data-sharing that are important for interconnectedness within the public sector include improvements to internal efficiencies (55%) and filling skills gaps (56%). As the public sector increases investment in new digital technologies like artificial intelligence (42% have invested in AI over the past three years) and predictive analytics (39%) to meet their goals, effective data collection and analysis will become even more critical.

Public sector respondents say data-sharing improves internal efficiencies (55%) and helps fill skills gaps (56%)

¹ https://www.sas.com/en_us/customers/msd.html

² <https://www.healthcareitnews.com/news/covid-19-emergency-shows-limitations-nationwide-data-sharing-infrastructure>

Fig. 5: Few have implemented the processes needed to improve data sharing

Q: Which of the following steps have you taken to share data more effectively?



Conclusion

The public sector boasts many strengths, including its ability to attract talent and improve citizens' lives. But the sector must adopt an interconnector's mentality to reap benefits ranging from simplified processes to improved talent retention. How can public sector organisations reshape their strategies to survive the disruption ahead?

- **Increase transparency to deepen citizen trust.** Leading with purpose yields an array of benefits, including better citizen experiences. But the sector must understand and meet their constituents' expectations around transparency, especially in times of crisis.
- **Simplify processes to reduce complexity.** Public sector respondents are among the most likely to experience complexity when it comes to collaboration across functions and across the ecosystem—a critical component of an interconnected organisation. Often dependent on old ways of working, the sector must reduce bureaucratic systems and become more integrated, mainly by simplifying processes.
- **Boost secure data-sharing with government and private-sector partners.** Organisations within the public sector report efficient flows of data between functions, and many are seeing the results of their investments in data collection, analysis and sharing. But to be true leaders, respondents must prioritise data-sharing with their partners; this initiative starts with upskilling the workforce and implementing processes to facilitate the flow of relevant information.
- **Prioritise HR integration to retain talent.** Public sector organisations are leaders in prioritising social and environmental purpose to attract top talent—but can do better to keep their employees motivated. Improving the integration of HR and talent functions across the organisation is key to enhancing employee experiences.

For more findings from our research study—including an overview of other industries surveyed—see our research report at www.sap.com/Oxford-Economics-IE-report

About the research

SAP commissioned Oxford Economics to conduct a survey of 3,000 business executives. The survey was conducted between March 2020 and May 2020 via computer-assisted telephone interviewing. Because results were collected during a time of heavy disruption from COVID-19 and the associated economic crisis, results shed light on strategies for long-term success.

Respondents come from the US, Canada, Mexico, Brazil, France, Germany, the UK, Nordics (Norway, Finland, Sweden and Denmark), India, Japan, Singapore, Australia and New Zealand. All respondents come from organisations with over \$500 million in revenue; one-third come from organisations with between \$500 million and \$999 million in revenue, one-third from organisations with between \$1 billion and \$9.9 billion in revenue and one-third with \$10 billion or more in revenue.

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