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NATIONAL DEFENSE UNIVERSITY
JOINT FORCES STAFF COLLEGE
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**TRENDS IN DOD OUTSOURCING: TRADING COST SAVINGS FOR
READINESS**

by

Geoffrey Fukumoto

Lt Col, United States Air Force

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A paper submitted to the Faculty of the Joint Advanced Warfighting School in partial satisfaction of the requirements of a Master of Science Degree in Joint Campaign Planning and Strategy. The contents of this paper reflect my own personal views and are not necessarily endorsed by the Joint Forces Staff College or the Department of Defense.

This paper is entirely my own work except as documented in footnotes.

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ABSTRACT

U.S. Government policy on outsourcing is driven by a cost savings approach, essentially inconsiderate of the resultant second and third order effects. The execution of the policy by the Department of Defense (DoD), occurring at sub-Service levels, has garnered some cost savings, while leading to vast increases, at historic levels, in contractor utilization and budgetary requirements with little oversight. It has also increased DoD's reliance on outsourcing as a means to accomplish its missions, but DoD's readiness system fails to measure outsourcing effects. In total, the pervasive use of outsourcing has harmed military readiness. In their current forms, outsourcing policy constrains DoD authorities, DoD's readiness system lacks adequate measures of outsourcing, and DoD's implementation of outsourcing policy lacks sufficient planning and oversight to enable effective utilization of outsourcing while retaining military readiness.

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TABLE OF CONTENTS

| | |
|--|----|
| Chapter I | |
| Introduction – Outsourcing: A Growing Trend in DoD | 1 |
| Chapter II | |
| Methods | 3 |
| Chapter III | |
| Outsourcing | 5 |
| History of Outsourcing | 5 |
| Outsourcing: A Basic Overview | 6 |
| A Policy Changing in Focus and Meaning | 8 |
| FAIR Act – The Other Part of the Law | 14 |
| The Responsibility to Safeguard Risks of Outsourcing | 14 |
| Expanding Reliance on Contractors | 16 |
| A Centralized Policy Decentrally Controlled and Executed | 20 |
| Outsourcing Policy Findings and Conclusions | 22 |
| Chapter IV | |
| Readiness | 23 |
| The Readiness System | 24 |
| CRS Limitations: Measuring a Complex System | 27 |
| Providing Context to Readiness | 28 |
| The Current State of Military Readiness | 29 |
| Chapter V | |
| Outsourcing Effects on Readiness | 32 |

| | |
|--|----|
| The Links Between Outsourcing and Readiness | 32 |
| Outsourcing and Readiness Challenges | 34 |
| Does a Cost Savings Policy Consider Readiness Impacts? | 36 |
| Chapter VI | |
| Recommendations | 37 |
| Policy Changes | 37 |
| Modifications to the Readiness System | 39 |
| Recommendations to DoD | 41 |
| Chapter VII | |
| Conclusion | 43 |

Chapter I

Introduction – Outsourcing: A Growing Trend in DoD

The Services currently are under great pressure to meet the requirements of current combat taskings, while also preparing and modernizing the force for the future. Balancing the demands of current operations with the needs of tomorrow presents a dilemma for military and civilian decision makers in the Department of Defense (DoD). In response, DoD has turned to a number of approaches intended to alleviate the stress on the force. One approach involves the use of the government outsourcing policy to allow contractors to perform a wide range of activities.

Over the past two decades, several cases show the Services' willingness to contract activities that are either directly involved in, or closely supporting, active military operations. DoD has begun to rely on contractors in a variety of roles, ranging from food service to quasi-combat operations. Examples of these include security operations in Iraq, adversary air support for major exercises, and Government Owned Contractor Operated flight operations in Overseas Contingency Operations. As more activities transfer to the contractor workforce, a potential for both lost capability and capacity exists for the military. This situation presents several important questions: how does the application of the government's outsourcing policy effect DoD military readiness? How does the military readiness account for outsourcing effects? Does sufficient planning and oversight of outsourced activities exist in DoD?

The existing body of research and academic writing on military outsourcing centers on the origination of the idea of outsourcing, the historical use of outsourcing in the military, and the potential hazards outsourcing brings to military operations

(accountability, arming, and discipline). Current literature mainly discusses the benefits in terms of gains in financial cost and improved efficiency. Only a limited number of studies address the application of outsourcing policy related to combat operations; virtually none address how outsourcing effects military readiness. This thesis examines current outsourcing trends in the post-Cold War era and concludes that the increased reliance on contractors can, and does, effect unit readiness in terms of capability and capacity. The government and DoD should alter its policy and application of outsourcing to reduce specific and obvious dangers to force readiness.

Chapter II

Methods

The analysis of this study rests on the case that a relationship exists between outsourcing and readiness, and that the application of outsourcing policy harms readiness. In order to validate this hypothesis, this study is organized into several different chapters to discuss the relevant and related aspects of this topic and answer the questions presented in the introduction. The first chapter provides an overview of outsourcing policy and examples of outsourced activities. The key components of outsourcing are defined and explained to serve as a baseline to understand the ways that outsourcing relates to military readiness. It includes a discussion of the current state of DoD outsourcing and the increasing reliance on outsourcing in the military. It concludes by raising issues regarding the overreliance on outsourcing and lack of outsourcing oversight in the military.

The chapter on military readiness builds a framework for understanding potential effects of outsourcing policy on readiness. The chapter examines what constitutes readiness, elements of the readiness assessment system, and the methods DoD uses to measure force readiness. It examines outsourcing effects measured by the readiness system and incorporates several case studies on issues involving outsourcing and the changing state of military readiness over the past decade. It includes readiness assessment recommendations from the Center of Strategic and Budgetary Assessments and provides insights on thinking about readiness with regards to time and force to better frame potential solutions. This chapter concludes by highlighting the complexity of factors

effecting readiness, which makes the correlation of readiness and outsourcing an inductive conclusion.

Finally, the analysis chapter examines the relationship between outsourcing policy and readiness and discusses areas in need of improvement. It focuses on the aspects of outsourcing policy and readiness measurements that have led to an overreliance and overuse of outsourcing. The two primary factors involved in outsourcing are cost and category, and neither cost nor category consider readiness as criteria for outsourcing activities.

This study determines that because activities are sourced in this manner, the consideration of effects on military readiness is an undocumented after effect. While outsourced activities are subjectively accounted for as a part of readiness measurements, this assessment does not influence the decision to outsource and occurs post facto. This study concludes with recommendations to mitigate outsourcing's negative effects and to improve force readiness by altering outsourcing policy, readdressing the way the readiness system accounts for contractors, and modifying how DoD implements outsourcing policy.

Chapter III

Outsourcing

This chapter provides a general overview of outsourcing, discusses the relevant aspects of outsourcing policy, examines the utilization of outsourcing in DoD, and brings up several issues pertaining to the overuse of outsourcing in the military. The terms discussed include inherently governmental and commercial activity. Understanding how these terms determine the application of outsourcing policy is an important aspect of understanding how outsourcing effects military readiness.

An analysis of policy changes since 1999 shows the evolution of the policy increasingly focused on cost savings, driven by differences in stated purpose and changes to the types of activities that constitute inherently governmental or commercial activity. The policy changes and the high tempo of military operations have resulted in a tremendous increase in outsourced activities by DoD and have affected the readiness of forces. Additionally, statistics on the current state of outsourcing in the military show the overreliance of the Services on outsourced activities. Finally, a review of the outsourcing process indicates potential weak areas of application and areas of needed improvement.

History of Outsourcing

Without a doubt, contractors serve as an integral part of DoD and support its vital and important missions. The range of contractor activities cover a variety of areas and has varied in response to the changes in the strategic environment. These changes have also driven modification, interpretation, and application of outsourcing policy. Contracting

has roots in federal policy from the 1950s, coinciding with the start of the Cold War and rise of the military-industrial complex.¹ Traditionally, contractors have performed roles in areas such as food and custodial services. As military weapons systems increased in technological complexity, contractors began to perform work directly supporting these weapons systems in roles as technicians, maintenance personnel, and subject matter experts.² Today's use of contractors in DoD covers a wide array of activities, including intelligence analysis, maintenance, security guard services, and acquisition support.³ The expanding use of contractors has been a result of necessity, and evolving policy guidance from the Office of Management and Budget (OMB) and protected by U.S. Code in the Federal Activities Inventory Reform (FAIR) Act of 1998 determines what types of work contractors by law should perform.

