

AFIT/GCM/LAS/99S-4

PUBLIC-PUBLIC PARTNERSHIPS:  
DEVELOPMENT OF AN ALTERNATIVE  
OUTSOURCING METHOD DECISION  
MODEL

THESIS

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Presented to the Faculty of the Graduate School of Logistics  
and Acquisition Management of the Air Force Institute of Technology

Air University

Air Education and Training Command

In Partial Fulfillment of the Requirements for the  
Degree of Master of Science in Contracting Management

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July 1999

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## Acknowledgments

This research product is the result of the combined efforts of Captain Jack Nemceff and myself. In the beginning, we had both been pursuing separate thesis topics. With the thesis submission deadline fast approaching and each of us struggling to find the ever-elusive “missing link” concerning our research endeavors, we decided to form a partnership. As it turned out, our separate efforts to that point proved to be each other’s “missing link” to the constantly evolving project. Thank you Jack for your insights, friendship, and of course typing. It definitely made this journey more enjoyable.

I am also in debt to our advisor, LtCol Richard L’Heureux, and to our reader, Maj David Petrillo. LtCol L’Heureux was merciful with his direction and exacting with his schedule. Maj Petrillo was always there for advice on methodology. Without them, thesis completion and graduation may have eluded me.

Finally, I thank my lovely wife Deborah for pushing me to complete this thesis. Many weekends and nights were spent apart from each other to devote time to this endeavor. Now, after so many months of sacrifice, life can resume an element of normalcy.

Michael R. Hackman

## Acknowledgments

This research product is the result of the combined efforts of Captain Michael Hackman and myself. For many months, however, he and I had been working on separate thesis topics. With the thesis submission deadline looming on the horizon, each of us was concerned with our research progress. We decided to form a partnership. As it turned out, our separate efforts to that point proved to be the missing piece to the puzzle for which we were both searching. Thank you Mike for your insights, efforts, and friendship. And thank you for your humor. It definitely made this effort more pleasant.

I am also in debt to our advisor, LtCol Richard "Give'em Hell" L'Heureux, and to our reader, Maj David "Petro" Petrillo. LtCol L'Heureux was gracious with his guidance and demanding with his deadlines. Without him, procrastination may have bested me. Maj Petrillo was always there for topical advice and much needed consoling. Without him, I may have spiraled into a quagmire.

Finally, albeit most important to me, I thank my lovely wife Laura. She suffered more than I did throughout this endeavor. She selflessly took care of me and our two young sons: Patrik (2) and Nikolas (1). On countless occasions (including numerous weekends), she "entertained" our children so that I could work, in peace, on this project. My love, and respect, for her is boundless. Only she knows, however, how much it will cost me to make up the lost family time!

Jack L Nemceff II

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Abstract

The purpose of this research was to explore the phenomenon of public-public outsourcing partnerships as it may be employed by the DoD from a Federal Government perspective. Current outsourcing methods, guidance, and models are discussed as well as outsourcing related theories. Based upon the literature reviewed, a conceptual public-public outsourcing decision model is presented. A case study of the Brooks AFB initiative is then used to analyze the conceptual model.

We find the scope of current outsourcing models unduly limits the options available to decision-makers. Our analysis of the conceptual model with the Brooks AFB initiative yields an analytical public-public outsourcing decision model, which also depicts the overall process path along which a decision-maker will travel. This model improves upon previous models by explicitly allowing for the possibility of outsourcing some inherently governmental functions to other governmental entities, which may be at or below the Federal level. The end result is that decision-makers are now armed with an innovative decision-making tool that expands the envelope of opportunities to reduce base operations, support, and infrastructure costs.

# PUBLIC-PUBLIC PARTNERSHIPS: DEVELOPMENT OF AN ALTERNATIVE OUTSOURCING METHOD DECISION MODEL

## I. Introduction

### Chapter Overview

This chapter provides a top-level background of the current situation in which the Air Force, and the Department of Defense finds itself. It addresses the need to cut costs, especially with respect to base support functions and infrastructure, in order to modernize the force. In particular, attention is directed to current outsourcing policies, procedures, and initiatives.

The chapter also discusses the value of this research effort and the contribution it is intended to make to outsourcing decision-makers throughout the Department of Defense. The chapter concludes with a research problem statement, and the presentation of our investigative questions. The problem statement will establish the scope of the research effort. The investigative questions serve to focus our research effort so as to be able to provide some resolution to the problem under inquiry.

### Background

The Secretary of the Air Force (SECAF) has allocated \$500,000 to develop what is being termed the "Brooks Model" (Human Systems Center, 1998: 7). The Human Systems Center (HSC) at Brooks Air Force Base, Texas has been chosen to take the lead in the development of the next generation of acquisition initiatives concerning the outsourcing of base support functions. The goal is to develop and implement a new way

of “reducing significantly infrastructure costs while maintaining or improving the support for Department of Defense missions and personnel” (Human Systems Center, 1998:10).

The base awarded a contract to Science Applications International Corporation (SAIC) on 7 August 1998 to perform a study on the support functions which could be outsourced; either competitively to private sector firms, or to the City of San Antonio, Texas.

Furthermore, SAIC was tasked to provide a an implementation plan for their recommended approach to reduce the operating costs associated with each of the base’s support functions (SAIC, 1999: 1-1).

How can military installations meet mission requirements while being subjected to continuous budget cuts? This is a question government and military leaders have been grappling with since the collapse of the Soviet Union and the end of the Cold War. The end of the Cold War brought about a perceived need to decrease the military budget and shift those appropriations to other government programs. This perception has been coupled with the perception that outside solutions (i.e., performance by private sector firms) are more cost effective than performance by in-house organizations.

There have been a number of programs initiated to make the force fit the budget. One program was to provide incentives to uniformed personnel to voluntarily separate from the service. Fewer members equate to smaller payroll and fewer support personnel, thus less money expended. Another measure was the establishment of the Base Re-Alignment and Closure Commission (BRAC) to determine which military installations should be closed. Fewer bases equals less operating expenditures. Again, the idea of *fewer is better* prevails.

During this draw-down of personnel and installations, the notion of outsourcing and privatization gained momentum. Although the primary tool to initiate outsourcing and privatization, the A-76 Study, has been around since 1955 (Bjtlich and Hickman, 1996:30), the armed forces began using it more frequently during the 1980s (Defense Science Board, 1996:43). The outsourcing and privatization measures have met with limited success.

Statutory restrictions have played a factor in this limited success. These restrictions have limited "what functions are subject to the A-76 process, who has the authority to initiate an A-76 review, and how much time may be taken to complete the reviews. Timelines, up-front costs, and reporting requirements have also discouraged A-76 actions" (Defense Science Board, 1996:43). Other factors that cloud the success of outsourcing and privatization matters can be broken down into three major categories: accounting for savings, cost growth problems, and managerial concerns.

Cost growth problems fall into five types: statutory wage rate increases, changes in contract requirements, deficiencies in written statements of contracting requirements, poor contract administration and surveillance, and lack of competition for contracts (Snyder, 1995:43-50). Some of these problems are a direct result of limited experience on the part of government contracting personnel, while others are perpetuated by outside agencies (Department of Labor) or unforeseen circumstances (i.e. military conflict, reorganization, BRAC, etc.).

The managerial concerns highlight the following four issues: lack of contracting authority and control of resources, reduced flexibility, the profit motives of contractors, and potential corruption (Snyder, 1995:51-59). While these concerns are valid, they

seem to promote an adversarial relationship. It comes down to a matter of trust; the government must trust the contractor and the contractor must trust the government. Unfortunately, there are often procedural and experiential factors impeding trust formation and development.

### Research Contribution

Optimally, it is hoped this research will produce an infrastructure blueprint that will facilitate process improvements that could ultimately improve the way the Air Force operates its military installations. This research will facilitate the improvement of base operating efficiencies by expanding the outsourcing options available to decision-makers. Prior to this research effort and the SAIC study conducted at Brooks AFB, decision-makers have been confined to outsourcing functions, deemed to be commercial activities, to private sector firms. This research will assist decision-makers in identifying functions, deemed to be inherently governmental, which can be outsourced to other public sector entities. Thus, it may be possible for bases, in the future, to form partnerships with local governments. As a result, instead of classifying functions as cost centers, the Air Force may be able to designate some as revenue centers. By having revenue generation in some functions, the Air Force would be able to offset the decreases in the yearly defense appropriations bills and maintain a viable, technologically superior force.

The minimum benefit of this research will be to identify a new way for DoD to reduce the expense of installation operation. Some of the opportunities may be spelled out in the Brooks Model. These opportunities include “out granting of space, raw land development, utilities privatization, commercial hotel, and develop military family housing alternatives” (Human Systems Center, 1998:7). It will take years and money to

determine fully if the Brooks Model warranted the time, effort, and money used in an attempt to find an alternative to standard outsourcing and privatization initiatives. The Brooks Model will be given every opportunity to succeed. The Secretary of the Air Force (SECAF) designated Brooks AFB as a "Reinvention Laboratory" (Human Systems Center, 1998:11) and provided \$500,000 for the initial study.

It is time to look towards a new way of meeting the goal of decreasing military expenditures while maintaining the most formidable and mission capable military force in the world today. The primary mission of the armed forces to protect this country's national interest has not changed, but how the military accomplishes this mission seems to be changing. The armed forces are looking for more cost effective approaches to offset changing environmental conditions. Outsourcing and privatization measures under the A-76 study strategy can only do so much. The city-base concept may not be the singular answer for all our efficiency concerns, but it may prove to be another step in accomplishing this goal.

#### Problem Statement

The DOD operates in an environment of budget uncertainty. Even with promised additional resources, top-level DOD officials are looking to infrastructure reform initiatives as a mechanism for cutting operations and support cost (O&S). The savings are intended for use in weapons modernization.

The problem, until now, has been that support and infrastructure cost reduction initiatives have been limited by the OMB A-76 guidance regarding the outsourcing of commercial activities to private sector firms. Essentially, until now, once a function was deemed to be inherently governmental or a core activity, the outsourcing effort was

terminated. No alternative outsourcing option for inherently governmental or “core” activities was available to the decision-maker.

Despite the apparent lack of outsourcing alternatives, Brooks AFB is considering an innovative outsourcing initiative. It seeks, in part, to form a partnership with the City of San Antonio. As part of this initiative, San Antonio would provide for some of the base’s support functions (e.g., fire protection and police services). Other functions would be outsourced using the traditional A-76 process.

The intent of this research is to explore alternative methods of outsourcing base support functions. We believe that by conducting a scientific exploration, and examination, of alternative outsourcing options, future decision-makers will be better equipped to tackle the challenge of reducing base operating costs.

#### Investigative Questions

Investigative Question 1. “What outsourcing option(s) are available to the Federal Government (e.g., the Department of Defense)?”

Investigative Question 2. “Under what circumstances can, or should, the different outsourcing options be considered?”

Investigative Question 3. “Do the differences between outsourcing options require the use of a different outsourcing decision model?”

Investigative Question 4. “Is there currently a decision model available, and applicable, to the Federal Government that can be used when making decisions concerning the initiation of public-public outsourcing partnerships?”

Investigative Question 5. “What would a decision model look like that could be used by the Federal Government when evaluating functions, which are not commercial activities available for outsourcing, but which may be performed by other governmental agencies (i.e., public-public partnerships)?”

### Summary

This chapter provided an overview of the current status of the Department of Defense’s budget-constrained operating environment. It also discussed how DoD officials are searching for ways to reduce base support and infrastructure costs in order to alleviate some of the budgetary pressures from force modernization plans. As part of the cost reduction effort, the DoD is relying heavily upon the outsourcing of commercial activities to private sector firms.

Some decision-makers in Congress, the DoD, and the Air Force believe the current budget-constrained environment calls for innovative alternatives to traditional outsourcing solutions to be found and implemented. Brooks AFB has answered this call by studying the feasibility of establishing a service-provider partnership with the City of San Antonio.

The political pressure to reform our acquisition processes, and the budgetary pressures which constrain the DoD’s modernization plans, establish the necessity to explore and expand the cost-reducing methods at our disposal. We believe that by answering our investigative questions, decision-makers will be armed with a more comprehensive arsenal of cost-reduction options.

## II Literature Review

### Chapter Overview

This chapter is intended to provide a basis of knowledge, from which the investigative questions can be answered. The chapter begins with outsourcing fundamentals. In this section, the objectives of outsourcing are discussed along with the advantages and disadvantages of outsourcing functions once provided internally. Following this section is a discussion of the current outsourcing guidance available to DoD outsourcing decision-makers. The discussion, in this section, begins with an overview of the government's responsibility to protect the public interest. It then addresses the scope of, and concerns related to, the OMB Circular A-76.

The chapter's focus then moves to transaction cost and partnership issues, which should be of concern to decision-makers during the outsourcing decision process. A review of Transaction Cost Economics (TCE) theory is presented along with a critique, and elaboration, of the theory. A brief discussion of how these theories may be applied to DoD outsourcing decisions is then presented. Following the discussion on the application of the TCE theory to the DoD is a discussion on synergy and partnerships that result from outsourcing arrangements.

The remainder of the chapter addresses outsourcing decision models. Current outsourcing decision models are identified along with the limitations placed upon decision-makers by the models. In the final chapter of the section, a conceptual decision model is presented which addresses the decisions that, according to the outsourcing literature, a decision-maker should consider when contemplating a public-public outsourcing arrangement.

## Outsourcing Fundamentals

Increasingly, firms in the private sector are evaluating alternative means of reducing costs and enhancing competitiveness. Beyond streamlining internal processes, firms have increasingly turned to the “make or buy” decision (i.e., outsourcing). However, some warn that all too often, “outsourcing decisions are based exclusively on a single motivating factor (e.g., cost)” (Grover and Teng, 1993: 34). Furthermore, when “low-cost service delivery alone is the criterion for contracting out,” says Prager and Desai, it “may lead to woefully inappropriate policy decisions by failing to distinguish between cost and efficiency or productivity criteria” (1996: 189).

In addition to cost reduction, the following objectives of outsourcing must be considered:

Improving business focus by reducing management resources and attention spent on non-core activities and freeing them for use in core areas;

Gaining access to the world-class capabilities (including investments in technology, methodologies, and people) of firms whose core competency is to provide the outsourced activity;

Accelerating re-engineering efforts to reduce cycle times and improve quality by having a provider that is already re-engineered to world-class standards take over the process;

Sharing risk by pooling investment costs in the outsourced technology made by the provider on behalf of multiple clients;

Reducing operating costs by contracting with a provider that can achieve economies of scale or other cost advantages based on specialization;

Converting capital investment in non-core business functions into operating expenses, and targeting capital funds on core areas; and

Gaining better control over a function currently being provided in-house that is not meeting performance goals or customer expectations. (Pint and Baldwin, 1997: 25)

Consideration of the above objectives will facilitate achievement of the following advantages of outsourcing: 1) Convert fixed costs to variable costs, thereby providing flexibility in an economic downturn; 2) Balance work force requirements; 3) Reduce capital investment requirements; 4) Reduce cost via suppliers' economies of scale and lower wage structures; 5) Accelerate new product development; 6) Gain access to invention and innovation from suppliers; 7) Focus resources on high value-added activities (Welch and Nayak, 1992: 23).

While outsourcing may assist an organization in achieving the aforementioned advantages, the organization must be cognizant of the notion of corporate strategic risk. This concept can be defined as "corporate strategic moves that cause returns to vary, that involve venturing into the unknown, and that may result in corporate ruin -- moves for which the outcomes and probabilities may be only partially known and where hard-to-define goals may not be met" (Baird and Thomas, 1985: 231). Thus, before an organization commits itself to an outsourcing decision, it must realize there is a "danger in applying the classical cost-oriented make-or-buy decision process; i.e., basing sourcing decisions primarily on cost, with insufficient regard for strategic imperatives" (Welch and Nayak, 1992: 25).

One impact that outsourcing may have on an organization's strategic risk level, and its strategic imperatives, is related to the issues of control and flexibility.

Contracting creates a gap in the direct chain of authority between decision-makers and program results. It replaces old problems with new ones...It imposes costs, especially in monitoring, that make the transaction more expensive. Such transaction costs, in turn,

reduce the efficiency of the competition prescription. (Kettl, 1993: 29)

The issue of monitoring will be discussed below. However, it can be said that if an activity is closely associated with an organization's strategic imperatives, the organization may choose not to outsource the activity.

Another issue that arises which may affect an organization's strategic risk level, and its strategic imperatives, relates to the relational governance structure discussed in the section on TCE theory. When an organization moves from hierarchy to one of the hybrid, or intermediate, forms of governance, it must consider the issues associated with creating buyer-supplier partnerships. This too will be discussed in more detail in a subsequent section. However, it has been observed that

The very nature of command and control changes as partnerships replace clear hierarchies. Long-term relationships govern these partnerships. They are relationships based on mutual trust and are disciplined by a common concern about reputation and by the availability of alternative sources and customers if expectations are not realized. (Camm, 1996: 42)

Principal-agent theory discusses these issues and others related to transactions governed by contracts. Kettl uses principal-agent theory to discuss the contracting relationship that arises as a result of outsourcing and the formation of public-private partnerships. He argues that organizations must consider monitoring arrangements and their concomitant costs. These arrangements and their costs are directly associated with Williamson's notion of opportunism. He notes, "Principals must try to find a balance between the level of shirking they can tolerate and the amount they must pay in monitoring costs to achieve that level" (Williamson 1993: 25).

