

# Competitive Sourcing: What Happens to Federal Employees?



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IBM Center for  
**The Business  
of Government**



MARKET-BASED GOVERNMENT SERIES

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## FOREWORD

October 2004

On behalf of the IBM Center for The Business of Government, we are pleased to present this report, “Competitive Sourcing: What Happens to Federal Employees?” by Jacques S. Gansler and William Lucyshyn.

Competitive sourcing is the competition between government and private sector providers related to the undertaking of the federal government’s commercial activities. To date, the impact on federal employees has been subject to speculation based largely on anecdotal evidence. Other than a few limited studies by the RAND Corporation and the Government Accountability Office, little empirical evidence has been analyzed about the impact of competitive sourcing on federal employees. As a result, many federal agencies are often reluctant to undertake competitive sourcing initiatives because many employees and their unions fear significant loss of federal jobs.

But what actually happens to federal employees when competitive sourcing is undertaken? To understand the impact, Gansler and Lucyshyn examined all A-76 competitions the Department of Defense conducted from 1994 through the first quarter of 2004. Based on their analysis of almost 1,200 competitions, they drew a number of significant conclusions. First, they found that most claims of the negative impact of competitive sourcing on federal employees are unfounded. Of the 65,157 civilian positions studied since 1995, only 5 percent were reduced through involuntary separation. Second, the data affirmed previous research on the significant benefits of competitive sourcing. They found an average estimated savings of 44 percent of baseline costs, for a total of \$11.2 billion. Third, the study found that since 1999 in-house bids have increased their “win rate,” and that by 2003 government won nearly twice as many competitions as did private sector contractors. The authors believe this trend could reduce the number of involuntary separations in the future, since such separations are less likely to occur when government wins the competition than when a contractor wins.

While Gansler and Lucyshyn conclude that the number of employees involuntarily separated from competitive sourcing is low, they also discuss the importance of “soft-landing” programs, which provide separated employees with the resources necessary to make the transition to other employment. They provide four case examples that illustrate how managers have used extensive planning and creative bid solicitation techniques to minimize negative impacts due to separation of employment. The authors conclude with five recommendations for agency leaders and managers conducting competitions.

We trust that this report will be informative and useful during the continued debate over the future of competitive sourcing in government.

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## EXECUTIVE SUMMARY

Competitive sourcing has proven to be effective in improving the quality of government services while lowering the cost for taxpayers. While both the Clinton and Bush administrations have encouraged competition between in-house and contractor providers, federal employees and their advocates claim that competition with the private sector leads to massive government layoffs; and that has made many agencies reticent to undertake such initiatives. Although there have been previous studies on the impact of competitive sourcing on federal employees, they have been limited in number and scope.

This report examines the actual impact of competitive sourcing on employees through data provided by the Commercial Activities Management Information System (CAMIS), a database that tracks competitive sourcing initiatives in the Department of Defense (DoD), where the vast majority of competitions have occurred.

In examining DoD data, it is clear that much of the claims of the negative impact of competitive sourcing on federal employees are unfounded. Of the 65,157 civilian positions studied since 1995, only 5 percent were reduced through the involuntary separation of federal employees. Instead, positions were more likely to be reduced in the winning bids through the transfer of employees to other government jobs or through early retirement.

The CAMIS data also affirmed previous research on the benefits of competition, as estimated savings in the winning bids averaged 44 percent of baseline costs. Much of these savings were due to increased efficiency, as bids averaged 39 percent fewer civilian positions than were initially studied for competition. And while contractors won a slight majority of these competitions (56 percent), the number of winning in-house bids has been rising steadily over the past few years. By 2003, in-house bidders won

### Comparing Concerns to Study Findings

#### Common Concerns

- The cost of government services will be higher.
- Large numbers of government employees will be involuntarily separated.
- Contractors have a significant advantage in competitions.

#### Study Findings

- Competitions resulted in an average estimated savings of 44 percent of baseline costs (with either improved performance or no decrease).
- Only an average of 5 percent of DoD jobs competed resulted in involuntary separation.
- Since 1999, in-house bids have increased their win rate and, by 2003, won nearly twice as many competitions as contractors.

nearly twice as many competitions as contractors. This trend could reduce the number of involuntary separations, since an in-house win generally results in fewer employee displacements.

Though CAMIS data have demonstrated that only a small percentage of federal employees are involuntarily separated as a result of competitive sourcing, it is still important for government agencies to provide these employees with the resources necessary to transition to other employment. There are several “soft-landing” programs, such as explicit consideration in the competitive solicitation, career transition assistance, early retirement, and severance pay, offered by the federal government to assist employees. Thus, this report also includes four case studies that illustrate how managers have used extensive planning and creative solicitation tactics to prevent unnecessary layoffs and minimize the negative impacts of introducing market-based government sourcing approaches on their employees.

Finally, the report concludes with five recommendations that are based on this analysis of available data.

- Agency managers should continue pursuing competitive sourcing; the performance gains and cost savings, along with the small number of involuntary separations of government employees, clearly warrant it.
- Senior agency leadership, when planning for competitive sourcing competitions, should ensure that the potential impact on employees is identified as a high priority.
- Agency leaders and managers should know and use all the available tools, alternatives, and techniques to minimize any negative impact on affected employees.
- Managers can and should look at innovative ways to offer employees a smooth transition in the event of involuntary separation.
- Agency leaders and managers should continually communicate with both employees and external stakeholders.

# Introduction

*“The longstanding policy of the federal government has been to rely on the private sector for needed commercial services. To ensure that the American people receive maximum value for their tax dollars, commercial activities should be subject to the forces of competition.”*

OMB Circular No. A-76, May 29, 2003

## Overview

Nearly half of federal employees perform activities that are readily available commercially.<sup>1</sup> When these tasks, such as payroll services, administrative support, and maintenance functions, are competed between the public and private sectors, the federal government has achieved significant performance improvements and savings, ranging between 20 and 50 percent (with an average of well over 30 percent)—regardless of whether the winner of the competition is the public or the private sector.

There remains a great deal of resistance and controversy to competing these functions from most federal employees, their unions, their political allies, and even their government managers. They often view “competitive sourcing” as an assault on federal employees by shifting federal jobs to the private sector, and managers fear a loss of control over the work. The controversy heightened when the Bush administration announced a major competitive sourcing initiative in 2001.

The overarching objective of competitive sourcing is to improve the effectiveness of the federal government by introducing competition and, wherever possible, eliminating monopolies. Where a

monopoly exists, innovation and improvement are typically discouraged.

Nor is there a loss of government control, since the government is still responsible for providing high-quality performance within the quoted costs. However, competitive sourcing does have a potentially adverse effect on employees whose jobs have been competed. This study examines available data to determine the nature and scope of that impact.

## Background

Competitive sourcing occurs when government and private sector providers compete to carry out commercial government activities. Office of Management and Budget (OMB) Circular A-76 defines a commercial activity as a product or service provided by the federal government that could be provided by a private sector source. A-76 outlines the procedures and guidance for federal executive agencies to evaluate whether these commercial activities should be performed by government sources, by private sector sources, or by another federal agency through an Interservice Support Agreement (ISSA).<sup>2</sup>

Competitive sourcing is distinctly different from privatization, outsourcing, or contracting out. These sourcing options *assume* that the private sector can provide less costly, higher quality services than the public sector; whereas competitive sourcing assumes that *competition* between the two providers leads to improved quality at lower cost—regardless of which sector is the winner.<sup>3</sup>

Competitive sourcing, in its most basic form, has been employed by federal agencies for almost 40 years in an effort to improve the quality and flexibility of government services and to save tax dollars. In 1966, OMB issued Circular A-76, which defined the formal process whereby federal agencies compete for the provision of goods and services with the private sector. Since then, OMB has further defined and revised the procedures for agencies to follow when competing commercial activities between in-house and private sector bidders.

Administrations have varied in their commitment to competitive sourcing. On average, over 16,000 positions per year were studied for competition under Reagan, 5,200 positions per year under George H. W. Bush, and 7,000 positions per year under Clinton.<sup>4</sup> The current Bush administration demonstrated its commitment to the competitive process with a 2001 mandate for all agencies to compete half of the

current federal jobs deemed commercial in nature. Agencies competed 17,595 full-time equivalents (FTEs) in fiscal year (FY) 2003 and had 7,385 FTEs in studies (the term of art for these A-76 competitions) ongoing as of September 30, 2003.<sup>5</sup>

Competitive sourcing has its proponents, supported by data that show that managed competitions not only improve quality and effectiveness but also result in significant cost savings. A recent IBM Center for The Business of Government report<sup>6</sup> reviewed research on competitive sourcing and noted the following trends:

- Expected savings from DoD competitions averaged around 31 percent between 1975 and 1993 and rose to an average of 42 percent between 1994 and 2001.
- Savings from A-76 competitions were sustained over time.

### The Commercial Activities Management Information System

CAMIS is an interactive web-based relational database used throughout DoD. It provides information on studies performed in accordance with OMB Circular A-76, and it is used to answer all questions from Congress or DoD regarding these studies. Each service and Defense agency maintains its own version of CAMIS, although each system must contain DoD's required minimum set of data elements for individual A-76 competitions. Elements include numbers and length of individual competitions, numbers of military and in-house civilian positions affected, in-house and contractor estimated costs, cost comparison decision dates, and changes in costs for five years after a contract award. DoD also requires each component to enter the original manpower baseline cost of the function and the estimated dollar savings from each of the competitions into CAMIS and to track actual costs from the completed competitions for five years.

The major sections are:

- **Initiative Administration:** Administrative information and initiative status regarding the specific DoD CAMIS record.
- **Phase 1—Start-Up:** This phase includes the CAMIS data required to create and begin an initiative. The last element in this phase is the public announcement.
- **Phase 2—In-Progress:** This phase includes the CAMIS data related to performing the initiative. It begins with the establishment of the Performance Work Statement (PWS) and Management Plan Study Teams and ends with the submission of the private sector offers.
- **Phase 3—Decision:** This phase includes the CAMIS data to document decisions, beginning with the tentative decision, includes resolution of all disputes, and ends with the announcement of the final decision.
- **Phase 4—Post-Decision:** This phase includes CAMIS data that track the actual execution of a final cost comparison decision. It includes transition actions, service provider information, and post-MEO (most efficient organization) review information.

Users with data-entry privileges enter data into the system throughout the life cycle of the A-76 process, from the announcement phase to the post-decision phase. All users may then view A-76 reports within their scope of access.

- Performance either remains the same or improves after competitions, as long as it is a consideration in the process.
- Average time to complete studies decreased over time.
- The percentage of employees involuntarily separated from competitions is low, generally in the single digits.

