

Implementing A-76 Competitions

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Implementing A-76 Competitions

Lessons Learned From DoD Experiences

As part of the Outsourcing Options study, N4 asked CNA to look across the services and DoD agencies to evaluate different practices and lessons learned in implementing A-76 procedures [1, 2]. Earlier work suggested that big savings are possible if the Navy chooses to start large-scale competitions. Since OMB is revising—rather than withdrawing—its A-76 policies, CNA focused on how the process could be streamlined to maximize savings.

Findings

- **The existing process has yielded large, permanent savings**
 - 30% savings, on average
 - In-house bidders win about half the time
- **The question is how to make the process more user-friendly**
 - Build on successes and avoid pitfalls
- **Incentives are the most important part of the process**
- **Process should be equitable**
 - Promote fair comparisons between public and private
 - Ease the transition for in-house workers

We have focused on how to improve a cumbersome process, but it's important to remember that the existing process has yielded real and permanent savings [3, 4]. The goal is to make the process easier to use (while ensuring fairness) so that even greater savings can be realized.

Incentives are the most important part of the process, but they are easy to overlook. Many of the rules and procedures have been used as foils by reluctant base managers. Base managers may be reluctant because the local sites do not get to keep the savings and they must endure a disruptive process and sacrifice resources for the study. Letting local sites keep a fraction of the savings for a limited time could do as much to streamline the process as many of the other actions we propose. Base managers must have the incentive, as well as the tools, to maximize efficiency.

Summary

- Evidence
- Top-level actions
- Streamlining the process
- Best contracting practices
- Working with workers

In this brief, we first review the evidence of competition savings found across DoD. We then discuss what role senior Navy leadership can play in easing implementation, as well as specific ways to streamline the process. We also suggest best contracting practices. Finally, we touch on employee transition issues.

Evidence

- **CNA analysis of Navy data**
 - 30% average savings
 - Half of competitions won by in-house team
 - Some cases of no savings
 - Savings persisted over time
 - Greater savings (50% on average) from competing military functions
- **Other studies show similar savings**
 - LMI, RAND, Brookings, and others
- **CNA analysis of DoD data is consistent**

This is not a new process. Many researchers have documented the savings that come from competing work. (A review of this literature and additional references can be found in [3 through 10].) Competition provides two things. First, it provides cost visibility—people see (often for the first time) what it costs to provide a function. Second, it offers alternative providers. As these alternative providers compete to reduce costs and improve quality, they incorporate new technologies and methods.

Some are surprised that savings accrue even when the in-house team wins, but the savings are real. The in-house team's "bid" is actually a chance to reorganize the way work is performed, and is called a Most Efficient Organization, or MEO. An activity does lose billets when an MEO is implemented. (We use the term billets generically to apply to civilian positions or full time equivalents (FTEs) as well as military billets.)

Large-scale savings are possible if Navy commercial activities are competed, since roughly 200,000 Navy personnel (civilians and military) are performing commercial functions. Thus we focus on how to increase the scale and scope of the commercial activities program. Past problems and successes can serve as lessons learned for improving new studies.

All Services/Agencies See Savings

Service/agency	Completed competitions	Baseline civilians	Baseline military	Total annual savings (FY96 \$m)	Percentage savings
Army	510	23,191	4,853	470	27%
Air Force	733	17,495	8,603	560	36%
Marine Corps	39	1,107	157	23	34%
Navy	806	20,729	4,821	411	30%
DoD agency total	50	1,029	5	13	28%
Grand total	2,138	63,551	18,439	1,478	31%

Source: The DoD CA Competition Data (1978-1994) and CNA savings estimates.

There have been more than 2,000 A-76 full-scale competitions. (Direct outsourcings and simplified competitions are not part of these data.) These competitions were between 1978 and 1994, with most during the 1980s. A moratorium on competitions in 1992 effectively killed the DoD program. Only the Air Force started new competitions after the moratorium was lifted.

Whether the in-house team or contractor wins, the savings seem to come primarily from using fewer people to do the same job, rather than from using less expensive personnel.