The principal-agent literature uses the phrase moral hazard to describe a situation wherein one party (typically the agent) has more information than the other (typically the principal). Thus, when making the outsourcing decision, organizations in the principal role need to consider the issue of information asymmetry and its related affect on the monitoring arrangements employed to ensure success.

Another issue raised in the principal-agent literature is adverse selection. This describes a situation in which the principal chooses a partner that cannot (or will not) perform as promised. One way in which this occurs is when the agent misrepresents its ability to perform (and/or the principal was unable to adequately ascertain the agents ability during source selection).

The principal-agent literature, like that of TCE, suggests the use of incentives and safeguards to counterbalance these potential problems. The principal-agent literature focuses primarily on *ex ante* incentives as a means of aligning the interests of both parties. The term, *ex ante*, refers to incentives used prior to the selection and award of a contract. TCE primarily emphasizes *ex post* safeguards as means of mitigating the risks associated with supplier opportunism. The term, *ex post*, refers to those controls placed over a contractor after award of a contract, and to the penalties that may be imposed upon the supplier.

#### A-76 Studies

Our attention in this section turns toward the Federal Government's outsourcing guidance and processes. Having discussed outsourcing fundamentals and issues of concern to outsourcing decision-makers, we now consider how these fundamentals and issues relate to the roles and responsibilities of the Federal Government with respect to its

outsourcing efforts. This section concludes with a discussion of the limitations of A-76 and concerns related to A-76.

Government Actions and the Public Interest. The discussion thus far has been general in nature, and rooted in literature concerned primarily with outsourcing decisions made by private sector firms. This section turns to outsourcing as employed by the Federal Government (in particular, by the DoD). Thus, it is necessary to first discuss the unique nature and responsibilities of the Federal Government (and DoD).

Perhaps the most significant difference between private sector firms and the Federal Government, with respect to the issue of outsourcing concerns the Government's responsibility to provide "inherently Governmental functions." The Federal Acquisition Regulation (FAR) provides guidance on what is considered an inherently Governmental function. It states

Inherently governmental function means, as a matter of policy, a function that is so intimately related to the public interest as to mandate performance by Government employees. This definition is a policy determination, not a legal definition. An inherently governmental function includes activities that require either the exercise of discretion in applying governmental authority, or the making of value judgments in making decisions for the Government. Governmental functions normally fall into two categories: the act of governing, i.e., the discretionary exercise of Government authority, and monetary transactions and entitlements.

- (a) An inherently governmental function involves, among other things, the interpretation and execution of the laws of the United States so as to—
- (1) Bind the United States to take or not to take some action by contract, policy, regulation, authorization, order, or otherwise;
  - (2) Determine, protect, and advance United States economic, political, territorial, property, or other interests by military or diplomatic action, civil or criminal judicial proceedings, contract management, or otherwise;
  - (3) Significantly affect the life, liberty, or property of private persons;

- (4) Commission, appoint, direct, or control officers or employees of the United States; or
  - (5) Exert ultimate control over the acquisition, use, or disposition of the property, real or personal, tangible or intangible, of the United States, including the collection, control, or disbursement of Federal Funds.
- (b) Inherently governmental functions do not normally include gathering information for or providing advice, opinions, recommendations, or ideas to Government officials. They also do not include functions that are primarily ministerial and internal in nature, such as building security, mail operations, operation of cafeterias, housekeeping, facilities operations and maintenance, warehouse operations, motor vehicle fleet management operations, or other routine electrical or mechanical services. The list of commercial activities included in the attachment to Office of Management and Budget (OMB) Circular No. A-76 is an authoritative, nonexclusive list of functions which are not inherently governmental functions. (FAR 7.501, 1999)

Therefore, when the Federal Government contemplates outsourcing, it must first determine whether the activity has been, or should be, regarded as an inherently governmental function. With respect to outsourcing decisions made by the DoD, it must consider not only whether a function is inherently governmental, but also whether the function is a national defense activity (see definition in Table 1).

Some have observed that as a result of the Government's unique role, it must consider issues that do not directly affect or constrain private sector organizations. While efficiency is a common concern of both Government and private sector firms, it "is one, but only one, goal of a government operating in the public interest" (Kettl, 1993: 6). Other criteria that shape the public interest include: efficiency, effectiveness, capacity, responsiveness, and trust and confidence (Kettl, 1993: 17-19).

With respect to the criteria of effectiveness, capacity, and responsiveness, the Government should be aware of what has been called the "hollow organization." First

introduced by *Business Week* in 1986, the term describes “an organizational form that replaces internal production with a network of subcontractors” (Crawford and Krahn, 1998: 108). When applying the concept to Governmental units, the term “hollow state” has been used. The key point for the Government to consider is that, although outsourcing functions may have positive efficiency results, it may have negative impacts on effectiveness, capacity, and responsiveness.

With respect to the criteria of trust and confidence, Government personnel should remember that

Despite the enthusiasm for entrepreneurial government and privatization, the most egregious tales of waste, fraud, and abuse in government programs have often involved greedy, corrupt, and often criminal activity by the government’s private partners—and weak government management to detect and correct these problems. (Kettl, 1993: 5)

This highlights the need to assess the proclivity of the Government’s potential outsourcing partner to behave opportunistically. Additionally, the Government needs to devise and implement a monitoring strategy with safeguards appropriate for the particular outsourcing arrangement.

In their final analysis of the TCE and business management literature, Pint and Baldwin state that both “asset specificity and core competencies seem to be important concepts for the Air Force to consider in its outsourcing decisions” (Pint and Baldwin, 1997: 73). The business management literature suggests that core competencies can be considered as 1) two or three activities that are most critical to the organization’s future success, or 2) organizational skills and knowledge that are difficult to duplicate and create unique sources of value (Pint and Baldwin, 1997: 23). For our purposes in this

research, Air Force (or DoD) core competencies are considered to be military essential functions as defined in Table 1.

**Table 1. A-76 Terms and Definitions**

Term	Definition
Commercial activity	"A commercial activity is the process resulting in a product or service that is or could be obtained from a private sector source (OMB Circular A-76 Revised Supplemental Handbook: 1996)."
Core capability	"A core capability is a commercial activity operated by a cadre of highly skilled employees, in a specialized technical or scientific development area, to ensure that a minimum capability is maintained (OMB Circular A-76 Revised Supplemental Handbook: 1996)."
Inherently governmental activity	"An inherently governmental activity is one that is so intimately related to the public interest as to mandate performance by Federal employees (OMB Circular A-76 Revised Supplemental Handbook: 1996)."
Interservice Support Agreement (ISSA)	"The provision of a commercial activity, in accordance with an interservice support agreement, on a reimbursable basis (OMB Circular A-76 Revised Supplemental Handbook: 1996)."
National defense activity	"A national defense activity is a commercial activity that is approved by the Secretary of Defense, or designee, as being subject to deployment in a direct military combat support role (OMB Circular A-76 Revised Supplemental Handbook: 1996)."
Military essential function	"A function which must be performed by a uniformed member of the Air Force rather than a Federal employee or civilian contractor. The following are various justifications for HQ USAF classifying a function as military essential: Those positions that directly contribute to the prosecution of war (combat or direct combat support), are required by law, are required by law, are military due to custom or tradition, are needed for career viability and overseas rotations, or require a skill not available in the private sector (Outsourcing Guide for Contracting: 1996)."

**Table 1. A-76 Terms and Definitions (continued)**

Term	Definition
Privatization	"Privatization is the process of changing a public entity or enterprise to private control or ownership. It does not include determinations as to whether a support service should be obtained through public or private resources, when the Government retains full responsibility and control over the delivery of those services (OMB Circular A-76 Revised Supplemental Handbook: 1996)."
Recurring commercial activity	"A recurring commercial activity is one that is required by the Government on a consistent and long term basis. This definition does not imply an hourly, daily, monthly or annual requirement, but must, in a general sense, be repetitive in nature, wherein the expected workload can be reasonably estimated (OMB Circular A-76 Revised Supplemental Handbook: 1996)."

All of the above considerations are important to Government personnel charged with the responsibility for outsourcing decisions. Unfortunately, there is a limited amount of official and practical guidance available to those decision-makers. The majority of the existing guidance is contained in the OMB Circular A-76 Revised Supplemental Handbook (March 1996), OFPP Policy Letter 92-1 (September 1992), and the AFLMA Outsourcing Guide for Contracting (June 1996). The two following sections will discuss some of the limitations and concerns related to the A-76 guidance.

Limitations. The OMB Circular A-76 is not directly applicable to services and situations for which Public-Public partnerships may be warranted. The "Revised Supplemental Handbook" to the OMB Circular A-76 does state, however, that the "reinvention" of Government must take into consideration a wide range of alternative options for meeting the Government's needs.

The reinvention of Government begins by focusing on core mission competencies and service requirements. Thus, the reinvention process must consider a wide range of options, including: the consolidation, restructuring or reengineering of activities, privatization options, make or buy decisions, the adoption of better business management practices, the development of joint ventures with the private sector, asset sales, **the possible devolution of activities to State and local governments** [emphasis added] and the termination of obsolete services or programs. (OMB Circular A-76 Revised Supplemental Handbook: 1996)

However, in the sentence that follows the above citation, it says “In the context of this larger reinvention effort, the scope of this Supplemental Handbook is limited to the conversion of recurring commercial activities to or from in-house, contract or ISSA performance (OMB Circular A-76 Revised Supplemental Handbook: 1996).”

Concerns. A key concern of some A-76 critics has been that the Government relies solely on the cost criterion in making outsourcing decisions. For more on this critique, see the discussion below on current outsourcing models.

Another concern has arisen as a result of GAO findings. According to Kettl, the Federal Government has

dramatically expanded its reliance on private contractors for a host of support services....Some of these services were ‘inherently governmental’ in nature, according to GAO, which meant that private contractors were exercising government’s core powers and basic management decisions. (Kettl, 1993: 12)

This, in itself, appears to be sufficient justification for a decision model that better guides decision-makers through the process of determining when and which functions are appropriate candidates for public-public partnership arrangements. A decision model which explicitly provides outsourcing alternatives (i.e., public-public partnerships) would

assist decision-makers who are often under considerable pressure to outsource support functions in order to save money and meet mission objectives.

A concern relevant to both public-private, and public-public, outsourcing arrangements is related to the governance structure erected to facilitate the transaction. It has been said that

Government's growing reliance on its partners in the private and nonprofit sectors means that its success in many cases has come to depend in large part on how well those partners perform. That reliance also raises serious questions about governance and accountability. (Kettl, 1993: 13)

Thus, as part of any outsourcing decision, the Federal Government must ensure that its reliance on the provider of the function does not have a negative impact on the Federal Government's ability to execute its roles and responsibilities. According to Camm,

The lesson for DoD is a paradox: The more control DoD exercises over contractors to protect its investment in the customized assets its contractors use to provide sophisticated support services to DoD, the harder it is for those contractors to provide the benefits typically attributed to commercial practice. (1996: 29)

Decision-makers need to understand, therefore, that while maintaining control over the service provider is essential, it is equally important that there be a balance between control and flexibility. A proper balance should allow the Federal government to realize cost efficiencies without sacrificing strategic imperatives.

Yet another concern has been discussed in the literature that relates to the degree of competition that the Government may be able to exploit when outsourcing its support functions. With respect to the Government's involvement (i.e., outsourcing transactions) in markets lacking the basic assumptions of market competition, two questions have been raised.

First, if it is to be efficient and effective, to what degree can the government rely on the market to shape its transactions? Second, to the degree that the conditions required for competitive markets do not apply, does the government have the capacity to manage these contracts effectively? To the degree that it does not, the quality of public services will inevitably diminish and cost will rise. (Kettl, 1993: 17)

The second observation in the above quotation is especially interesting as it relates to the Federal Government's efforts to pursue outsourcing arrangements with alternative governmental entities. First, state and/or local governments are non-profit entities. As such, they are not driven by the same motivating factors whereby private firms are driven. Second, when the Federal Government contemplates a public-public outsourcing arrangement, it is likely that there will be only one alternative governmental entity considered (i.e., the local government). Clearly, these two elements highlight significant differences between traditional outsourcing practices and public-public initiatives.

#### Transaction Cost Economics Fundamentals

Oliver Williamson is considered the champion of Transaction Cost Economics theory (TCE). In his many works, Williamson has focused on the choice of an optimal governance structure for transactions based upon the characteristics of the transaction and the concomitant costs. TCE has gained popularity in recent years since it can be effectively used to guide decision-makers through the outsourcing decision process. It has been noted that "political scientists are just beginning to apply transaction cost arguments to the issue of contracting out services in the public sector" (Clingermayer and Feiock, 1997: 232). By borrowing from Williamson's TCE theory, we hope to develop and test a

public-public outsourcing decision model. We believe that, by assessing transactions, one may find a reliable model for making public-public outsourcing decisions.

In the remainder of the section, Williamson's work on TCE will be discussed. So too, will the work of Ring and Van de Ven (which elaborates upon TCE using different assumptions). Important definitions and assumptions used in TCE theory can be found in Table 2 and Table 3, respectively.

**Table 2. TCE Definitions**

Term	Definition
Transaction costs	The "economic equivalent of friction in physical systems" (Williamson, 1985: 21). Examples include "the negotiating , monitoring, and enforcement costs that have to be borne to allow an exchange between two parties to take place" (Jones and Hill, 1988: 1).
Governance Structure	"The institutional matrix in which the integrity of a transaction is decided. In the commercial sector, three discrete structural governance alternatives are commonly recognized: classical <i>market</i> , <i>hybrid</i> contracting, and <i>hierarchy</i> " (Williamson, 1996: 378).
Market	"The arena in which autonomous parties engage in exchange. Markets can be either thick or thin. Classical markets are thick, in which case there are large numbers of buyers and sellers on each side of the transaction and identity is not important, because each can go its own way at negligible cost to the other. Thin markets are characterized by fewness, which is mainly due to asset specificity" (Williamson, 1996:378).
Hybrid	"Long-term contractual relations that preserve autonomy but provide added transaction-specific <i>safeguards</i> , compared with the <i>market</i> " (Williamson, 1996: 378).
Hierarchy	"Transactions that are placed under unified ownership(buyer and supplier are in the same enterprise) and subject to administrative controls (an authority relation, to include fiat)" (Williamson, 1996: 378).

**Table 3. TCE Assumptions**

Category Dimension	Definition
Behavioral	
Bounded Rationality	A condition resulting from cognitive limits of humans in which behavior is "intendedly rational, but only limitedly so" (Williamson, 1996: 36).
Opportunism	The act of engaging in "self-interest seeking with guile." Refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse" (Williamson, 1985: 47).
Transactional	
Asset specificity	"The degree to which an asset can be redeployed to alternative uses and by alternative users without sacrifice of productive value" Williamson, 1996: 59).
Uncertainty	A condition present, to varying degrees, and arising when "incomplete contracting and asset specificity are joined. (Williamson, 1996: 60).
Frequency	The degree to which parties are engaged in transactions of a recurrent or occasional nature (Williamson, 1985: 60).

In his work on TCE, Williamson stresses the importance of asset specificity as a major transaction characteristic. Further, he concludes asset specificity is a necessary condition for selecting the appropriate governance structure. With respect to the forms of asset specificity that should be considered in a transaction cost analysis of the "make or buy" decision, Williamson states that

Without purporting to be exhaustive, asset specificity distinctions of six kinds have been made: (1) site specificity, as where successive stations are located in a cheek-by-jowl relation to each other so as to economize on inventory and transportation expenses; (2) physical asset specificity, such as specialized dies that are required to produce a component; (3) human asset specificity that arises in a learning-by-doing fashion; (4) dedicated assets, which are discrete investments in general purpose plant that are made at the behest of a particular customer; to which (5) brand name capital and (6) temporal specificity have been added. (Williamson, 1996: 59)

Williamson has created the following table to show how governance structures are arranged along a continuum according to the transaction characteristics of asset specificity and frequency.

		Investment Characteristics		
		Nonspecific	Mixed	Idiosyncratic
Frequency	Occasional	Market governance (classical contracting)	Trilateral governance (neoclassical contracting)	
	Recurrent		Bilateral governance (relational contracting)	
			Unified governance	

**Figure 1. “Efficient Governance” Continuum (Williamson, 1985)**

He uses the terms “Trilateral governance” and “Bilateral governance” to refer to “Hybrid” structures. “Trilateral governance” refers to a buyer-supplier relationship wherein disputes may be referred to, and adjudicated by, a third party (e.g., an arbitrator or the courts). “Bilateral governance” applies to a buyer-supplier relationship wherein the

parties to the transaction establish, *a priori*, an internal conflict resolution procedure. The term “Unified governance” refers to “Hierarchical” structures. In this case, disputes between units of an organization are resolved by fiat (i.e., by an authoritative decision from someone within the organization’s chain of command).