Despite the growing evidence cited that competitive sourcing improves performance and decreases cost, strong opposition to the initiative remains. This opposition derives primarily from federal employees, their unions, their political allies, and, more recently, civil rights groups—all of whom are fearful of losing federal jobs. In 2003, 35 senators signed a letter to Mitch Daniels, then director of OMB, responding to the administration's competitive sourcing initiative by stating that they have "deep reservations about privatizing so much of the federal workforce."<sup>7</sup>

As in any large managerial initiative, one can find isolated examples of poor execution. In the past year, for example, several competitions have received media attention and have served as lightning rods for controversy over the administration's mandate. When the National Naval Medical Center in Bethesda considered contracting out services provided by 21 federal employees, all mentally handicapped, it attracted political attention to the competition. Concerns were expressed in the press over whether the federal hiring preferences for the disabled, veterans, and other disadvantaged groups should be dismissed whenever lower cost contracting options are available.<sup>8</sup> The controversy eventually led the Navy to postpone the study. A similar public outcry occurred when 530 federal employees at DoD lost a competition to a contractor because of an accounting error—which overestimated the in-house labor costs by \$31.8 million. Subsequently, DoD decided not to reopen the competition, and the work remained with the contractor.<sup>9</sup> Even though examples of poorly executed competitions do exist, the vast majority of the competitions held over the last 10 years that are analyzed in this report have achieved their performance and cost goals, while minimizing the negative impacts to federal employees.

To date, the impact of competitive sourcing on federal employees has been subject to speculation based largely on anecdotal evidence, with the exception of limited studies performed by RAND<sup>10</sup> and the Government Accountability Office (GAO).<sup>11</sup> This report will expand the research on the impact of competitive sourcing on federal employees by examining all the A-76 competitive sourcing initiatives conducted by DoD from 1994 through the first quarter of 2004. DoD is the department with, by far, the most competitive sourcing activity,<sup>12</sup> and it has maintained data on each competition within CAMIS. CAMIS data, hereafter referred to as the data, provide information on the impact of the competitions on civilian employees, including how many employees retired, transferred to other government jobs, or were involuntarily laid off. In addition, the data also include information on estimated savings of the winning bids and the number of positions reduced from the initial civilian authorization.

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## Glossary of Terms<sup>13</sup>

**Activity.** A specific task or grouping of tasks that provides a specialized capability, service, or product based on a recurring government requirement. Depending on the grouping of tasks, an activity may be an entire function or may be a part of a function. An activity may be inherently governmental or commercial in nature.

**Adversely Affected Employees.** Federal civilian employees serving competitive or excepted service appointments in Tenure Groups I, II, or III, who are identified for release from their competitive level by an agency, in accordance with 5 C.F.R. Part 351 and 5 U.S.C. Chapter 35, as a direct result of a performance decision resulting from a streamlined or standard competition.

**Agency Source.** A service provider staffed by government personnel.

**Civilian Employee.** An individual who works for a federal agency on an appointment without time limitation who is paid from appropriated funds, which include working capital funds. A foreign national employee, temporary employee, term employee, non-appropriated fund employee, or uniformed personnel is not included in this definition.

**Commercial Activity.** A recurring service that could be performed by the private sector. This recurring service is an agency requirement that is funded and controlled through a contract, fee-for-service agreement, or performance by government personnel. Commercial activities may be found within, or throughout, organizations that perform inherently governmental activities or classified work.

**Competition.** A formal evaluation of sources to provide a commercial activity that uses preestablished rules (e.g., the Federal Acquisition Regulation [FAR], OMB Circular A-76). Competitions between private sector sources are performed in accordance with the FAR. Competitions between agency, private sector, and public reimbursable sources are performed in accordance with the FAR and A-76. The term “competition” as used in A-76 includes streamlined and standard competitions performed in accordance with A-76 and FAR-based competitions for agency-performed activities, contracted services, new requirements, expansions of existing work, and activities performed under fee-for-service agreement. The term also includes cost comparisons, streamlined cost comparisons, and direct conversions performed under previous versions of OMB Circular A-76.

**End Date.** The end date for a streamlined or standard competition is the date that all standard competition form (SCF) certifications are completed, signifying an agency’s performance decision.

**Full-Time Equivalent (FTE).** The staffing of federal civilian employee positions, expressed in terms of annual productive work hours (1,776) rather than annual available hours that includes nonproductive hours (2,080 hours). FTEs may reflect civilian positions that are not necessarily staffed at the time of public announcement, and staffing of FTE positions may fluctuate during a streamlined or standard competition. The staffing and threshold FTE requirements stated in A-76 reflect the workload performed by these FTE positions, not the workload performed by actual government personnel. FTEs do not include military personnel, uniformed services, or contract support.

**Government Personnel.** Civilian employees, foreign national employees, temporary employees, term employees, non-appropriated fund employees, and uniformed services personnel employed by an agency to perform activities.

**Inherently Governmental Activities.** An activity that is so intimately related to the public interest as to mandate performance by government personnel as provided by OMB Circular A-76 Attachment A.

**Inventory.** A list of government personnel, by location, function, and position, performing either commercial activities or inherently governmental activities.

**Military Personnel.** Officers (as defined in 10 U.S.C. § 101(b)(1)) and enlisted members (as defined in 10 U.S.C. § 101(b)(6)) of the military services (defined as the Army, Navy, Air Force, and Marine Corps).

**Most Efficient Organization (MEO).** The staffing plan of the agency tender, developed to represent the agency’s most efficient and cost-effective organization. An MEO is required for a standard competition and may include a mix of government personnel and MEO subcontracts.

**Performance Work Statement (PWS).** A statement in the solicitation that identifies the technical, functional, and performance characteristics of the agency’s requirements. The PWS is performance based and describes the agency’s needs (the “what”), not specific methods for meeting those needs (the “how”). The PWS identifies essential outcomes to be achieved, specifies the agency’s required performance standards, and specifies the location, units, quality, and timeliness of the work.

***Glossary of Terms*** *continued*

**Privatization.** A federal agency decision to change a government-owned and government-operated commercial activity or enterprise to private sector control and ownership. When privatizing, the agency eliminates associated assets and resources (manpower for and funding of the requirement). Since there is no government ownership and control, no service contract or fee-for-service agreement exists between the agency and the private sector after an agency privatizes a commercial activity or enterprise. Moving work from agency performance with government personnel to private sector performance where the agency still funds the activity is not privatization.

**Study.** A term of art used by the government to cover A-76 competitions.

**Source.** One of three specific categories of service providers (agency, private sector, or public reimbursable) that can perform a commercial activity for an agency.

# Understanding Competitive Sourcing: Recent History

## Recent Initiatives That Affect Competitive Sourcing

The amount of competitive sourcing activity, or other sourcing initiatives that potentially require a reduction in force, depends in large part on the enthusiasm of the administration in power. Both the Clinton and George W. Bush administrations supported efforts to reduce the size of government and subject public services to competition with the private sector. This section outlines their respective initiatives.

### The Clinton Administration's Downsizing and A-76 Initiatives

One of the first initiatives of the Clinton administration was to conduct a six-month study identified as the National Performance Review (NPR). The goal was to create a government that works better and costs less. The NPR recognized that the government, "... built around a complex cluster of monopolies, insulates both managers and workers from the power of incentives." One of the tools available to improve the effectiveness of government was to make government service organizations compete with each other as well as with the private sector:

... We will make agencies compete for their customers' business. Wherever feasible, we will dismantle government's monopolies, including those that buy goods and services, acquire and maintain office space, and print public documents. These internal monopolies serve their customers—government workers—so

poorly, it's no wonder those workers have such trouble serving customers outside government.

As a result of the review, the Clinton administration strongly supported efforts to reengineer the government, downsize the federal workforce, and emphasize competing government services.<sup>14</sup>

The Clinton administration's competitive sourcing initiatives were focused primarily on DoD. In 1995, the administration pressed for more competitions to achieve its NPR goals, as well as to cut costs and generate funds to modernize aging military equipment.<sup>15</sup> OMB estimated that, as a result of these A-76 studies, DoD would save \$9.2 billion in operating costs between 1997 and 2005.<sup>16</sup> While these estimated savings give a sense of the amount of competitive sourcing that occurred under Clinton, the administration's downsizing initiatives also yielded data and lessons learned regarding their impact on federal employees.

In 1994, President Clinton, with congressional support, created a major reengineering initiative with the goal of decreasing federal employment by nearly 300,000 positions in management and administrative support services. The administration's initiative encouraged agencies to *minimize involuntary separations*, as well as to utilize existing employees in more efficient ways to support the agency's mission.

While downsizing is not the objective of competitive sourcing—competitive sourcing uses competition to produce the most cost-effective method

of service provision—a 1998 report by the Office of Personnel Management (OPM) on the Clinton downsizing initiatives contains some valuable lessons.<sup>17</sup> First, the report found that agencies were able to significantly downsize their workforce using a variety of tools, such as voluntary early retirement and voluntary separation, and thereby minimize involuntary separations. Also, government-wide and agency-specific priority-rehire programs facilitated the placement of surplus employees. Second, while minimizing the need for involuntary separations, agencies were able to achieve workforce reductions and also prevent a disproportionate impact on women and minorities in the federal workforce. The ratio of both minorities and women in the federal workforce increased slightly during the period of the study. Finally, the report also concluded that early and continual communication between managers and employees is critical when employee reductions are necessary. Ineffective communication can lead to a destabilized workforce, one without an understanding of any strategic vision for the restructured organization.

### **Federal Activities Inventory Reform Act of 1998 (P.L. 105-270)**

The Federal Activities Inventory Reform Act (FAIR) was signed by President Clinton on October 19, 1998. The FAIR Act required federal agencies to inventory the number of federal positions considered commercial and for OMB to review and publish the results. The fact that all federal executive agencies are reporting this information enables OMB to understand the potential scope of A-76 competitions and see where agencies are failing or succeeding in properly applying commercial activity designations.

The following are key provisions contained in the FAIR Act:

- The first statutory definition of inherently governmental—“a function that is so intimately related to the public interest as to require performance by Federal Government employees”
- A requirement that each agency submit annually to OMB a list of commercial activities currently being performed by federal employees, and this list must be made available to the public
- The authority for an agency, when considering contracting with the private sector, to use a competitive process to select the source (including directly outsourcing to the private sector)
- A requirement for realistic and fair cost comparisons in all public/private competitions
- An allowance of administrative challenges to the list—by an interested party, an association representing private sector sources, an officer/employee of an executive agency or a labor organization; challenges must be made within 30 days after publication of the list
- An exemption for DoD depot maintenance activities

A pivotal milestone was the government’s FY 2000 Inventory of Commercial Activities. This was the first year that OMB received an inventory from every agency of the total number of positions deemed commercial in nature. In early 2001, OMB released a report that found that nearly half of civilian jobs, or approximately 850,000 positions, could be eligible for A-76 competitions because of their commercial designation. And this number was a minimum, since it excluded, for example, all DoD depot maintenance workers and all commercial jobs being filled by people in the military. This report formed the baseline for each agency’s objective under the President’s Management Agenda’s major competitive sourcing initiative.