Outsourcing: A Basic Overview

Outsourcing is defined in *OMB Circular No. A-76* as “a decision by the government to purchase goods and services from sources outside of the affected government agency.”⁴ Outsourcing policy drives the process, which results in the hiring of contractors to perform work specified by the government and agreed to by contracting companies. The activities outsourced, versus activities performed by government employees, are determined through a two-step process. First, an outsourced activity must

¹ Executive Office of the President, *Circular NO. A-76*. Office of Management and Budget (Washington, DC: Government Printing Office, 1999), 1.

² Government Accountability Office, *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*. House of Representatives (Washington, DC: Government Printing Office, 2008), 4.

³ Ibid.

⁴ Executive Office of the President, *Circular NO. A-76*. Office of Management and Budget (Washington, DC: Government Printing Office, 2003), 5.

meet criteria allowing performance by non-governmental personnel. Second, a cost comparison between competing companies determines the award of a contract so long that the cost is cheaper than performance by government personnel.⁵ Outsourcing activities to contractors is generally more cost effective than assigning those same activities to military or civilian personnel.⁶ While a military or civilian employee may receive less pay for the same task performed by a contractor, the cost of using government employees for these qualifying activities increases with the addition of other expenses related to medical, retirement, personnel relocation, and training. The notion that contractors are more economical than government employees has at times come under scrutiny, and ultimately the validity of this assumption varies from activity to activity.

As the government's reliance on contractors has steadily increased, as a result of the growing utilization of outsourcing, areas of unintended risk have emerged. An example is food services activity in the military, where the job of a cook is outsourced. The role of a cook is not inherently a military type of activity and outsourcing this function gives the military a more cost-effective way to accomplish the task. This practice also allows the reallocation of personnel to balance force requirements in meeting end strength caps. However, outsourcing this activity also means that the military becomes reliant on contractors to cook. If these contractors cannot accompany a unit to a combat zone, the service is forced to resolve the shortfall internally through reallocating or retraining personnel, which may have broader detrimental effects on unit

⁵ Executive Office of the President, *Circular NO. A-76*. Office of Management and Budget (Washington, DC: Government Printing Office, 2003), 1.

⁶ Congressional Research Service, *Defense Outsourcing: The OMB Circular A-76 Policy*. Foreign Affairs, Defense, and Trade Division (Washington, DC: Government Printing Office, 2005), 8.

effectiveness in the combat zone. This example illustrates how a simple decision meant to help the government can have greater implications, and that a policy focused on cost savings alone can potentially have unintended effects on readiness.

A Policy Changing In Focus and Meaning

The current government policy on outsourcing, a 2003 document titled *Office of Management and Budget Circular No. A-76*, governs present day DoD outsourcing practices. The original policy, issued in 1966, has undergone several updates since its release and contains several fundamental definitions and regulations.⁷ Particularly, each policy update contains a stated purpose, definition of the term inherently governmental function, definition of the term commercial activity, and guidance regarding cost savings. While similar, these key terms have evolved in meaning from their original form. Understanding the transformation in these terms reveals how they have had a direct bearing on the changing nature of the policy, leading to the current practices and the expansion of outsourcing.

In the most generic sense, the broad collection of OMB Circulars regarding outsourcing clearly delineate government activity from commercial activity. An activity is understood as simply the performance of a job or task, some of which must be completed by the government and others that could be performed by contractors. Various criteria determine activities as inherently governmental, in that government employees must perform the tasks exclusively. Any activity not deemed inherently governmental falls in the commercial activities category. The policies, to a varying extent, then stipulate

⁷ Executive Office of the President, *Circular NO. A-76*. Office of Management and Budget (Washington, DC: Government Printing Office, 1999), 1.

that competition of the commercial activity in the civilian sector will lead to the best price and cost savings for the government. This policy, therefore, acts as a policy of exclusion. Essentially, everything not forbidden is allowed. By tracing the evolution of these terms through the OMB Circular changes over the years, an important trend regarding outsourcing emerges.

Differences in the definition and application of the terms inherently governmental and commercial activity, found in the three most recent outsourcing policy updates, show the significance of the changing purpose and focus of the policy. In 1999, OMB released a long awaited update to its outsourcing policy from 1983.⁸ Yet, just four years later, following the commencement of combat in Iraq and Afghanistan, OMB released an updated policy.⁹ The repercussions of the policy changes led to multiple studies from the GAO as contracting in DoD hit unprecedented levels.¹⁰ Additionally, OMB's most recent policy update came in 2011 in the form of the *Office of Federal Procurement Policy (OFPP) Letter 11-01*.¹¹ Through these policy updates, the changing nature of government outsourcing is manifested and reveals how the government's outsourcing policy has significantly changed in purpose and practice.

Most significantly OMB outsourcing policy made changes to the term inherently governmental functions, which broadened the utilization and range of contractor activities. At its core, an inherently governmental function "is so intimately related to the

⁸ Executive Office of the President, *Circular NO. A-76*. Office of Management and Budget (Washington, DC: Government Printing Office, 1999), 2.

⁹ Ibid.

¹⁰ Government Accountability Office, *Military Readiness: Impact of Current Operations and Actions Needed to Rebuild Readiness of U.S. Ground Forces*. House of Representatives (Washington, DC: Government Printing Office, 2008), 1.

¹¹ Federal Register, *Office of Federal Procurement Policy 11-01, Vol. 76, No. 176, September 2011*, Office of Management and Budget (Washington, DC: Government Printing Office), 1.

public interest as to mandate performance by Government employees.”¹² In the 1999 policy, among a variety of activities, inherently governmental functions include combat, combat support, and combat service support roles.¹³ Essentially, under this definition any military type of activity was classified as inherently governmental. The 2003 policy removed all specific examples classified as inherently governmental, including the removal of combat, combat support, and combat services support.¹⁴ Instead, the policy provided broader considerations to determine activities as inherently governmental, leaving room for a subjective determination by government agencies.¹⁵

Concurrently, all activities not inherently governmental fall into the commercial activities category.¹⁶ Outsourcing activities based on categorization alone and allowing contractors to perform commercial activities arrives at a set of possible conclusions. First, activities affecting the readiness of forces are solely related to inherently governmental functions, and its corollary, the readiness of forces is not effected by the outsourcing of commercial activities. Second, the relation of activities to military readiness is not directly correlated to the classification of activity as inherently governmental or commercial. Only one of these conclusions is supportable, and evidence indicates that outsourcing occurs often without regard to the consideration of effects on readiness.

Under the broad nature of outsourcing policy, government agencies operate with the freedom of latitude while unconstrained by anything but the categorization of

¹² Executive Office of the President, *Circular NO. A-76*. Office of Management and Budget (Washington, DC: Government Printing Office, 2003), 2.

¹³ Executive Office of the President, *Circular NO. A-76*. Office of Management and Budget (Washington, DC: Government Printing Office, 1999), 2.

¹⁴ *Ibid.*, 5.

¹⁵ *Ibid.* The broader considerations, generally covering decision authority and personal rights infringements, include the authority of the activity, as outlined in OMB Circular No. A-76 from 2003.