The next figure provides illustrative examples of transactions that may be “efficiently governed” by the governance structures along the continuum in the Figure 1. It is important to note, however, the assumptions used by Williamson in assigning transactions as shown. The first assumption is that buyers and suppliers intend to engage in a relationship “on a continuing basis” (Williamson, 1985: 72). Second is that there are numerous “potential suppliers for any given requirement” (Williamson, 1985: 72). Third, the frequency dimension “refers strictly to buyer activity in the market” (Williamson, 1985: 72). And finally, the investment dimension (or degree of asset specificity) “refers to the characteristics of investments made by suppliers” (Williamson, 1985: 72).

		Investment Characteristics		
		Nonspecific	Mixed	Idiosyncratic
Frequency	Occasional	Purchasing standard equipment	Purchasing customized equipment	Constructing a plant
	Recurrent	Purchasing standard material	Purchasing customized material	Site-specific transfer of intermediate product across successive stages

Figure 2. Example Transactions (Williamson, 1985)

A Critique and Elaboration of TCE. Ring and Van de Ven are critical of

Williamson. In their analysis of governance structures, they note

Although TCE provides a sound theoretical foundation for the exploration of market versus hierarchical mechanisms for solving strategic dependencies, it suffers from not adequately exploring other available governance structures, repeated transactions, the dynamic evolution of governance and transactions, and the key roles of trust and equity in any interorganizational relationship. (Ring and Van de Ven, 1992: 484)

Thus, while including markets and hierarchies in their elaboration of a governance continuum, Ring and Van de Ven place emphasis on the intermediate, or “hybrid” forms. These intermediate forms are termed “recurrent contracting” and “relational contracting” in Table 4.

While many of the characteristics of the forms described by Ring and Van de Ven are similar to those described by Williamson, the assumptions used by Ring and Van de Ven differ from Williamson’s. First is the assumption that “risk and trust are separable concepts for transacting parties” (Ring and Van de Ven, 1992: 487). Second, they employ a behavioral assumption of trustworthiness rather than opportunism. This allows them to examine how organizations can “build trust through recurrent contracts,” and how trust, once established, can facilitate the governance of transactions involving “long-term uses of idiosyncratic assets through relational contracts in lieu of hierarchies” (Ring and Van de Ven, 1992: 487). Finally, they assume that when organizations enter into contracts based on trustworthiness, they are “far less constrained ex ante about the ex post contract implications of their bounded rationality” (Ring and Van de Ven, 1992: 487).

In describing “recurrent contracts,” Ring and Van de Ven note:

The terms of these exchanges tend to be certain, but some contingencies may be left to future resolution. Temporally, the

duration of these contracts is relatively short-term. The parties see themselves as autonomous, legally equal, but contemplating a more embedded relationship. They use the recurrent contracting to explore outcomes driven by motives other than efficiency, to experiment with safeguards, and with alternative methods for resolving conflict. (Ring and Van de Ven, 1992: 487)

Furthermore, they state that neoclassical contract law provides support for the governance of transactions of this form. This is consistent with Williamson and his concept of trilateral governance (Williamson, 1985).

With respect to “relational contracts,” and in contrast to “recurrent contracts,” Ring and Van de Ven note:

As a consequence [of engaging in relations involving long-term investments which cannot be completely specified in ex ante], the parties to these relational contracts are exposed to a much broader range of trading hazards than their counterparts employing either market or hierarchical transactions experience. (Ring and Van de Ven, 1992: 487)

Their comments that disputes are resolved through internal mechanisms and that bilateral governance is employed are consistent with Williamson (Williamson, 1985).

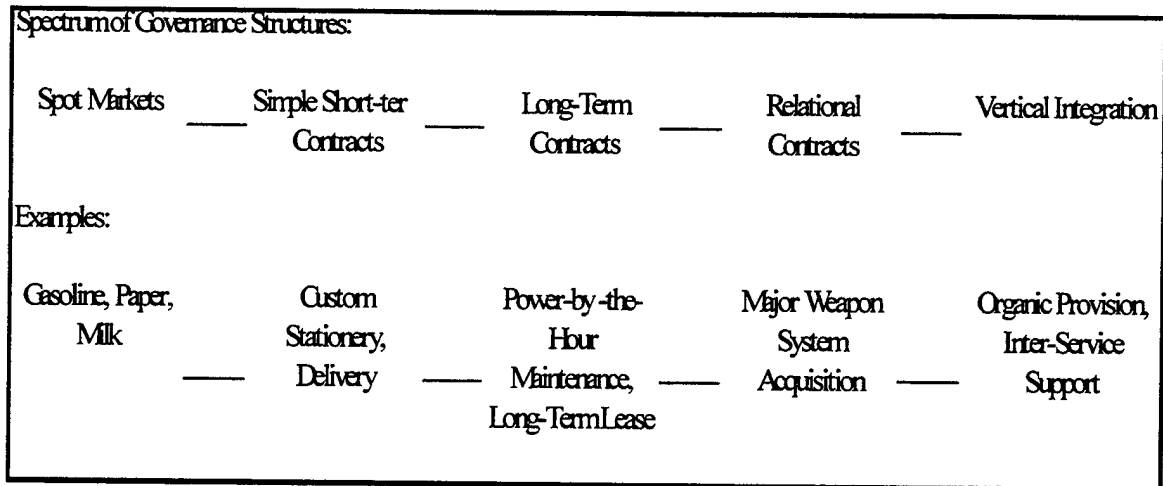
Table 4 is taken from Ring and Van de Ven’s work. It shows the governance continuum and discusses the transactional characteristics typically associated with each form of governance. In their argument, firms that have decided to outsource an activity may choose to go from hierarchy to recurrent contracting and then to relational contracting. In this way, a firm is able to experiment with contractual flexibility and safeguards as it develops a relationship with the supplier and is better able to assess the responsibility and reputation of its supplier.

**Table 4. Transaction Characteristics and Governance Forms**

Distinguishing Characteristics	Forms			
	Discrete market transactions	Hierarchical managerial transactions	Recurrent contracting transactions	Relational contracting transactions
Nature of exchange	One-time transfer of property rights	On-going production & rationing of wealth	Episodic production & transfer of property rights	Sustained production & transfer of property rights
Terms of exchange	Clear, complete and monetized, sharp in by agreement, sharp out by pay & performance	Authority structure superior hires subordinate obeys or quits the employment relationship	Certain, complete contingent on prior performance; plans for experimentation on safeguards	Uncertain, open and incomplete; plans for bilateral learning safeguards & conflict resolution
Transaction-specific investment	Nonspecific	Idiosyncratic	Mixed	Mixed & idiosyncratic
Temporal duration of the transaction	Simultaneous exchange	Indefinite	Short to moderate term	Moderate to long term
Status of parties	Limited, nonunique relation between legally equal and free parties	Structural functional command-obedience role relationship between legally unequal parties	Unlimited, unique relation between legally free and equal parties	Extensive, unique social-embedded relation between legally equal and free parties
Mechanisms for dispute resolution	External market norms and societal legal systems	Internal conflict resolution by fiat & authority	Norms of equity & reciprocity & societal legal systems	Endogenous designed by the parties & based on trust
Relevant contract law & Governance structure	Classical contract Market	Employment contract Unified	Neoclassical contract Market	Relational contracts Bilateral

(Ring and Van de Ven, 1992)

Applying the TCE Continuum to the DoD. In Figure 3, below, the TCE continuum of transaction governance structures has been applied to a hypothetical range of DoD functions.



**Figure 3. TCE and DoD Contracting (adapted from Pint and Baldwin, 1997)**

This application of TCE to the DoD is helpful in that it reiterates the idea that as the Federal Government outsources its functions, it is moving leftward along the continuum (i.e., from Hierarchy to a Hybrid form). Thus, as part of the outsourcing decision process, it is imperative that decision-makers consider which Hybrid governance structure, as defined in Table 2, is most appropriate for the particular set of transaction characteristics.

### Synergy and Partnerships

The following discussion of synergy and partnerships is influenced, to a large extent, by the TCE literature. Ring and Van de Ven's work is especially influential as a result of their behavioral assumption of trustworthiness. From our perspective, we view public-public partnership arrangements as situations in which a relational contracting governance structure (as presented by Ring and Van de Ven) is likely to be present.

In any event, as the Federal Government outsources its support functions, it is moving from a state in which those support functions are provided under a hierarchical

governance structure to one in which the functions are provided under some other governance structure. As a result, the outsourcing decision-maker must be cognizant of the issues relevant to such a transformation. This section presents some of the key issues with which the decision-maker should be aware during the decision making process.

Synergy. A concept discussed in many strategic management courses is synergy. Simply stated, synergy is “the concept that  $2 + 2 = 5$ ” (Wheelen and Hunger 1992:177). It is the idea that “two or more subsystems working together to produce more than the total of what they might produce working alone”(Griffin, 1996:50). To achieve synergy, we need to incorporate the private sector with the public sector and in essence create a new formula. The Federal Government has been spending a lot of time trying to substitute private for public in the cost equation, but has not attempted to create a new equation, per se. This new formula may unlock great potential in reducing government costs.

What has been written about synergy mostly relates to the private sector simply because they have been utilizing the concept for a longer time than the public sector. “It is hoped that two businesses will be able to generate more profits together than they could separately” (Wheelen and Hunger 1992:177). This same concept can be applied to the Federal Government and the private sector working together with a slight twist. The Federal Government typically does not make a profit. The Government measures its success in terms of minimizing costs and maximizing social benefit. So, how can this idea of synergy actually work when only one side is concerned about making a profit? There has to be “some common thread that serves to relate them in some manner. The point of commonality may be similar technology, customer usage, distribution,

managerial skills, or product similarity” (Wheelen and Hunger 1992:177). Researchers have identified four types of synergy.

1. **Marketing Synergy.** Common distribution channels, sales force, and/or warehousing create synergies. A complete line of related products increases the productivity of the sales force. Common advertising and promotion can have multiple returns for the same dollar spent.
2. **Operating Synergy.** The greater utilization of facilities and personnel, the spreading of overhead, and large-lot purchasing create operating synergies.
3. **Investment Synergy.** The joint use of plant, common raw materials inventories, transfer of R&D among products, common tooling and machinery, and increased access to sources of capital create investment synergies.
4. **Management Synergy.** Since competent management is often a scarce commodity, the addition of new products or businesses can enhance overall performance if management finds the new problems to be similar to the ones it has successfully overcome earlier with its current products or businesses. (Wheelen and Hunger 1992:241)

These synergies are not automatic. In order to achieve them, a corporation and/or government must develop an implementation program reorganizing and combining its operations. Part of this program entails having the two separate entities form a partnership. “There are many types of strategic alliances, ranging from simple cooperation to full equity ownership, representing trade-offs between flexibility and long-term commitment (Pint and Baldwin, 1997: 29).

Partnerships. By looking at what local governments do, it may help the Federal government meet its need to shrink the infrastructure cost while maintaining mission capability. This new way of doing things is referred to as public-private partnerships. “These public-private partnerships, whether formal or informal, are designed to identify and pursue community goals for mutual benefit” (Holland, 1982:36).

There are several origins to the development of public-private partnerships around the country: First, all levels of government are

buckling under the pressure of spiraling costs for services and the diminution of financial resources. Second, the private sector is realizing its economic vitality of the government jurisdiction in which it is located and the effectiveness of the public services provided. Third, government and business are recognizing the potency of combining public and private resources to advance mutual interests. Government and private industry are creating partnerships of cooperation to meet the challenges of the '90s and beyond. It is no exaggeration to say that crucial quality-of-life issues will require public-private partnerships in economic as well as other areas. In fact, many of the recent successes seen in cities across the US are directly attributable to government and business leaders joining hands and pooling resources. (Monteilh and Tremayne, 1990:43)

“Experience has shown that, when non-governmental institutions become partners with public agencies, they can sometimes accomplish things that have proved difficult for governments to do alone” (Kingsley and Gibson, 1998:11). An example of this occurred in Los Angeles County. In order to improve service, Los Angeles County contracted with a non-government “lead agency to monitor and care for troubled families in a given neighborhood. The non-governmental group may be a church, community association of other entity” (Kingsley and Gibson, 1998:11). This example shows that it is possible for governmental entities to provide their constituents with services via outsourcing to other than private, or for-profit, entities.

Table 5 lists several criteria that are believed to be necessary for successful partnerships.

**Table 5. Eight Criteria for Successful Partnerships**

Criteria	Example
Individual Excellence	Both partners are strong and have something of value to contribute to the relationship. Their motives for entering into the relationship are positive (to pursue future opportunities), not negative (to mask weaknesses or escape a difficult situation).
Importance	The relationship fits the major strategic objectives of the partners, so they want to make it work. Partners have long-term goals in which the relationship plays a key role.
Interdependence	The partners need each other. They have complementary assets and skills. Neither can accomplish alone what both can together.
Investment	The partners invest in each other (for example, through equity swaps, cross-ownership, or mutual board service) to demonstrate their respective stakes in the relationship and each other. They show tangible signs of long-term commitment by devoting financial resources.
Information	Communication is reasonably open. Partners share information required to make the relationship work, including their objectives and goals, technical data, and knowledge of conflicts, trouble spots, or changing situations.
Integration	The partners develop linkages and shared ways of operating so they can work together smoothly. They build broad connections between many people at many organizational levels. Partners become both teachers and learners.
Institutionalization	The relationship is given formal status, with clear responsibilities and decision processes. It extends beyond the particular people who formed it, and it cannot be broken on a whim.
Integrity	The partners behave toward each other in honorable ways that justify and enhance mutual trust. They do not abuse the information they gain, nor do they undermine each other.

(Harvard Business Review: 1994)

There are some challenges to establishing a productive partnership, however.

“Contractors who are hired as partners to solve business problems must find on the other side customers who understand the fundamental nature of the problems being solved and

how most efficiently to use the solutions being provided” (Andelman, 1996:38). Stephen Smith, managing partner of the federal government practice for Andersen Consulting states, “We need to arrive at a true alignment of interests. We need a process that forms a business alliance versus an adversarial relationship. By sharing risk and reward, we are no longer in an adversarial or contractual relationship. We can add value to the client, to the government” (Andelman, 1996:38).

The central challenge for the public service is to become very good at finding the appropriate champions and intermediaries; to work with them and build their capability to perform their part of the job; and to manage the relationships and support these intermediaries effectively through using the best practice skills associated with successful operation of boards of non-profit organizations. (Andersen, 1996:19)

Many partnerships can be categorized as buyer/supplier relationships. This is where one party buys or offers to buy a good or service and another party supplies for sale a good or service. Pint and Baldwin discuss Susan Helper’s division of buyer/supplier relationships into the categories of “exit” and “voice.” These categories are based upon the buyer’s response to problems as they arise and affect the relationship. A buyer is said to use “Exit” strategy when its response is to end the relationship and seek other partners. The use of “Voice” strategy applies when the buyer’s response is to work with the supplier in remedying the situation (Pint and Baldwin, 1997: 52). According to Pint and Baldwin, the Air Force predominantly uses “Exit” strategy in its relations with support services contractors (Pint and Baldwin, 1997: 54). In order to facilitate long term partnerships similar to a public-public partnership the buyer needs to implement more of a “Voice” strategy. When two parties enter into this type of arrangement there has to be a commitment to keeping the agreement alive and not

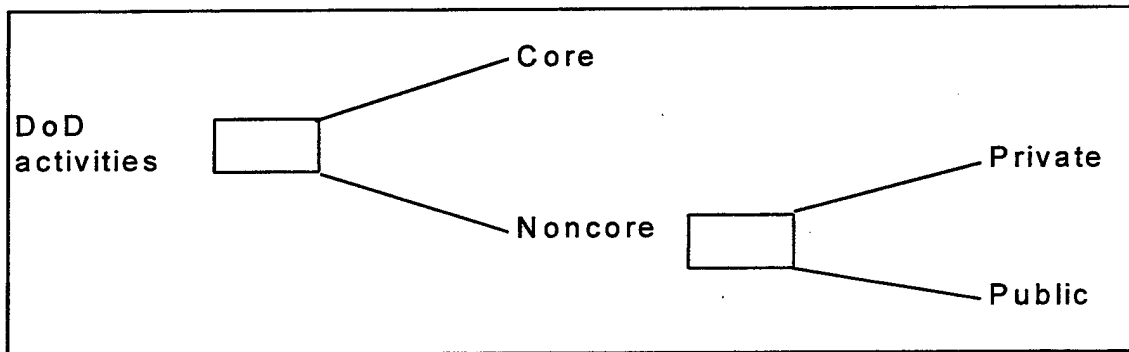
severing the agreement at the end of the initial term. Public-public partnerships are unique in the fact that both parties are locked into a monopolist/monosoponist situation where there is only one buyer and one supplier. This situation clearly delineates the Federal Government's option to seek competition or sever the arrangement at the end of the initial term and seek out another supplier.

