

# RAND Research Brief

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## DoD Outsourcing How Civil Service Employees Fare

According to a 1995 report by the Commission on Roles and Missions of the Armed Forces, the Department of Defense (DoD) continues to employ at least 250,000 civil service workers in commercial activities that could be operated more cheaply if outsourced. Part of the reason for this situation is that certain executive and legislative directives overlap and sometimes conflict, with the former tending to favor outsourcing and the latter tending not to.

Despite these problems, there is growing evidence that the tempo of outsourcing will significantly pick up in the future, driven by Congressional Budget Office and Center for Naval Analyses findings that outsourcing can reduce the cost of commercial activities by about a third.

In light of this trend, RAND researchers sought to answer two questions: What factors affect the competitiveness of civil service employees in the cost-comparison process used to evaluate outsourcing possibilities; and what are the impacts of past and future outsourcings on civil service employees?

### CIVIL SERVICE COMPETITIVENESS

Perhaps the major concern with current cost comparisons is that they are based on what is expected to happen when outsourcing actions are implemented. But what actually does happen during implementation? To answer this question, researchers visited four DoD installations and two major command headquarters to examine activities that had been recently outsourced or were pending outsourcing. Because few recently completed outsourcing actions were available for analysis—an 18-month moratorium from October 1992 to April 1994 stopped all outsourcing contracts—only five activities in the Air Force and Army were reviewed; as a result, the case-study findings need to be viewed with caution.

Still, despite the small sample size, there is strong evidence that four implementation factors may adversely affect the real or apparent competitiveness of civil servants. First, when government workers are transferred to a lower-grade position during a reduction in force, they

initially keep the pay associated with their current grade in their new position. These costs are not usually included in evaluating the costs of contracting or in calculating the savings generated by outsourcing.

Second, contract costs commonly increase over the amount of the initial bid, generally because the scope of work expands. This expansion occurs either because the workload exceeds expected levels or because the initial performance work statement (PWS) was inadequate. All the installations noted they lacked training, qualifications, and experience in developing the PWS and the in-house bid, known as the *most efficient organization*, or MEO.

Third, while contractors base their bids on detailed workload information, in-house bids may be based on gross and indirect proxies for workload. In-house activity managers generally have little or no experience estimating the labor and other resources needed to operate their activities, and, thus, their MEOs tend to be insensitive to differences between existing workloads and PWSs.

Finally, contractor bids and in-house MEOs operate on an uneven playing field in terms of labor costs. The Service Contracts Act places a floor—at locally prevailing Department of Labor (DoL) rates—on how much contractors can pay service workers and on the costs of benefits, and contractors almost always pay at this floor. However, in-house bids are governed by the Federal Wage System (FWS) wage rates, which may vary significantly from the DoL rates and tend to exceed them.

### THE IMPACT ON CIVIL SERVICE EMPLOYEES

When outsourcing occurs, it causes displacement among the civil service employees involved. One issue concerns how much impact outsourcing has had historically on civil service personnel, while another issue focuses on predicting future impact.

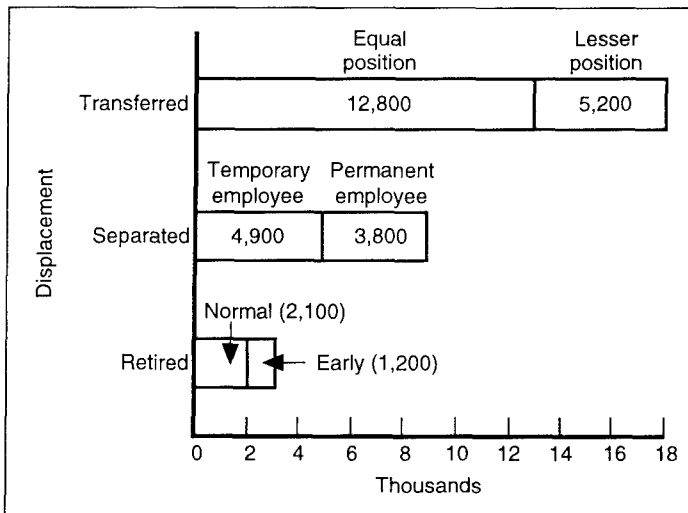
#### Assessing Past Impacts

To get at the first issue, researchers used data from the DoD's Commercial Activities Management Information

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System (CAMIS)—which provides information on all completed and in-progress cost-comparison studies conducted within DoD under OMB Circular A-76—and supplemented that with information from the site visits.

