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Ideation Center insight

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# **Fit for Service *government***

## **The opportunity in the GCC's fiscal challenge**

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## **About the Ideation Center**

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*The Ideation Center is the leading think tank for Strategy& in the Middle East. We aim to promote sustainable growth in the region by helping leaders across sectors translate socioeconomic trends into actions and better business decisions. Combining innovative research, analysis, and dialogue with hands-on expertise from the professional community in the private and public sectors, the Ideation Center delivers impactful ideas through our publications, website, and forums. The end result is one that inspires, enriches, and rewards.*

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# Executive summary



**The Gulf Cooperation Council (GCC) countries<sup>1</sup>** are in a fiscal crunch. Even if the GCC member states can grow non-oil revenues by 10 percent annually over the rest of this decade and the average price per barrel of oil returns to US\$50, their budgets will still need to be reduced by approximately \$100 billion (7 percent of GCC GDP) on an annual basis to achieve fiscal balance.

All GCC governments have announced spending cuts, but conventional strategies, such as across-the-board or narrowly focused cuts, could do irreparable harm to their economic and social development. Instead, they need a more effective approach — one that enables them to cut costs and grow stronger simultaneously. This approach, which Strategy& developed for the private sector and customized for government, is called *Fit for Service*.

*Fit for Service* achieves substantial and sustainable reductions in spending, while bolstering investment in the government services and initiatives that are essential to the long-term security and well-being of governments' constituents. It involves four actions: articulating strategy; transforming the existing cost structure of government services; building the necessary capabilities; and reorganizing the government's operating model for high performance. There are two enablers of these actions. The first is digital, which drives the digital transformation of government. The second is the development of the talent needed within government and the national economy at large along with the creation of a change-friendly culture that can support and nurture stakeholders as they undertake transformational initiatives.

*Fit for Service* initiatives are difficult but worth the effort because the leaders of the GCC member states cannot simply cut costs by conventional means if they are to transform the cost base of their governments and create a more sustainable fiscal future.

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# ***The GCC's budget problems are structural, not cyclical***

The GCC countries face years of budget deficits. The price of oil, which contributes three-quarters of GCC governmental revenues, has fallen to its lowest levels in over a decade. Meanwhile, the cost and demand for core public services continue to rise.

Business as usual is not a viable option for the governments of the GCC. The average price per barrel of oil remains significantly below the level needed to avoid fiscal deficits. At the same time, the percentage of health, education, and defense expenditures shouldered by many GCC countries is among the highest in the world (*see Exhibit 1, page 6*).

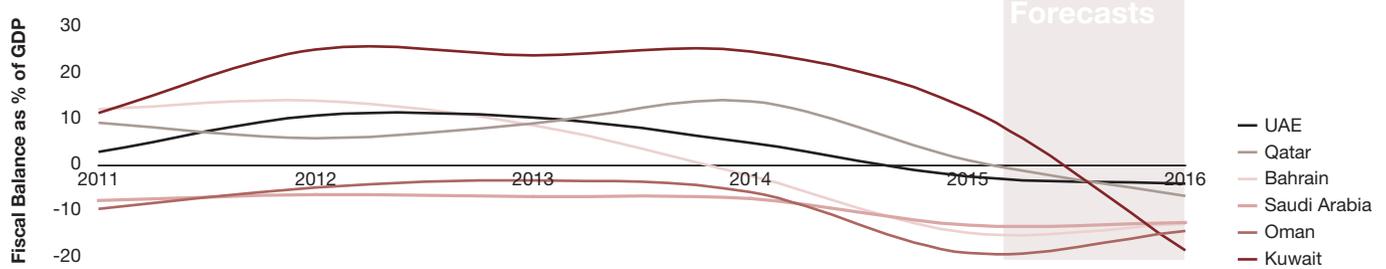
Unfortunately, the GCC's budgetary problems are not a cyclical condition that will resolve itself with the passage of time. Oil-based budgets are not viable over the long term, whether or not the price of oil rebounds. Furthermore, greater demand for government services within the GCC means that expenditures on essential services will increase. Among the causes are: demographic trends, especially the growing number of unemployed young people; and technological trends, such as rising digital literacy, that are raising expectations regarding service choice, convenience, and efficiency.

What does this mean in quantitative terms? Analysis by Strategy& reveals that even if the GCC governments are able to grow non-oil revenues by 10 percent annually over the rest of this decade and the average price per barrel of oil returns to \$50, their budgets would still need to be reduced by approximately \$100 billion on an annual basis in order to eliminate fiscal deficits. This figure is equivalent to approximately 7 percent of the GCC's total GDP.