There are times when a long-term partnership may not be advantageous to the Federal Government. Pint and Baldwin note that strategic alliances may not be warranted for a number of reasons. One is the cost of alliances related to 1) coordination between organizations, 2) opportunity costs, and 3) loss of strategic flexibility. Another concern is the risk of collaboration associated with opportunism and knowledge leaks. Yet another concern is that perceptions of fairness may limit the Government's ability to effect exclusive long-term relationships (Pint and Baldwin, 1997: 30). The first four concerns would all need to be addressed utilizing TCE and determining if the costs of forming a public-public partnership are worth the benefits derived. The last argument regarding the perceptions of fairness would need to be addressed up-front in determining if the function considered for a public-public partnership is inherently a Government function (Federal or other). If the function is inherently Governmental, the perception of fairness is immaterial. Only a Government agency can perform the function and therefore it must remain with a Governmental body. However, if the analysis in determining whether a function is inherently Governmental is suspect, then issues of fairness would arise from the private sector as to why they were not allowed to compete for providing the service. For this reason alone, it may be useful to form public-public partnerships when the function is identified as an inherently Governmental function.

## Current Outsourcing Models

The discussion, thus far, has provided a theoretical foundation for the outsourcing decisions made by private-sector executives and Government officials. Keeping the contributions of TCE in mind, as well as the literature on strategic alliances and the guidance offered by the A-76 Circular, we now turn to an examination of the outsourcing decision models currently available to Government agencies. We begin with the “traditional model,” and then a modified model prepared by researchers at RAND.

Figure 4 depicts the “traditional model” of DoD outsourcing decisions. The definitions of core and non-core are taken from the A-76 definitions table above. A point of clarification is necessary with respect to the table’s use of the terms “private” and “public.” As used therein, the term “private” refers to a decision to outsource an activity to a private-sector commercial firm. The term “public” refers to a decision to retain the activity in-house. It does not refer, in any way, to a decision regarding the establishment of a public-public partnership.



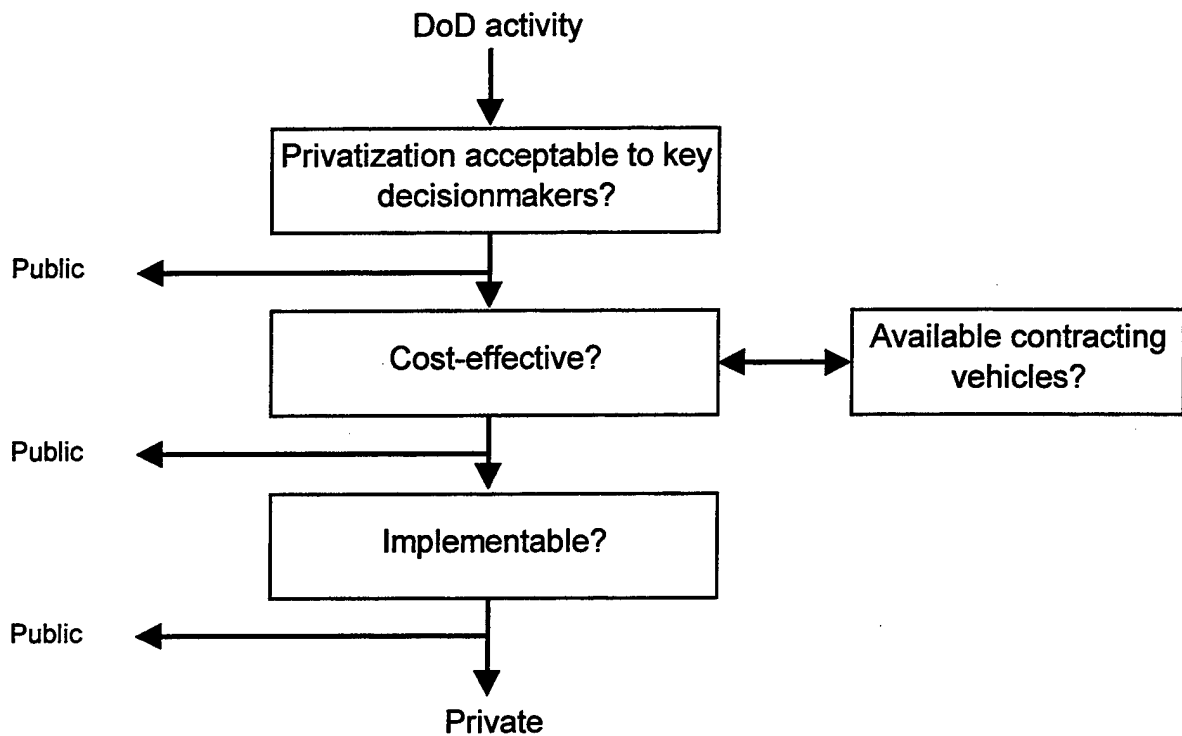
**Figure 4. The DoD’s “Traditional” Outsourcing Approach (Camm, 1996: 3)**

A RAND study, conducted at the request of the Commission on Roles and Missions of the Armed Forces, created by Congress in 1993, found several faults with the “traditional model” in Figure 4. The study’s authors noted

Three aspects of this approach give us pause:

- (1) The simplified presumption in favor of a private source limits any effort to weigh the costs and benefits of public and private sources for any particular support service. As long as an activity is not inherently governmental, we presumably want to have it produced in the most cost-effective manner possible.
- (2) The approach gives limited attention to the difficulties that must be overcome to maintain an effective contractual relationship with a private-sector source.
- (3) The third aspect of the Commission approach that concerns us is the limited attention it gives to factors that should be considered to ensure successful implementation of any proposed outsourcing. To the contrary, the Commission implicitly promotes a rapid program of outsourcing services that could lead to early failures. That is, if DoD pursues extensive, expanded outsourcing without giving such factors adequate attention, it could fail to realize its expectations about improved performance and reduced costs. (Camm, 1996: 3-5)

Arguing for an alternative outsourcing decision model, the authors state, in part, that “In contrast, this report explicitly uses cost-effectiveness as a basis for asking which DoD support services should be outsourced” (Camm, 1996: 4). The alternative model developed by the study’s authors is shown in Figure 5.



**Figure 5. An Alternative Outsourcing Approach (Camm, 1996: 6)**

With respect to concerns of the key decision makers, Camm addresses the following: 1) concerns about negative economic effects, 2) concerns about fraud and abuse associated with contracting, and 3) concerns about predictable support during a contingency. In his discussion related to contingency support, Camm addresses 1) real-time control, 2) surge capability, and 3) production of services in a combat zone (Camm, 1996: 9-23).

With respect to cost effectiveness and the availability of appropriate contractual vehicles, Camm draws from extensive empirical literature on private sector outsourcing. He argues the following six issues should be considered as part of the cost effectiveness decision: 1) real-time control and coordination, 2) joint use of customized assets, 3) difficulty specifying requirements, 4) developing knowledge to oversee outsourced

workload, 5) access to external information, and 6) direct, continuing competition between contract and organic sources (Camm, 1996: 25-36).

While the alternative model developed by the RAND study is an improvement upon the “traditional model” employed by DoD, it too has serious limitations. First, the study’s authors admittedly make “no prior judgement about the inherent governmental nature of an activity” (Camm, 1996: 4). Second, the study’s authors note that one drawback in the “traditional model” is its failure to allow for consideration of outsourcing to public sources. However, in support of their alternative model, they state that

it considers attributes of both the source of a support service and the ‘governance’ structure that any DoD activity buying this service uses to get access to it: a direct command-and-control link when the DoD buyer ‘owns’ the seller within an armed service; a memorandum of agreement when the buyer and seller lie in different parts of the DoD; or a governmental contract when the seller is a private firm. (Camm, 1996: 4)

Since they fail to mention any governance structure applicable to an outsourcing arrangement with a public source, it is questionable whether they give this possibility an adequate amount of consideration.

### Our Proposed Decision Model

The literature review has, thus far, presented outsourcing theory (from a TCE perspective), discussed issues related to partnering (from a strategic alliance perspective), and examined current Government guidance, as well as decision models available to Government agencies pursuing alternatives to reduce operating costs via outsourcing. A key element throughout the discussion has been the notion that “government is and will always be ultimately responsible for the delivery of ‘public-related’ services”

(Thompson, 1998: 90). Keeping this in mind, we believe the existing literature related to outsourcing can be used to develop a decision model that explicitly allows for the possibility of a public-public outsourcing arrangement.

The idea of public-public outsourcing arrangements is not new -- at least not at the state and local levels of government. At these levels of government, decision makers have used public-public partnerships as an alternative method of service delivery for some time. They have realized that with respect to certain governmental functions, traditional public-private outsourcing arrangements are undesirable. Furthermore, they realize traditional public-private decision models fail to capture potential benefits available from public-public arrangements. It has been said that

Contracting out needs to be considered whenever the government entity cannot take advantage of the economies of scale or scope....An important caveat is that contracting out does not necessarily imply outsourcing to the private sector. A large public sector entity can achieve scale and scope economies just as easily as a privately owned firm. That is one reason why the Los Angeles County Sheriff serves about half of the cities in Los Angeles County. (Prager, 1994: 180)

As a result of the successful public-public partnerships experienced by many state and local governments, the Federal Government (e.g., DoD) is now looking to these relationships as a way of reducing its support costs. However, as we found in our review of the extant literature, no decision model currently exists which explicitly allows for (or addresses in detail) this type of decision. We concur with the sentiments expressed by Prager and Desai who wrote that "Contracting out, if implemented thoughtfully and on the basis of the appropriate model and relevant data, can yield short-run savings as well as longer-term improvements" (1996: 185). Thus, we hope that our proposed public-public decision model will be appropriate, and valuable, to DoD decision makers

searching for innovative and realistic alternatives of reducing costs, while simultaneously charged with protecting the public interest and maintaining a core combative capability.

Filling the Gap. Figure 6 captures the essential elements of both the “traditional” DoD outsourcing model and the improved RAND model. The matrix goes a step further than previous models, however, by explicitly considering the inherently governmental dimension in terms of the level of Government by which a particular function can, or must, be performed. One assumption, implicit to the matrix but explicitly recognized in the decision-tree model, is that in order for the public-public partnership to be considered, there must be an adequate degree of function similarity between each of the parties.

Figure 6 can be divided into a top and bottom half according to whether a function is deemed to be inherently governmental. It can also be divided into a left and right half according to whether the function is deemed to be a core (i.e., military essential) function. If a function is considered to be both inherently governmental and core, then its provision must be executed by the Federal Government (e.g., the DoD). If the function is not considered to be inherently governmental, yet is deemed to be essential (i.e., critical) to the accomplishment of the military mission, then it should not be considered for outsourcing (to either another level of government or to the private sector).

The outsourcing decision is more complex when a service is not considered to be a core function. In this scenario, the outsourcing decision is further complicated by the need to evaluate the transaction costs associated with transferring the activity to an outside entity. The acronym TCA stands for Transaction Cost Analysis.

If a function is not inherently governmental and is not a core function, then a decision-maker may follow the OMB Circular A-76 outsourcing guidance. According to this guidance, if it is cost-effective (i.e., a cost analysis returns a favorable TCA result) then the function is outsourced to the private sector firm with the proposal representing the best value to the DoD. If, on the other hand, an unfavorable TCA results, the function is retained, and provided for, in-house.

If a function is inherently governmental but is not core, an unfavorable TCA would lead to the same conclusion as that arrived at under the A-76 process (i.e., the function is retained, and provided for, in-house). However, if a favorable TCA results, then it is believed that a public-public partnership should be pursued. Again, since the function is considered to be inherently governmental, but has been determined to be not core, it is assumed that it is feasible for any form of government to provide the function for the Federal Government (e.g., DoD).

		Core		
		Yes	No	
			Unfavorable TCA	Favorable TCA
Inherently Governmental	Yes	Not an Outsourcing Candidate (FED/DOD ONLY)	Retain In-House	Pursue Public-Public Partnership (ANY GOV'T FORM)
	No	Not an Outsourcing Candidate	Retain In-House (e.g., GOV'T wins A-76)	Public-Private Outsourcing (e.g., KTR wins A-76)

**Figure 6. The Public-Public Outsourcing Decision Model Matrix**

Decision Model Criteria. Figure 7 presents the public-public outsourcing decision model developed by the authors of this research effort. The first step is to make a decision concerning the degree to which the function is inherently governmental.

Guidance and policy, related to this step in the model, is available from the FAR, the OFPP Policy Letter 92-1, the OMB Circular A-76 and its Revised Supplemental Handbook, and the AFLMA Outsourcing Guide for Contracting.

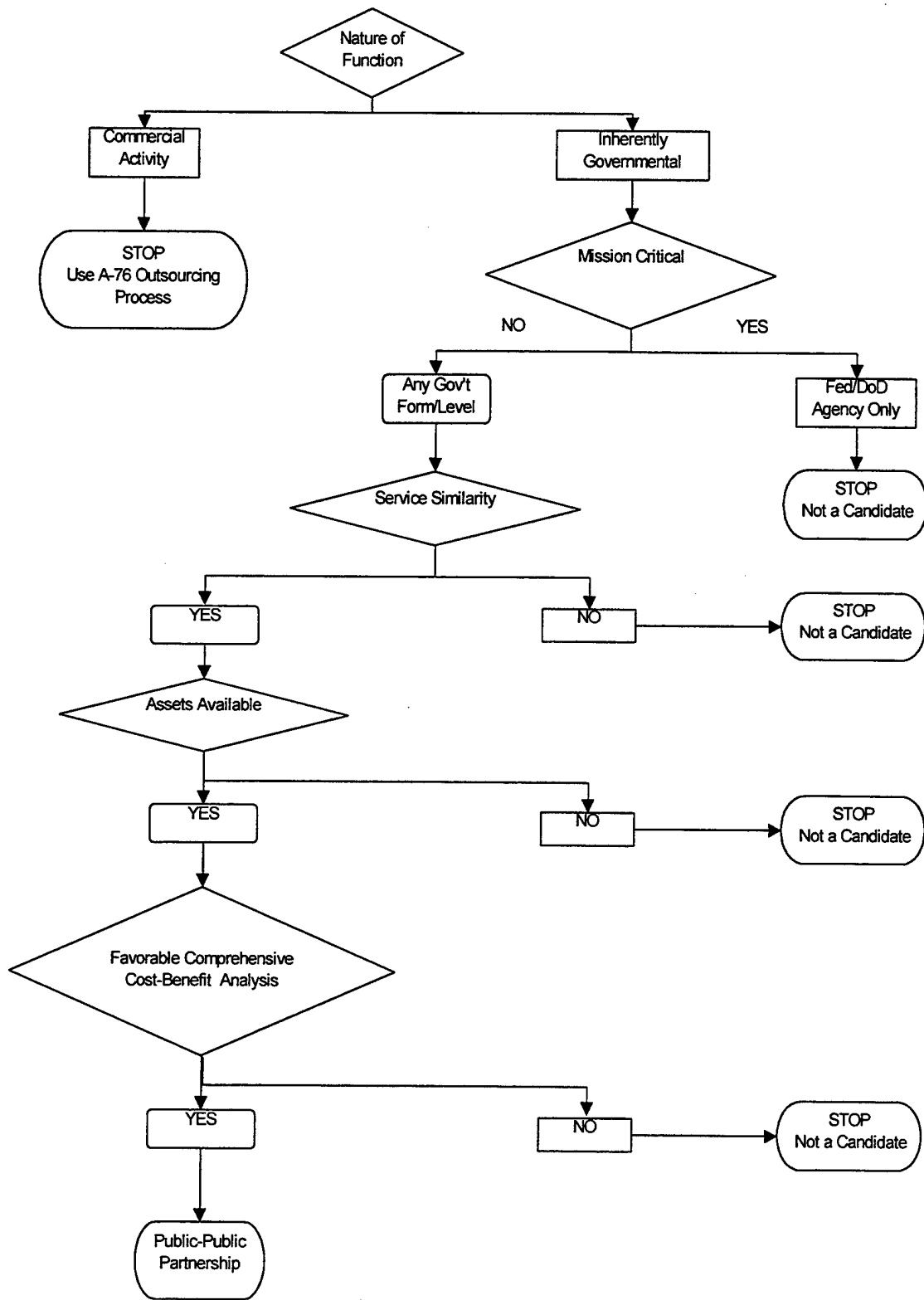
The next step is where the model differs most from those discussed in the previous sections. Typically, once the decision is made that a function is inherently governmental, the outsourcing process goes no further. In this model, the decision-maker is required to go beyond this initial, and sometimes cursory, assessment. An analysis must be done to identify whether the function is one that must be performed exclusively by the Federal Government, or the DoD. Essentially, the decision-maker must ask, "Can this function be performed by another level of Government?" If the function is deemed to be inherently governmental, but is not one that must be performed exclusively by the Federal Government or DoD, then the decision-maker should consider the possibility of outsourcing the function to another level of Government.