¹⁶ *Ibid.*, 2.

activities defined by the policy itself. Each government agency determines the categorization of activities according to its own interpretation of inherently governmental and commercial activity. A 2009 Presidential Memorandum on Government Contracting identified an area of risk between inherently governmental and commercial activity that unintentionally allows contractors to perform inherently governmental functions.¹⁷

The National Defense Authorization Act of 2009 addressed this risk, and in 2011, OMB released *OFPP Letter 11-01* addressing concerns and providing a clearer definition for the application of the term inherently governmental functions.¹⁸ OMB also created an additional category of activity meant to bring attention to the risks of improper categorization, the new term closely associated with inherently governmental functions.¹⁹ Activities categorized as closely associated, while allowing performance by contractors, have the potential to cross over into inherently governmental functions.²⁰ *OFPP Letter 11-01* recommends a number of safeguards, including greater oversight and minimal use of contractors in closely associated activities.²¹ In following years, GAO would find continued misapplication in this area by DoD.

In 2016, for example, *GAO 16-46* examined the military's application of OMB's outsourcing policy and discovered that in the majority of cases DoD fails to apply the policy properly. The study detected an increased risk of contractors inadvertently performing inherently governmental activities. In a sampling of 28 outsourced activities across the Services, GAO categorized 12 activities as closely associated with inherently

¹⁷ Federal Register, *Office of Federal Procurement Policy 11-01, Vol. 76, No. 176, September 2011*, Office of Management and Budget (Washington, DC: Government Printing Office), 1-2.

¹⁸ *Ibid.*, 1.

¹⁹ *Ibid.*, 1-2.

²⁰ *Ibid.*, 1.

²¹ *Ibid.*, 10, 12.

governmental functions, but DoD failed to correctly identify this in 11 of the circumstances.²² This resulted from DoD's flawed assessment and lack of understanding of what constitutes the difference between inherently governmental functions and closely associated with inherently governmental functions. GAO determined that DoD underestimated the number of contractors performing these activities, in part, due to lack of training and oversight leading to increasing probability that contractors were performing inherently governmental functions.²³ Both improper categorization and lack of oversight, as will be demonstrated later, have significant ramifications.

Perhaps the most fundamental change to outsourcing policy surrounds its evolving purpose and focus on cost savings. Previous to 2003, OMB Circulars consistently marked the distinction between inherently governmental and commercial activities. The policies highlight the application of free market competition for commercial activities, which should produce lower costs through the commercial competition of goods and services.²⁴ A comparison between commercial and government costs provides the government with the cheapest option for any commercial activity.²⁵ Importantly, these OMB Circulars had strict definitions regarding the categorization of activities. Traditional military related functions, under the umbrella of inherently governmental activities, could not be classified as commercial activities preventing competition and performance by the commercial sector.

²²Government Accountability Office, *DoD Inventory of Contracted Services: Actions Needed to Help Ensure Inventory Data are Complete and Accurate*, Congressional Committees (Washington, DC: Government Printing Office), 18.

²³ *Ibid.*, 6, 18, 24.

²⁴ Executive Office of the President, *Circular NO. A-76*. Office of Management and Budget (Washington, DC: Government Printing Office, 1999), 1.

²⁵ *Ibid.*

OMB's 2003 Circular broadens the range of activities available to the commercial sector and changes the purpose from regarding the performance of commercial activities to the competition of commercial activities.²⁶ It emphasizes cost savings and adds the concepts of streamlined and standard competition, methods used to compare the cost of commercial or government performance.²⁷ Additionally, unlike previous policies, the 2003 Circular requires the government to classify 100 percent of activities performed by government personnel as either commercial or inherently governmental.²⁸ The result has been a marked drift away from the original intent of permitting commercial activity to one that mandates the outsourcing of commercial activity for the lowest commercial price possible. Outsourcing activities are, therefore, driven by cost alone failing to consider the effects on other areas, particularly unit readiness.

Thus far, this overview presents consideration of several potential conclusions on outsourcing policy. If commercial activities have little impact on readiness, then the risk to readiness occurs at the proper classification of the activity. If the performance of activities by the commercial sector impinges on readiness, a cost driven policy alone does not adequately address readiness concerns. Lastly, if the classification of activities has little connection to readiness, executing an outsourcing policy according to cost will deliver the lowest price without a correlated effect on readiness. In any case, without specific guidelines on readiness, the execution of the policy delivers on cost alone and any effect on readiness is undetermined at the decision to outsource. These ramifications of these conclusions will be discussed later in the study.

²⁶ Executive Office of the President, *Circular NO. A-76*. Office of Management and Budget (Washington, DC: Government Printing Office, 2003), 1.

²⁷ *Ibid.*

²⁸ *Ibid.*

FAIR Act – The Other Part of the Law

In addition to OMB's policy regarding outsourcing, the government passed the FAIR Act of 1998, which created a requirement for governmental agencies, inclusive of DoD, to publish an annual report of activities accessible to the public.²⁹ Similar to OMB's 2003 Circular, the FAIR Act requires all agencies to list all commercial activities performed by government employees in order to provide the civilian sector an opportunity to challenge that activity's performance by the government.³⁰ The challenge can be brought forth by any private party who claims to be economically affected by the practice, and a cost comparison between government and private performance determines who should perform the activity.³¹ Because the FAIR Act's intent is to provide the civilian sector with opportunities and to secure civilian access to activities, it has led to increased numbers of outsourced activities. *GAO 08-572T*, a study of DoD's reliance on contractors, states that the predominance of outsourced activities funneled to the private sector today are done under authorization by the FAIR Act.³² By increasing the number of activities outsourced, the FAIR Act has increased the reliance of the government on contractors.

The Responsibility to Safeguard Risks of Outsourcing

While outsourcing policy focuses primarily on costs, OMB recognizes some of the risks involved with outsourcing activities to the commercial sector. The OMB

²⁹105th Congress, *Federal Activities Inventory Reform Act of 1998*. Public Law 105-270 (Washington, DC: Government Printing Office), 3.

³⁰*Ibid.*, 1.

³¹*Ibid.*, 2.

³²Government Accountability Office, *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*. House of Representatives (Washington, DC: Government Printing Office, 2008), 5.

Circulars and FAIR Act of 1998 do not address risks, but after decades of executing outsourcing policy, some risks have become apparent. *GAO 08-497T*, a study on military readiness, detailed the need for DoD to identify mission essential services being outsourced.³³ Addressing these risks in *OFPP Letter 11-01*, OMB reemphasized that the goals of outsourcing policy are to protect the public's interest and to serve in a cost-effective manner.³⁴ These are not related to wartime readiness or combatant commander's requirements. Not only does the policy require any government agency to identify cost savings garnered from outsourcing activities, each agency must also prevent the overreliance on outsourcing in critical areas.³⁵ To prevent this overreliance, *OFPP Letter 11-01* created a critical functions category and offers guidance regarding those activities.

The identification and use of the critical functions category mitigates some risk regarding outsourcing. A critical function is "a function that is necessary to the agency being able to effectively perform and maintain control of its mission and operations."³⁶ Government agencies have the flexibility to determine which functions qualify as critical according to their specific needs.³⁷ *OFPP Letter 11-01* directs agencies to retain sufficient capability in areas related to those functions.³⁸ Activities identified as critical functions may be performed by either contractors or government employees.³⁹ While the policy highlights the responsibility to consider cost effectiveness, it only recommends

³³ Government Accountability Office, *Military Readiness: Impact of Current Operations and Actions Needed to Rebuild Readiness of U.S. Ground Forces*. House of Representatives (Washington, DC: Government Printing Office, 2008), 13.

³⁴ Federal Register, *Office of Federal Procurement Policy 11-01, Vol. 76, No. 176, September 2011*, Office of Management and Budget (Washington, DC: Government Printing Office), 4.

³⁵ *Ibid.*, 11.

³⁶ *Ibid.*

³⁷ *Ibid.*, 12.

³⁸ *Ibid.*

³⁹ *Ibid.*

that agencies consider the following: determine the proper mix of the contractor and government workforce, retain sufficient government personnel in supervisory positions, and account for the impact of lost contractor performance.⁴⁰ These considerations, in theory, are intended to help mitigate overreliance on contractors, but they are open to wide interpretation and adherence.