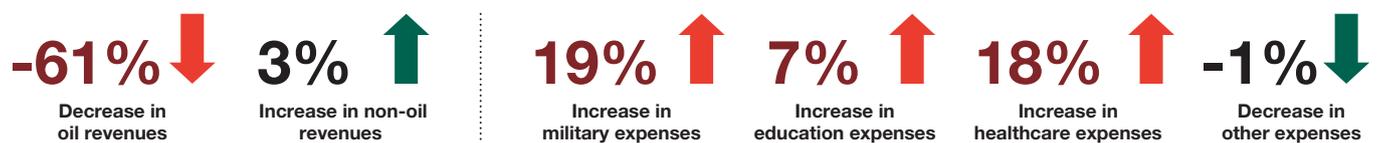
## Exhibit 1

### Fiscal challenges in the GCC at a glance

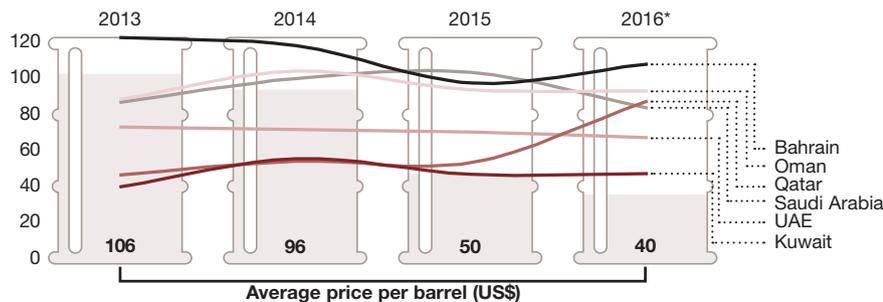
GCC countries' respective fiscal balance as a % of GDP (2011–2016)



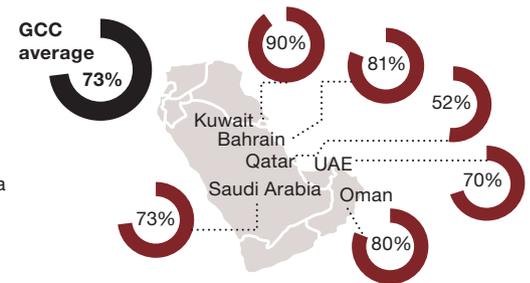
Income and expenditures leading to the fiscal deficit in the GCC, in US\$ billions (2011–2015)



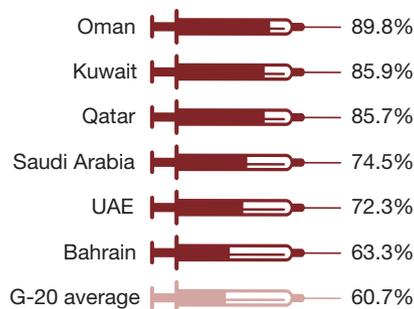
Oil price and fiscal breakeven price (US\$/barrel)



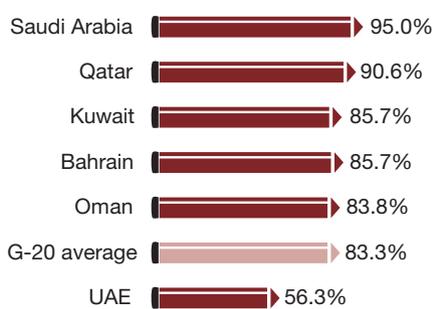
Governments' dependence on oil (oil as % of government revenues, 2015)



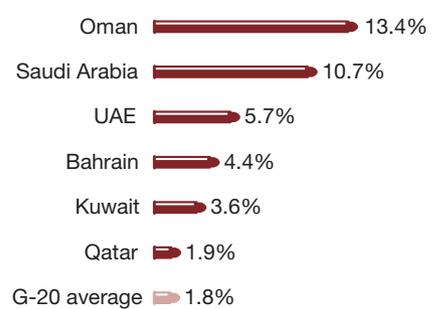
Public share of health expenditures, 2014



Public spending on education as % of total education expenses, 2014 or latest available data



Military expenditures as % of GDP, 2014



\* U.S. Energy Information Administration forecast

Note: G-20 average does not include Argentina, Brazil, China, India, and South Africa for lack of complete data. Saudi Arabia is not included in G-20 average because it is a GCC country.

Source: GCC countries' ministries of finance and education; IMF; The World Bank, World Development Indicators; OECD; OPEC archives; Strategy& analysis

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# *Cost cuts alone won't work*

In the face of this budgetary crisis, every GCC government has announced spending cuts, which range from 4 percent to 30 percent. Although reduced governmental spending is necessary, conventional cost cutting — either across-the-board cuts or narrowly focused cuts — could do irreparable harm to the economic and social progress of GCC countries.

Across-the-board spending cuts yield short-term savings, but they do not change how a government spends or functions. The government tightens its belt, but it does not attack the cost basis of functions and processes; it defers investments, but it does not optimize them. Worse, across-the-board cuts impede the performance of the government's essential processes and the implementation of its high-priority initiatives, because they are subject to the same reductions as every other activity.

Similarly, narrowly focused spending cuts also sacrifice long-term goals for short-term financial gain. Functions and services that offer the largest and most immediate savings are targeted without due consideration for their long-term impact. Often, these cost reductions are determined by benchmarking similar spending of other countries without taking into account the local context.

GCC governments need a more effective approach to eliminate tens of billions of dollars in spending without the risk of costs creeping back. The scale of the challenge they face means that both the across-the-board and the narrowly focused approaches will cut into the muscle of government. An effective approach must enable the GCC members to lose the fat they don't need (i.e., cut costs) while simultaneously retaining the muscle to grow stronger (i.e., to invest and fulfill their social obligations). It must empower them to transform their budgetary problems into an opportunity to rethink the fundamental tenets of the public sector, becoming more cost-effective and better equipped to meet constituents' needs in the process. We call this approach *Fit for Service*.