Based on CAMIS data from 1978–1994, only 30,100 employees were displaced by outsourcing, broken out as shown in the figure below.



*DoD Civil Service Employees Displaced by Outsourcing Actions, 1978–1994*

However, site-visit information shows that the CAMIS data may understate the impact, because the data do not capture the personnel shuffling that occurs before the announcement of a cost-comparison result or the secondary impacts of outsourcing on personnel who work in other functional areas within an installation. In the former case, civilian personnel officers (CPOs) “stockpile vacancies” in areas under review or elsewhere—leaving vacancies unfilled or filling them with temporary employees. If the function is outsourced, the temporary employees are separated and vacancies outside the outsourced activity are filled with displaced permanent employees. This use of temporary employees is reflected in the fact that they represent (as shown in the figure) 4,900 employees displaced by outsourcing, or 16 percent, whereas they made up only 9 percent of the civil service workforce over this time period.

In the latter case, when employees in an area under review are displaced, they can further displace others with

lower tenure in areas not under review. At one site, the CPO said 5–6 people were affected through “bumping” and “retreating” for every position lost.

### Predicting the Future Impact

While the past impact is modest, the potential future impact is much larger. So far, the past outsourcing studies account for only about one-fourth of the “vulnerable” civil service positions. Where will the impacts be greatest? To answer this, researchers modeled the four stages of the outsourcing process: completion rates for initiated studies; rates of outsourcing among completed studies; incidences of employee displacements when outsourcing occurs; and displacement size.

Six factors are useful predictors of cost-comparison study outcomes and displacements: (1) activity size; (2) proportion of civilians within the total manpower of the activity; (3) bid solicitation type; (4) date of study initiation; (5) military service or defense agency involved; and (6) function of the activity.

These factors sometimes have offsetting effects in different stages of the model. For example, the probability of study completion is lower for larger activities, but those that are completed are more likely to be outsourced and, if outsourced, are likely to have greater impacts. When net effects of these factors are observed over all stages, expected impacts on civilian employees are greater for larger activities; Air Force and Army activities; and social service, equipment maintenance and repair, and real property maintenance functions. Expected impacts are smaller for Navy activities; multi-function, depot maintenance, and health service functions; negotiated bids; and studies initiated after 1988.

### RECOMMENDATIONS

On the basis of these findings, we recommend that DoD (1) promote centralized programs to help local managers prepare better PWSs and MEOs; (2) advocate itemizing certain employee-related transition costs not explicitly recognized in current A-76 cost comparisons; (3) advocate changes in FWS procedures to more closely align civil service wage rates with levels paid by contractors; and (4) take advantage of the multiyear length of most A-76 studies and use the model developed to predict and prepare for eventual displacements.

*RAND research briefs summarize research that has been more fully documented elsewhere. This research brief describes work done for the National Defense Research Institute; it is documented in Outsourcing of DoD Commercial Activities: Impacts on Civil Service Employees, by Al Robbert, Susan Gates, and Marc Elliott, MR-866-OSD, 1997, 137 pp., \$15.00, ISBN: 0-8330-2521-X, and is available from RAND Distribution Services (Telephone: 310-451-7002; FAX: 310-451-6915; or Internet: order@rand.org). Abstracts of all RAND documents may be viewed on the World Wide Web (<http://www.rand.org>). Publications are distributed to the trade by National Book Network. RAND is a nonprofit institution that helps improve public policy through research and analysis; its publications do not necessarily reflect the opinions or policies of its research sponsors.*

### RAND

1700 Main Street, P.O. Box 2138, Santa Monica, California 90407-2138 • Telephone 310-393-0411 • FAX 310-393-4818  
1333 H St., N.W., Washington, D.C. 20005-4707 • Telephone 202-296-5000 • FAX 202-296-7960