Identification of activities as critical functions provides flexibility to government agencies applying outsourcing policy. Importantly, critical functions are not necessarily inherently governmental in nature and vary across the range of commercial and inherently governmental activities.⁴¹ This means that any activity may be deemed critical regardless if it is commercial or inherently governmental, and, therefore, can be performed by either contractors or government employees. However, there is no process in place that identifies a relationship between critical functions and readiness in order to assess outsourcing effects. The policy does not tie critical functions to military readiness, by identifying readiness elements as critical to perform agency missions and operations effectively. Currently, there is no means to balance military readiness within the confines of the current outsourcing policy.

Expanding Reliance on Contractors

The rise in the number and cost of government contractors has increased drastically since 9/11. With a decreasing budget and shrinking military end strength, DoD sought ways to meet steadily increasing mission requirements through outsourcing. GAO

⁴⁰ Federal Register, *Office of Federal Procurement Policy 11-01, Vol. 76, No. 176, September 2011*, Office of Management and Budget (Washington, DC: Government Printing Office), 12.

⁴¹ *Ibid.*

has noted numerous issues with the government's increasing reliance on outsourcing, and a search on www.gao.gov results in over one hundred reports referencing outsourcing since 1999.⁴² One such study, *GAO 08-497T*, noted that the reliance on outsourcing in DoD has hit record levels.⁴³ Additionally, the dramatic rise in the numbers of contractors has resulted in a corresponding increase in cost. In 1996, DoD spent \$85 billion on service contracts.⁴⁴ In 2014, DoD almost doubled that amount in spending \$156 billion on outsourced activities.⁴⁵ In total, the government spends approximately one quarter of its discretionary funds on the outsourcing of products and services.⁴⁶ While the funding of outsourced activities undoubtedly helps to resolve resource constraints and military shortfalls, it has driven an increase in DoD's reliance on contractor support, while also driving up costs to an unsustainable level.

As the government's policy on outsourcing evolved in the late 1990s and into the years after 9/11, the implementation and timing coincided with several contextual factors. The U.S. military found itself committed to two open-ended conflicts in Iraq and Afghanistan, while also faced with budgetary and resource constraints. Even during the peak of military operations, more contractors were deployed in Iraq and Afghanistan than

⁴² Government Accountability Office, *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*. House of Representatives (Washington, DC: Government Printing Office, 2008), 1.

⁴³ Government Accountability Office, *Military Readiness: Impact of Current Operations and Actions Needed to Rebuild Readiness of U.S. Ground Forces*. House of Representatives (Washington, DC: Government Printing Office, 2008), 9.

⁴⁴ Government Accountability Office, *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*. House of Representatives (Washington, DC: Government Printing Office, 2008), 1.

⁴⁵ Government Accountability Office, *DoD Inventory of Contracted Services: Actions Needed to Help Ensure Inventory Data are Complete and Accurate*, Congressional Committees (Washington, DC: Government Printing Office), 6.

⁴⁶ Government Accountability Office, *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*. House of Representatives (Washington, DC: Government Printing Office, 2008), 4.

military personnel.⁴⁷ In 2008, the government employed almost 200,000 contractors in Iraq and Afghanistan alone.⁴⁸ That same year the military utilized 12,000 private security contractors in Iraq, which as a subset of the overall contractor force itself, outnumbered the total number of contractors employed to support the 1991 Gulf War.⁴⁹ Today DoD remains the largest employer of contractors in the government.⁵⁰ These changes reflect the growth of outsourcing utilization in the post 9/11 environment. While the impact of contextual factors cannot be distilled into a simple cause and effect relationship regarding outsourcing, the timing of these factors combined with the new outsourcing policies has clearly led to a dramatic increase in the utilization of contractors.

The government's increasing reliance on outsourcing to meet organizational needs brought about a host of issues with contractors working in combat zones. The well-known employment of Blackwater in Iraq and Afghanistan is a clear case of the government turning to contractors to meet the mission needs of the services.⁵¹ Also widely known is the infamous killing and mutilation of Blackwater security personnel in Iraq, exemplifying risks involved with outsourcing in hostile territory.⁵² Many issues involving contractors working in combat zones have been resolved by *DoDI 3020.41*

⁴⁷ Richard D. Hooker, Jr. and Joseph J. Collins, *Lessons Encountered: Learning From the Long War* (Washington, D.C.: NDU Press, 2015), 427.

⁴⁸ Government Accountability Office, *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*. House of Representatives (Washington, DC: Government Printing Office, 2008), 1.

⁴⁹ *Ibid.*

⁵⁰ Government Accountability Office, *DoD Inventory of Contracted Services: Actions Needed to Help Ensure Inventory Data are Complete and Accurate*, Congressional Committees (Washington, DC: Government Printing Office), 1.

⁵¹ Peter W. Singer, "The Dark Truth about Blackwater," Brookings, <https://www.brookings.edu/articles/the-dark-truth-about-blackwater/> (accessed January 2, 2018).

⁵² *Ibid.*

Operational Contract Support, but the role of contractors continues to be modified as conditions change in the war zone.

The government's increased reliance on contracting has in part resulted from the support required to operate new weapons systems. As new technology has been fielded, DoD has coped with support gaps by relying on contractors to assist with the implementation and support.⁵³ For example, the F-35 Joint Strike Fighter program, the nation's most expensive weapons system to date, relies heavily on contractor support for the sustainment of the weapons system.⁵⁴ Sustainment costs are projected to exceed \$1 trillion over the life cycle of the system.⁵⁵ More significantly, the Services claim that they have limited visibility on F-35 contractor support and associated costs until after entering a contract with the provider.⁵⁶ If DoD cannot continue to fund sustainment costs for contractor support, the F-35 fleet will be severely handicapped.⁵⁷ These sustainment challenges illustrate that the overreliance on contractors can lead to unforeseen shortfalls in combat system readiness.

With the increase in contractor use, DoD has also seen an increased reliance on contractors in the performance of core mission tasks. The *GAO 08-572T* study aimed at the issues surrounding the roles and management of contractors in DoD, noted the increased reliance on contractors in the performance of core agency missions along with challenges in retaining institutional capability through government employees. GAO

⁵³ Government Accountability Office, *Military Readiness: Impact of Current Operations and Actions Needed to Rebuild Readiness of U.S. Ground Forces*. House of Representatives (Washington, DC: Government Printing Office, 2008), 9.

⁵⁴ Government Accountability Office, *F-35 Aircraft Sustainment: DoD Needs to Address Challenges Affecting Readiness and Cost Transparency*. Congressional Committees (Washington, DC: Government Printing Office, 2017), 13.

⁵⁵ *Ibid.*, 1.

⁵⁶ *Ibid.*, 36.

⁵⁷ *Ibid.*, 35.

found that with the dependence on contractors in performing core missions, situations may arise where the government possesses insufficient means to conduct various missions.⁵⁸ And yet almost a decade later, in a review of DoD's contracting practices, another study, *GAO 16-46*, also concluded that the government's continued dependency on outsourcing led to increased levels of risk due to overreliance on contractors.⁵⁹ While the employment of contractors helped reduce costs, and in some cases helped resolve readiness issues, reliance on contractors at the same time can decrease military capability. When reliance turns into overreliance based on deepening dependency for services, or changing contextual factors, such as overseas deployment in armed conflict, overreliance can manifest as a readiness shortfall. But until one of these contextual factors is encountered, reliance on contractors may mask readiness issues.

A Centralized Policy Decentrally Controlled and Executed

Issues regarding outsourcing reside not just in the policy, but in the manner that government agencies apply and execute the policy. The OMB Circular allows individual government agencies to determine the categorization of activities as inherently governmental or commercial. DoD delegates this responsibility to each of the military Services.⁶⁰ Each service then makes its own interpretation of OMB's policy to categorize

⁵⁸ Government Accountability Office, *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*. House of Representatives (Washington, DC: Government Printing Office, 2008), 7.

⁵⁹ Government Accountability Office, *DoD Inventory of Contracted Services: Actions Needed to Help Ensure Inventory Data are Complete and Accurate*, Congressional Committees (Washington, DC: Government Printing Office), 6.