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## ***In pursuit of transformational cost reduction***

The *Fit for Service* framework for government was first used in the private sector during the 2007–2009 global recession. Strategy& designed its predecessor, *Fit for Growth*,\* to help companies simultaneously pursue two seemingly contradictory goals: revenue growth and cost reduction.

*Fit for Growth* achieves this through a proactive and prioritized approach to cost management. Spending on non-core activities is reduced or eliminated, and the savings are reinvested in the development of a set of distinctive capabilities that enable a company to differentiate itself in the marketplace and grow its revenues. This approach uses a deliberately designed operating model and organizational culture to enable and support sustainable cost reduction.

Companies have unlocked significant value using *Fit for Growth*. In terms of cost-cutting, they recorded savings ranging from 17 percent to 44 percent annually.

*Fit for Service* is a customized version of the *Fit for Growth* framework. It is

tailored for government entities, as opposed to private-sector companies and state-owned enterprises, in the following three ways:

- *Fit for Service* focuses on organizational improvements, such as the development of critical capabilities, cost structure transformation, and operating model design, in order to generate savings, as opposed to politically controversial and often contentious policy reforms, such as surcharges and changes in benefits
- *Fit for Service* takes a systemic perspective that unlocks the significant savings inherent in centralization and cross-government collaboration, in addition to capturing savings within individual government entities
- *Fit for Service* uses digitization as a fundamental component of cost transformation — exploiting technological means to cut costs while improving service levels

\* *Fit for Growth* is a registered service mark of PwC Strategy& LLC in the United States.

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# *The Fit for Service framework*

*Fit for Service* allows GCC government entities to achieve sustainable reductions in their budgets. It will enable them to reduce deficits while bolstering investment in the services that are essential to the long-term security and well-being of their constituents.

The *Fit for Service* approach is driven by four actions. It begins with articulating strategy. Then, it focuses on transforming the existing cost structure of government services to cut costs and fund investment, building the capabilities needed to execute the strategy, and reorganizing the operating model to cut costs and deliver on strategic goals. This work is supported by digital technologies, people skills, and organizational culture (see *Exhibit 2, page 10*).

## **1. Articulate strategy**

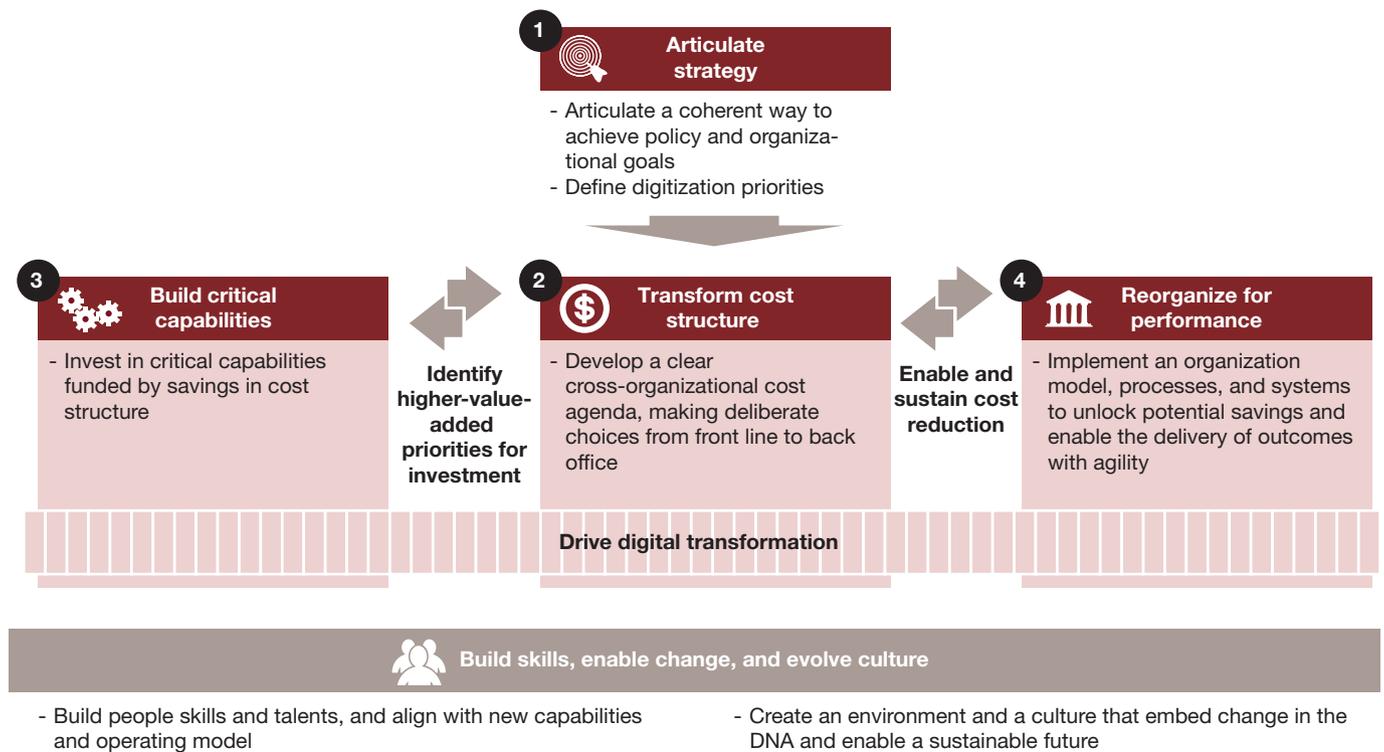
Every government entity should be able to articulate clearly a coherent way to serve constituents, the set of products and services needed to do so, and the underlying critical capabilities that will deliver the best outcomes aligned with the entity's fundamental purpose. This first step ensures that the *Fit for Service* transformation is coherent: savings arise from areas that are not critical to achieving the strategy, and investments flow toward building the right capabilities.