### **The Bush Administration’s Competitive Sourcing Initiative**

Shortly after assuming office, the George W. Bush administration developed its own strategy for reforming the government and published the President’s Management Agenda (PMA). The President’s vision for government reform was guided by three principles. The administration stated that government should be:

- Citizen-centered, not bureaucracy-centered
- Results-oriented
- Market-based, actively promoting innovation through competition

One of the five government-wide initiatives contained in the PMA to uphold these principles was to expand the use of competitive sourcing. In 2001,

the administration set the goal of competing 5 percent of all federal jobs deemed commercial in nature in FY 2002, and that number increased by 10 percent in FY 2003. Additionally, OMB identified a goal of competing 50 percent of the jobs identified as commercial for agencies to achieve a green score for competitive sourcing on their balanced scorecard—this totaled 226,000 jobs for DoD. The “50 percent” goal came under fire as an “arbitrary numerical goal” from the Commercial Activities Panel, a panel of stakeholders and experts convened by Congress to improve the competitive sourcing process. Additionally, a RAND briefing recommended more strategic targets for competition.<sup>18</sup> After resistance from agencies and Congress escalated, the administration eventually backed off from its government-wide targets for competition, and OMB decided in 2003 to set individual targets tailored to each agency.<sup>19</sup>

While agencies are now given more flexibility in carrying out the competitive sourcing initiative, questions remain as to whether the administration has provided agencies with enough resources to execute the competitions—so as to learn the lessons from the Clinton-era downsizing that reduced positions without strategic consideration for the agency’s mission. A recent GAO report cited challenges facing agencies without adequate staff that possess the skills and ability to run these competitions effectively.<sup>20</sup> The report noted that agencies have focused primarily on the *number* of positions being competed, based on the original recommendation by OMB, rather than on achieving higher levels of *performance* and *efficiency*. GAO recommended that OMB ensure that agencies have both adequate resources to run these competitions, as well as guidance in conducting more strategic competitions that achieve performance and *efficiency* outcomes.

The GAO report also noted, however, that despite these challenges all the agencies reviewed had laid the foundation for competitive sourcing. Several agencies had developed strategic and transparent competitive sourcing approaches by integrating their strategic and human capital plans with their competitive sourcing plans. These agencies are identifying viable activities for competition using broader functional assessments and comprehensive analyses of factors that include potential savings, risks, current levels of efficiency, market conditions, and

current and projected workforce profiles. A recent OMB report on progress with the Bush administration competitive sourcing initiative also found that agencies are aligning their competitive sourcing plans with decisions on future human capital needs and changes.<sup>21</sup> Agencies are considering how competitions will affect performance through any resulting “attrition, retirements, recruitment or retention difficulties, or skill imbalances.”<sup>22</sup>

### Revisions to Circular A-76

In addition to its major competitive sourcing initiative, the Bush administration sought to improve the process through revisions to Circular A-76 announced in May 2003. There are several changes in the new A-76 that impact federal employees. First, agencies are required to finish competitions in 12 months (there is a provision for a six-month extension), but they are encouraged to do more preparatory work in the months leading up to the announcement, allowing the competitions to proceed more smoothly than they have in the past. Prior to this revision, the competitions commonly dragged on for years. The shortening of the competition cycle was designed in part to protect employees from the conflict and lower morale that result when competitions are announced without adequate prior planning, which creates an extended period of uncertainty.

Second, in-house employees are allowed to appeal the competition decision by electing a representative for an internal agency protest. If the employees are not satisfied with the internal agency appeal, they are allowed to appeal to the GAO. Employees are also able to challenge the designation of federal jobs as “commercial,” although these challenges are restricted to only those work designations changed from the previous year.<sup>23</sup>

Third, the revised A-76 increases the emphasis on improving performance, not only reducing cost. The revision allows agencies to use the “best value” method of determining the winner of identified types of competitions. OMB will pilot this new process on information technology (IT) jobs, because according to the agency, value should be considered when making IT purchases, not simply low cost. In addition, OMB will allow agencies to use the best value process in other areas when agencies request it.<sup>24</sup>

Fourth, the revised A-76 gives the in-house bid a 10 percent cost advantage in the evaluation. There is also a provision for streamlined competitions that involve 65 or fewer employees. This is an abbreviated process that does not involve the solicitation of full proposals; for these the government bidder does not receive the cost advantage. However, recent history shows that 89 percent of the competitions (including streamlined) are won by the in-house proposal.<sup>25</sup> At the same time, the new Circular A-76 eliminated the provision for the direct conversion of in-house employment to the private sector (these were previously limited to competitions with 10 or fewer employees).

## Personnel Policies That Affect Competitive Sourcing

In addition to introducing initiatives for downsizing and competitive sourcing, both the Clinton and Bush administrations have taken steps to ensure that there are policies in place to protect federal employees affected by such initiatives. This section outlines those provisions, which include the rights of employees during and after competitions, as well as services provided to them once they are separated.

### Reduction in Force (RIF) Policies

The prospect of being laid off is one of the most difficult situations a federal employee could face during his or her career. The stress of facing the unknown, along with the prospect of being unemployed, can be agonizing.

In the federal government, layoffs or involuntary separations are known as reductions in force, or RIFs. OPM has developed policies for employees impacted by a RIF. OPM emphasizes that RIFs are to be used as a last resort and that there are four considerations in deciding whom to release:

- Tenure of employment
- Veterans' preference
- Length of service
- Performance ratings

So, while "RIF" certainly has negative connotations, it also has another side—regulations and procedures that are used to determine objectively which

employees will be separated, outline the employee's rights to displace an employee in a lower tenure group, and delineate the employee's appeal process.

Once employees are released, they have rights to regain their federal employment. For one, they can use "bumping" to displace another employee out of his or her position who is in the same competitive area and either has a lower tenure or is in the same tenure group but is in a lower subgroup in the competitive area. In addition, they can use "retreating" to displace another employee out of his or her position who is in the same competitive area, tenure, and subgroup, but who has a shorter service record.

Employees who are involuntarily separated also have the right to appeal the decision if they feel their agency did not properly follow RIF procedures. They are first given at least a 60-day written notice of their termination, or if 50 or more employees are affected, they are given at least a 120-day written notice. Once the RIF occurs, the employee can file an appeal after 30 days with the Merit Systems Protection Board (MSPB). RIFed employees are eligible to receive severance pay of one week's salary for every year of employment. There is evidence that the RIF procedures have been correctly implemented for the most part. Between FY 1994 and FY 1996, when 31,545 positions were reduced, 402 grievances were filed with the MSPB, a rate of only 1.2 percent.<sup>26</sup>

When an agency is considering what OPM deems to be "major" downsizing plans, OPM can grant the agency Voluntary Early Retirement Authority (VERA), or the ability to offer employees a choice to retire early, minimizing the number of employees who are involuntarily separated. For A-76 competitions, agencies have the option of requesting that an organizational unit, rather than the whole agency, be considered eligible for VERA. OPM will then consider the request and grant VERA if the unit is considered to be undergoing major reorganization, a major RIF, or a major transfer of function (where a significant percentage of the workforce is subject to a separation or downgrade). Once granted VERA, the agency has the option to offer retirement incentives to those affected by a RIF, and the age and years of service required for an employee to be eligible to retire are reduced. OPM recommends that agencies use the provisions judiciously, and in

deciding how to proceed with the early retirement incentives, the agency should ensure that it can continue to fulfill its mission.

Another tool an agency can employ to minimize involuntary separations is the employee buyout. If authorized by law, the agency can offer incentive money for an employee to separate, which is equal to the lesser of the severance pay calculation, \$25,000, or an amount determined by the head of the agency. Buyouts are subject to restrictions based on the employee, as well as on the agency. For instance, an agency growing in employees cannot offer buyouts. Similar to the early retirement incentives, the agency is not obligated to offer the buyout incentive, nor is the employee entitled to one.

### **Minimum Wage Laws for Contract Employees**

There are two minimum wage laws that cover employees of federal contractors, serving not only to protect those employees but also to protect federal employees competing with the private sector. According to the Service Contract Act, employers with a government contract worth more than \$2,500, and with a workforce considered to be service-based (IT, accounting, etc.), must pay wages that meet the prevailing wage rates and benefits of the specific locality. The Service Contract Act also specifies that if the previous contractor was covered by a collective bargaining agreement, then the current contractor must provide the wages and prospective increases specified in the contract.

According to the Davis-Bacon Act, all employers with government contracts exceeding \$2,000, with employees classified as laborers or mechanics, must pay wages and benefits that meet the prevailing rate in the locality. Unlike the Service Contract Act, however, there is no provision for contractors to pay the wages of the predecessor's collective bargaining agreement.

The Department of Labor administers these laws and determines the prevailing wages and benefits of each locality. Both of these laws are limited in coverage; in 1999, only 32 percent of federal contract workers were covered by prevailing wage laws.<sup>27</sup> Both laws fail to completely level the playing field between in-house and contractor bids, as the Federal Wage System (FWS) wage rates tend to

exceed the prevailing wage laws.<sup>28</sup> In addition, concerns were raised in congressional testimony that the Department of Labor has failed to incorporate recent increases in the cost of providing health-care,<sup>29</sup> which may also affect the ability of federal employees to compete with private sector bids.

### **DoD Revisions to Personnel Policy**

In the fall of 2003, Congress voted to give Secretary of Defense Donald Rumsfeld the authority to significantly restructure DoD's personnel policies. The new system will have a greater link of pay to employee performance, expand the use of "pay banding," and turn over many jobs now performed by uniformed military members to civilian personnel. While DoD has not yet settled on the details of its new policies, it is fair to speculate that the changes will impact employees in positions being considered for competitive sourcing. Since the order of involuntary separations are currently based on General Schedule (GS) level, as are the rights of an employee to "bump" a lower tenured employee from his or her position, it is not clear how the new pay system will affect the rights of employees impacted by competitions. Federal employees have also expressed concerns about DoD plans to eliminate preference for veterans who are being considered for involuntary separations.<sup>30</sup> Additionally, because DoD was given the authority to loosen collective bargaining rules, employees undergoing competitive sourcing may lose some of their current protections specified in union contracts, such as grievance procedures for those who have been involuntarily separated.