Each service has had some very successful competitions but also some failures or disruptions. Many of the failures can be traced to badly written performance work statements or to using sealed-bid competitions that mandated the use of the lowest bidder.

These failures get the attention, but they are the exception, not the rule. Many in DoD report good working relationships with contractors, in part because mechanisms ensuring responsiveness can be added to contracts (e.g., guarantees, warranties, and award fees) and unqualified bidders can be eliminated.

Larger Competitions Seem To Provide Bigger Savings

Number of billets	Competitions	Percent savings
1 to 10	857	22%
11 to 30	728	28%
31 to 50	212	31%
51 to 75	115	27%
76 to 100	67	32%
101 to 200	88	29%
over 201	71	35%
Total	2,138	31%

Source: The DoD CA Competition Data (1978-1994) and CNA savings estimates.

Although the difference is small, it does appear that larger competitions result in slightly higher percent savings. Because the savings come from using fewer people, larger competitions permit the most flexibility in how people are used. If base operations are combined into one contract, for example, the person who mows the lawns in the morning can paint buildings in the afternoon.

Interestingly, most full competitions are for activities involving fewer than 11 billets. Yet full competitions are not currently required for these small functions. These full competitions may have been done on the small functions because of old regulations, statutory limitations placed in the appropriation bills, perceived regulations, DoD policy, or a predisposition by managers to fragment functions (with the intent of increasing in-house competitiveness), or because the standardized process of a full competition is easier to defend.

What is clear is that the OMB A-76 program has yielded real savings. What process changes would encourage large-scale use of this program?

Top-level Actions

- **Incentives are crucial**
 - A fraction of savings, FITREP, support
- **Have top leaders communicate importance**
- **Make reprogramming money easier**
- **Establish an Outsourcing Office**
 - Clearing-house for template contracts, PWSs
 - Tiger teams to go to the field and aid implementation

Base commanders have the best information on what can and should be competed, yet they have almost no incentive to hold competitions. Their employees and function managers may view CA competitions as a threat to their jobs and work actively to delay the process. Thus, many commanders view competitions as time-consuming and disruptive to normal operations. What's more, their bases receive little if any of the savings that result, and the necessary reprogramming of funds (e.g., from MPN to O&MN if the contractor wins a formerly military function) may never show up at the base level. Thus, the base commander sees little reason to promote more efficient operations through CA competitions.

The process can be streamlined, and a CNO executive decision to compete would help tremendously, but to really kick start the competitions, the base commander needs better incentives. To increase the reward for the commander, let the base have a fraction of the savings for a limited time. It would also help to include A-76 management in the commander's FITREP.

A-76 competitions will be more successful if they are seen as a normal part of base management, and not as an added burden with no reward. In addition, the Navy could establish an Outsourcing Office to help implement the competition process. This office could promote additional A-76 training, review product work statements, provide tiger teams to supplement onsite personnel, and distribute cost comparison software and template performance work statements and contracts. By establishing this clearing-house, the Navy could bring together knowledge existing in different field activities, and the individual sites would not have to develop their own A-76 experts.

Current Process

- **No comparison is required for fewer than 11 employees**
 - A study is often done anyway
- **A simplified cost comparison is allowed for 11 to 50 employees**
 - The simplified process doesn't save much time
- **Independent review by Naval Audit Service**
- **Generally takes about 2 years**

Under current policy, small activities (involving fewer than 11 full-time equivalent employees) can be directly outsourced if the contracting officer can obtain fair and reasonable prices. Yet these activities are often competed anyway. Within the Navy, more than 50 percent of past competitions were for small functions which produce relatively little savings. Only 6 percent of total Navy savings were produced by these small competitions.

Despite their name, simplified cost comparisons aren't much simpler. Most of the time involved in A-76 studies is controlled by Federal acquisition regulations. Writing the performance work statement (PWS), for example, must be done for any outsourcing initiative.