Similarly, effectively promoting digital transformation requires defining the digital strategy of a government entity. This needs to be aligned with government-wide digitization priorities and the national digital agenda. In Saudi Arabia, for instance, there are multiple strategies for digital without the required governance and institutional frameworks to effectively implement them.

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Exhibit 2

The *Fit for Service* framework for government entities



Source: Strategy&

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## 2. Transform the cost structure

Government entities experiencing budgetary pressures need to quickly find savings from across their cost base to reduce deficit spending and release the funds needed to invest in developing critical capabilities. There are four proven programs that can help them in this quest by producing 20 to 40 percent reductions in their cost structures (*see Exhibit 3*).

**Cash/capital management** Maximizing capital productivity and more effectively managing liquidity can release cash and optimize the use of capital. GCC governments can begin this work by exercising more discipline in the capital planning process. Rather than simply reviewing capital allocation at the end of this process, they should instill a culture of capital productivity; link capital plans that extend out at least three years to the strategic planning process; and adopt clear criteria for the evaluation, selection, and prioritization of projects.

Exhibit 3

Four cost reduction programs that can release cash and cut costs

	1 Cash and capital management	2 Supply chain management	3 Overhead reduction	4 Digitization
Description	<p><b>“Optimize the use of capital and manage liquidity”</b></p> <ul style="list-style-type: none"> <li>- Capital productivity</li> <li>- Working capital management</li> <li>- Asset disposals</li> </ul>	<p><b>“Rationalize total supply chain cost and meet high service levels”</b></p> <ul style="list-style-type: none"> <li>- Procurement spend</li> <li>- Inventory and logistics costs</li> </ul>	<p><b>“Streamline overhead expenses to what is affordable”</b></p> <ul style="list-style-type: none"> <li>- Discretionary expenditures</li> <li>- Manpower levels</li> </ul>	<p><b>“Digitize back-office and front-office operations while minimizing IT costs”</b></p> <ul style="list-style-type: none"> <li>- IT cost reduction</li> <li>- Digital as an enabler for reducing other costs</li> </ul>
Average savings from <i>Fit for Growth</i> benchmarks	<ul style="list-style-type: none"> <li>- Eliminating excess working capital unlocks 5–15% of cash</li> </ul>	<ul style="list-style-type: none"> <li>- 20–25% savings across procurement, inventory, and logistics can be achieved</li> </ul>	<ul style="list-style-type: none"> <li>- Overhead reduction can cut selling, general, and administrative costs by 20–30%</li> </ul>	<ul style="list-style-type: none"> <li>- IT infrastructure &amp; operations can be reduced by 10–25%</li> </ul>

Source: Strategy&

In Singapore, for example, the budget formulation cycle begins 10 months before the end of the fiscal year with bilateral meetings between the ministry of finance and line ministries. Whole government and sectoral meetings are conducted to promote the coherent allocation of budgets across government. Through this process, the government eliminates the duplication of work across ministries and proactively explores how ministries can best work together. Saudi Arabia has also launched a large-scale national transformation called Saudi Vision 2030, which includes a council of economic and development affairs with a mandate to improve the governance of capital expenditures.

Enhancing the management of working capital is often a source of significant savings, especially in government agencies responsible for collecting revenues and making large payments. *Fit for Growth* initiatives in the private sector have generated cash increases of 5 to 15 percent through the release of excess working capital.

Governments can bolster working capital and improve cash flow by reducing overdue receivables using means such as outsourcing collections, collection centralization, the provision of alternative and more convenient payment methods (such as mobile payment), and early payment incentives. Likewise, the optimization of supplier payment terms — including the pegging of payment to final deliveries — can often yield savings.<sup>2</sup>

Government entities that are heavily laden with assets, such as office buildings, land, warehouses, motor vehicles, electronics, and other equipment, can unlock significant benefits. In order to capture these benefits, asset registers should be created, assets should be viewed as a portfolio, and asset life cycles should be managed more effectively. The disposal of surplus assets can release much-needed funds and eliminate expenses associated with loans and maintenance.

The disposal process needs to be managed carefully to ensure assets are sold at market value and to assuage public concerns. In the U.S., for example, federal real estate assets are managed by the General Services Administration (GSA). The GSA has a process that evaluates the disposal of property in terms of clear priorities. In descending order, these priorities are the transfer of property to other government entities, the provision of the premises to the homeless, public benefit conveyance (such as parks), negotiated sale, and finally, public sale (generally through a sealed bid or auction).