### **Previous Research on the Impact of Competitive Sourcing on Federal Employees**

Studies on the impact of competitive sourcing on federal employees have been limited in number and scope. Many previous studies have examined the impact of competitive sourcing on employees through specific case studies, which do not allow one to generalize the results to the larger federal workforce. This section will utilize existing research to provide an overview of how competitive sourcing has affected the employment, wages, benefits, and morale of federal employees.

### Impact on Employment, Wages, and Benefits

Researchers with RAND completed a study in 2000 that examined six A-76 competitions held by DoD, including three that remained in-house and three that were won by the contractor.<sup>31</sup> This study did not focus on methods used to reduce the workforce but rather on the level and source of savings. RAND found that the projected annual personnel cost savings of the competitions, in the range of 34 to 59 percent of baseline costs, was primarily derived from reduced personnel and downgraded positions. There were five methods through which these savings were projected by both in-house and contractor bids:

- Military-to-civilian conversion
- Multi-skilling
- Organizational restructuring
- Reduced work scope
- Increased labor availability (for contractors only)

Under military-to-civilian conversion, military positions are replaced with fewer civilians, whose work tenure is more predictable with fewer interruptions than military personnel. The second method, multi-skilling, requires training personnel to be more generalized and less specialized, so fewer employees are required to perform a wider range of tasks. The third method, organizational restructuring, entails the consolidation of separate functions, which enables the bidder to reduce mid-level managers who are no longer needed to oversee one particular function.

The fourth method of achieving estimated cost savings, reduced work scope, either was explicitly written into the bid (it may have been the first time customers were confronted with a cost and quality tradeoff) or was implicit (requirements in the PWS were unintentionally reduced). The fifth method, increased labor availability, was used by contractors, as they are not constrained by more strict federal personnel policies. Contractors predicted an increase in the amount and intensity of work that employees will perform due to the lesser amounts of sick and leave time offered to employees. The contractors also predicted that employees would work harder given the fact that they are “at will”

and thus can be fired without demonstrating “just cause” (unlike under federal personnel policy).

In addition to reducing personnel in order to lower the bid, both the in-house and contractor bids downgraded positions. While employees do not always receive an immediate wage decrease from a downgrade, their prospective wages will either be decreased or fail to increase as high under the new lower grade. Only one bidder out of the six studied used immediate wage cuts to achieve estimated cost savings. In addition, only one bidder increased capital equipment to replace labor in order to achieve cost savings. Thus the most frequently employed methods of achieving significant savings in projected costs were to reduce personnel and downgrade positions. These methods reflect previous findings of the GAO that A-76 competitions primarily achieve savings by reducing the number of personnel required, regardless of whether the bid was won by the in-house or contracting function.<sup>32</sup>

A second report on the effects of competitive sourcing on federal employees, issued by the GAO, studied three competitions held by DoD: two where the contractor was selected and one where the in-house bidder won.<sup>33</sup> In reviewing these three studies, the report found that *of the 1,111 civilian positions studied, only 61, or 5.5 percent, were involuntarily separated*. Of the 750 positions reduced, 5 percent of the employees were voluntarily separated, 8 percent were involuntarily separated, 27 percent transferred to another government job, and 61 percent retired. (Note: The numbers do not add up, as the GAO report included other base employees affected by the reduction in force.) For the two studies where the contractor won, 25 percent of employees who left the government—either through retirement or separation—went to work for the contractor. In the study where the in-house bid won, a little over half of the federal employees who remained had their positions downgraded, while only 1 percent received a higher grade. However, these downgrades rarely resulted in any change in pay or benefits to those employees affected.

In the two studies where the contractor won, both contractors hired all the federal employees who applied, allowing some employees to earn higher wages while some earned lower wages. The report found that the benefits offered by the contractors

were similar to those provided by the federal government—in terms of health insurance, vacation time, and other benefits. According to the contractors, hiring the federal employees enabled them to hire an experienced workforce without having to pay for training.

While the RAND and GAO studies explicitly focused on the impact of competitive sourcing on employees, the Center for Naval Analysis (CNA) performed a similar study, focusing instead on the effects of outsourcing on DoD employees.<sup>34</sup> The study found that DoD personnel programs were successful in minimizing the number of employees who were involuntarily separated. Depot facilities targeted 40 percent of their employees for a reduction in force, *but only 3.4 percent were involuntarily separated*, as many employees found other DoD jobs through that department’s job placement service, some voluntarily separated to take jobs with the winning contractor, and others retired.

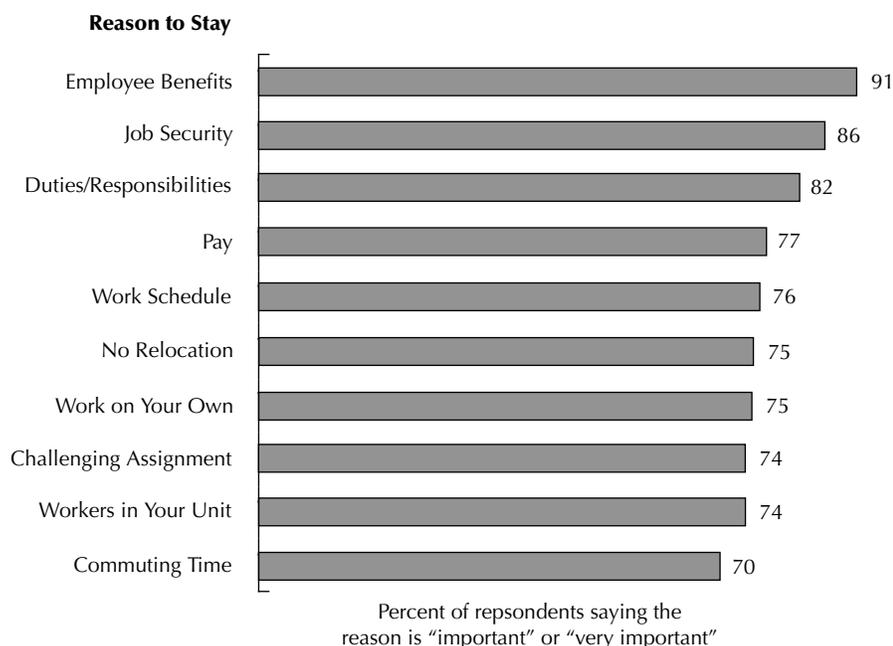
### Employee Morale

If you read the newspapers and periodicals that cover federal employment issues, it is hard to miss

stories about federal jobs being considered for competitions, jobs lost to contractor bids, and jobs won by in-house bids. There is a palpable anxiety among federal workers quoted in these stories, and among those who testify before Congress, over the possibility of losing their status as federal employees. As Figure 1 shows, employee benefits and job security are most important to federal employees. The uncertainty that competitive sourcing introduces, not unlike that faced by virtually all employees in the private sector, generates anxiety and the resultant employee resistance to the competitive sourcing process.

Whether or not these employee fears of competitive sourcing are warranted, they do potentially affect the morale of the federal workforce. The recent OMB revisions to A-76 have addressed this concern by reducing the time period for the competitions, which should reduce the period of uncertainty. One indication that competitive sourcing may not always lower employee morale comes from a recent survey. “Best Places to Work in the Federal Government” is a ranking of federal agencies derived from a sample of federal employees. Out of 28 cabinet departments and independent

**Figure 1: Top 10 Reasons Federal Employees Plan to Stay on Their Jobs**



Source: MSPB, Merit Principles Survey 2000, September 2003

agencies, the Air Force ranked number seven, followed closely by the Army, which ranked number 10.<sup>35</sup> Given that the Air Force and Army have conducted a large amount of competitive sourcing activity, holding 684 competitions between 1994 and early 2004 and competing 60,381 jobs, they outranked many agencies that held no competitions—apparently the morale of their employees has not suffered greatly from it.

## Research Questions Pursued in This Study

As shown above, previous studies of the impacts of competitive sourcing have largely focused on case studies. Many of the perceptions of various stakeholders have been formed by these case studies and other anecdotal stories. In contrast, this study, while limited to the Defense Department, covers more than 1,200 completed competitions over a 10-year period. It attempts to address the following questions often raised by stakeholders:

- Given the cost of conducting competitions—in dollars, time, and morale—are there significant gains in applying the process?
- Are federal employees significantly adversely affected by competition, whether the in-house team or the contractor wins?
- Are private contractors dominating the winning bids?
- Since the Bush administration took office in 2001 and increased the emphasis on competitive sourcing, are there more competitions and more employees losing their jobs?
- What strategies can be applied to ensure a “soft landing” for those federal civilian employees who might be adversely affected by competitive sourcing?

# Analyzing DoD Competitive Sourcing: Reviewing 10 Years of Data

The following section summarizes the findings from an examination of CAMIS data, which track the results of A-76 competitions that took place in DoD beginning in 1994. Data from 1994 until the first quarter of 2004 were reviewed and analyzed. The data track the various stages of the almost 1,200 competitions held, from the initial number of civilian and military positions studied to the final number of FTEs authorized in the winning bid (if it was a government win). Also included in the data is information on the baseline costs and estimated savings by the government's most efficient organization (MEO),<sup>36</sup> as well as characteristics of

the winning provider (public or private). In addition to the four military services, data are also collected from the various defense agencies such as the Defense Logistics Agency (DLA), the Defense Finance and Audit Agency (DFAS), and the Defense Commissary Agency (DeCA).