Once it has been decided that a function can be outsourced to another level of Government, the process cannot continue unless there is an adequate level of function similarity. In other words, whereas the previous decision asked, "Can it be done by another level of Government?", this step poses the question, "Is it currently being done by another governmental entity within or below the Federal level?" Our assumption in this step of the model is that the Federal Government would not take any further outsourcing actions if a particular function which it was interested in outsourcing was not already being provided, to some degree, by the alternative governmental entity.

The next step in the process requires the decision-maker to ask, "Can the alternative governmental entity perform the function for the Federal Government in

addition to fulfilling its own service obligations to its primary constituents?" In effect, the decision-maker must be assured that the state or local Government has the ability and a need to provide the service, or the ability and a willingness to enter into an arrangement with the Federal Government. Taking from TCE, it is in this step that the decision-maker must consider whether the alternative governmental entity has an adequate amount of assets to provide the outsourced function to the Federal Government (at the same or higher level of service). If not, then the decision-maker may consider other arrangements whereby the Federal Government contributes specific assets in order to close the deal and enhance the arrangement's chances for success.

The final step in the decision process is to conduct a comprehensive cost-benefit analysis. We use the term comprehensive to distinguish this step from the typical cost-benefit analyses that have been performed in the past during public-private outsourcing competitions. The key difference is that the decision-maker must consider all of the costs of the potential outsourcing arrangement. Thus, those costs identified by TCE and Agency Theory as being attributable to the transaction characteristics are explicitly considered (e.g., asset specificity, monitoring, and safeguards). Furthermore, the strategic costs of entering into a strategic partnership need be considered.



**Figure 7. A Conceptual Public-Public Outsourcing Model**

## Summary

This chapter has provided a basis of knowledge from which the investigative questions can be answered. The chapter covered outsourcing fundamentals including the objectives of outsourcing along with the advantages and disadvantages of outsourcing functions once provided internally. Current outsourcing guidance available to DoD outsourcing decision-makers was also presented. The discussion addressed the government's responsibility to protect the public interest, and then addressed the scope of, and concerns related to, the OMB Circular A-76.

The chapter's focus then moved to transaction cost and partnership issues which should be of concern to decision-makers during the outsourcing decision process. A review of Transaction Cost Economics (TCE) theory was presented along with a critique and elaboration of the theory. A brief discussion of how these theories may be applied to DoD outsourcing decisions was then presented. Following the discussion on the application of the TCE theory to the DoD was a discussion on synergy and partnerships that result from outsourcing arrangements.

The remainder of the chapter investigated current outsourcing decision models. Two outsourcing decision models were identified along with the limitations placed upon decision-makers by the models. The chapter concludes with a conceptual decision model intuitively derived from an examination of the literature. The conceptual model includes the decisions that one must consider when contemplating a public-public outsourcing arrangement.

### III Methodology

#### Chapter Overview

This chapter begins by exploring the research methodologies available for conducting the analysis in Chapter 4. Following this, an abbreviated literature review will lend support to our selection of a particular strategy. A discussion of case study research is then presented. This discussion includes a section on case study designs. Our rationale for selecting Brooks AFB as our case will be provided throughout the sections of this chapter.

#### Strategy Selection

The following table provides a foundation with which to select an appropriate research methodology.

**Table 6. Relevant Situations for Different Research Strategies**

Strategy	Form of Research Question	Requires Control Over Behavioral Events?	Focuses on Contemporary Events?
Experiment	how, why	yes	no
Survey	who, what,* where, how many, how much	no	yes
Archival analysis (e.g., economic study)	who, what,* where, how many, how much	no	yes/no
History	how, why	no	no
Case Study	how, why	no	yes

\* "What" questions, when asked as part of an exploratory study, pertain to all five strategies

(adapted from Yin, 1994: 6)

The form of the research question is “how”(i.e., How can the DoD maintain mission effectiveness while reducing infrastructure costs). By this construct alone, the researcher can eliminate the survey strategy and the archival analysis strategy. This question does not require control over behavioral events, thus eliminating the experiment strategy. The question focuses on a contemporary event, allowing elimination of the history strategy. By determining the form of the research question and answering the questions regarding control of behavioral events and the focus on contemporary events, the strategy should be the case study approach.

### Supportive Literature

Many scientists ingrained in the tools of quantitative analysis have considered case study research suspect. This section provides a brief literature review to aid in providing credibility to conducting case study research when appropriate.

Qualitative Research. According to Strauss and Corbin, there are three major types of qualitative researchers. The first group believes that data **should not be analyzed**; the second group is concerned with **accurate description**; and the third group promotes **building theory**.

Some researchers believe that data **should not be analyzed**, per se; but rather the researcher’s task is to gather the data and present them in such a manner that “the informants speak for themselves.” The aim is to give an honest account with little or no interpretation of – interference with – those spoken words or of the observations made by the researcher. In this perspective, the researcher’s scholarly obligation is to hear and report, somewhat akin to a journalist

Other qualitative researchers are concerned with **accurate description**, when doing their analysis and presenting their findings. Because the investigator cannot possibly present all the

data *en toto* to the readers, it is necessary to reduce these data. The principle here is to present an accurate description of what is being studied

Still other investigators are concerned with **building theory**. They believe that the development of theoretically informed interpretations is the most powerful way to bring reality to light. Researchers concerned with building theory also believe that theories represent the most systematic way of building, synthesizing, and integrating scientific knowledge. (Strauss and Corbin, 1990:21)

Our efforts are clearly not concerned with building theory. However, they could be described as either one of the other two types. We are concerned with providing an accurate description of the Brooks AFB outsourcing decision process since it is our aim to compare the conceptual outsourcing decision model (developed in Chapter 2) with that of Brooks AFB. However, one should not confuse our attempt to compare the conceptual model to the Brooks AFB initiative as an effort to analyze the Brooks AFB initiative. To justly analyze the Brooks AFB initiative would require much more time and effort, and is beyond the scope of our particular research purpose.

Secondary Research. This research endeavor relies upon the use of secondary information. The primary source of information is a final draft and implementation report outlining the "Brooks Model." There is no true experiment to receive data from as of today or for some years to come. Data will be provided for years as the "Brooks Model" is implemented, analyzed, and continues to evolve. If the data proves to be conclusive and in the best interest of the DoD, it is likely the "Brooks Model" will be implemented at other DoD locations as deemed feasible.

In research, there are inherent advantages and disadvantages in using various approaches to conducting the research. The utilization of secondary sources is no different.

The more significant of these advantages are related to time and cost. In general, it is much less expensive to use secondary data than it is to conduct a primary research investigation. This is true even where there are costs associated with obtaining the secondary data. When answers to questions are required quickly, the only practical alternative is to consult secondary sources. Secondary sources provide a useful starting point for additional research by suggesting problem formulations, research hypotheses, and research methods. Consultation of secondary sources provides a means for increasing efficiency of the research dollar by targeting real gaps and oversights in knowledge. Secondary data also provide a useful comparative tool. New data may be compared to existing data for purposes of examining differences or trends. (Stewart, 1984:14)

However, whenever a research approach purports to have some type of advantage over another approach, it likewise yields some type of disadvantage. One hopes the advantages obtained outweigh the disadvantages incurred.

Secondary sources are not without problems. As in primary research, the design or conclusions may be flawed. Data are often collected with a specific purpose in mind, a purpose that may produce deliberate or unintentional bias. Thus, secondary sources must be evaluated carefully. The fact that secondary data were collected originally for particular purposes may produce other problems. Category definitions, particular measures, or treatment effects may not be the most appropriate for the purpose at hand. Seldom are secondary data available at the individual-observation level. This means that the data are aggregated in some form, and the unit of aggregation may be inappropriate for a particular purpose. Finally, secondary data are, by definition, old data. Thus the data may not be particularly timely for some purposes. (Stewart, 1984:14)

Case Study Research. The first concept that needs to be addressed is “what is case study research?” A case study is an empirical inquiry that

- investigates a contemporary phenomenon within its real-life context; when
- the boundaries between phenomenon and context are not clearly evident; and in which
- multiple sources of evidence are used. (Yin, 1989:23)

Our research meets this definition in that our efforts are designed to investigate the contemporary phenomenon known as public-public outsourcing partnerships (especially with respect to the Federal Government and the DoD). The “real-life context” is provided by the Brooks AFB initiative to outsource some of the base support functions to the City of San Antonio, Texas.

With respect to the blurring of boundaries between phenomenon and context, “you would use the case study method because you deliberately wanted to cover contextual conditions—believing that they might be highly pertinent to your phenomenon of study” (Yin, 1994: 13). In our case, we believe the Brooks AFB initiative will provide pertinent information to the phenomenon of public-public partnerships and, thus, will be of great value to us in developing an analytical outsourcing decision model for use by decision-makers contemplating such arrangements in the future.

One limitation is that we do not have multiple sources of evidence to draw upon in comparing our conceptual model to the Brooks AFB initiative. The “AFMC Special Study for Brooks Air Force Base” was the only evidence used for the case study. We believed the report was satisfactorily comprehensive for our research purpose.

The next logical question to answer is “what are some applications of case study research?” Yin informs us there are at least four different applications for case studies.

The most important is to *explain* the causal links in real-life interventions that are too complex for the survey or experimental strategies. A second application is to *describe* the real-life context in which an intervention has occurred. Third, an evaluation can

benefit, again in a descriptive mode, from an illustrative case study – even a journalistic account – of the intervention itself. Finally, the case study strategy may be used to *explore* those situations in which the intervention being evaluated has no clear, single set of outcomes. (Yin, 1989:25)

Our effort here is not directly addressed by Yin. A case study is, nevertheless, appropriate since we are using the Brooks AFB initiative to explore the phenomenon of public-public outsourcing and the decision processes related to the phenomenon.

Case-Study Designs. There will be four types of case study designs addressed in this section, as depicted in Figure 8.

	Single-Case Designs	Multiple-Case Designs
Holistic (single unit of analysis)	TYPE 1	TYPE 3
Embedded (multiple units of analysis)	TYPE 2	TYPE 4

**Figure 8. Basic Types of Designs for Case Studies (Yin, 1989:46)**

A primary distinction in designing case studies is between single- and multiple case designs. Multiple-case, as the name implies, is a case study approach that contains more than a single case being analyzed. “A common example is a study of school innovations (such as open classrooms, teacher aides, or new technology), in which independent innovations occur at different sites” (Yin, 1989:52). Each site may be considered a subject of an individual case study, and the study as a whole would have used a multiple-case design. A primary advantage of the multiple-case study is that the

evidence is often considered more compelling, and the overall study is therefore regarded as being more robust. While this approach may be compelling, the rationale for single-case designs cannot usually be satisfied by multiple cases.

Single-case studies, as the name implies, is a case study approach which contains a single case being analyzed. There are three compelling circumstances in which a single-case approach is most appropriate. The first circumstance is according to Yin is when it represents the critical case in testing a well-formulated theory. A single case may be able to confirm, challenge, or extend the theory, there may exist a single case, meeting all the conditions for testing the theory. The single case approach can be used to determine whether a "theory's propositions are correct, or whether some alternative set of explanations might be more relevant" (Yin, 1989:47). The second circumstance, according to Yin, is where the case represents an extreme or unique case. This has been commonly utilized in clinical psychology, where a specific injury or disorder may be so rare that any single case is worth documenting and analyzing. A third circumstance is what Yin refers to as the revelatory case. This situation exists when an investigator has an opportunity to observe and analyze a phenomenon previously inaccessible to scientific investigation. There are other situations in which the single case may be conducted as a prelude to further study, such as the use of case studies as exploratory devices or such as the conduct of a pilot case that is the first of a multiple-case study. However, in these situations the single-case study approach cannot be regarded as its own complete case study; it is merely a part of a larger endeavor.

Yin states that the greatest threat to single-case study designs is the potential vulnerability that a case may later turn out not to be the case it was thought to be at the

outset. Single-case designs require careful investigation of the potential case to minimize the chances of misrepresentations and to maximize the access needed to collect the case study evidence.

In addition to the distinction between the Single-Case vs. Multiple-Case Designs, the Holistic vs. Embedded Analysis must also be examined. Both case study designs offer two different approaches to conducting analysis. A holistic approach is utilized when there is only one unit of analysis. "The holistic design is advantageous when no logical subunits can be identified and when the relevant theory underlying the case study is itself of a holistic nature" (Yin, 1989:49). However, this approach may yield its own set of problems. According to Yin, a typical problem with the holistic design is that the entire case study may be conducted at an abstract level, lacking any clear measures or data. Another problem with this form of analysis is that the entire nature of the case study may shift. Yin states that, the initial study questions may have reflected one orientation, but as the case study proceeds, a different orientation may emerge, and the evidence begins to address different questions. Some people have argued that such "flexibility is a strength of the case study approach. In fact the largest criticism of case studies is based on this type of shift – in which the original design is no longer appropriate for the research questions being asked" (Yin, 1989:50). One way to overcome this criticism is to utilize the embedded design.

The embedded design may involve more than one unit or sub-unit of analysis. Yin provides an example that even though a case study might be about a single public program, the analysis might include outcomes from individual projects within the

program. He further warns that a major pitfall “occurs when the case study focuses only on the subunit level and fails to return to the larger unit of analysis” (Yin, 1989:50).

### Selected Approach

A single-case holistic study approach appears to be feasible at this point given the Brooks AFB initiative is a unique approach. We will examine the Brooks AFB initiative and compare the decision process to the public-public outsourcing decision model portrayed in Figure 7. Yin has articulated that the Type I approach is, generally, the least compelling and that Type IV is the most compelling. Types II and III each have their good points and bad points. Due to the uniqueness of the research involved, Type I appears to be the best fit for this thesis. Before dismissing the validity of the Type I approach, however, it is important to remember that researchers should choose a methodology appropriate for the research being conducted—not to make the research “fit” the methodology.

The single-holistic case-study approach appears to be the best fit for the exploration of the decision models relied upon by the DoD to implement the public-public partnership phenomenon.

While case studies do not fit every research situation, they have much greater applicability than previously believed. Excellent opportunity exists for using case study research methodology in many areas of logistics and purchasing. Some of these areas include:

1. Understanding the impact of various types of logistics and purchasing organizational structures on the role of logistics in an organization.
2. Understanding the decision-making process related to:
  - a. Whether or not an organization outsources logistics activities.
  - b. The degree of outsourcing pursued. (Ellram, 1996:115)

Thus, in arguing that a single-holistic case-study is appropriate for our research purpose, we rely upon Ellram, and the points made by her in 2a and 2b above.

Furthermore, we believe a single, albeit holistic, case study is sufficient for initially testing the conceptual public-public outsourcing decision model developed in Chapter 2. We rely on the fact that the model developed is only a slight adaptation of the current models used for public-private outsourcing decisions, and that these models have proven useful to decision-makers in such situations. A model's strength ultimately depends upon its generalization power derived from its application to multiple cases. However, given that public-public outsourcing arrangements are a new idea to the DoD, we believe it will be insightful to investigate the usefulness of the model developed in Chapter 2 based upon its application to the Brooks AFB initiative.

### Summary

This chapter began by exploring the research methodologies available for conducting the comparison in Chapter 4. Following this, an abbreviated literature review was presented which lends support to our selection of the single-holistic case-study strategy. A discussion of case study research was then presented. This discussion included a section on case study designs. Particular emphasis was placed upon the single-holistic case-study design. Throughout the sections of this chapter, our rationale for selecting the Brooks AFB initiative as our case was discussed and supported.

## IV. Case Study Results and Analysis

### Chapter Overview

This chapter is divided into two main sections. First, an overview of the case which we have chosen for our research purpose is presented. This overview includes a discussion of the impetus behind the Brooks AFB initiative, and the objectives of the study which was conducted as part of the initiative. The approach used by the authors of the study is also presented. Second, our comparison of the conceptual model developed in Chapter 2 with the decision process followed in the Brooks AFB initiative is presented. The conceptual model is shown, again, at the beginning of the section to aid the reader in following the comparison.

### Case Overview

Flight operations ended at Brooks AFB in 1961 (SAIC, 1999: 2-1). After the 1992 merger of Air Force Systems Command and Air Force Logistics Command, Brooks AFB became home to the Human Systems Center (SAIC, 1999: 2-1). As such, it fell under the control of the newly formed Air Force Materiel Command (AFMC). Today, the Human Systems Center is known as the Human Systems Wing, and is directly assigned to AFMC's Aeronautical Systems Center.

Brooks AFB resides upon 1,310 acres within the greater City of San Antonio. There are 265 buildings on the premises, including 95 military family housing units. These structures encompass over 2.2 million square feet of floor space. The base is also responsible for more than 43 miles of road, and 175 miles of utilities (SAIC, 1999: 2-2).

The impact of Brooks AFB on the community of San Antonio is significant.

