

INTRODUCTION

Within the Department of Defense (DoD), there is great interest in competitive sourcing of activities that are not inherently governmental as a tool to reduce the cost of infrastructure activities, which account for about 60 percent of DoD expenditures. Competitive sourcing is a term describing the process through which managers consider both internal and external organizations to determine the best provider of a particular service. Analyses suggest that the government has saved about 30 percent on each position that was part of a completed competition.

The performance of commercial activities within government occurs within a well-defined policy framework set forth in the U.S. Office of Management and Budget (OMB) Circular A-76. Among other things, the circular establishes a process through which the current in-house workforce competes with private-sector entities to provide a service. The in-house organization's bid, called the Most Efficient Organization (MEO), is compared with the best contractor bid. Although the government has conducted these A-76 competitions since 1978, there was a moratorium on implementing the results of competitions in the mid-1990s. During the moratorium, the number of A-76 competitions dropped dramatically.¹ However, the promise of cost sav-

¹The moratorium was on the implementation of the results of the A-76 competitions, not on the competitions themselves. Most, but not all, installations abandoned studies that were in progress at that time and did not initiate new ones.

ings has renewed interest in the A-76 process. The services plan to have examined over 200,000 positions in A-76 competitions between FY 1997 and 2005, a process that they expect will generate about \$9 billion in savings. The services have programmed some of these anticipated savings into their budget submission.

This increased focus on A-76 studies as a means of generating cost savings raises significant issues for policymakers. In particular, it is important to understand the level of savings generated by the process over the long run, and to understand how those savings are achieved. The number of competitions will be limited by the resources available in the services and agencies to support competitions, and by the fact that inherently governmental activities are exempt from competitions. It might be possible to apply lessons learned to activities that will not be studied in an A-76 competition.

To assist DoD civilian personnel managers in addressing these concerns, we examined the implementation of six recent A-76 competitions and focused on the following questions:

- How large are the projected savings generated by these competitions?
- How were the projected cost savings achieved?
- Are the savings real and enduring?
- Could similar savings be achieved outside of the A-76 process?

Three of the competitions we examined were won by the in-house organization, and three were won by the contractor. The case study analysis consisted of document review, semistructured interviews, and an analysis of information derived from the documents and interviews.

FINDINGS

We found that the projected personnel cost savings are substantial in both in-house and contractor wins, ranging from 30 to 60 percent. In both in-house and contractor wins, projected savings stem largely from using fewer people to do the job. Less important strategies are downgrading positions and capital-labor substitution. In one case,

the contractor expected to reduce costs by paying slightly lower wages, but this was not a significant or consistent source of savings in the competitions we examined.

In order to perform the work with fewer people, both contractors and in-house managers employed various labor-saving techniques: civilianization, organizational restructuring, multiskilling, reduced work scope, and increased labor availability. With the exception of increased labor availability, all of these labor-saving techniques appeared to be available to both the in-house and contractor organizations.

Examining the implementation of A-76 study results over periods ranging from one to ten years, we found that the anticipated personnel cost savings were generally realized and maintained over time. In particular, we found no clear and convincing evidence of cost increases over time in either in-house or contractor wins. However, we note the difficulty of disentangling the effects of mission change from those of pure cost escalation or decrease.

There are significant limitations with the cost data that are collected before, during, and after an A-76 study. These limitations make it difficult to evaluate whether the personnel cost savings generated by a particular activity examined in an A-76 competition lead to real savings for the DoD budget. We were able to identify several costs incurred by DoD in the course of the A-76 process that are unaccounted for in the data. We believe that DoD should find better ways of tracking (at least roughly) the relationship between mission and cost. In addition, in the case of MEO wins, DoD needs to track the costs, not merely the manpower authorizations, of in-house organizations.

Our interviews suggest that DoD would not find it easy to apply lessons learned from A-76 studies to improve the productivity of the government workforce. Managers face an incentive structure that deters them from making efficiency-enhancing changes. Managers tend to prefer current ways of doing business to voluntary cost-cutting activities. However, the A-76 process changes the manager's choice set so that the status quo is not an option.

CONCLUSIONS AND RECOMMENDATIONS

Improving Efficiency in Government Organizations

Several reforms to DoD's internal management system would be required to generate personnel cost savings outside of the A-76 process. First, the Office of the Secretary of Defense (OSD), Military Departments, and Defense Agencies need to provide more positive incentives to local commanders and managers to undertake such reforms. Both individual and organizational rewards could be used. Second, DoD needs to eliminate or reduce negative incentives to efficiency-enhancing changes, such as arbitrary budget cuts imposed on installations and staffing policies. While it is crucial to provide managers with positive incentives for change and to remove negative incentives, it is also important that front-line managers receive training and support that will enable them to undertake such reforms. Documenting and disseminating information on cost-saving initiatives throughout DoD may be important but cannot replace broader training of functional managers.

Data Needs for High-Level Decision Making

Consistent, high-quality information on cost savings and other outcomes of the A-76 process will allow OSD, Military Departments, and Defense Agencies to make better decisions about the future implementation of the process—the kind of savings they can expect, the time frame during which savings can be expected, and the activities they should target for A-76 competitions in the future.

Better information requires precise definitions of terms like “baseline cost” and “cost savings” that are consistent across installations and services. The development of these definitions must include consideration of whether they capture the total cost of an activity to the DoD. DoD might incur costs that are not captured in activity-level costing exercises.

In addition, the government must gather information on the cost of conducting the studies and continue to collect cost information during the implementation phase of the winning contract or MEO.

New Approaches to Managing the MEO

In the case of MEO wins, DoD should think about the procedures in place for managing the MEO. It is telling that the managers of MEO wins could not provide us with cost information—only information on authorized positions. DoD should consider giving MEO managers the tools to monitor and manage costs as well as freedom from constraints on the number and grade level of authorizations.