**Supply chain management** Efficient supply chains allow government entities to better balance service levels while lowering costs, up to 25 percent reduction, according to *Fit for Growth* benchmarks. Procurement savings play a large role in this task and can be realized through a robust understanding of factors such as demand and supplier costs, enhanced contract transparency, skilled negotiation, and leveraging economies of scale.

Performance-based procurement is a promising and underutilized approach for procurement in the GCC. There are already a few examples of performance-based contracting in the region. For instance, in 2013 the UAE granted Advanced Military Maintenance, Repair and Overhaul Center (AMMROC) LLC a \$5.8 billion performance-based contract to support aircraft maintenance and repair for the UAE armed forces.

However, performance-based procurement by itself is not an effective way of achieving supply chain savings. Implementing performance-based procurement strategies often requires a substantive change in the conventional mind-set and culture of purchasing. Drafting contracts and establishing equitable pricing structures can be complicated when outcomes are difficult to measure.

Finally, government entities that incur significant costs in inventory and logistics can find opportunities for cost reduction in private-sector practices. The disposal of excess stock, the adoption of inventory controls, the rationalization of warehouse footprints, and the enhanced management of fleets are among the improvement levers in this area. One GCC entity, for example, obtained a 33 percent reduction in the number of warehouses, significantly reducing both operational complexity and costs.

**Overhead reduction** Discretionary expenses are an obvious target for cost cutting. In many GCC government entities, savings can be realized in this area by the strengthening of expense policies and a greater focus on misuse and overuse of travel and other allowances. For one GCC entity, for instance, the potential for reducing expenses by half on staff uniforms was identified by simply replacing damaged or worn ones instead of purchasing a fixed number of new uniform sets every year.

GCC governments also should examine their manpower costs. These costs represent the largest portion of the budget of most GCC government entities — nearly 50 percent of the overall government budget in Saudi Arabia, for instance. In addition, many government entities are overstaffed and under-skilled. The public-sector skills shortage is part of a broader national skills problem. There is a skills shortage in the strategic sectors that help drive a knowledge economy — the sectors of the future such as data analysis. Within these sectors there is a shortage of strategic jobs, posts that are high-value-adding. For these reasons, much of the local workforce, which does not have these skills, congregates in the public sector. The result is that government entities have a shortage of skills in such critical areas as digital technology, negotiation, and contract management. Nevertheless, cutting overhead costs through outright reductions in head count is difficult, especially in GCC countries with high unemployment rates, and in which most public-sector employees are nationals (see *Exhibit 4, page 14*).

There are more effective and less controversial approaches to manpower cost reduction. One approach is cost avoidance. This method seeks to improve employee productivity levels to eliminate the need to hire additional employees in the future. A shift in hiring practices — such as bringing on expatriates as consultants rather than full-time employees — can also reduce overhead costs. Such flexible employment models can reduce administrative and benefit costs. However, care must be taken to improve productivity and to avoid creating “hidden” manpower costs.

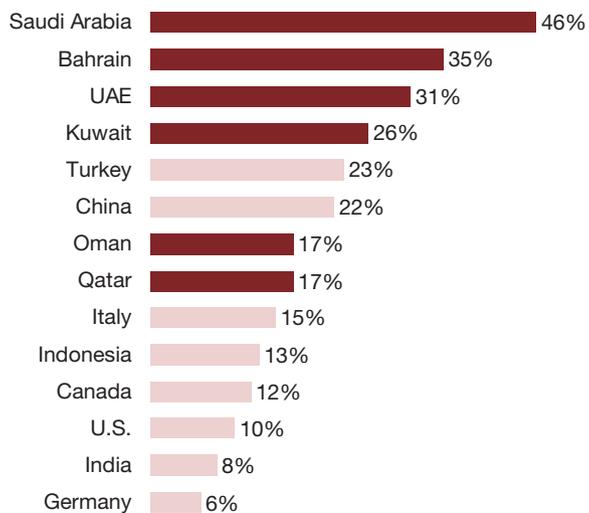
It is important to note that meaningful manpower cost reduction in GCC governments must be linked to a broader discussion about human capital development that includes public and private stakeholders. This discussion should include the gradual elimination of non-essential jobs, the shifting of jobs from the public to private sectors, and the development of a national talent pool that can serve the long-term needs of the GCC states.

**Digital efficiencies and IT cost management** The fourth cost reduction method uses digital technology to realize efficiency across cost categories, while cutting IT costs.

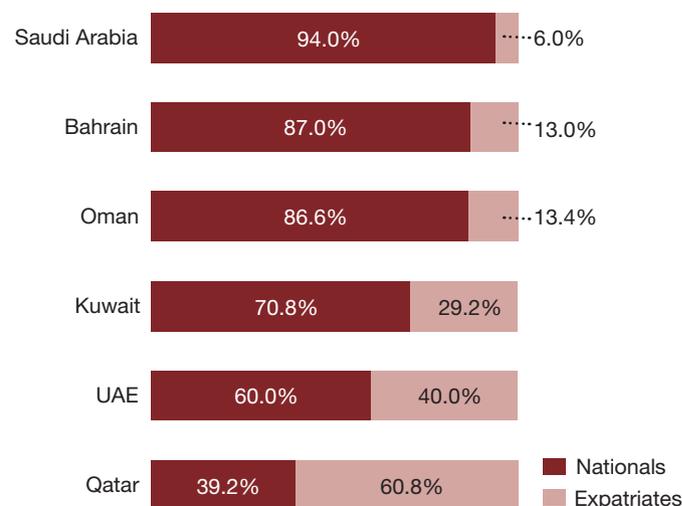
Exhibit 4

**Wages, which mainly go to nationals, are the largest single expenditure in the GCC public sector**

Public sector wage bill as a % of total government expenditures<sup>1</sup>



Public sector manpower, by nationality (2015)