The economic impacts are direct (i.e., job creation, purchase or goods and services), indirect (i.e., salaries of both civilians and military personnel are spent within the community, generating tax revenue), and induced (i.e., spending and re-spending of dollars in the community). (SAIC, 1999: 2-4)

Brooks AFB, along with the other bases in the San Antonio area, supports over 168,000 military and civilians. Direct and indirect economic impacts of Brooks AFB are estimated to be \$165 million and \$118 million, respectively (SAIC, 1999: 2-4). As a result of these impacts the base has on the local community, any effort to reduce operation and support costs in order to maintain the future viability of the base is warranted and deserves attention.

Impetus and Objectives. The “AFMC Special Study for Brooks Air Force Base” was published on January 29, 1999. The report was prepared, under contract, by Science Applications International Corporation (SAIC), upon “a request by Congress and direction by the Secretary of the Air Force (SECAF) through the Air Force Material Command (AFMC)” (SAIC, 1999: 1-1). The study’s purpose was to identify and recommend alternatives that would “substantially reduce base operating costs at Brooks Air Force Base” (SAIC, 1999: 1-1). Accordingly, the study is focused on the following SECAF objectives

1. Describe any barriers (including barriers under law and through policy) to improved infrastructure management.
2. Describe means of reducing infrastructure management costs through cost-sharing arrangements and more cost-effective utilization of property.
3. Describe potential public partnerships or public-private partnerships to enhance management and operations.
4. Assess potential for expanding infrastructure management opportunities at Brooks AFB resulting from initiatives considered at the base or at other installations.

5. Analyze current and projected costs of the ownership or lease of Brooks AFB under a variety of ownership or leasing scenarios, including the savings that would accrue to the United States Air Force (USAF) under such scenarios.

Approach. The approach taken by SAIC was to first establish baseline costs for a wide variety of functional areas and services (see Table 7 for a complete listing). SAIC then developed, and analyzed, several alternatives aimed at reducing Brooks AFB operating costs.

**Table 7. Brooks AFB Functions Considered in SAIC Study**

<b>AREA</b>	<b>FUNCTIONS</b>
Municipal Services	Waste Management Grounds/Road Maintenance Fire Services Law Enforcement
Transportation Services	Transportation Flight services
Information Technology Services	311th Communications Squadron services
Housing Services	Military Family Housing Brooks Inn Brooks AFB Dormitories
Health Services	311th Medical Squadron services
Food Services	Lone Star Dining Facility
Utilities Services	Water Waste Water Natural Gas Electricity Central Heating and Cooling
Supply Services	311th Logistics Squadron-Supply Flight 311th Logistics Squadron-Medical Flight 311th Civil Engineering Squadron Supply (CEMAS) Logistics Management Control Activity
Financial Management	Financial Management Directorate services

**Table 7. Brooks AFB Functions Considered in SAIC Study (continued)**

AREA	FUNCTIONS
Human Systems Wing	Judge Advocate Public Affairs Manpower & Quality Office Contracting Small Business Center Environmental Safety Office History Office
Morale, Welfare and Services	Bowling Center Child Development Center Consolidated Clubs Family Child Care Fitness Center Golf Course Information, Ticket & Tours Library Marketing Outdoor Recreation Rod & Gun Club Skills center Veterinary Clinic Youth Center
Other Air Base Group Services	Chapel Program Plans and Readiness Division Mission Support Squadron Hangar 9 Museum
Civil Engineering Services	311th Civil Engineering Squadron services

SAIC primarily used “private sector cost accounting practices to identify the full costs to the USAF for operating Brooks AFB” (SAIC, 1999: 1-3). Private, as well as public, standards were used to evaluate alternatives. To the maximum extent possible, the study addressed Quality of Life and Quality of Service issues.

The study developed five alternatives, including its recommended approach. These alternatives each have two distinct components: 1) Business Process Reengineering (BPR) efforts aimed at reducing costs, and 2) real property development efforts to generate revenues (SAIC, 1999: 1-4). As for the BPR approach related to each alternative, the study identifies two possible options: 1) low aggressive, and 2) high aggressive. Table 8 contains the mechanisms for change, which SAIC believes are driven by a combination of the two components (i.e., BPR and real property efforts).

The study used six criteria to evaluate the alternatives. The metrics are listed in the Table 9. The metrics were “combined into an overall measure of ‘value’ for the purpose of rank ordering the various alternatives. This measure is defined as risk-adjusted net present value (or economic rate of return)” (SAIC, 1999: 4-6).

**Table 8. Mechanisms for Change**

MECHANISM	DESCRIPTION
Business Process Reengineering	Internal efforts to reduce the costs of operating Brooks AFB that may require staff realignments and private sector benchmarking to achieve the most efficient organization possible.
Transfer of Service Provision and Facilities to the Community, Private Sector, Other Military or Government Entities	This mechanism includes transfer of service provision responsibilities in exchange for land and/or property and outright privatization of some services, as dictated by benchmarking analysis.
Eliminate Services	Close facilities or eliminate services that are generating a net loss to the base and the USAF. In some cases, this elimination will require enhanced reliance on community services and commercial vendors and may require some subsidization of funds to military personnel to offset the costs of providing these services. It may also require provision of enhanced transportation to these services, particularly for the student population. For the services eliminated, the "compensatory" costs will be significantly lower.
Outgrant Facilities, Assets or Land	This mechanism increases revenues to the owner of the facilities, assets or land and improves the overall utilization of capital at Brooks AFB.
Expand Services	In areas where the USAF, Brooks AFB or the City have an opportunity to bring new business opportunities or consolidate existing services, (e.g., fire, police, information services, transportation), revenue or revenue-in-kind will generate operating revenue or reduce the direct cost of operating Brooks AFB.

(adapted from SAIC, 1999: 4-3)

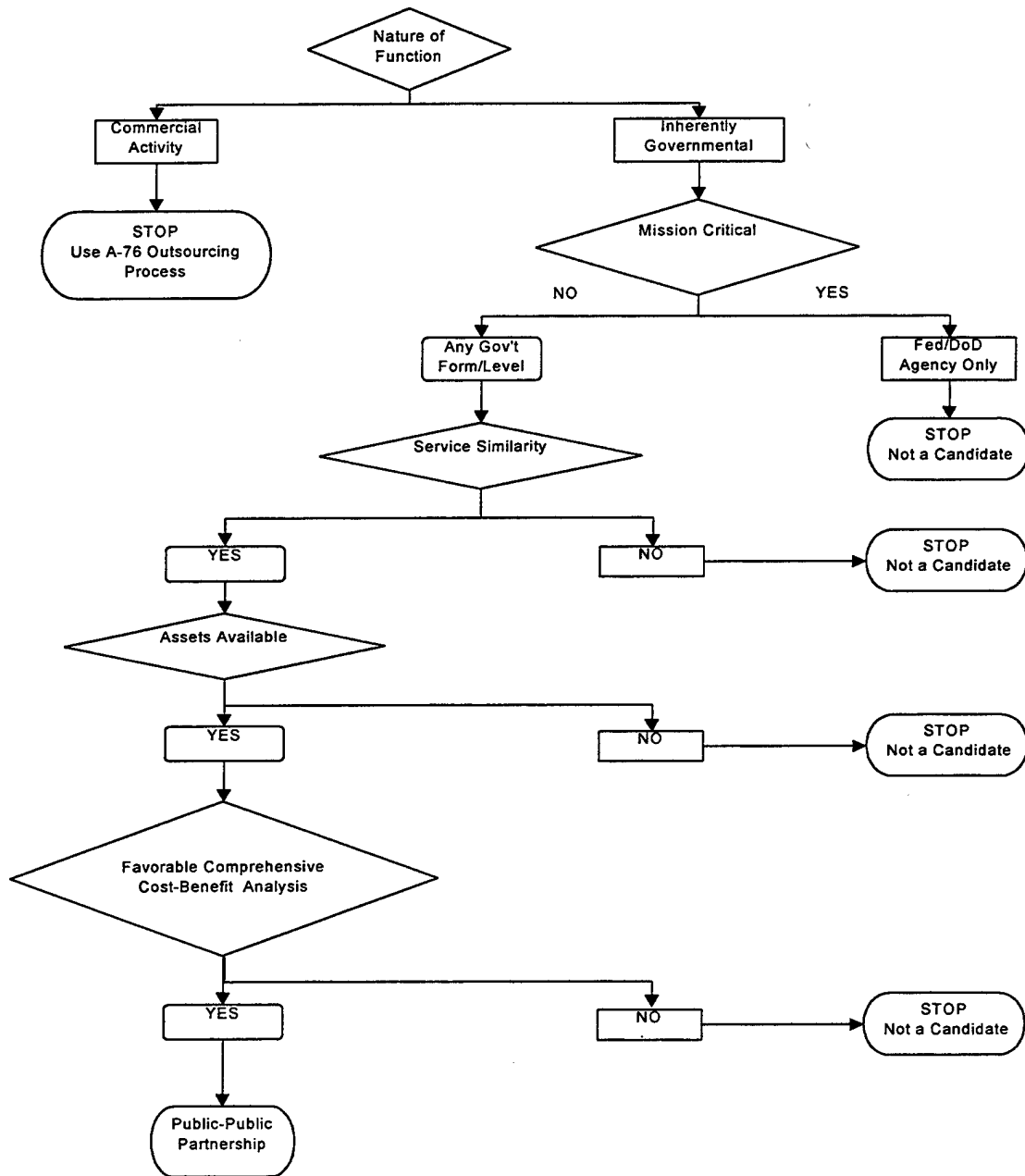
**Table 9. Evaluation Metrics**

METRIC	DESCRIPTION
Direct Mission Impact	Changes in support to mission elements. In this area, the concern is with direct impacts of a change in base operating practices rather than indirect impacts that may occur as a result of a change in service levels.
Net Operating Costs	Change in Brooks AFB operating costs and USAF outlays. Net operating costs savings include any offsetting costs involved in taking BPR land or property development. Such costs could include any subsidies that would need to be paid by the USAF to military personnel to compensate for the elimination or reduction in services.
Revenue Generation	Change in Brooks AFB/USAF and Treasury revenues. Revenue generation occurs as a result of the disposition of equipment or assets and lease payments from real property. For this analysis, revenue from land and buildings is separated from revenue gathered from operations. the two sources of revenues are then combined as part of an overall evaluation metric.
QOL/QOS	For the quality of services the study distinguishes between what is a perceived impact and what is an actual impact on the quality of services. Two principal factors define this distinction; current usage levels and the availability and access to other local services. For example, the elimination of a program with limited patronage compared to the total cost of the program, and with easy community access would show little or no quality of service impact. Where these are negative impacts, mitigation tools are suggested. In some cases, the increased choice of services off base may have a positive impact on QOL despite the fact that a program is eliminated. Potential impacts or perceived impacts are assessed for service members, employees, tenants, dependents, and retirees.
Community Impacts	Change in net jobs. The change in net jobs will be negatively impacted by a reduction in the labor force required for support services at Brooks AFB. This negative impact will be offset in two ways. The first is a corresponding shift (increase) in employment to the private sector or the city. The second is through the raw land and property development efforts that will bring new jobs to the San Antonio community. The direct (#of jobs) and indirect (downstream income) are measured and presented as part of the overall results.
Implementation Risk	Probability of success, timing.

(adapted from SAIC, 1999: 4-5)

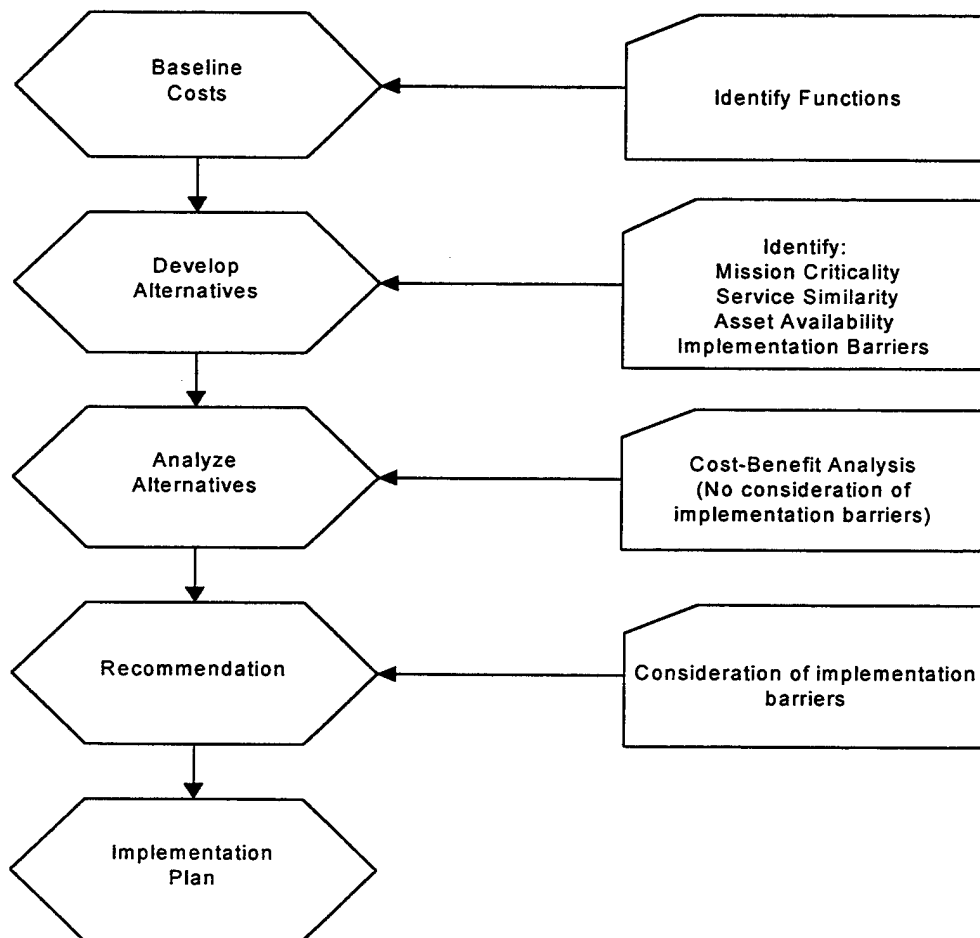
## Analysis of Case

The figure below is a reproduction of the conceptual alternative outsourcing method decision model presented originally in Chapter 2 as Figure 7. It is provided here, again, to facilitate our analysis of the Brooks AFB initiative case.



**Figure 9. A Conceptual Public-Public Outsourcing Model**

Figure 10 is a depiction of the decision process followed in the AFMC Special Study for Brooks Air Force Base. This process model is not explicitly presented in the study by SAIC. However, it is an accurate portrayal of the method employed by SAIC to achieve the study's objectives. This conceptual depiction is grounded on the fact that we read and reviewed the study report thoroughly. In creating this model of the study's decision process, we took from what was said throughout the report as well as from the format in which the material was presented in the report.



**Figure 10. Graphical Model of the Brooks Initiative Decision Process**

It is important to highlight the fact that the model presented in Figure 10 is a process or implementation model rather than a decision model. While this confounds our attempt to directly compare our conceptual model with one used in the Brooks AFB initiative case, the fact is that there was no clear decision model employed in the SAIC report. We believe it is of value, however, to compare our conceptual decision model to the process model we created based upon the content of the study report. The study's process model addresses issues that are (and are not) addressed by our conceptual decision model. Thus, we believe comparing the two will yield significant insights into the decisions that should be made-- as well as the process through which the decisions are made-- with respect to the phenomenon of public-public outsourcing.

What follows, then, is our analysis of the Brooks AFB initiative decision process model as compared with the conceptual decision model developed in Chapter 2. The structure of the analysis is such that we first discuss a major step of the initiative's process model (e.g., Baseline Costs, Develop Alternatives, etc.), and then compare it with the conceptual decision model. Before proceeding to the next major step in the initiative's process model, we discuss any factors which may influence the particular step (e.g., having discussed and compared the major step in which costs are baselined, we then discuss and compare the identification of functions before moving to the next major step in the initiative's process model in which alternatives are developed).

Baseline Costs. According to the study's Executive Summary, SAIC first established baseline costs for the functions listed in Table 7. The rationale given was

Whether alternatives include internal re-engineering, private sector benchmarking or commercializing facilities, the appropriate basis for evaluation is the total cost of a function, which includes a full allocation of all infrastructure and other support expenditures.

Brooks AFB, the USAF, DoD and potential vendors will only be able to make 'value-based' decisions if the total costs of providing support services are estimated. (SAIC, 1999: 3-1)

An activity-based costing methodology "was used to provide a baseline to compare current operations against future City of San Antonio and private sector proposals" (SAIC, 1999: 1-3).

Comparison to Figure 9. Baselining the cost of functions to be considered for outsourcing is implicitly addressed in the decision model shown in Figure 9. The model in Figure 9 assumes that the baseline cost of a function is calculated as part of the comprehensive cost-benefit analysis step. Thus, whereas both the model in Figure 9 and the process followed in the Brooks initiative include a step which requires the establishment of a cost baseline, the sequencing of this step is different.