A-76 rules require an independent verification of the process. The Navy uses its audit service. The Air Force, on the other hand, has its local financial management staff verify the process. The Air Force's method is appealing because it takes less time and evokes less resentment from local sites. Some would argue, however, that using the audit service avoids future protests and disputes. Unfortunately, it's difficult to evaluate that claim.

The competition process generally takes 2 years. The Air Force's most recent competition took 16 months, and the Navy is working to streamline its process as well.

When Isn't an A-76 Study Required?

- **Emerging requirements**
- **Eliminated or re-engineered function**
- **Military functions**
- **If a waiver is granted**
- **Functions now performed by another DoD component**

Even though there are many cases that are not subject to the A-76 process, it is often implemented anyway for many of the same reasons that small functions (with less than 11 civilians) are competed. For example, statutory limitations are sometimes placed in the appropriation bills, and DoD policy is sometimes more strict.

An A-76 competition is not required if the commercial activity was never in-house to begin with. The Navy is investing in things such as new child care facilities, hazardous material handling sites, and family housing units. Encouraging base commanders to contract for those services immediately avoids the time and expense of trying to compete that work later.

Similarly, re-engineering functions in a way that eliminates a requirement may not require an A-76 study. For example, by implementing direct vendor delivery of pharmaceuticals and food, DLA effectively eliminated the requirement for some of its warehousing function. The Office of Personnel Management is privatizing its background investigation operations without an A-76 study, by agreeing to no longer perform that function.

When Isn't an A-76 Study Required?

(Cont.)

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- **Eliminated or re-engineered function**
- **Military functions**
- **If a waiver is granted**
- **Functions now performed by another DoD component**

By working with OMB, the Navy may be able to do the same for small functions (such as eyeglass manufacturing) or for large functions (such as galley operations) across the Navy. However, the Navy is subject to restrictions in its appropriations bill that OPM was not subject to, and OMB has not clearly defined the distinction between privatization and outsourcing.

Military functions can be directly outsourced without an A-76 study. Nevertheless, the services may choose to perform one anyway. The most recent Air Force competition was for a maintenance function performed by about 1,400 military personnel and 30 civilians.

Waivers can be used to outsource directly, but they have not been used extensively because a cost comparison is also required by the DoD appropriations bill (not necessarily an A-76 competition). The Navy could focus on waivers for activities where in-house cost information is already available, such as Defense Business Operations Fund (DBOF) activities. The Navy can also explore less burdensome types of competitions when A-76 does not apply or can be waived.

Finally, Navy functions obtained from another component of DoD may convert directly to contractors without a cost comparison. (As of 1996, Circular A-76 requires competitions when the function is provided by another Federal department or agency).

Making the Navy CA Program More Successful

- **Increasing the number of competitions**
- **Increasing the scope of competitions**
 - “Bundling” functions
- **More/better training**
- **Speeding up individual comparisons**
- **Making each competition more effective**
- **Leveling the playing field**
- **Using better contracting methods**
- **Easing the pain**
 - Informing and involving workers
 - Transition issues

There are many ways to improve the process. One is to increase the number of competitions, and another is to increase their scope. Rather than having, say, six different small competitions at a particular base, the base could run a single competition for all or combine like functions across bases.

Alternatively, each study can be improved and sped up. You can also level the playing field because the current procedures slightly favor the in-house team. Lastly, you can ease the pain of worker disruption during the study and during implementation of the study decision. We'll examine each of these measures in more detail.

Increasing the Number of Competitions

- **Incentives, incentives, incentives**
 - Let local sites have a fraction of the savings for a limited time
 - Make efficiency and rightsourcing part of the CO's FITREP
- **Scrub functions currently exempted**
 - Inherently governmental, canceled competitions, RDT&E, and reason codes
- **Make competitions routine**
 - Part of normal personnel reassignments
 - Continual training for all managers

There can be a lot of local resistance to competition. Often, the rules themselves have been less of a problem than the way those rules are applied. Local officials can make impediments of the rules if they see nothing to gain and everything to lose from the process. As we discussed earlier, the right incentives can change this.