<sup>1</sup> Data from 2011, 2012, or 2013

Source: IMF; OECD; U.K. Treasury; Malaysia Treasury; Singapore Treasury; GCC countries' ministries of labor and development; GCC countries' statistics bureaus

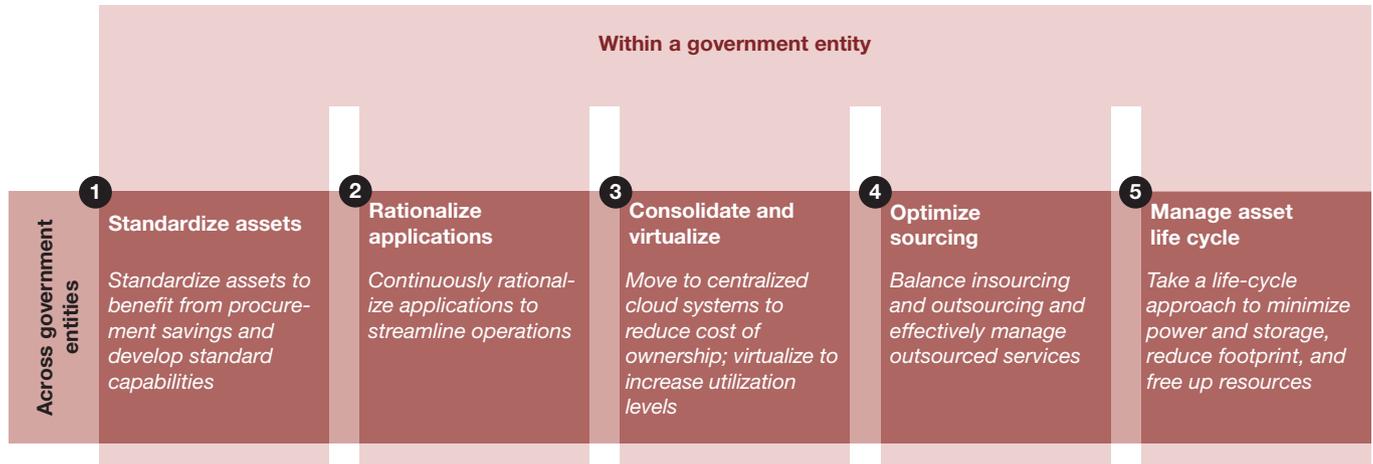
There are four key priorities for realizing digital efficiencies in GCC government entities. First is to automate remaining manual processes. Second is to digitize the approval cycle with tools such as e-signatures to avoid delays and to encourage responsiveness. Third, governments can use digital means for service delivery, especially in remote areas. Fourth, greater integration across government entities through digital platforms can also lead to greater efficiency.

Furthermore, government entities can reduce IT costs by standardizing and rationalizing IT assets. They can consolidate data and applications in the cloud. Moreover, government entities can “virtualize” — that is, use software to simulate costlier hardware. This allows an organization to run more than one virtual system on a single server and can provide economies of scale and greater efficiency. Government entities can optimize sourcing practices and better manage the life cycle of IT assets. These initiatives have even greater potential when implemented government-wide, such as through the standardization of IT assets across all government entities, which can result in considerable economies of scale (*see Exhibit 5*).

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Exhibit 5

IT cost savings initiatives can yield substantial savings



Source: Strategy&

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Although the savings gained from all of the cost reduction programs discussed above will help reduce the budget deficits in the GCC states, their investment value is much higher. These newly captured funds will pay long-term dividends when they are used to fund the development of critical capabilities that the GCC states need to permanently transform how they achieve their strategic visions.

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## Talent and culture enable *Fit for Service* success

Governments cannot use *Fit for Service* without the talent and commitment of government workers and a change-friendly culture that supports and motivates them as they strive to achieve their missions.

**Talent development** For *Fit for Service* to succeed, employee skills must be developed and deployed in alignment with the government's strategy, the critical capabilities that the government will need to become more effective, and execution demands of the operating models it adopts.

In the short term, a government entity can address talent gaps with training, performance management, and career development programs. For example, Singapore uses private-sector HR practices to manage its civil servants. These include: scholarship and sponsorship programs to attract, develop, and retain new talent; variable compensation linked to performance; and a Civil Service College offering each public servant more than 100 hours of training per year. Furthermore, it has linked the pay and progression of civil servants to their performance.

Over the longer term, each GCC member state needs a national strategy for the development of human capital that is aligned with the country's economic vision and the skills needed in its priority sectors. This strategy will have to bridge the gap between supply and demand in terms of skills, and integrate women and youth (who collectively represent over 60 percent of the GCC's working-age population) into the labor market. Moreover, it needs to shift employment from the public to the private sector and encourage expats to upgrade the skills of their colleagues who are nationals.