Identify Functions. Those functions listed in Table 7 are the ones that were identified to be included within the scope of the SAIC study. This step implicitly (albeit, obviously) precedes the step in which the costs associated with function are baselined.

The study does not, however, discuss how the functions were selected for inclusion in the study. As a corollary, the study also fails to discuss why some functions were not considered for inclusion. Thus, it is unclear whether functions were selected for inclusion in the study, or omitted from consideration, based upon economics, politics, policy guidance, or philosophical reasons.

Comparison to Figure 9. The model in Figure 9 does not explicitly contain a step in which the functions to be considered for outsourcing are identified. Instead, the model assumes that the functions to be considered have already been selected by top-level officials, and that the decision-makers charged with developing and

analyzing alternative courses of action will start by considering the nature of the function(s).

Develop Alternatives. The next step in the SAIC report was the development of alternatives representing “a series of hypothetical scenarios along a continuum” (SAIC, 1999: 4-1). These alternatives “were developed in conjunction with the Brooks AFB staff and City of San Antonio representatives” (SAIC, 1999: 1-3).

Five alternatives were developed (including the recommended approach). In developing each of the alternatives, the following issues were considered: Mission Criticality, Service Similarity, Asset Availability, and Implementation Barriers.

Comparison to Figure 9. The model in Figure 9 does not contain a single step for the development of alternatives. Rather, the development of alternatives occurs as the decision-maker follows the steps between the determination of the nature of the function and the performance of a comprehensive cost-benefit analysis. Therefore, we shall first look at the Brooks initiative process model and then compare each of the elements to the model in Figure 9.

Mission Criticality. The Executive Summary states that the alternatives developed “contain two distinct components: Business Process Reengineering (BPR) efforts aimed at reducing costs, and real property development efforts to generate revenues” (SAIC, 1999: 1-4). When combined, these components “provide many different mechanisms for change, ranging from the transfer of services to the City of San Antonio or the private sector in exchange for real property, to the elimination of services if they are not supporting mission critical activities” (SAIC, 1999: 1-4). We infer, from this statement, that Brooks AFB and the City actively took the issue of mission criticality

under consideration when identifying functions to be considered, and when developing alternatives.

Comparison to Figure 9. The model in Figure 9 provides a separate step in which the mission criticality of a function is identified and assessed. The Brooks initiative process model includes this as one element within the “Develop Alternatives” step.

Services Similarity. This element within the “Develop Alternatives” step, in the Brooks initiative process model, is one that is inferred from statements made in the Executive Summary of the study. In discussing “Alternative 3: Base Transfer Strategy,” the study states that

Brooks AFB relies more heavily on the City for the provision of municipal services, real property maintenance services, and recreation and parks services. These services are exchanged for the proceeds from the real property and raw land development and the retention of Brooks AFB core activities in the San Antonio community. **Remaining services (not provided by the City) are competitively outsourced or privatized [emphasis added]** with an emphasis on local and small businesses. (SAIC, 1999: 1-6)

Apparently, “Many of the services provided by San Antonio duplicate and/or support services currently provided by Brooks AFB” (SAIC, 1999: C-1). Therefore, “It is expected that the City can provide these at a lower cost than the USAF currently does through leveraging ‘economies of scale’” (SAIC, 1999: 1-7).

Comparison to Figure 9. The model in Figure 9 provides a separate step in which the service similarity of a function is identified and assessed. The Brooks initiative process model includes this as one element within the “Develop Alternatives” step.

Asset Availability. This element within the “Develop Alternatives” step, in the Brooks initiative process model, is discussed briefly in an appendix to the SAIC study.

According to the study, "Consolidating theme services provides an opportunity for cost effectiveness, through economies of scale, for both the City of San Antonio and Brooks AFB" (SAIC, 1999: C-1). The appendix describes the City's assets, and provides details on the community's demand for the city services, which these assets support. The following functional areas are discussed in the appendix: Municipal Services (i.e., grounds/road maintenance, fire services, and law enforcement), Transportation, Information Technology, Housing Services, Health Services, Food Services, Utilities, Financial Management, and Arts and Cultural Affairs.

Comparison to Figure 9. The model in Figure 9 provides a separate step in which Asset Availability is identified and assessed. The Brooks initiative process model includes this as one element within the "Develop Alternatives" step.

Implementation Barriers. This element within the "Develop Alternatives" step in the Brooks initiative process model aims to identify and consider "institutional, regulatory, legal, and cultural barriers to reducing operating costs at Brooks AFB" (SAIC, 1999: 1-3). As part of the discussion on barriers, the study states

The term 'barriers' implies a more rigid political, administrative and legal system than is actually the case. Many 'barriers' are more appropriately labeled 'problems' because they cause delay or involve well-known controversies but do not prevent the desired action from taking place eventually. (SAIC, 1999: 6-1)

The study found that many of the barriers existed at different levels (e.g., Congress, the Executive branch, and within the USAF). The barriers are discussed with respect to "three principal areas: (1) BPR; (2) Facility Leasing and; (3) Raw Land Development" (SAIC, 1999: 6-2).

Comparison to Figure 9. The decision model in Figure 9 does not contain a step in which the barriers to implementation of a potential public-public outsourcing arrangement (with respect to an inherently governmental function) are considered.

Analyze Alternatives/ Cost-Benefit Analysis. The alternatives analyzed in this step of the Brooks AFB initiative process model were “developed in conjunction with Brooks AFB staff and City of San Antonio representatives” (SAIC, 1999: 4-1). According to the study, “The analysis approach identifies the range of potential operating cost savings together with land and facility revenues that are available from changing the way Brooks AFB conducts business” (SAIC, 1999: 4-1).

In this step of the process, the alternatives are analyzed without respect to the potential implementation barriers identified in the previous step. The analysis does, however, take into consideration Quality of Life and Quality of Service issues. Furthermore, the analysis accounts for Direct Mission Impact as well as Community Impact (see table 9 for definitions of these, and other, evaluation metrics).

Comparison to Figure 9. The decision model in Figure 9 also provides for a cost-benefit analysis. However, the analysis performed as part of this step accounts for the transaction costs associated with a particular outsourcing arrangement. Such transaction costs include the *ex ante* costs of negotiating and drafting the contract, as well as the *ex post* costs of monitoring and enforcement (e.g., litigation). The issues of asset specificity and opportunism are included as well, and are closely related to the issues of partnering and strategic organizational imperatives (e.g., the ability of the Federal Government to cancel the public-public partnership, and return to the in-house provision of a function). The evaluation metrics used in the SAIC study to rank order the different

alternatives are valid, but do not address transaction or agency costs as described above (see Chapter 2 for more on transaction and agency costs).

Recommendation/Consideration of Implementation Barriers. At this step in the Brooks AFB initiative process model, a recommended approach for reducing base operating costs is discussed. The analysis of the recommended approach is similar to that performed on the other alternatives. However, it considers the barriers to implementation as well as the risk-adjusted rates of return.

In the section of the study that addresses risk-adjusted rates of return, it is said that “an alternative with the highest *potential* pay-off may not be the preferred alternative because it involves risks that Brooks AFB, the USAF, or the City of San Antonio are unwilling to take” (SAIC, 1999: 4-7). The risks addressed in the study include

Political, legislative, legal, institutional (i.e., ownership considerations), cultural (i.e., long-term USAF practices), budget (i.e., City of San Antonio, Brooks AFB and USAF), environmental compliance and market (i.e., availability of contractors, raw land absorption, etc). (SAIC, 1999: 4-6)

Additionally, it is mentioned that the “risk/yield tradeoff is an integral part of the recommended approach” (SAIC, 1999: 4-7).

Comparison to Figure 9. The decision model in Figure 9 implicitly contains a “Recommendation” step. The nature of decision model is such that, in response to a particular question step, two or more alternative courses of action are followed. In the model shown in Figure 9, two recommendations are made depending upon the result of the comprehensive cost-benefit analysis (e.g., if the result of the comprehensive cost-benefit analysis is positive, the recommendation is to pursue a public-public partnership). Thus, both models allow for recommendations to be made.

Implementation Plan. In the final step of the Brooks AFB initiative process model, two elements are present: a graphical timeline for implementing the recommended approach, and proposed draft legislation. The timeline is based upon a phased approach allowing for the estimated time it will take to overcome the implementation barriers addressed in the "Recommendation" step of the process model. The proposed draft legislation also addresses the implementation barriers to the recommended approach. Unless -- and until -- this draft (or legislation similar to it) is adopted by Congress, the Executive branch, and the USAF, the recommended approach cannot be implemented.

Comparison to Figure 9. The decision model in Figure 9 does not contain a step in which an implementation plan is proposed. Once the comprehensive cost-benefit analysis is completed and determined to be favorable, the recommendation is to pursue a public-public partnership. It would be left to the decision-maker to create an implementation plan.

### Summary

This chapter provided an overview of the Brooks AFB initiative to outsource as many support functions as practicable in order to reduce the base's operating and support costs. The impetus and objectives of the SAIC study were discussed, as was the approach taken by SAIC to fulfill the study's objectives.

The chapter's focus then turned to an analysis of the Brooks AFB initiative's process model as compared to our conceptual decision model. The analysis showed that while one is a decision model and the other is a process model, there were many similarities (and a few differences) with respect to the issues of concern to decision-makers considering a public-public outsourcing relationship.

## V. General Results and Analysis

### Chapter Overview

This chapter presents our findings and analyses as they relate to the investigative questions posited at the conclusion of Chapter 1. This chapter is organized by the order of the investigative questions as they appear in Chapter 1. The discussion of each investigative question includes our findings from the Chapter 2 literature review and the Chapter 4 Brooks Model case study. The goal of this chapter is to objectively report our findings and analyses, related to each investigative question. Our interpretations and conclusions will be presented in Chapter 6.

### Investigative Question 1

This question explores the range of outsourcing possibilities by asking “What outsourcing option(s) are available to the Federal Government (e.g., the Department of Defense)?” Our proposition is that there is at least one alternative to the traditional method of outsourcing in which only commercial activities are considered for performance by private sector firms.

Chapter 2 Findings. From Chapter 2, we find that there are alternatives to the traditional cost reduction method of outsourcing only commercial activities to private sector firms. The OMB Circular A-76 itself acknowledges that decision-makers “must consider a wide range of options,” to include, “the possible devolution of activities to State and local governments (OMB Circular A-76 Revised Supplemental Handbook: 1996). The authors of the RAND study conducted on behalf of the Commission on Roles and Missions of the Armed Forces (created by Congress in 1993) support the idea of

outsourcing alternatives. They found that the DoD's traditional outsourcing approach was based, in part, upon a preconception of efficiency that gave preference to private sources. They argue that this unduly precluded the consideration of the merits of outsourcing functions to public sources.

Our findings in Chapter 2 support our proposition that alternative outsourcing arrangements exist and merit consideration by decision-makers. Whereas public-private outsourcing arrangements have been the norm in the past, public-public outsourcing arrangements are now being considered as a viable alternative to -- or extension of -- the traditional methods employed to reduce operations and support costs. We shall now, briefly, look to the Brooks AFB initiative and analyze its significance with respect to Investigative Question 1.

The Brooks Initiative. The SAIC study conducted as part of the Brooks AFB initiative provides empirical support to our proposition. The study considered a plethora of alternatives aimed at reducing the base's operations and support costs. The alternatives included outsourcing functions to private sector firms in the local community and to the City of San Antonio.

Prior to the release of the SAIC report, Lt Col Michael A. White, Deputy Director of the Business Development Office at Brooks AFB, gave a presentation related to the Brooks AFB initiative in which it was stated that the vision of the base was to transition to a cooperative venture between the base and the state (i.e., Texas), the city (i.e., San Antonio), and the private sector (Human Systems Center, 1998). Therefore, it is clear that, from the inception of the initiative, stakeholders in the cost reduction process refused to be bound by traditional cost reduction methods (i.e., outsourcing of

commercial activities to private sector firms). Instead, the process stakeholders willingly entertained innovative alternatives, including the outsourcing of functions to state and local governmental entities.

### Investigative Question 2

Having identified at least two outsourcing methods (i.e., public-private and public-public), this question asks “Under what circumstances can or should the different outsourcing options be considered?” Our proposition is that public-private outsourcing is appropriate and should be considered when the function in question is not inherently governmental and is not a “core” activity (i.e., a national defense activity or a military essential function). Public-public outsourcing, we propose, is appropriate and should be considered when the function in question is inherently governmental but is not a “core” activity.

Chapter 2 Findings. The literature reviewed in Chapter 2 supports the notion that there are different circumstances under which the different outsourcing methods should be considered. The difference is based upon the inherently governmental nature of the function under consideration, and whether the function is critical to the accomplishment of the military mission (i.e., a “core” function).

In the section on Government & The Public Interest, under the A-76 heading, the FAR explicitly distinguishes between functions which are, and are not, inherently governmental. According to the FAR, “as a matter of policy,” an inherently governmental function is one “that is so intimately related to the public interest as to mandate performance by Government employees” (FAR 7.501, 1999). Another definition of an

inherently governmental function states that it is an activity “that is so intimately related to the public interest as to mandate performance by Federal employees” (OMB Circular A-76 Revised Supplemental Handbook, 1996). Thus, while there is some ambiguity as to whether an inherently governmental function must be performed by Federal employees or any governmental employee, it is clear that public-private partnerships are not suitable and should not be considered when a function is deemed to be inherently governmental.

The Outsourcing Guide for Contracting supports this argument by addressing both inherently governmental functions as well as “core” functions. According to the guide

Air Force functions fall within one of two categories: inherently governmental (cannot outsource) and commercial activity (can outsource). OMB Policy Letter 92-1, Inherently Governmental Functions, provides guidance for Federal agencies to determine which functions are inherently governmental. Commercial activities, not inherently governmental functions may be outsourced. A CA that is military essential, or prohibited by statute must not be outsourced. (Outsourcing Guide for Contracting, 1996)

For definitions of Commercial activity, Inherently governmental activity, National defense activity, and Military essential function, refer to Table 1.

The Brooks Initiative. The SAIC study draws a distinction between functions which are and are not inherently governmental. Apparently, the study also adopts the FAR definition of inherently governmental functions (in preference to the Outsourcing Guide’s definition) since the alternatives explored in the study allow for the performance of some inherently governmental functions by other than Federal employees (i.e., employees of the City of San Antonio government).

### Investigative Question 3

The research related to Investigative Question 1 revealed that there is at least one alternative (i.e., public-public partnerships) to the traditional outsourcing method in which commercial activities are outsourced to private sector firms through public-private partnerships. Our efforts to answer Investigative Question 2 showed that there are different circumstances under which public-private and public-public outsourcing arrangements should be considered. This investigative question asks whether different outsourcing decision models are required as a result of the differences between the two outsourcing alternatives. Our proposition is that the differences between public-private and public-public outsourcing arrangements do mandate the use of different decision models by decision-makers contemplating the outsourcing of base support functions.

Chapter 2 Findings. Our review of the literature revealed that a public-public outsourcing decision model does not have to be completely distinct from a public-private outsourcing decision model. Both decision models contain steps in which service similarity and asset availability is addressed. Both require a cost-benefit analysis be performed. However, the differences between public-private and public-public outsourcing arrangements, and the circumstances under which each should be appropriately considered, do require that a public-public outsourcing decision model allow for the outsourcing of inherently governmental functions that are not mission essential. Thus, while the differences between outsourcing decision models may be slight, they are sufficiently significant to warrant the use of different decision models according to the nature of the function under consideration.

The Brooks Initiative. As stated in the previous chapter, no outsourcing decision model was presented in the SAIC study. However, it is clear from the study that a different decision model is warranted when contemplating the outsourcing of a function via a public-public partnership. This is evidenced by the fact that the study spent a great deal of time addressing the barriers to implementation of a public-public partnership between Brooks AFB and the City of San Antonio. These barriers exist on numerous levels (including Congress, the Executive branch, and the DoD) and are the result of policy, procedure, or statute (SAIC, 1999). Many of these barriers, if not all, would not confound a decision-maker using a decision model pertaining solely to the establishment of a public-private outsourcing arrangement.

#### Investigative Question 4

Our response to Investigative Question 3 established that there is a legitimate need for a separate decision model when considering either a public-private or public-public outsourcing arrangement. This question asks whether there is a decision model currently available, and applicable, to the Federal Government that can be used when making decisions concerning the initiation of public-public outsourcing partnerships. Our proposition is that there are no decision models currently available, or applicable, to the Federal Government with respect to the initiation of public-public outsourcing partnerships.

Chapter 2 Findings. A review of the extant literature related to outsourcing (in both the public and private sectors) revealed two explicitly developed outsourcing decision models. These models are presented and discussed in Chapter 2 under the

heading "Current Outsourcing Models." Admittedly, the review focused primarily upon the literature related to outsourcing efforts of the public sector since we assumed that the decision factors and processes used therein would be more germane to the topic of our investigation.