For the purposes of this report, we have focused on the results of the competitions' effects on employees. We included the initial number of positions studied, the final number of positions in the MEO, and the method used to reduce the civilian workforce: voluntary separation (including retirements

## Size and Distribution of the DoD Workforce

DoD is the largest federal department by far, with a total of 653,932 civilian employees in December 2003—35 percent of the total federal workforce.<sup>37</sup> In 2002, the DoD workforce was roughly two-thirds men, and the racial/ethnic composition was 73 percent white, 14 percent black, 6 percent Hispanic, 6 percent Asian, and 1 percent American Indian. Table 1 summarizes the distribution of these employees:

**Table 1: Civilian Employment in DoD, December 2003**

Department	U.S. Stateside	U.S. Territories	Foreign Country	Unspecified	Total
Air Force	143,880	661	3,471	2	148,014
Army	209,912	1,232	12,899	19	224,062
Navy	175,951	993	4,169	4	181,117
Other	84,162	1,584	14,952	41	100,739
<b>Total</b>	<b>613,905</b>	<b>4,470</b>	<b>35,491</b>	<b>66</b>	<b>653,932</b>

Source: FedScope, U.S. Office of Personnel Management

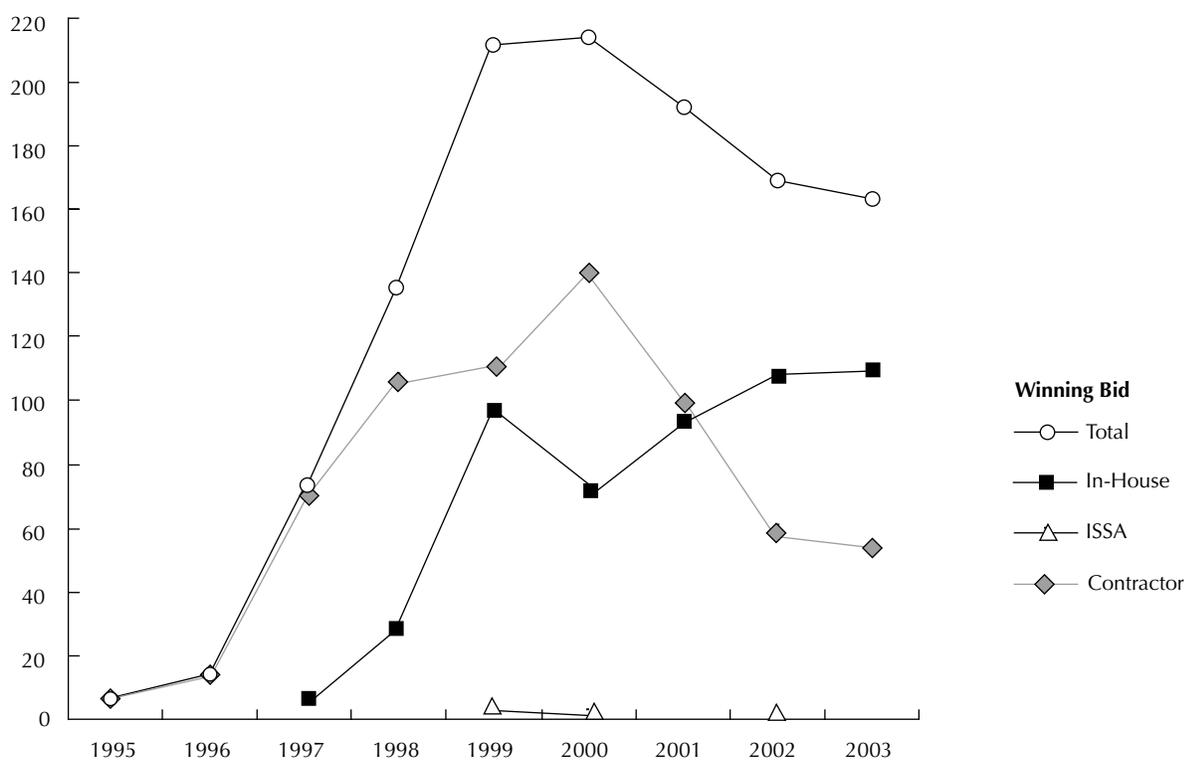
**Table 2: Total DoD FTEs Completed from 1994 through the First Quarter of 2004**

	Total FTEs Completed by Type (Military & Civilian)	Civilian FTEs Completed by Type	Total Competitions by Type
Streamlined Cost Comparisons	1,720 (2%)	1,719 (3%)	51 (4%)
Standard Cost Comparisons	78,985 (83%)	61,301 (90%)	509 (42%)
Direct Conversions	13,826 (15%)	5,239 (7%)	660 (54%)
<b>Total</b>	<b>94,531</b>	<b>68,259</b>	<b>1,220</b>

and transfers to other positions in the government) and involuntary separation of both temporary and regular employees. *Military positions are also impacted, and when we use the term “total authorizations,” the corresponding figure includes military positions serving in commercial functions.* When a military position is eliminated by one of these competitions, that position is generally returned to perform a noncommercial core mission. In addition, we have also compared the estimated savings and resulting reductions in force between the wins by the in-house workforce and those by a contractor.

Given the immense size of DoD, the level of competition between its employees and the private sector has been extensive. Between 1994 and the beginning of 2004, over 1,200 competitions have been documented in the CAMIS database, with nearly 95,000 total authorizations (employee positions) reviewed for competition. Of these authorizations, over 68,000 are civilian positions, or approximately 11 percent of all DoD employees, and almost 25,000 are military positions. Table 2 summarizes the data set used for the following analysis.

**Figure 2: DoD Competitions 1995–2003; Competitions Hit Peak in 2000, In-House Bids Win Majority Starting in 2002**



The types of initiatives that occurred included standard cost comparisons, streamlined cost comparisons, and direct conversions. Standard cost comparisons involve a full competition between in-house and contract or ISSA bids for the most efficient organization. Streamlined cost comparisons allow an abbreviated procedure when competing 65 or fewer employees; the in-house MEO bid is compared to existing contracts for similar work. Direct conversions, which are no longer authorized with the revised A-76 Circular, involve the movement of 10 or fewer government positions into the private sector without competition.

The direct conversions make up the largest percentage of competitions held (54 percent) compared to standard cost comparisons (42 percent) and streamlined cost comparisons (4 percent). However, when examining the percentage of employees studied, standard cost comparisons competed far more FTEs (90 percent) than direct conversions (8 percent) and streamlined comparisons (2 percent). This indicates that the large number of direct conversions were each done for a small number of employees—an inefficient way of running competitions since it does not allow for any reengineering of the overall work process involved.<sup>38</sup>

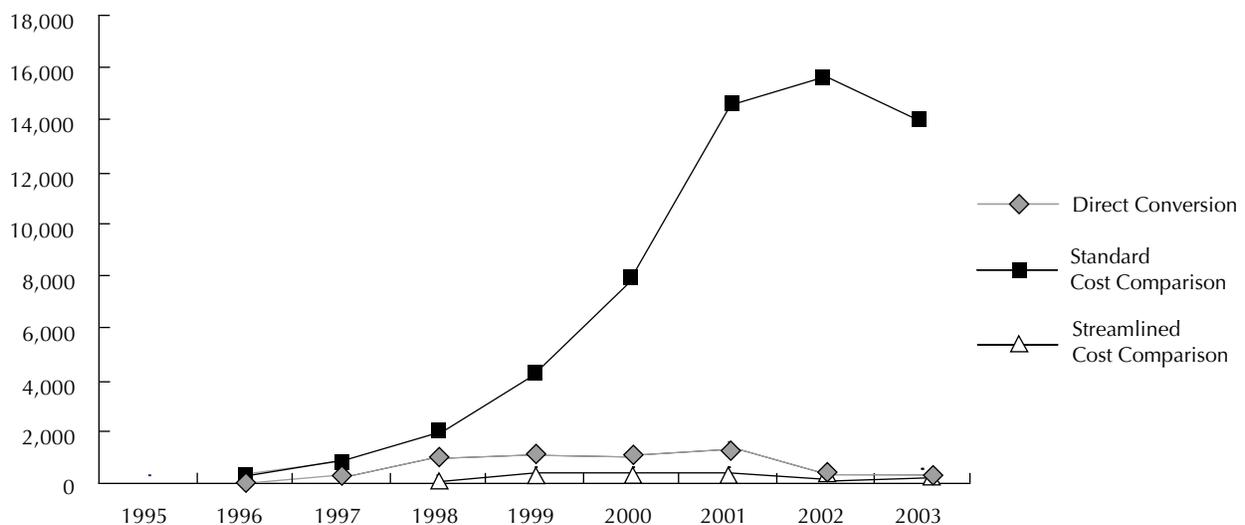
Figure 2 depicts the trends in the number of competitions held since CAMIS began collecting the data. The total number of annual competitions decided rose rapidly between 1996 and 2000, increasing from 14 to 214 in that period. Competitions peaked

in 2000, leveling off to 162 held in 2003. The graph also illustrates trends in the winning bidders, including the contractor bid, the in-house (or federal employee) bid, and an ISSA bid, one placed by a non-DoD federal agency on a reimbursable basis. Of the total number of competitions decided, contractors won the vast majority of competitions until 1999, when in-house bidders began winning more, and the split was around 60 percent private and 40 percent public wins. By 2001 the public and private wins were split evenly, and by 2003, in-house bids won nearly twice as many competitions as contractors. Bids from an ISSA were rare, and ISSA bids won only six competitions between 1999 and 2002.

Figure 3 shows the trends in the average numbers of total FTEs competed each year through 2003, the last year with complete data. The trend in the total number of FTEs resulting from the competitions completed—follows the trend of the total number of competitions completed—with rapid growth of positions competed in the mid to late 1990s and a slight drop-off in 2002 and 2003.

Data in Table 3 on page 24 examine the competitions won by either the in-house MEO or private contractors. The MEO is the government reengineered organization developed to form the basis of the in-house proposal. The MEO bid illustrates how introducing competitive forces can drive gains in productivity and efficiency in government operations—even when the government wins. Private contractors won 56 percent

**Figure 3: Average Total DoD FTEs Competed; Direct Conversion and Streamlined Cost Comparison Become Negligible**



of the competitions, compared to 44 percent for the in-house bidders. The difference between the total civilian authorizations studied and the final average MEO FTEs<sup>39</sup> was large. The agency MEOs where the in-house teams won showed a significantly larger reduction in civilian authorizations than the agency MEOs where the contractor won—44 percent compared to 28 percent. We can only conclude that this was one of the factors that contributed to the in-house team losing those competitions.

Table 4 includes information on the projected cost savings resulting from the competitions. The sum of the estimated savings resulting from the winning proposal is compared to the initial baseline cost of the authorizations studied, resulting in the percentage of estimated savings. For all winning bids, estimated savings averaged 44 percent, for a total of \$11.2 billion. Contractors had a higher estimated rate of savings (48 percent) than the in-house bidders (37 percent).

In terms of the impact of these competitions on civilian employees, there were five possible results documented in the data: retirement, transfer to another government position, involuntary separation of regu-

lar employees, involuntary separation of temporary employees, and unfilled authorizations eliminated. Of the 65,157 positions competed, a total of 24,852 positions were reduced between 1995 and the beginning of 2004 (see Figure 4). The majority of positions reduced from the initial civilian FTEs competed did not result in involuntary separations. Sixteen percent of the competed positions transferred to another government job, and 11 percent resulted in the retirement of those employees. In comparison, *the percentage of civilian FTEs competed that were reduced through involuntary separation was 5 percent for regular employees and 3 percent for temporary employees.* There are no data on how many of the separated employees were subsequently hired by the contractor.