Each site identifies which functions are commercial and which are exempt from competition. There are wide variations both within and across the services. The same function may be considered inherently governmental at one base, exempted for training at another base, and outsourced at a third.

Sites can use "reason codes" to identify why they do not compete commercial activities. "National defense" and "rotation/career progression" are the most common reasons for keeping work in-house. Here again, different sites use these reason codes very differently. Many technical services are being "redefined as governmental," and so are not competed. The Navy should not allow commercial activities to be "redefined."

Many studies were canceled due to time limitations and moratoriums. Many of these may be good candidates to study again.

Increasing the Number of Competitions

(Cont.)

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The Air Force makes the competitions a regular responsibility of the personnel office. It also provides training to managers whether or not their function is currently under study. A-76 competitions and contract administration should be part of every management or contracting course.

The Army and Air Force have revamped their A-76 training courses. Both services are relying on commercially provided courses and software as part of their training efforts. These packages could be adapted by the Navy with little or no modification.

Increasing the Scope of Competitions

- **Scrub exempted functions here, too**
 - Governmental, RDT&E, reasons
- **Bundle work into multifunction competitions**
 - Combining functions into business units commonly found in commercial sector
- **Look within a region or major command**

In addition to increasing the number of competitions, it's important to increase the scope of each competition. In this way, the Navy can hold larger competitions, which tend to have larger savings. (However, larger competitions have historically taken longer than smaller ones).

To increase the scope of competitions, it's important to look at exempted functions. For example, the distinction between RDT&E (which is exempted by statute from A-76 competition) and RDT&E Support (which can be competed) is fuzzy. Different sites distinguish between the two differently. Removing the distinction (or, at least, defining it more clearly) could lead to new competitions.

The Defense Logistics Agency uses business case analysis to combine functions into units found in the commercial sector. This seems like a promising way to bundle functions together, because these units are more likely to receive multiple bidders when competed. Simply lumping unlike functions together may not lead to successful competitions with large savings.

Arranging competitions should be part of any regionalization efforts undertaken by the Navy. For example, since family housing can be spread among many sites within a given region, a single housing maintenance competition may be better than single site competition.

A-76 Training Objectives

- **Communicating the philosophy**
 - Commands, base commanders, functional managers
- **Managing the A-76 program**
 - Collecting inventory data and identifying candidates
- **Running the competitions**
 - PWS, MEO, and cost comparisons using software tools

Training courses play an important role in communicating a change in direction. They can also help managers implement the program appropriately and make them aware of new tools and techniques. Different ways of achieving these objectives are discussed on the next slide.

A-76 Training Courses

- **The Navy (CNET) has suspended its A-76 course but continues its PWS courses**
- **The Air Force uses contractor-provided courses**
- **The Army Management Engineering College (AMEC) conducts Army courses**
 - AMEC is privatizing
 - Incorporating commercial products and software as well
- **Classroom instruction can be supplemented with video and computer courses and written material**

The Navy has traditionally used in-house staff to train and advise prospective A-76 users. The Air Force is using two courses developed by Management Concepts Incorporated (MCI). These courses were modified by the contractor (at no charge) to fit Air Force requirements. Both Army and Air Force personnel have taken the MCI course, and reports are generally favorable.

The Army Management Engineering College has developed its own course. They are privatizing themselves and are relying on contractor support and software for their course.

Because an important part of the training is communicating philosophy, and because these courses have already been developed, the Navy should consider using these new options as it starts to ramp up A-76 competitions.

Speeding Up the Process

- **Incentives for study participants**
- **Generic work statements**
- **Automating PWS and MEO development**
- **Automating cost comparisons**
- **Changing the independent review**
- **Get the audit service out of the process**

Increasing the number and scope of A-76 studies is only part of the effort. A single study can take about 2 years, and some multifunction competitions have taken more than 5 years. Telling base COs that they can have a fraction of the savings for a limited time after a study has been initiated will encourage them to realize the savings as quickly as possible and better screen candidates.

But there were other problems as well. For instance, each new study effort was often started from scratch and did not build on the experiences of previous studies at other bases. In the past, there was no effective way for bases to share lessons learned.