⁶⁰ *Ibid.*, 18.

the activities.⁶¹ Furthermore, the determination of categorization is delegated to lower level departments within the Services, and in many cases, the decision regarding contracted activities comes down to the expertise of a military contracting officer.⁶² While decentralized processes afford large organizations a degree of latitude and flexibility, in total the decisions may create conditions counter to the broader organizational needs. A lack of oversight and control allows outsourcing activities to be contracted by sub-governmental agencies as needed.

As an example of issues regarding a decentrally controlled and executed outsourcing policy, consider the situation referred to earlier with having 200,000 contractors in Iraq and Afghanistan in 2008. Unconstrained by higher level oversight, the situation illustrates the lack of involvement of a central adjudication authority.⁶³ The application and execution of outsourcing policy in a decentralized manner allowed a situation to unfold where 200,000 contractors were deployed to support military forces in a combat zone.⁶⁴ The hiring of that number of contractors highlights two readiness concerns. First, the use of decentralized authorities by the Services exacerbates the lack of a comprehensive plan to employ contractors in a war zone.⁶⁵ Second, DoD turned to outsourcing driven by policy constraints and a lack of military readiness. The employment of 200,000 contractors in a war zone should be an intentional decision driven by senior level leadership. Decentralized control and the lack of a centralized plan

⁶¹ Government Accountability Office, *DoD Inventory of Contracted Services: Actions Needed to Help Ensure Inventory Data are Complete and Accurate*, Congressional Committees (Washington, DC: Government Printing Office), 18.

⁶² *Ibid.*

⁶³ Government Accountability Office, *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*. House of Representatives (Washington, DC: Government Printing Office, 2008), 14.

⁶⁴ *Ibid.*

⁶⁵ *Ibid.*

shows the need to create an adjudication authority, policy, or regulation to provide greater oversight of outsourcing practices.

Outsourcing Policy Findings and Conclusions

Outsourcing policy intent is cost savings and is generally applied by categorizing activities as either inherently governmental, closely associated with inherently governmental functions, or commercial. Overall, DoD does a poor job of classifying activities and the risks of contractors performing inherently governmental activities exists. The additional category of activities called critical functions cuts across the range of inherently governmental and commercial activities. Critical functions relate to an agency's ability to perform its mission and may be completed by either government or contractor personnel. Agencies, however, are only warned to retain sufficient capability and to avoid overreliance on contractor personnel in the performance of their missions. Although a centralized policy, outsourcing is decentrally controlled and decentrally executed. As several examples cited indicate, overreliance is an indicator of readiness shortfalls. Correlating an activity category with readiness has various implications, but by in large readiness is a lagging measure when executing a cost savings policy.

Chapter IV

Readiness

The Chairman of the Joint Chiefs of Staff (CJCS) defines readiness as “the ability of the U.S. military forces to fight and meet the demands of the National Military Strategy (NMS)”.¹ Readiness is a variable condition, and ensuring military forces meet standards for combat missions is DoD’s primary responsibility. A ready force is poised to meet the requirements related to contingency and crisis action plans, and a ready force may deter adversaries by influencing their decisions and actions without the actual use of force. But in a fiscally constrained environment, achieving and maintaining a high level of readiness of specific forces is a challenge. Many times tough tradeoffs must be made between maintaining certain readiness levels for portions of the force, while deferring future requirements and modernization, while also fulfilling the demands of a decade long ongoing conflict. As some point, something must give.

Military readiness, understandably, captures the attention of leaders at the highest levels of the government. Congressional Subcommittees on Military Readiness serve in each of the Armed Services Committees of both Houses of Congress, and both keep a keen eye on matters pertaining to readiness. Internal to DoD, measuring readiness is a robust process continually assessed to facilitate planning for current and future operations, as well as meeting mandatory reporting requirements. The readiness system helps inform senior military leaders and provides justification for current and future force planning.

¹ Department of Defense, *CJCS Guide to the Chairman’s Readiness System*, Number 3401D (Washington, DC: Chairman of the Joint Chiefs of Staff, 2013), 1.

The Readiness System

As military forces prepare for the future, any decision regarding funding, personnel, equipment, and training relates to force readiness. Readiness is measured and built on a variety of factors, both objective and subjective, and associated metrics provide a means to incorporate both qualitative and quantitative inputs to measure readiness levels. Understanding military readiness and its measurements can provide context for recognizing the impacts of outsourcing. A discussion of these factors shows how key aspects of readiness relate to outsourcing.

Several concurrently executed processes deliver metrics used to determine the level of force readiness. Each quarter, the CJCS directs a Joint Force Readiness Review (JFRR) and by law the JFRR is reported to Congress.² In building the JFRR, DoD uses the Chairman's Readiness System (CRS), a process based method comprised of two major components: Unit Reporting measured by Force Readiness Reporting (FRR), and Strategic Readiness measured by the Joint Combat Capability Assessment (JCCA).³ FRR is further divided into Global Status of Resources and Training System (GSORTS) and Defense Readiness Reporting System-Strategic (DRRS-S). GSORTS is a resource-based measurement system while DRSS-S measures capabilities.⁴ The JCCA is a near term measure of readiness in terms of DOD's ability to execute plans in accordance with the NMS.⁵ These readiness assessments assist with Service level and DoD decisions

² Department of Defense, *CJCS Guide to the Chairman's Readiness System*, Number 3401D (Washington, DC: Chairman of the Joint Chiefs of Staff, 2013), 15, 19.

³ *Ibid.*, 3, 7.

⁴ *Ibid.*, 8, 10.

⁵ *Ibid.*, 13.

regarding resourcing and employing the force. Identifying the aspects of these processes that account for outsourcing shows the relationship between outsourcing and readiness.

Various GSORTS components directly and indirectly measure outsourcing effects on readiness, assessing the array of resources available against those needed to accomplish a unit's combat mission.⁶ Of the three main categories of personnel, equipment, and training, none directly account for outsourced goods or services. The personnel category, for example, only accounts for military and civilian employees, and while contractors can certainly influence the quality of equipment and training, the system only accounts for combat ready equipment and combat ready crews.⁷ Therefore, any deficiencies resulting from the loss of contractor utilization or performance would manifest itself as a second order effect. GSORTS also includes a commander's subjective assessment, and with regards to outsourcing, the assessment considers the effect of contracting on unit readiness by evaluating the ability of contractors to provide services during times of conflict.⁸ Here outsourcing's direct impact is measured. However, self-assessments can be deceiving. Inflated readiness reports may result from inaccurate subjective perspectives or from subordinates shielding bad reports from higher level leadership.⁹ Overall, GSORTS provides only limited measurement of second order effects and leaves room for enormous errors through the use of subjective assessments.

DRRS-S, measured along Mission Essential Task Lists (METL) and consisting of tasks, conditions, and standards of performance, provides service and combatant

⁶ Department of Defense, *Force Readiness Reporting*, Number 3401.02B (Washington, DC: Chairman of the Joint Chiefs of Staff, 2014), 23.

⁷ Department of Defense, *CJCS Guide to the Chairman's Readiness System*, Number 3401D (Washington, DC: Chairman of the Joint Chiefs of Staff, 2013), 28-38.

⁸ Department of Defense, *Force Readiness Reporting*, Number 3401.02B (Washington, DC: Chairman of the Joint Chiefs of Staff, 2014), 27.

⁹ Todd Harrison, "Rethinking Readiness," *Strategic Studies Quarterly* Volume 8, Issue 3, Fall 2014, 45.

commanders with specified measures of readiness according to specified conditions.¹⁰ In some cases these METLs are measured against established Operation Plans. Along this end, *DoDI 3020.41* establishes instructions regarding the incorporation of contractors in support of DoD operations. The instruction states that contractor personnel may be employed in non-combat roles as long as the designated joint force commander deems it appropriate.¹¹ If so, contractors must be integrated into plans and units must mitigate the risks of lost contractor support.¹² These METL assessments should incorporate the effects of retaining or losing contractor support.