As Table 5 and Figure 5 (see page 26) indicate (and as would be expected), employees were affected differently by competitive sourcing, depending on whether the contractor or the in-house bidder won. In addition, this expected impact was amplified by the fact that the decrease in civilian FTEs competed was nearly double for the contractor wins than the in-house wins. Thus, the number of employees who retired was much greater under the contractor wins,

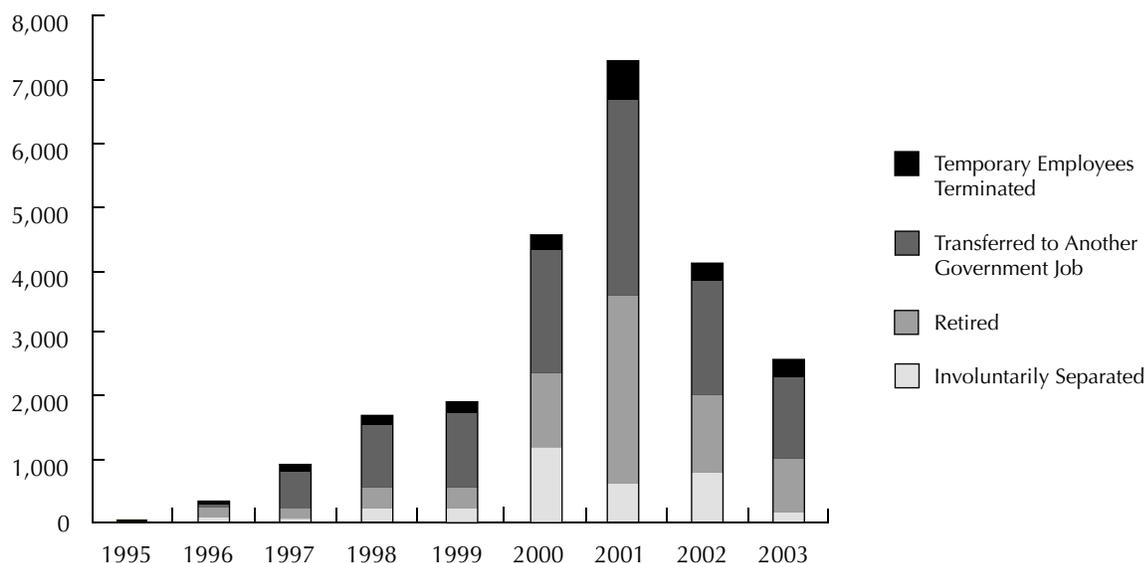
**Table 3: DoD Competitions Held 1994 through 2003; Winning In-House Bidders Reduce Staff by More Than 44 Percent**

Winning Bidder	Competitions Won	Civilian Positions Competed (Excluding Direct Conversions)	MEO FTEs (Excluding Direct Conversions)	% Decrease from Civilian Authorizations to Government MEO FTEs
In-House	525 (44%)	41,793	23,253	44%
Contractor	667 (56%)	23,364	16,848	28%
<b>Total</b>	<b>1,192</b>	<b>65,157</b>	<b>40,101</b>	

**Table 4: DoD Estimated Cost Savings from Competitions, 1994 through Early 2004; Winning Contractor Bids Save More Than Winning In-House Bids**

	In-House Win	Contractor Win	ISSA	Total
Sum of Baseline Cost	\$9,253,439,000	\$15,340,483,000	\$1,256,000	\$25,848,092,000
Sum of Estimated Savings	\$3,447,539,000	\$7,287,840,000	\$19,000	\$11,237,126,000
% Estimated Savings	37%	48%	2%	44% (average)

*Note: The CAMIS data included a number of unspecified competitions, shown here, whose baseline costs totaled \$1,256,000. Savings resulting from the unspecified competitions totaled \$19,000. These numbers are included in the “total” column.*

**Figure 4: DoD FTE Positions Reduced by Year; Separations Peak in 2001**

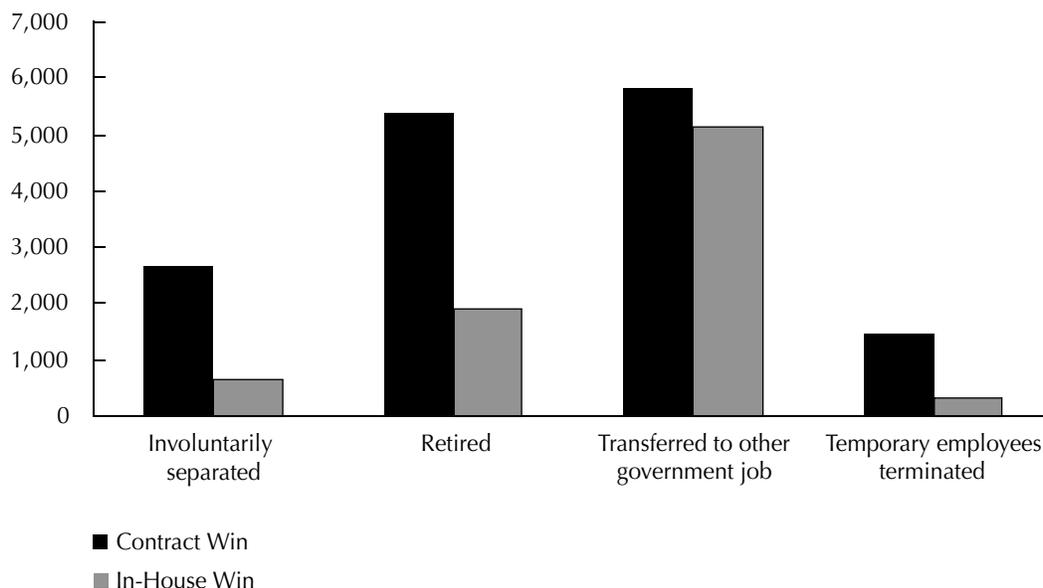
and larger as a percentage of positions reduced (35 percent compared to 24 percent for in-house wins). And out of the total population that had a 5 percent overall involuntary reduction, the percentage of civilian FTEs reduced through the involuntary separation of regular employees was also higher for competitions when the contractor won, with 4 percent of

civilian FTEs coming from contractor wins and only 1 percent from in-house wins. Most of the civilians involuntarily separated were given severance pay. From 1994 to 2004, 2,252 employees were paid a total of over \$116 million in severance pay, an average amount of almost \$52,000 per person.

**Table 5: DoD Positions Reduced, 1995 through Early 2004; 5 Percent of Full-Time Staff Involuntarily Separated**

Winning Bid	Involuntarily Separated	Retired	Transferred to Other Government Job	Temporary Employees Terminated	Unfilled Civilian Authorizations	Total Positions Reduced
In-House	647	1,893	5,128	339	839	8,846
Contract	2,680	5,373	5,845	1,475	633	16,006
ISSA	0	0	1	0	0	1
Total Positions Reduced	3,327	7,266	10,974	1,814	1,472	24,852
As % of Positions Reduced	13%	29%	44%	7%	6%	100%
As % of Civilian FTEs Competed	5%	11%	16%	3%	2%	38%

**Figure 5: DoD Positions Reduced by Winning Bid; More Separations Occur When Contractor Wins Bid (1994 through the First Quarter of 2004)**



As Figure 6 indicates, the numbers of civilian FTEs competed that were involuntarily separated have remained low over the years. From year to year, the ratio between positions reduced through involuntary and voluntary separation remained similar. The largest number of involuntary separations occurred in 2000, when 1,152 non-temporary employees were released. From that peak, the numbers have been trending downward at a greater rate than the numbers of civilian FTEs competed.

Figure 7 indicates an overall downward trend in the percentage of civilian positions competed that resulted in involuntary separations between 1996 and 2003. The initial spike in the percentage separated between 1995 and 1996 is an outlier—based more on the small number of positions competed than a sustainable trend. The trend between 1997 and 2003—with the exception of 2000—indicates that the percentage of involuntary separations is not likely to rise much above 5 percent.

## Analysis of Results

There are several conclusions that can be drawn from the CAMIS data. First, DoD is clearly committed to the competitive sourcing practice, as the annual number of competitions increased from seven in 1995 to 162 in 2003, and it averaged 190 per year between 1999 and 2003. These competitions widely

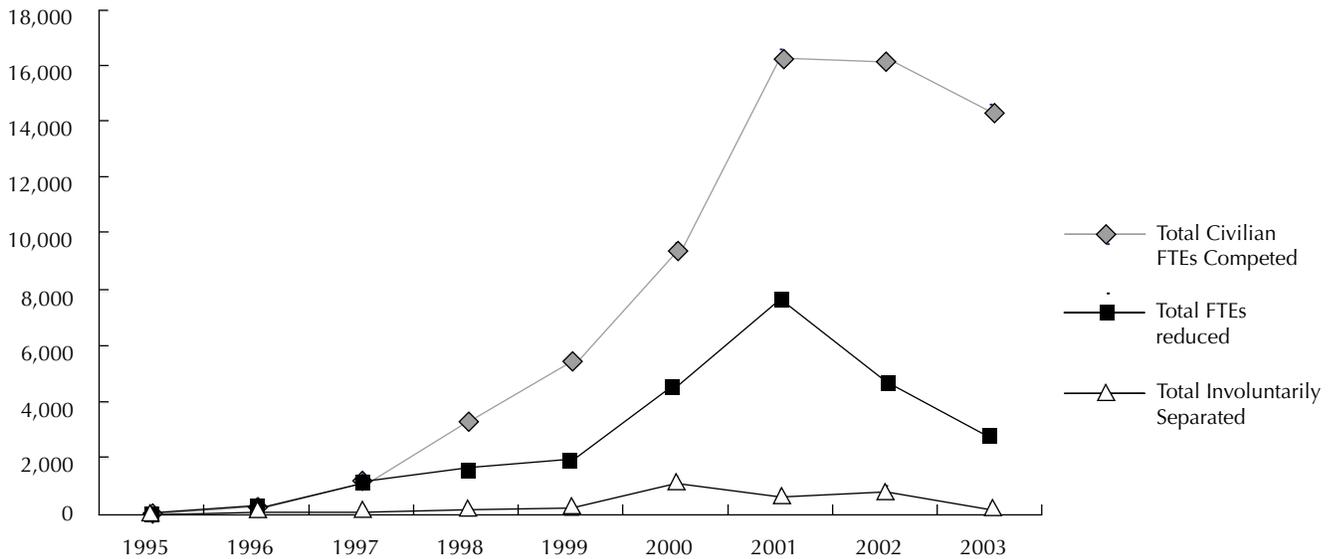
range in the total number of personnel positions studied, with a high of 1,800 and a low of one; when discounting direct conversions, which involve a small number of employees, the number of total positions averaged 144 per competition.