**Culture evolution** The transformation of government is a fraught process. Often, government entities do not enjoy the same latitude that the private sector enjoys in terms of using financial and

merit incentives to entice employees to change. Moreover, many government employees in the GCC have experienced serial initiatives, especially in unsuccessful attempts at reform, and now suffer from change fatigue.

Only government leaders can remove these obstacles through a gradual process of cultural change. This process begins with leadership defining a clear narrative and communicating it to all of its stakeholders. The most compelling narratives tend to combine inspirational visions of the future with today's urgent problems. During Sweden's budget crisis in the 1990s, its prime minister made communication a personal priority. He explained clearly to all stakeholders, including the public, how the burdens of reform would be shared, and how the nation would benefit from it.

Cultural change also needs senior sponsors across the government who will accept accountability for delivering results. In a *Fit for Service* transformation, senior leaders who are primarily responsible for a cost item should promote cost reduction efforts. In 2010, when Malaysia undertook a major cost-cutting initiative, it enlisted its ministers in the effort and made their KPIs publicly available to enforce accountability.

Finally, government leaders need to make full use of other levers at their disposal to motivate stakeholders to support and pursue *Fit for Service* cost transformations, such as trust and pride. Trust is strong motivator, and leaders should seek to enhance it, especially when initiatives entail the collaboration of government employees and external stakeholders. They also can appeal to pride that government workers take in public service. Also, they can use policies and programs — such as family-friendly employment policies and employee recognition programs — to build support for transformation.

### 3. Build critical capabilities

Every government entity in the GCC must maintain a multitude of capabilities that enable it to execute its strategy. These essential capabilities are dictated by the needs of the government's strategy. Moreover, the processes, tools, knowledge, skills, and organization that constitute a fully-fledged capability are worth developing only if it enables the government and its entities to consistently produce the outcomes needed to achieve that strategy.

The set of capabilities needed by government entities will vary with their mission, but there are a few select capabilities that most, if not all, GCC countries will need to develop. These include the ability to deliver services in a constituent-centric manner, with deep digital expertise, and a talent for collaboration with external stakeholders, such as the private sector, the social sector, and other government entities.

***Become constituent-centric*** Governments that design and deliver services based on their own requirements and processes, instead of the needs of the constituents they serve, cannot prosper over the long term. That is why GCC governments are taking a more customer-centric approach to their initiatives. In Dubai, for example, the government implemented a rating system for all of its service delivery channels in 2014. Designed to capture feedback and drive improvement, it allows constituents to rate government services using a simple star system.

***Invest in digital capabilities*** GCC governments will need to invest in developing their digital capabilities in an incremental fashion. This three-step process will take time. First, governments should seek to develop a capability for envisioning and implementing automated processes. Second, they should develop a capability for digitizing interactions with constituents, offering them an enhanced experience through digital tools and platforms. Third, they should integrate their digital initiatives across government, producing a seamless, zero-friction experience for constituents. This entails investing in government-wide platforms and developing policy and regulatory frameworks that drive effective integration across government. The DubaiNow app is an example of the third step in the process — it provides one-stop access to more than 50 smart services delivered by 22 different government entities.

***Develop the ability to collaborate with external stakeholders*** Finally, as GCC government entities break out of the silos they have traditionally operated in, they will need to develop the ability to interact effectively with a range of external stakeholders from the private sector, the social sector, and other government entities. One example of this capability in action is the recent development of social impact bonds (SIBs), a multi-year, three-way partnership between public, private, and non-profit

entities. A government entity commits to pay for improved social outcomes once they are realized. Up-front project financing comes from private impact investors, who achieve a return on their investment when the government pays. The service or intervention itself is delivered by a non-profit player with a proven approach. SIBs are currently being piloted in Australia, the U.K., and the U.S.

#### 4. Reorganize for performance

The operating models within a government are a major determinant of its cost structure and performance and so of the *Fit for Service* approach (see *Exhibit 6*). Public-sector entities need to develop operating models that are aligned with strategy, work in cost-efficient ways, and provide a platform for deploying critical capabilities. Governments can redesign their existing structures, systems, and process through the application of the following four principles.

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#### *Fit for Service* transformation for GCC government entities

These approaches taken together can constitute an agenda for change in government agencies in the GCC:

##### 1. Define strategy and digitization priorities

##### 2. Transform cost structure

- Optimize the use of capital and manage liquidity
- Rationalize total supply chain costs
- Streamline overhead expenses
- Digitize operations while minimizing IT costs

##### 3. Build critical capabilities

- Become constituent-centric
- Develop the ability to collaborate with external stakeholders
- Invest in digital capabilities

##### 4. Reorganize for performance

- Structure around the constituents using shared services
  - Outsource non-essential services
  - Create a performance-based organization
  - Organize for digital
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***Structure around the constituents using shared services.***

Traditionally, government entities have been structured around services: A new service is introduced and a new organization is built to deliver it. This results in multiple service silos that limit the government's ability to attain economies of scale and to develop valuable capabilities because services are locked away in separate compartments. It also frustrates constituents by forcing them to deal with multiple points of contact within the same government entity for similar services.

Instead, government entities can be structured around the needs of internal and external customer groups. In this way, groups with related needs can be served through a more streamlined and effective central distribution hub that offers shared services. This enhances the government's ability to meet constituents' expectations for service speed and consistency, while reducing the cost of service delivery.