One significant problem is defining, in any specific data driven way, the divergence between unit readiness with existing contractor support and unit readiness without contractor support. According to a readiness Subject Matter Expert (SME) at RAND, the DRRS-S lacks a consistent connection between Combatant Commander requirements and METLs and does not provide a complete picture for particular readiness conditions.¹³ DRRS-S also fails to account for the effects of outsourcing on readiness. Additionally, unit decisions to outsource occur at sub-Service levels where many of these issues are not reported to the Services in their aggregated readiness assessments, while combat operations planning occurs at the geographic and functional commands levels. Because the allocation of forces responds to dynamic global and regional priorities, these processes do not necessarily align, leaving a gap between the Service procurement and combat approval of outsourcing capability. Readiness reporting on paper may not reflect

¹⁰ Department of Defense, *Force Readiness Reporting*, Number 3401.02B (Washington, DC: Chairman of the Joint Chiefs of Staff, 2014), 17, 18.

¹¹ Department of Defense, *Department of Defense Instruction for Operational Contract Support*, Number 3020.41 (Washington, DC: Secretary of Defense, 2017), 10, 12.

¹² *Ibid.*, 13.

¹³ Non-attributable due to the NDU Non-attribution policy available at http://www.ndu.edu/Portals/59/Documents/AA_Documents/AA%205.00.pdf accessed January 29, 2018.

actual readiness because there is no means of providing a true objective assessment of outsourcing's effects on readiness.

CRS Limitations: Measuring a Complex System

Despite the CRS process, accurately measuring readiness remains difficult. Some experts think that the right information continues to be elusive and that the system captures the wrong data because CRS assessments essentially focus on readiness inputs rather than readiness outputs. By changing the focus to outputs, readiness reports would provide more meaningful information by measuring a unit's ability to meet the requirements of assigned taskings.¹⁴ In part, measuring outputs bypasses the complex interaction of inputs and eliminates part of the guesswork involved in readiness assessments.

Current systems, like GSORTS, attempt to create relationships between inputs and outputs. Use of an input driven system contends that adjustments to inputs creates a corresponding change in outputs.¹⁵ However, the inclusion of multiple variables, to include subjective ones, creates non-linear relationships in the system.¹⁶ Even DoD admits that readiness inputs are non-linear in nature, in that specified inputs do not necessarily correlate to specified outputs.¹⁷ The complexity of the readiness systems result in unexpected outputs appearing at random times.¹⁸ If readiness inputs and outputs do not exist in a reliable cause and effect relationship, changing inputs may result in

¹⁴ Todd Harrison, "Rethinking Readiness," Strategic Studies Quarterly Volume 8, Issue 3, Fall 2014, 47.

¹⁵ Ibid., 42

¹⁶ Ibid., 47.

¹⁷ Ibid.

¹⁸ Ibid., 54.

unpredictable changes in output.¹⁹ Therefore, any CRS assessment solely focused on these inputs provides less than reliable information.²⁰ Thus, measuring the number of contractors is perhaps the wrong way to assess readiness. Rather, the effects of using contractors in various capacities should be a measure of outsourcing's effects on readiness.

Providing Context to Readiness

The CJCS Guide to the Chairman's Readiness System provides context for readiness by asking *readiness for what?*²¹ Readiness for what involves the type of conflict and the necessary preparedness to combat an adversary.²² Simply answered, this means being ready to execute the strategies and plans laid out in the NMS and combatant commands. Properly framed, being ready to meet those requirements means the right personnel have been properly trained and the equipment is combat ready. However, in a fiscally constrained environment, the readiness for what question may not be sufficient.

The Center of Strategic and Budgetary Assessments has offered two more significant and more specific questions: *readiness for when* **and** *readiness of what.*²³ Readiness for when involves a time horizon in assessing when the force must be ready.²⁴ Forces must be ready in time for employment to defeat the adversary. In a similar manner, readiness of what involves determining the specific part of the force that must be ready to meet future needs. Not every part of the force must be ready all of the time and

¹⁹ Ibid., 48, 59.

²⁰ Ibid., 49.

²¹ Department of Defense, *CJCS Guide to the Chairman's Readiness System*, Number 3401D (Washington, DC: Chairman of the Joint Chiefs of Staff, 2013), 1.

²² Harrison, 39.

²³ Ibid.

²⁴ Ibid.

immediately deployable for every contingency. Only select parts of the force must be ready at any one time. Taken together, these three questions provide a much clearer framework to assess readiness and identify issues of concern.

The United Kingdom's ten year plan of 1919 provides insights to the utility of asking readiness for when to assess readiness. At the end of the Great War, Britain sought to sacrifice near-term readiness in order to decrease military expenses because no immediate threat existed and short-term readiness therefore could be redirected to other purposes.²⁵ Readiness for when allows the Services and the Chairman to identify areas where the military can accept lower levels of readiness. In doing so, it will become clear how outsourcing helps or hinders readiness levels.

The Current State of Military Readiness

Civilian and military leaders use readiness levels often to describe the state of the force; when levels are low it represents a warning to take action. Over the past two decades, deployment rates, end force strength reductions, and decreasing budgets have led the military to report low readiness levels.²⁶ As an example, close to one million Service members deployed to support overseas contingency operations in the first six years alone in the Global War on Terror.²⁷ While the levels of readiness, associated personnel metrics, status of equipment and training, and reports remain classified, what the military Services reported in the unclassified realm builds a picture of the overall

²⁵ Ibid., 40.

²⁶ Government Accountability Office, *Military Readiness: DoD's Readiness Rebuilding Efforts May Be at Risk without a Comprehensive Plan*. Congressional Committees (Washington, DC: Government Printing Office, 2016), 1.

²⁷ Government Accountability Office, *Military Readiness: Impact of Current Operations and Actions Needed to Rebuild Readiness of U.S. Ground Forces*. House of Representatives (Washington, DC: Government Printing Office, 2008), 1.

readiness status. To further complicate the matter, knowing whether the force is actually ready for the next conflict can only be truly tested when conflict arises. If no conflict arises, the validity of past assessments goes untested and are somewhat difficult to measure.

Each Service recognizes the need to address readiness levels and DoD has made rebuilding readiness a top priority, however, continued tasking from the combatant commands often negates readiness recovery efforts.²⁸ DoD acknowledges that rebuilding readiness is a long term process and recognizes the need to balance today's and tomorrow's needs.²⁹ Between 2001 and 2007, the military spent almost \$500 billion on readiness efforts.³⁰ Between 2014 and 2024, DoD will spend over \$5 trillion on readiness.³¹ Recently, Secretary of Defense James Mattis commented that Congressional Continuing Resolutions (CR) hurt military readiness and that the longer the CR continues without a budget the greater the effect on training, maintenance, and personnel, in essence readiness.³² When asked about outsourcing effects on readiness, the Joint Staff responded by stating that all options are on the table and that the military needs to focus on doing what is right.³³ This potentially means creating policy, authorities, and

²⁸ Government Accountability Office, *Military Readiness: DoD's Readiness Rebuilding Efforts May Be at Risk without a Comprehensive Plan*. Congressional Committees (Washington, DC: Government Printing Office, 2016), 1, 7, 8, 15.

²⁹ Government Accountability Office, *Military Readiness: Impact of Current Operations and Actions Needed to Rebuild Readiness of U.S. Ground Forces*. House of Representatives (Washington, DC: Government Printing Office, 2008), 1; and Government Accountability Office, *Military Readiness: DoD's Readiness Rebuilding Efforts May Be at Risk without a Comprehensive Plan*. Congressional Committees (Washington, DC: Government Printing Office, 2016), 15.

³⁰ Government Accountability Office, *Military Readiness: Impact of Current Operations and Actions Needed to Rebuild Readiness of U.S. Ground Forces*. House of Representatives (Washington, DC: Government Printing Office, 2008), 1.

³¹ Harrison, 38.

³² <https://federalnewsradio.com/defense/2017/09/mattis-says-cr-hurts-personnel-contracting-and-readiness/> accessed on 15 Nov 17.