Contractors won 56 percent of the competitions, compared to 44 percent for the in-house bid. However, when the direct conversions are excluded, contractors won 32 percent compared to 68 percent for the in-house bidder (both figures exclude winning ISSA bids and initiatives where the winner was not indicated in the CAMIS data). When you look at the data year to year (see Figure 2 on page 22), however, in 2001 there was a crossover with in-house wins approximately double the contractor wins. This is a critical element in this discussion, since in-house wins result in much lower rates of involuntary separation. It will be interesting to see whether the trend continues.

In comparing the estimated cost savings between the bids, contractors project a savings rate of 48 percent of the baseline, compared to 37 percent savings in the in-house bid. The contractors' average savings exceeds that of in-house bidders, and that is likely the result of various factors; however, the data do not provide enough insight to draw any conclusions.

Overall, in terms of the impact of the competitions on employees, there were an *average of 20 positions*

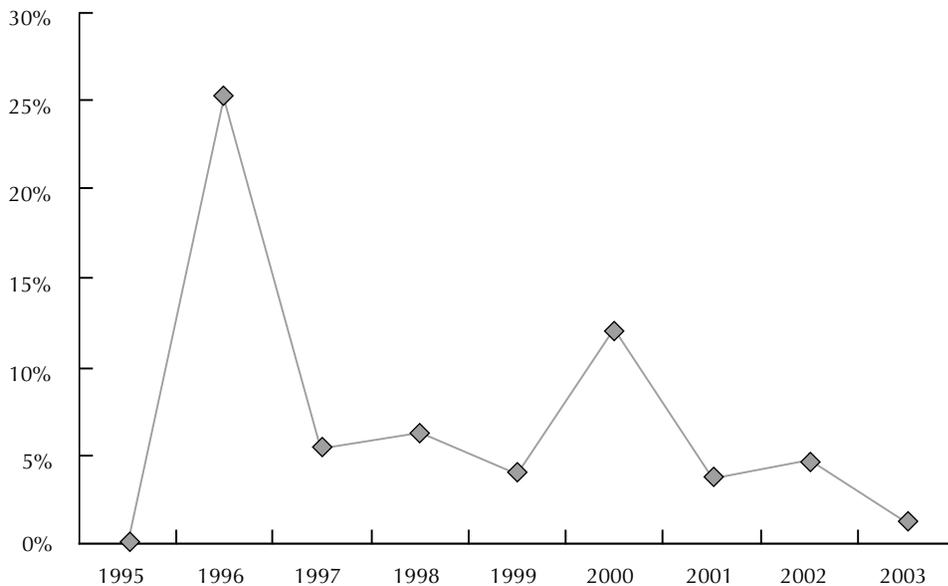
**Figure 6: DoD Civilian FTEs Competed, Reduced, and Involuntarily Separated; Sharp Drop in FTEs Reduced Since 2001**



reduced per competition and fewer than four involuntary separations per competition. Of the initial civilian FTEs competed, only 5 percent were reduced through the involuntary separation of regular employees and 3 percent reduced through the termination of temporary employees. If this experience at DoD can be generalized to the larger federal workforce, the involuntary separations resulting from competitive sourcing are quite small as a per-

centage of overall employment. The more than 3,300 involuntary separations that occurred between 1995 and early 2004 constitute a minor percentage of the DoD civilian workforce. An average of 587 involuntary separations, resulting from competitive sourcing, occurred annually between 1999 and 2004, accounting for only .09 percent of the total civilian workforce of DoD in 2003.

**Figure 7: DoD Civilian FTEs Involuntarily Separated Due to Competition; Sharp Drop in Separations Due to Competition Since 2000**



Though the number of civilians who were involuntarily separated is fairly small, the total number of positions reduced, 24,852, is significant, and it is largely the result of increased efficiency and the source of the estimated savings. And while over 7,000 civilians have retired between 1995 and early 2004 in conjunction with the competitions, no data are collected to see how many of those retirees subsequently took jobs with the winning contractors. In many cases these individuals are the recipients of early retirement incentives and retirement annuities. These retirees transfer into jobs at comparable pay and benefits, and the government continues to take advantage of their expertise. Some have argued that the reductions in the workforce would place an unnecessary burden on the remaining workers, but the general performance improvements achieved demonstrate otherwise.<sup>40</sup>

While the data provide a general overview of the nature of A-76 competitions in DoD, there may be limitations to this data. Site visits performed by RAND in conjunction with an earlier survey (1978–1994) noted that the impact on employees may be understated by DoD's data; civilian personnel offices would hire temporary employees to fill slots in organizations scheduled for competitions or fail to fill vacancies. In addition, the data do not capture the secondary impact of competitions when federal employees scheduled for RIFs opt to exercise their rights of “bumping” or “retreating” lower tenured employees out of their jobs. Thus, some claim the number of employees indirectly impacted—not separated but reassigned to different jobs—may be as high as four or five times the number of employees separated.<sup>41</sup>

In contrast, although no CAMIS data are available, anecdotal data would indicate that some employees chose to be involuntarily separated in order to receive the benefits and then take jobs with the winning contractor. The RAND study does show that 26 percent of the employees who retired or separated voluntarily took jobs with the winning contractor, and as illustrated later in the privatization case, virtually all the RIFed employees took jobs with the new company. So some of those categorized as “involuntarily separated” may have chosen to leave under this category rather than leave voluntarily (since the benefits are better).

While the RAND study suggests that some employees chose to be involuntarily separated, this has not been commonplace. The number of full-time civilian employees who were involuntarily separated as a result of competitive sourcing—5 percent of the total number of positions competed—is relatively low. What strategies did agencies apply to ensure a “soft landing”?

# Providing “Soft-Landing” Programs for Separated Employees

While DoD’s data indicate that the number of employees involuntarily separated from competitive sourcing is low, it is still important for government agencies to provide these employees with the resources necessary to transition to other employment. There are several “soft-landing” programs offered by the federal government that provide career assistance to RIFed employees. The Career Transition Assistance Program (CTAP) is one such soft-landing program. OPM directives require every agency to establish its own CTAP program. The CTAP programs offer services to affected employees such as career counseling, resume preparation, retraining, and other forms of assistance. In addition, employees are given excused absences to use these services and are provided access to the services after they have been separated.

One element within the CTAP is the Reemployment Priority List (RPL), which gives employees affected by RIFs priority when applying for a job with a federal agency. The RPL applicant is given priority over certain outside applicants, and an agency can also choose to prioritize the employee over internal applicants. Each agency is required to maintain an RPL list and to add employees who have gone through a RIF. (If an agency runs a separate placement program for employees, such as DoD’s Priority Placement Program, it is not required to maintain an RPL.) For RPL rehire processes, an employee has the right to appeal to the MSPB if he feels his reemployment rights were violated.

In addition to receiving priority rehire from the agency that separated them through the RPL, employees are given priority rehire by outside agencies

through the Interagency Career Transition Assistance Plan (ICTAP). Between the fiscal years 1996 and 2000, 2,413 RIFed employees were rehired through the RPLs—nearly 10 percent of all RIFs that occurred during those years.<sup>42</sup> And between fiscal years 1996 and 2000, 1,300 were rehired through ICTAP—roughly 5 percent of all RIFs during that period.

Another soft-landing program available to employees who are involuntarily separated is the Department of Labor’s Rapid Response Services, which operates in areas where major layoffs have occurred—in both the private and public sectors. Rapid response teams are designed to help managers and employees cope with situations in which more than 50 employees are laid off. The State Dislocated Worker Units send representatives to the actual employment site, where the rapid response teams provide services such as career counseling, assistance with job searches, and information and financial support for job training. In addition, the affected employees have access to computers, fax machines, and telephones to aid with job searches.

While these soft-landing tools provided by the federal government help RIFed employees find new jobs, more significant support can be provided to employees in the form of contractual obligations negotiated during a competition. These contractual obligations, required of the contractor that wins the bid, have included provisions such as:

- The contractor must hire all the federal employees who apply, at the same pay, for a certain number of years.

- Federal employees receive right-of-first-refusal for employment with the contractor.
- Federal employees are paid bonuses, health-care, and retirement upon displacement.

While these are the formal programs, creative managers and stakeholders outside the government have found other ways to soften the transitions for employees. The following four examples illustrate some of the techniques used.

### **Privatization in Place: An Alternative to Reductions in Force at the Naval Air Warfare Center, Aircraft Division, Indianapolis<sup>43</sup>**

In 1995, the Naval Air Warfare Center, Aircraft Division, in Indianapolis, Indiana, (NAWC-ADI) was placed on the 1995 Base Realignment and Closure list. The official mission of NAWC-ADI was to "... conduct research, development, engineering, material acquisition, pilot and limited manufacturing, technical evaluation, depot maintenance, and integrated logistics support on assigned airborne electronics (avionics), missile, space borne, undersea, and surface weapon systems, and related equipment." In 1995, the center provided a significant economic benefit to the city of Indianapolis and central Indiana by employing approximately 2,500 people, with over 50 percent of the workforce made up of highly skilled engineering and technical professionals. The average salary at the center exceeded \$45,000, making it one of the highest paying employers in the Indianapolis area. City officials were thus extremely concerned that the loss of NAWC-ADI jobs would have a major economic impact on the city.