Three of the study components that take the longest are preparing the performance work statement, developing the acquisition plan, and reviewing the proposals. Although a single site may not have contracted out a particular function before, other sites have. The Navy has developed a broad range of generic performance work statements. (These are currently available over the Internet at: www.usace.army.mil/organizations/usacpw/libraries/libraries.html. The Air Force is also distributing A-76 information over the Internet at: www.afcesa.af.mil/AFCESA/Contracts.) This effort can be expanded to cover all major functional areas and can be used to share other lessons learned as well. These generic statements could be tailored to fit the requirements of local sites, while saving the time and expense of starting from scratch.

For similar reasons, cost comparisons could be automated into a PC-based program. The Air Force developed such a program, called "COMPARE," and has sent copies to relevant Navy managers. This program should become a standard part of the A-76 study.

Speeding Up the Process

(Cont.)

- **Incentives for study participants**
- **Generic work statements**
- **Automating cost comparisons**
- **Automating PWS and MEO development**
- **Changing (automating) the independent review**
- **Get the audit service out of the process**

The Army uses software (FENYX) to help automate performance work statements and the MEO. The National Guard tested FENYX and has reported up to 70-percent reductions in the time to complete management studies. Much of the savings comes from automation and a work group environment where the PWS is developed without numerous drafts. This software, along with the cost comparison software, could help speed up the A-76 process, especially if the two steps can be integrated and automated together. Currently, the MEO data are manually loaded into the COMPARE software, even if the MEO was developed electronically.

As we mentioned earlier, the Air Force saves time by using local financial managers, rather than central auditors, to conduct the independent review. They also save time by having the COMPARE software approved as a valid method for all cost comparisons, so that the main source of concern during the independent review is the data entered into COMPARE rather than the methodology. Some would disagree, but we believe unnecessary audits send the wrong signal to Navy managers in the field.

Making the Playing Field Level

- **Eliminate the 10% cost advantage for the in-house team**
- **Eliminate in-house sunk costs**
- **In-house teams should conform to FAR and Cost Accounting Standards**
- **Establish a contract-like MOU when work stays in-house**
- **Specify a contract end-date no matter who wins**

Currently, for a function to be outsourced, the best contractor's bid (plus oversight costs) must be at least 10 percent (or \$10 million) below the in-house MEO. A 10-percent cost difference for a large function can be a great deal of money. (Transferring work does have hidden costs; however, contracting also has hidden advantages, such as greater flexibility, e.g., contracts can be canceled more easily than in-house personnel can be let go. Contracting out can also mean a smaller support structure.)

All costs that are incurred whether or not the contractor wins are sunk costs and should be ignored. Examples may include contract initiation costs that are incurred prior to the performance decision. Similarly, costs that the contractor incurs for performance beyond what the in-house team provides (such as additional quality control) should be excluded as well. Alternatively, those costs (and additional performance requirements) could be added to the in-house bid. For a level playing field, in-house bids should have the same accounting standards and other business practices as contractors.

Making the Playing Field Level

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Just as Navy managers want to prevent contractors from “buying in” (buy-in is avoided by recompeting the contract periodically), they should not let the in-house team buy in either. Currently, work that remains in-house cannot be recompeted for 5 years. In practice, that work may never be recompeted. One way to ensure accountability is to use a contract-like Memorandum of Understanding (or other Interservice Agreement). This document should specify the work to be performed (at what cost), establish penalties for nonperformance, and have a definite end-date. For example, the Indianapolis municipal government, (which has competed many functions, including water treatment facilities and airport operations), has used these agreements very successfully when its in-house workers have won competitions.

Best Service Contracting Practices

- **A good PWS**
- **Eliminate unqualified bidders**
- **Encourage competition (additional bidders)**
- **Best value**
- **Outsource contract management by bundling small functions**
- **Involve the base commander in contract decisions**

As explained in [11], there are two types of bid procedures: sealed bids and competitive negotiations. Sealed bid competitions are awarded based solely on the low bid. Competitive negotiations can use either a Low Price Technically Acceptable approach or a Best Value approach. The Best Value approach uses both cost and quality factors—as laid out in the solicitation—to evaluate proposals. Quality factors include technical approach, managerial capabilities, and past performance. Under the Best Value process, the government need not award to the low-price bidder.