³³ Non-attributable due to the NDU Non-attribution policy available at http://www.ndu.edu/Portals/59/Documents/AA_Documents/AA%205.00.pdf accessed January 29, 2018.

processes to deliver the readiness results the nation needs. As a step in the right direction, DoD recognized the need to put the right personnel in critical skills positions.³⁴ Various areas of the military, such as Army Brigade Combat Teams (BCT), have seen increased levels of readiness resulting from reduced tasking, allowing time to reconstitute.³⁵ The Secretary of Defense has also recently implemented a ceiling concept to assist with readiness recovery efforts. This essentially means that Service force deployments over set ceiling levels require the Secretary's approval.³⁶ Applying similar solutions in the realm of outsourcing may yield similar results. Filling critical positions with the right mix of government personnel and contractors, utilizing contractors in fields of low readiness to allow reconstitution, and implementing outsourcing ceilings to prevent future readiness problems are worth considering. DoD, however, does not have the means in its readiness reporting systems to identify how outsourcing relates to readiness. Until this condition becomes visible, the Service Chiefs, the Chairman, and the Secretaries are unable to address this potentially critical weakness.

³⁴ Government Accountability Office, *Military Readiness: DoD's Readiness Rebuilding Efforts May Be at Risk without a Comprehensive Plan*. Congressional Committees (Washington, DC: Government Printing Office, 2016), 26.

³⁵ *Ibid.*, 10.

³⁶ *Ibid.*, 11.

Chapter V

Outsourcing Effects on Readiness

Having established the framework of the relevant outsourcing and readiness elements, this chapter examines the relationship between the two and arrives at several conclusions that will lead to the specific recommendations. Ultimately, this chapter seeks to answer how an outsourcing policy geared towards cost savings effects readiness.

The Links Between Outsourcing Categories and Readiness

Revisiting the possible conclusions brought up in the chapter on outsourcing offer potential findings regarding the effect of outsourcing on readiness. The first stated that activities affecting the readiness of forces are solely related to inherently governmental functions, and its corollary, the readiness of forces is not affected by the outsourcing of commercial activities. The second stated that the relation of activities to military readiness is not directly correlated to the classification of activity as inherently governmental or commercial. Since only one of these conclusions is supportable, observing how the CRS measures activities leads to a definitive conclusion.

The CRS measures many, but not all, aspects of inherently governmental activities related to military readiness. Recall that inherently governmental activities must be performed by government personnel. Within the CRS, GSORTS measures many inherently governmental activities performed by government and civilian personnel, but not all inherently governmental activities are measured in the system. For example, the activity of awarding a contract is an inherently governmental activity that must be

performed by government personnel, but this activity is not a combat capability of military forces measured by the CRS. This does not imply that the activity is not important, but readiness is not accurately measured in the system. This example shows that the categorization of an activity as inherently governmental does not result necessarily in a measure of readiness. While the CRS measures many inherently governmental activities, simply classifying an activity as such does not lead to a corresponding readiness assessment.

In the same manner, the classification of an activity as commercial does not inhibit or demand measurement in the CRS. GSORTS measures outsourced activities directly with the subjective commander's assessment. However, as noted previously, GSORTS does not directly measure the entire range of commercial activities. For GSORTS reporting on training and equipment, any effect of outsourcing requires extrapolation. Even then contractor support is but one of many variables that impacts these measurements and the non-linear nature of variables makes any assessment difficult. DRSS-S operates in a similar manner to GSORTS in measuring outsourcing impacts. Although some outsourced activities are measured, not all commercial activities related to readiness are captured. While the CRS measures some commercial activities, classifying an activity as such does not require a readiness assessment.

Additionally, regardless of the link between classification of activity and readiness, GAO has shown that DoD does a poor job of classifying activities, leading to blurred lines between inherently governmental, closely associated, and commercial activities. This increases the likelihood that contractors would be performing tasks across the range of activities. If a correlation between categorization of activity and readiness

exists, DoD's outsourcing practices negates the effectiveness of the measurements in the CRS. If contractors truly perform tasks across the range of activities, any outsourcing effects captured in readiness assessments are indeterminate.

Despite all of this, outsourcing policy offers a solution to categorize activities in a way that captures effects of outsourcing on readiness. Falling across the range of DoD activities, critical functions relate the utilization of outsourcing most closely with readiness. If readiness is defined as the ability of forces to meet the needs of strategy, and critical functions relate to the ability to accomplish missions and operations in support of those strategies, then by extension reliance on contractors to perform critical functions will directly effect the readiness of the force. Remember that critical functions may be performed by either government personnel or contractors. Although the CRS does not measure critical functions specifically as they relate to outsourcing policy, all critical functions nevertheless should be measured in the CRS.

This study finds that the relation of activities to military readiness does not correlate directly to the classification of activity as inherently governmental or commercial. Existing policy allows for the classification of activities as critical functions, thereby offering a way to capture outsourcing effects on readiness and correcting improper categorization of activities.

Outsourcing and Readiness Challenges

Outside the classification of activities, other aspects of outsourcing effect readiness reporting, highlighting contractor support and the relationship between

outsourcing and readiness. It is clear that a relationship exists, but without changes to the system, there are no solutions.

By design the DRRS-S process assesses the role of contractors in contingency and operations plans. In the evaluation of these plans, *DoDI 3020.41* warns of the loss of contractor support and recommends that units should prepare to mitigate those losses. While some units will arguably find ways to mitigate the loss of contractor support, in many cases mitigation will not come without having an adverse effect in other mission or support areas. In this manner, the CRS captures the effects of lost contractor support in the Services and combatant commands. It ties outsourcing effects to readiness, but fails to provide much recourse. If outsourcing policy dictates the use of contractors for commercial activities, the only way to comply with this policy is to find a cheaper government option or declare it a critical function. In either case, the unit is still left to find an insourced solution.

The lack of oversight and planning offers evidence of outsourcing influences on readiness. While individual unit commanders assess the effects of outsourcing on their individual units, no centralized aggregate analysis occurs to examine the total sum of outsourcing effects across the Services. While the employment of contractors may be acceptable at the individual unit level, the overreliance on contractors across a range of units may in partial sum, or in total have detrimental effects. The employment of 200,000 contractors in Iraq and Afghanistan presented challenges to command and control, accountability, and budget requirements. Additionally, the presence of 200,000 contractors (the approximate equivalent of an Army Group) paints a picture of

overreliance and anecdotally suggests that DoD is not ready to meet mission requirements without them.

Does a Cost Savings Policy Consider Readiness Impacts?

Lastly, an outsourcing policy geared towards cost savings only delivers an end product focused on cost savings. The policy drives the use of contractors and activities based on policy definition in support of cost effectiveness, as opposed to other considerations, including readiness. Along these lines, it should therefore be of little surprise that outsourcing delivers on cost savings, but the policy created the overreliance and overuse of contractors directly affecting military readiness. Outsourcing masks readiness issues by creating a perceived ability to accomplish the mission, and the military risks the ability to conduct combat missions in the long run as the dependence on contractors grows. To alter this outcome, changes in policy, in DoD's implementation, and in the readiness system are needed.

Chapter VI

Recommendations

The recommendations to mitigate the effects of outsourcing on readiness come in three categories: changes to the policy, modifications to the readiness system, and recommendations to DoD.

Policy Changes

It should come to no surprise that a cost driven policy derives from the Office of Management and Budget. The budget drives personnel and resource decisions, and forces hard choices between today's needs, modernization, and readiness. Reserving specific government functions for military personnel and setting aside the rest for competition makes sense on many levels. First, it allows the military to focus on only what the military can do, execute combat tasks in defense of the nation. Second, it allows the economic forces in the commercial sector to provide goods and services at the best price, flowing dollars into the economy and allowing the military to focus mainly on training. From this perspective, outsourcing policy succeeds in providing invaluable goods and services from the national economy. In theory, this makes sense, but the lack of clear lines of responsibility have blurred the relationship to the point that economic interests outweigh defense priorities. Stronger and stricter regulations will correct this deficiency – at the cost of benefits to the economy and short term drops in unit effectiveness.