Typically, base closures result in the relocation of required personnel and equipment to other bases, which was what the Base Closure and Realignment Commission originally recommended for NAWC-ADI. Instead of fighting the closure, however, the mayor of Indianapolis proposed a highly creative alternative—privatization. City officials opined that this strategy would meet DoD infrastructure reduction goals, greatly reduce costs and service disruptions associated with closures, create savings, and facilitate the retention of technical capabilities needed to support DoD missions. The commission agreed with the city's assessment and revised its

closure recommendation to include the privatization alternative. The Navy agreed to evaluate this alternative strategy; however, it stated that it would only support privatization if it were "... cost effective, provided responsive service to Navy needs, and satisfied a number of other concerns." In the end, after an industrial competition, the facility was privatized and over 2,000 employees were interviewed. Virtually all were hired (less than 1 percent were not hired) at equivalent pay and benefits by the company that took over base operations. *Privatization-in-place (if the winning contractor can bring in additional work) thus offers a potential way to avoid major reductions in force, allowing employees the opportunity to remain in their positions, with current salary and benefits, but to work for a private employer rather than the government.*

### **Outsourcing with Zero Employee Displacement: NASA's Outsourcing Desktop Initiative Program<sup>44</sup>**

In 1996, NASA approved the Outsourcing Desktop Initiative (ODIN) program, a "long-term outsourcing arrangement with the commercial sector which transfers to it the responsibility and risk for providing and managing the vast majority of NASA's desktop, server, and intra-center communication assets and services as the Agency downsizes and refocuses IT personnel to Agency core missions."<sup>45</sup> Through ODIN, NASA officials hoped to cut desktop computing costs, significantly increase service quality, achieve interoperability and standardization among NASA computer operations, and allow NASA employees to focus on their core responsibilities. Under the outsourcing arrangement, none of the contractors would be guaranteed sales, so each contractor would have to compete with all the other eligible vendors. Each NASA center would select one of the contractors as its exclusive desktop services provider for three years.<sup>46</sup>

One concern that existed among the employees and managers of both the government and contractors prior to ODIN's launch was the likelihood of involuntary displacement of employees. This was consistent with one of the most prevalent myths connected with introducing competition into the government. However, in reality, one of the objectives of the ODIN program was to shift government IT personnel from administrative support to core missions; as

a result, ODIN caused zero involuntary personnel displacements. Overall, the ODIN program minimized the negative impact on employees while refocusing government personnel on core research and development activities. Since ODIN began, NASA managers have seen an increase in mission support and productivity as well as improvements in service delivery and service consistency. *Rather than reducing its workforce when it outsourced IT support, NASA chose to reassign employees from support to core mission functions within the agency. In the end, NASA was able to more effectively provide IT support across the agency while improving its core mission performance.*

### **“Soft-Landing” Packages That Lessen the Impact of Outsourcing: The Army’s Logistics Modernization Program<sup>47</sup>**

The first Gulf War revealed fundamental weaknesses in the Army’s vast and complex logistics network. Recognizing the need to adopt the best practices of private sector supply chain management, DoD and Army leaders began strategic planning efforts directed toward logistics reform. Principal targets for reform were the Army’s 30-year-old logistics information management systems. Written in COBOL, these systems were outmoded, inflexible, expensive, and difficult to maintain. Further, the Army was finding it increasingly difficult to find qualified replacements for the aging and rapidly retiring workers who were trained to run this system. In August of 1997, the Army’s Communications and Electronics Command (CECOM) at Fort Monmouth, New Jersey—the organization responsible for these antiquated systems—received direction “to explore alternatives to modernize the wholesale logistics processes and associated information technology.” CECOM was also directed to consider the implications on the existing workforce of 478 employees.

During the following two years, a dedicated Logistics Modernization Program (LMP) team accomplished detailed analysis, planning, and coordination that culminated in the award of a performance-based contract that outsourced Army logistics functions to a private firm, Computer Sciences Corporation (CSC). CSC was chosen, in part, because of its performance and its

soft-landing plan, which guaranteed every employee a three-year job in the same geographic location, with comparable pay and benefits, and a \$15,000 sign-on bonus with the first CSC paycheck. In the end, job offers were extended to all remaining 207 employees, with 205 accepting.<sup>48</sup> Most Central Design Activity employees were participants in the legacy Civil Service Retirement System, and 83 percent were eligible for regular or early retirement within five years of 1999. Consequently, many employees chose to transfer to other federal positions or accept buyouts and early retirement packages offered by the Army.<sup>49</sup> *Thus by negotiating soft landings for employees, including job offers, bonuses, and early retirement benefits, the LMP team minimized the negative impact of outsourcing on employees.*

### **Best Practice for Competitive Sourcing Implementation: Department of the Interior’s National Park Service**

A recently completed cost comparison as part of a competitive sourcing study determined that federal workers at the National Park Service’s Southeast Archeological Center could perform the center’s mission more economically than contracting with private firms. The Park Service’s competitive sourcing team at the Southeast Archeological Center in Tallahassee, Florida, conducted a competition using the A-76 streamlined competition rules, developed by the Department of the Interior and adopted by OMB for inclusion in the revised Circular A-76. The in-house team, composed of 45 archeologists at the center, reorganized itself into an MEO, eliminated 17 FTE positions, and won the competition. After comparing personnel costs, material and supply costs, overhead costs, and other costs of in-house performance to the cost of private sector performance, the agency’s contracting officer determined that the MEO represented the more cost-effective option. The elimination trimmed \$850,000 per year in annual personnel costs. Over the next five years, the Park Service will save \$4.2 million as a result of this competition—and in accordance with the revised A-76, it will track actual savings to ensure that benefits are realized. *Importantly, as a result of this competition, through detailed personnel planning, not one permanent employee lost his or her job.*<sup>50</sup>

# Findings and Recommendations

## Findings

### **Finding 1: Competition results in savings.**

The benefits of improved performance and cost savings from competitive sourcing are significant, affirming previous research findings. As demonstrated by the CAMIS data, competitions resulted in an average estimated savings of 44 percent of baseline costs, for a total of \$11.2 billion. Much of this savings was derived from reducing the workforce—of the 65,157 full-time positions competed between 1995 and 2004, a total of 24,852 positions were reduced.

### **Finding 2: Involuntary separations are few.**

The DoD data provide insight into the effects of competitive sourcing on the employment of federal workers, and demonstrate that in addition to achieving significant savings, DoD was able to minimize the negative impacts on employees—i.e.,

there has not been a large number of involuntary separations. As one would expect, however, the major organizational restructuring, whether the contractor or the in-house team wins, causes some disruption. Thus, it is important to consider the best process of executing these competitions without imposing undue harm on federal employees.

### **Finding 3: MEOs are winning most of the competitions.**

While in-house bids have won 44 percent of competitions held since 1994, compared to 56 percent for contractors, in-house bids have improved their win rate since 1999. By 2001, public and private wins were split evenly, and by 2003, in-house bids won nearly twice as many competitions as contractors. This trend could reduce the number of involuntary separations, as they were less likely to occur when an in-house bid won than when a contractor won.

## Comparing Concerns to Study Findings

### Common Concerns

- The cost of government services will be higher.
- Large numbers of government employees will be involuntarily separated.
- Contractors have a significant advantage in competitions.

### Study Findings

- Competitions resulted in an average estimated savings of 44 percent of baseline costs (with either improved performance or no decrease).
- Only an average of 5 percent of DoD jobs competed resulted in involuntary separation.
- Since 1999, in-house bids have increased their win rate and, by 2003, won nearly twice as many competitions as contractors.

## Recommendations

**Recommendation 1: Agency managers should continue pursuing competitive sourcing; the performance gains and cost savings, along with the small number of involuntary separations of government employees, clearly warrant it.**

The benefits, in terms of improved performance at significant cost savings—on average 44 percent—warrant continuation. The cost in terms of negative impacts to employees is manageable and should not be used as a reason to forgo competitive sourcing initiatives. On average, a small percentage of the positions competed were involuntarily separated (average of around 5 percent, with typical numbers in the 3 percent to 8 percent range), and based on the trends with the in-house teams winning more of the competitions, that rate should decrease still further. In addition, claims of low employee morale due to competitive sourcing do not seem to be supported by available data. The Air Force and Army, both agencies practicing a large amount of competitive sourcing, were highly ranked by their employees in a list of best places to work in the federal government. Thus managers must assess the evidence in deciding on the merits of competitive sourcing.

**Recommendation 2: Senior agency leadership, when planning for competitive sourcing competitions, should ensure that minimizing the potential impact on employees is identified as a high priority.**

When managers prioritize the impact of competitive sourcing on employees and proper planning occurs before the competitions take place, the negative impact of competitive sourcing on employees can be minimized. NASA demonstrated that, by thinking strategically about its human resources, it could implement an effective outsourcing plan without any reductions in force. The agency was able to reassign affected employees to more core-level tasks, avoiding involuntary separations and improving performance. When the reduction of positions is inevitable, managers are provided with many incentives to encourage employees to voluntarily separate. With advanced planning, agencies can offer employees buyout plans, early retirement, and transfers to other government positions, avoiding involuntary separations.

**Recommendation 3: Agency leaders and managers should know and use all the available tools, alternatives, and techniques to minimize any negative impact on separating employees.**

Any initiative that results in employee displacement presents a management challenge to agency managers and leaders. Over the past 15 years (since the end of the Cold War), DoD has undergone a significant reduction in its civilian workforce—down 36 percent since 1988, a reduction of almost 380,000 people. Although most of these reductions were outside the context of competitive sourcing, DoD, as well as other agencies, has gained a large body of experience on restructuring organizations and separating personnel. OPM should sponsor the collection and analysis of this data; use this analysis for the development of lessons learned, best practices, and training materials; and make those available to agencies so that they can train leaders and managers. Leaders and managers must be knowledgeable of all tools, alternatives, and techniques available to them as they develop their sourcing strategies, selecting those that minimize any adverse impact to employees.

**Recommendation 4: Managers can and should look at innovative ways to offer employees a smooth transition in the event of involuntary separation.**

Many options exist for managers to provide a soft landing to displaced employees. While the federal government offers RIFed employees options such as priority rehire or career counseling, agency managers can expand these transitional benefits during the competitive bidding process. The example of CECOM demonstrates that when managers integrate plans to lessen the blow of outsourcing on employees with their plans to choose a high-performing contractor, employees benefit with contractual soft-landing provisions. In deciding on a bidder, managers can insist that contractors provide benefits to federal employees in the form of bonuses, comparable pay and benefits, and job offers.

**Recommendation 5: Agency leaders and managers should continually communicate with both employees and external stakeholders.**

Perhaps the most important element of the competitive sourcing process, like any major staff reengineering initiative, is for the senior leadership and managers to maintain open lines of communication with their employees and other stakeholders.

The Commercial Activities Panel heard complaints from federal employees that the A-76 process was not “clear, transparent, and consistently applied.”<sup>51</sup> During the downsizing initiative of the Clinton administration, OPM noted that low morale of employees was often the result of a lack of communication between those making the decisions and the employees affected by them.<sup>52</sup> There is a clear need for extensive communication during the competition so that the process is transparent and all stakeholders—especially employees—understand how and why decisions are made. This should result in less overall resistance to the competitive sourcing process.

## Conclusion

Because the opposition to competitive sourcing primarily derives from those who want to protect federal jobs, the ability to understand clearly how the process affects employees is crucial to defending the practice of competitive sourcing. This report has aimed to add a more quantitative dimension to the discussion of how competitive sourcing affects federal employees. To date, there has been a limited amount of research on the topic. The analysis of the CAMIS data contributes to an understanding, over a period of time, of the extent of positions reduced—both voluntarily and involuntarily—as a result of competitive sourcing. The data reveal that while large numbers of positions were reduced, a small minority of those positions represent involuntary separations. This does not imply, however, that federal employees are minimally affected by competitive sourcing. Issues of low morale, insufficient staffing, and feelings of unfairness can still pervade a workforce affected by competitions. Thus, this report concludes with recommendations for those conducting these competitions—for federal employees to feel the process is fair, ensure that they are fully supported with training and that they can continue to work effectively to support their agency’s mission—in either the public or private sector.

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