The Navy has always been able to use competitive negotiations, but the Competition in Contracting Act (CICA) of 1984 encouraged sealed bidding. Competitive negotiations were to be the exceptions, not the rules. This premise was reversed by the Acquisition Streamlining Act of 1994 (and Executive Order 12931 which implements it), which encourages best value competitions [11].

The Navy can encourage private companies to bid by eliminating as many restrictions as possible and by bundling functions in a way that is most attractive to potential bidders. The Navy can also encourage participation by further distributing its requests for bids [11]. (Perhaps this is also something that could be made available over the Internet.)

What Happens to the Workers?

- **About 82% of Navy outsourced competitions resulted in some job loss**
- **Median number of displaced employees is 7**
- **About 38% of displaced employees found other federal jobs**
- **Only about 3% were hired by the winning contractor**

The Navy competition data identify what is expected to happen to displaced employees. Each site projects how many people will be displaced when a contractor wins a competition, but we do not know what actually happened. Unfortunately, no similar data are collected when work stays in-house, and recall that work stays in-house about half the time.

Most (82 percent) of competitions won by commercial suppliers were expected to displace at least one employee. Because most competitions have been fairly small, only a few employees were affected by the average competition. (There have, however, been cases involving hundreds of displaced workers.)

Only about 3 percent were expected to be hired by the winning firm. Navy A-76 experts confirmed that few people took a job with the contractor. At first, this seems surprising, because displaced workers receive a right of first refusal with the contractor. In other words, these workers receive priority when the new firm hires. Apparently, many workers preferred to (and were able to) remain in the civil service. Of course, federal jobs are harder to find today (due in part to the effects of recent base closures and realignments), so many more workers may be forced to pursue non-government employment.

Working With Workers

- **Training staff**
 - A-76 should be viewed as one tool available to managers
- **Continuous communication**
 - An Army report on lessons learned emphasized good communications
 - The human resources staff can help ease the transition

Earlier we mentioned the role of a training staff. The A-76 process should be viewed as one tool to manage base workload, and so training should go on even if no competitions are taking place.

Good communication is vital. One Army report [12] interviewed workers at sites where work stayed in-house. Many of the workers were surprised at the number of people laid off. They assumed that because the work stayed in-house, things would go on as usual. The Air Force managers we interviewed, and their Navy counterparts, echoed the importance of communication. Successful managers work with and communicate regularly with unions and employees (even when there is nothing to communicate).

Top-level managers need to communicate their support of the process. The Navy lost at least one contract appeal, partially because senior managers "acted in bad faith" by "conspiring to get rid of the contractor" [13].

Similarly, the human resource staff should be informed early in the process. They can delay new hirings as well as verify and implement the competition outcome.

Other Transition Ideas

- **The Army report also mentions the following:**
 - Rehire retired functional personnel to work on the study team
 - Develop a transition plan to the MEO even before a decision is made to stay in-house
 - Provide a “hot line” for personnel to call with ideas and questions
 - Contract with a psychological counseling firm early in the process
 - More hostility at the start than when the study was under way
 - Arrange for staff to receive training as soon as possible after the RIF

The Army report identified other ways to ease the transition. Some of these are ideas that they had implemented already (such as the hot line and hiring retired personnel). Others were things they wished they had done.

Conclusions

- **Current process yields savings**
 - But the process could be improved
- **Improvements include**
 - Increasing the number and scope of competitions
 - Changing cumbersome procedures
 - Using new tools and training
 - Making the playing field level
- **Communicating and working with affected employees is crucial**

The OMB Circular A-76 programs in DoD have yielded savings. They are one way (but not the only way) to improve shore operations and save money. We've touched on a number of different ways the process could work better. Implementing these suggestions will lead to more successful competitions.

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N4

N46

N80

N81

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