In terms of military readiness, modifications of the policy to provide the military with the proper authority will help mitigate risks to readiness. This authority will allow the military to make outsourcing decisions apart from activity categories that are in the

best interests of military readiness. Without such authority, the current policy drives outsourcing decisions and any resulting effects on readiness arrive as a byproduct of cost savings. In essence, a portion of the military's readiness problem results from holding the military responsible for improving readiness but without the authority to do so. Aligning military authority with responsibility facilitates a solution where a cost savings policy is secondary to revitalization and preservation of readiness levels. It places the responsibility for readiness back with the Services and units. Readiness can then be more accurately assessed and reported.

Some would argue that the authorities specified by allowing the labeling of an activity as a critical function already provides the military with the necessary authority it requires. While this certainly possesses a level of applicability, not all activities affecting readiness would seem to qualify as critical functions. Two examples previously cited provide proof of this. First, in the case of outsourcing cooks in the military, the role of a cook is not a critical function in peacetime. But at some point with a major contingency or crisis, units must be able to deploy with its full capability including combat service support personnel who are trained and qualified as cooks. A deficiency of cooks may effect the readiness of the force. At that point, the role of a cook would need to be redefined as a critical function. Second, in the case of hiring 200,000 contractors to work in Iraq and Afghanistan, it is theoretically possible that none, or a very small portion, of the jobs fall in the category of critical functions. Therefore, under current authorities and definitions in outsourcing policy, these roles, by law, will continue to be performed by contractors. However, from a perspective, having 200,000 contractors employed in a combat zone in essence all are performing critical functions. Should the military convert

these roles to military personnel, it would have to declare these roles critical functions. It is clear that the Services must gain a much better understanding of outsourcing's effect on readiness to avoid the necessity of somehow locating tens of thousands of non-military people to volunteer to fill positions the Services did not know were essential to readiness until a crisis event or major contingency emerges.

To offer a counterpoint, inherent issues and risks reside with providing the Services with override authorization. Similar to a cost savings policy that drives second order effects on readiness, military override authority applied at the tactical or operational level can have strategic effects on outsourcing. There is risk that the decisions of unit commanders can, in total, negate the positive effects of cost savings. Additionally, some risk exists that the military could misuse the authority and counter the intent of the policy. To mitigate both of these risks, the authority to override should reside at an appropriate level combined with a level of oversight to prevent its misuse.

Modifications to the Readiness System

With the dramatic increase in the use of contractors, the readiness system needs to adapt to capture the utilization of outsourcing more effectively. At best, the current system relies on three main methods to assess outsourcing's effects: indirect measures related to training and equipment, commander's subjective assessments, and METL assessments with respect to operations and contingency plans. In a changing paradigm of increased contractor support, readiness assessment models need adjustments to better and directly measure outsourcing impacts.

As a direct way to account for outsourcing, DoD and Congress should mandate recurring reports on outsourcing utilization levels. This creates the oversight necessary to focus attention on the sheer volume of contractors used in DoD. Because sub-Service levels in DoD execute outsourcing decisions, creating oversight at a higher level gives that body the responsibility to ensure lower level decisions are congruent with higher level strategies and plans. The report should also provide an assessment of lost contractor support on Service readiness. The commander's subjective assessment and METL assessments should include worst case scenarios on the loss of contractor support. This information would facilitate resource, budget, and personnel decisions. Currently, *DoDI 3020.41* instructs units to mitigate loss of contractor support, but without sufficient means to obtain resources, funds, or personnel, valid attempts to mitigate are few and far between. Units accept the risk in the loss of support, where in fact, the risk should be elevated to the authority who can and should accept that risk.

A more sweeping approach to resolving outsourcing effects on readiness is to shift the mindset entirely in how contractors are accounted for in the readiness equation. If DoD acknowledges that the Services will need contractors to get the job done, current readiness assessments should expand to account for their contributions to readiness. An example of this is to add contractor support in reported personnel assessments. If DoD readiness assessments fail to acknowledge the necessary role of contractors and the critical role they play in mission success, DoD risks having a force that is not in reality ready.

Lastly, the readiness system should measure outputs associated with outsourcing. While the number of contractors employed can lead to overreliance and create issues due

to sheer volume, the effects of outsourcing provides a better measure of readiness. Measuring the number of contractors equates to measuring inputs of a system. Changes to the number of contractors in a complex system will not result in a predictable correlated change in output. Measuring the positive and negative effects of outsourcing circumvents the necessity to navigate the multiple variables, relationships, and inactions of a complex system. Accordingly, recognizing that different units and activities have differing requirements, setting appropriate levels of outsourcing effects for each will help differentiate the needs of units, instead of focusing on the number of contractors.

Recommendations to DoD

Finally, regardless of any policy changes or modifications to the readiness system, DoD should consider implementing the recommendations included in this section. As the nation's discretionary funding decreases in the coming decades, DoD will likely lose contractors to budget cuts. Executing a cost savings outsourcing policy along with decreasing reliance on contractors will require a concerted effort by DoD.

First, and most importantly, DoD should centralize portions of the outsourcing process to provide an appropriate level of planning and oversight. An overarching and comprehensive outsourcing plan will help navigate the difficult course ahead. This allows the unit level outsourcing choices to fit within the context of the larger strategic picture. It facilitates the hard decisions between current operations, modernization, and future readiness by identifying the risks, costs, and effects of outsourcing on each of these areas.

As part of a comprehensive plan, DoD should consider how contractors can help restore readiness states. Similar to how the readiness levels in Army BCT units increased

by way of reduced tasking, use of contractors in particular activities will allow restoration of readiness rates by redirecting resources and manpower elsewhere. The example cited earlier concerning Britain's ten year rule during the interwar period, serves as a case of redirecting resources in peacetime to assist with restoring readiness.¹ Readiness for what means prioritizing the threats the military must gain or retain readiness for. Intelligence and political analysis will help determine readiness for when. Accepting risk in lower priority and less likely conflicts will help restore readiness levels across portions of the force. The comprehensive plan should consider a cap on the number or percentage of contractors allowed in a particular area in order to retain capabilities.

Finally, the Services should reevaluate their processes for executing outsourcing policy. Prior to awarding a contract, the Services should focus on classification of the activity. Stricter adherence to inherently governmental, closely associated with inherently governmental, and commercial activities will help reduce the risk of contractors performing inherently governmental functions. DoD should encourage broader use of the critical function category, which will allow DoD to employ a mix of government personnel and contractors towards retaining readiness and reaching cost savings goals. And lastly, when outsourcing policy drives the military to unwanted results, DoD should be alerted to the negative implications related to a decline in readiness in order to obtain the authority needed to ensure a fully ready and capable force.

¹ Harrison, 64.

Chapter VII

Conclusion

Budget, resource, and personnel constraints continue to challenge DoD in balancing today's operations with readiness for the future. DoD has turned to outsourcing to meet those challenges, but over a decade of executing the policy has led to overreliance and decreasing readiness levels. This study has provided answers to the three questions posed in the introduction: the application of the government's outsourcing policy has negatively affected DoD's military readiness, the military readiness system does not adequately account for contractors, and DoD lacks sufficient planning and oversight of outsourced activities. The future fiscal environment and global threats will challenge DoD to find the proper usage and mix of contractors and government personnel, and the policy and practice of outsourcing must change to meet those challenges. Changes to OMB's outsourcing policy and the military's readiness system will also help address these risks.

The evolution of outsourcing policy has focused efforts on cost savings by segregating military and contractor activities, but not on military readiness. Readiness has become a by-product of outsourcing, and DoD lacks the oversight and authority it needs to balance readiness with outsourcing policy. DoD also executes the policy without a comprehensive plan or centralized control. If these practices go unchanged, DoD's continued overreliance on outsourcing will lead to increased risks. These risks impact the ability to serve the nation's vital interests and to provide national security for its citizens.

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