An operating structure characterized by shared services is also a more efficient and cost-effective way to deliver internal services across government entities. In such a model, single centralized units can deliver key support functions, such as digital, HR, legal, finance, purchasing, and facilities management expertise, to all government entities. In our experience, a shared service model can yield significant savings — up to a 30 percent reduction in overhead.

Moreover, a shared service model allows the development of critical functional capabilities within the center and gives individual entities an opportunity to focus more intently on the specific capabilities that are essential to their success. Thus, it improves performance throughout the government. In the U.K., for example, the government claims that its decision to use a shared model for back office operations will deliver £400 million (\$578 million) to £600 million (\$867 million) annually in savings through reduced duplication, shared expertise, and economies of scale.<sup>3</sup>

***Outsource support services.*** GCC governments need to assess which functions can be delivered better and more cost effectively by private or social sector organizations. Typically, activities such as IT, some HR functions, and customer service are good candidates for outsourcing.

Although outsourcing can yield benefits in terms of cost savings and performance improvement, it also can pose concerns in terms of head count reduction, confidentiality, and security. (Some governments in the GCC are sidestepping these concerns by outsourcing to state-owned enterprises, such as ELM in Saudi Arabia that has been handling IT outsourced activities for government entities.) Successful outsourcing also requires relationship management skills that entail specialized management, negotiation, and mediation capabilities.

Recently, in a major announcement, Prime Minister Sheikh Mohammed bin Rashid al-Maktoum said that the UAE government plans to outsource most government services to the private sector. Besides the direct benefits that government agencies would reap from such an effort, the UAE also expects to gain wider benefits from greater private-sector participation in the economy.

Taking outsourcing one step further, GCC governments can embrace open innovation. Open innovation initiatives reach wide for input and ideas — involving the private sector, social sector, academia, and constituents in the effort to generate breakthroughs. For example, the U.S. government has made health data public in machine-readable format and is encouraging innovators and entrepreneurs to use it by scheduling so-called *datapaloozas*. It also launched *challenge.gov*, a hub for open innovation competitions where government agencies seek solutions from the public in return for monetary prizes.

***Create a performance-based organization.*** Performance management offers significant value to GCC governments. It can inform their decision-making and planning processes, ensure the optimization of budgetary spending, build trust with constituents, and enhance governmental transparency. However, it requires more than the identification and ongoing measurement of key performance indicators (KPIs).

Effective performance management requires an empowered function within the government units that adopt it and within the government at large. It must have “teeth” — a centralized entity that is empowered through direct access to the head of government. This entity should be responsible for a number of critical tasks, including the design of the performance management framework, the definition of KPIs, the setting of performance targets, and the assessment of performance.

The Canadian government has implemented such a system. It uses an outcome-based performance management approach supported by a management accountability framework (MAF). MAF, which is overseen by the Treasury Board of Canada Secretariat, helps ensure that federal departments and agencies are well managed, that they are accountable for performance, and that resources are appropriately allocated to achieve the desired outcomes. This is achieved through an annual review of management practices and performance in all agencies across the federal government.

As part of Saudi Vision 2030, Saudi Arabia has announced plans to adopt performance measurement tools in evaluations of government agencies, their programs, initiatives, and executives. A center for performance management of government agencies will be set up to institutionalize the efforts.

***Organize for digital.*** The institutional set up required to drive the digital agenda in government must occur at two levels: government entities need to determine how they should organize for digital, and the government at large needs a central digital entity that ensures integration, standardization, and empowerment across digital initiatives. Government entities should minimize their IT departments through shared services or outsourcing while dedicating a team for driving digitization initiatives across the government entity and for liaising with the central digital entity. The central entity would act as government chief information officer (CIO) that would operate government-wide platforms and rationalize digital spending across government. In Australia, the Digital Transformation Office serves this overarching purpose. It is charged with improving digital service delivery across the government and tapping local and international talent — especially from top-tier user experience professionals — to ensure positive outcomes. Similarly, earlier this year Singapore announced a restructuring in the national digitization landscape which created a new agency called the Government Transformation Office (GTO). The GTO will lead digital transformation efforts in the public sector and play a key role in delivering Singapore’s Smart Nation platform and applications.

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# Conclusion

It is easy to see why conventional cost-cutting has become the default solution to budgetary shortfalls in the public and private sectors. It is simple to mandate across-the-board budget cuts. However, such conventional cost-cutting is a short-term fix that uses today's numbers to disguise tomorrow's crises. Instead, by using a *Fit for Service* approach, GCC government leaders can undertake economic and governmental transformation that will set their budgets on a sound footing and provide the volume and quality of services that their constituents are demanding.

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# Endnotes

<sup>1</sup> The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

<sup>2</sup> See Dr. Walid Tohme, Haroon Sheikh, Ashish Labroo, and Anna Germanos, “Collaborative sourcing: How GCC group organizations can optimize their procurement spend,” PwC Strategy&, December 2, 2015 (<http://www.strategyand.pwc.com/media/file/Collaborative-sourcing.pdf>).

<sup>3</sup> Cabinet Office, “Shared service strategy to save taxpayer money,” November 1, 2013 (<https://www.gov.uk/government/news/shared-service-strategy-to-save-taxpayer-money>).

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