For example, state and local governments must provide for the public interest of their respective jurisdictions in the same way the Federal Government must protect and provide for the public interest of the nation as a whole. The issue of public interest does not concern private sector firms in the same way. These firms are free to outsource functions to whomever they please so long as no illegal activity is taking place (e.g., the violation of anti-trust legislation).

In reviewing the literature on public outsourcing efforts (of non-Federal entities), we found that the A-76 guidance was used as a methodological guide in making municipal (i.e., city government) outsourcing decisions (Prager and Desai, 1996). Furthermore, with respect to outsourcing guidance and OFPP Policy Letter 92-1, it has been suggested that "Despite its age and limitations, the OFPP policy offers the best guidance available for today's decisions" (Burman, 1998: 62).

The first model discussed in the section on "Current Outsourcing Models" captures the decision process followed by decision-makers using the A-76 guidance (see Figure 4). As mentioned in that section, the model is inadequate for decision-makers contemplating public-public outsourcing arrangements since no course of action is available once the function is deemed to be a "core" (i.e., inherently governmental) function.

The second model identified and discussed in the section on “Current Outsourcing Models” is an improvement upon the first (see Figure 5). However, while the RAND study explores the need to consider alternative avenues of outsourcing (i.e., public sources), their decision model does not adequately provide for this alternative. As seen in the quote on page 26, the RAND study lists several sources and governance structures through which the Federal Government could outsource the provision of its functions. The list makes limited mention of public sources (inter-, or intra-service sources), and does not look at inter-agency and inter-governmental possibilities.

Another concern we had with this model is in the way it is graphically depicted. Apparently, the RAND model uses the terms “public” and “private” in the same sense as the terms are used in the “traditional” model. The way in which the arrows are drawn (and the usage of the terms “public” and “private”) would suggest that if the answer to any of the decision points is “no,” then the proper course of action would be to retain the function in-house.

The Brooks Initiative. The SAIC study does not explicitly contain a graphical decision model. Nor does it make reference to any existing models which may have been relied upon. Thus we must rely upon our findings in Chapter 2 and our analysis in Chapter 4.

#### Investigative Question 5

Having established that differences between public-private and public-public outsourcing arrangements necessitate the employment of different decision models, we then determined that an adequate public-public decision model is lacking from the extant

literature on outsourcing. Thus, we shall add to the body of literature by answering the question "What would a decision model look like that could be used by the Federal Government when evaluating functions which are not commercial activities available for outsourcing, but which may be performed by other governmental agencies (i.e., public-public partnerships)." Our proposition is that the model developed in Chapter 2 can be used by the Federal Government when making decisions concerning the initiation of public-public outsourcing partnerships.

Based upon our findings in Chapter 4, our proposition was not supported. We found that our conceptual decision model could not be used, unless some changes were made to it, by decision-makers responsible for public-public outsourcing decisions. The two models are similar with respect to the steps in which alternatives are developed and analyzed, and recommendations are made. While these steps, and the elements considered as part of each step, are not sequentially identical, they are, for the most part, substantially similar.

As a result of our analysis in Chapter 4, we have developed an analytical model of the public-public outsourcing decision process (see Figure 11). Since this model incorporates our findings from the literature reviewed in Chapter 2 as well as our analysis reported in Chapter 4, we believe the analytical model provides a reasonable depiction of what a public-public outsourcing decision model should look like.

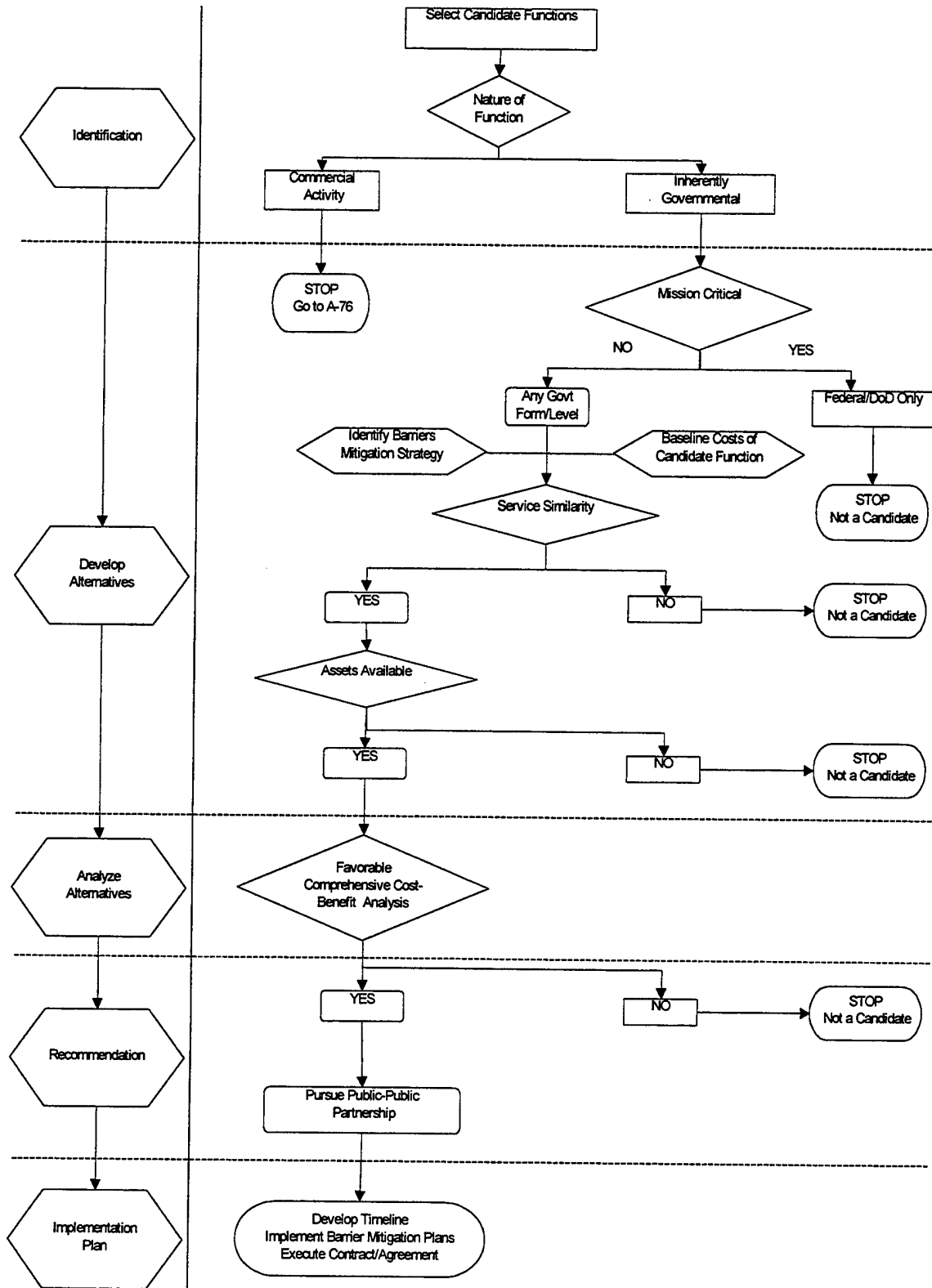


Figure 11. An Analytical Model of the Public-Public Outsourcing Decision Process

## Summary

This chapter presented the investigative questions and our propositions along with the results of our research and the analysis of those results. All of our propositions were supported with the exception of the one related to Investigative Question 5.

With respect to Investigative Question 1, our research and case analysis established that public-public outsourcing arrangements are a viable alternative to traditional public-private outsourcing methods used for commercial activities. However, our research and case analysis conducted in response to Investigative Question 2 showed that there are different circumstances under which each outsourcing arrangement should be considered. Our findings regarding Investigative Question 3 established that, as a result of the differences between public-private and public-public outsourcing arrangements, especially with respect to the circumstances under which each is appropriately considered, different outsourcing decision models were warranted.

Our research and analysis in response to Investigative Question 4 established that no explicit or comprehensive decision models currently exist within the extant literature on outsourcing that could be used by decision-makers in the Federal Government who are contemplating a public-public outsourcing arrangement. In order to answer Investigative Question 5, we developed an analytical model based upon a comparison of our conceptual model and the process model underlying the Brooks AFB initiative. The analytical model thus depicts a decision model which can be of use to decision-makers contemplating a public-public outsourcing arrangement as well as the overall process through which the decision-maker must proceed in order to make the public-public outsourcing arrangement a reality.

## VI. Conclusion

The Department of Defense is currently considering innovative ideas to reduce the operating costs of its remaining bases. One idea (which inspired this research effort), was to reduce base operating and infrastructure costs through the implementation of public-public partnerships. Since the Air Force had already contracted with SAIC to perform a study on the feasibility of this idea with respect to Brooks AFB and the City of San Antonio, we decided to investigate how public-public outsourcing decisions are made.

As we considered the idea of public-public partnerships, we felt it was first necessary to examine whether there was a fundamental difference between the nature of the functions to be outsourced under public-private outsourcing arrangements and public-public partnerships. If there was none, then it would be reasonable to use the current A-76 outsourcing process and guidance to make public-public outsourcing decisions. If there was a difference in the nature of the functions, then we believed it would be beneficial to examine whether any outsourcing decision models currently existed and could be used by the Air Force when making outsourcing decisions that would involve the creation of public-public partnerships.

The remainder of this chapter contains several conclusions we have made as a result of our research and analysis. Some limitations of our research effort are discussed, as well. Our recommendations for future research are offered at the end of this chapter.

### The Nature and Performance of Functions

A fundamental difference exists between the types of base functions that can be outsourced using public-private arrangements and those that can use public-public partnerships. The difference is in whether a function is or is not inherently governmental. The FAR and the OMB Circular A-76, along with other outsourcing guidance, support this conclusion by drawing a clear distinction between those functions which can be outsourced to private sector firms, and those that cannot. What is less clear according to current guidance, however, is which functions can be shared or moved between agencies regardless of whether the agency is at the Federal, state, or local level.

The FAR and OMB Circular A-76 are seemingly at odds, however, over how to handle those functions which are deemed to be inherently governmental. The FAR states that Government employees must perform inherently governmental functions. OMB Circular A-76 states that Federal employees must perform these types of functions. Our efforts have shown that the ambiguity is of little concern to decision-makers determined to pursue innovative methods of cost reduction. The analytical decision model developed herein should serve as a practical aid to decision-makers in determining when performance by Federal employees is required and when performance by any governmental employee will suffice.

### Development of the Analytical Model

This section contains comments on our comparison of the conceptual model with the process model underlying the Brooks AFB initiative. The comments are intended to

explain our rationale for making changes to the conceptual model during the development of the analytical model.

Baselining Costs. Determining the baseline costs of all potential outsourcing candidates prior to the development of alternatives does allow the decision-maker to concentrate his efforts on those functions with the highest potential payoff from outsourcing. We believe it is more appropriate, however, to baseline the cost of a function after it has been determined that the function is inherently governmental, but not mission critical. This would save the time and cost expended to baseline the cost of functions that could not be considered for outsourcing (even to a non-Federal governmental entity).

Development of Alternatives. Our comparison of the two models revealed that each model allows for the consideration of "Mission Criticality," "Service Similarity," and "Asset Availability." There were two primary differences, however. First, our model explicitly allows for consideration of outsourcing an inherently governmental (albeit, non-mission critical) function to any other form/level of government. The Brooks AFB model considers only potential partnerships with the city government for certain functions. We conclude that in order for a decision model to be as comprehensive as possible, it should require decision-makers to consider the possibility of outsourcing functions to any form/level of government.

The second difference between the models is that the Brooks AFB model addresses the barriers to the implementation of possible outsourcing arrangements, with respect to the function under consideration. This element of the decision process was not included in our model, but should be included in order to make it more realistic and

comprehensive. Clearly, as is evidenced in the Brooks AFB study, there are many potential barriers to outsourcing certain functions that exist on different levels. If not identified and considered early in the decision process, these barriers could negate the decision-maker's efforts.

Analysis of Alternatives. The cost-benefit analysis of the outsourcing alternatives developed during the Brooks AFB initiative process is quite thorough. However, the analysis of alternatives did not explicitly include a discussion of the TCE or Agency Theory issues addressed in our review of the literature (e.g., asset specificity, opportunism, safeguards, moral hazard, and adverse selection).

The Brooks AFB initiative process also failed to explicitly address concerns related to the Federal Government's ability to retract from its arrangements with the city government. The many concerns related to strategic partnering (discussed in Chapter 2) are relevant to this issue. It is worth noting that

To bring a service contract in-house commanders must perform a cost comparison. If in-house performance is cheaper, commanders can return to in-house **civilian** operation only. No **military** positions are normally authorized. Return to **military** performance is very rare and must be approved by Air Staff [all emphasis in original]. (Outsourcing Guide for Contracting, 1996)

Thus, the consideration of strategic imperatives and issues related to control and flexibility must be included in any comprehensive cost-benefit analysis. A decision to outsource (to any firm or entity, public or private) may lead to undesired consequences in the absence of such considerations.

Recommended Approach. Both models compared in Chapter 4 provide for a recommendation. In the Brooks AFB process model, the recommended approach stands apart from the other alternatives analyzed in that it specifically took the identified barriers

to its implementation into consideration. This was done using risk-adjusted rates of return to account for implementation risks.

The model, which we developed in Chapter 2, also provides for a recommendation (i.e., if the comprehensive cost-benefit analysis is favorable, then the recommended approach is to pursue a public-public partnership). The analysis of a recommended approach is implicitly included within the step in which the comprehensive cost-benefit analysis is performed on all alternatives. Whereas the Brooks AFB model only explicitly included an analysis of the implementation barriers with respect to the recommended approach, we believe it is appropriate and worthwhile that a comprehensive cost-benefit analysis address the costs of overcoming the implementation barriers related to each alternative under consideration.

Implementation Plan. After comparing the model we developed with the Brooks AFB model, we have concluded that in order to complete the decision process an implementation plan should be developed. This conclusion is supported by the literature on decision-making (see Hill and others, 1981: 22). The Brooks AFB model contains an extensive plan to implement its recommended approach; including a time-line and draft legislation. Therefore, we have added a step to our conceptual model in which the decision-maker must 1) develop an implementation time-line, 2) prepare and execute the necessary steps to overcome implementation barriers, and 3) execute the contract or agreement with the non-Federal governmental entity.

#### Limitations

The limitation of greatest concern to us throughout this project has been that we were only able to work with a single, albeit extraordinary, case (i.e., the Brooks AFB

initiative). Thus, while the conceptual model we developed was based upon an in-depth review of the extant outsourcing-related literature, and compared favorably with the process model followed in the Brooks AFB initiative, it cannot be assumed to be generalizable across all cases.

Another limitation of the research was our reliance on two sources of evidence during our analysis of the Brooks AFB initiative case. We relied upon briefing slides and the AFMC Special Study for Brooks Air Force Base, both of which were provided by the Business Development Office at Brooks AFB. Ideally, we would have had access to internal documents and conducted interviews with key players in the decision process in an effort to triangulate evidence on a particular issue, decision, or concept.

#### Recommendations for Future Research

As a result of our experiences throughout this endeavor, we have identified some opportunities for future research. These recommendations are related to the methodology we employed, and to the concept of public-public outsourcing. It is our hope that this exploratory effort will be helpful to future researchers as intrigued as we in the potential of public-public outsourcing partnerships.

With respect to the methodology we employed, we encourage future researchers to apply the analytical decision model we developed to a variety of cases. This may have to wait some time as the Federal Government has only just begun to consider the public-public option. However, as the model is applied to more cases in which public-public outsourcing is considered as an option, the validity and power of the model will be enhanced.

With respect to the concept of public-public outsourcing, we recommend that future researchers investigate the factors that may contribute to the success, or failure, of a public-public outsourcing arrangement. While outside the scope of our efforts, we entertained the notion that some military bases (and other governmental entities) may be ill suited for entering into public-public partnerships. This could be related to the level of transaction costs involved (e.g., the assets available from the base or governmental entity may be insufficient). It may also have to do with the base's mission, or the geography/population of the surrounding area. In any case, we believe further study is warranted insofar as we believe that there are other bases that could benefit from the initiatives being considered by Brooks AFB.

#### Closing Remarks

The Brooks AFB initiative process demonstrates how the Department of Defense is committed to reducing its operating costs while, at the same time, improving its method of operations. The idea of outsourcing support functions to non-Federal governmental entities is innovative and full of potential. Hopefully, decision-makers will no longer be constrained by the traditional A-76 process, or the mentality that inherently governmental functions must be performed by Federal Government employees (whether civilian or military).

We are hopeful that the analytical model developed as a result of this research effort will be of use to decision-makers contemplating the idea of a public-public partnership. While we admit the model should be subjected to further research, we believe it is a valuable starting point from which to embark upon the outsourcing journey.

We are pleased, in any case, that the Department of Defense has taken the lead in expanding the Federal Government's realm of outsourcing opportunities.

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### Vita

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REPORT DOCUMENTATION PAGE			Form Approved OMB No. 0704-0188	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188), Washington, DC 20503.				
1. AGENCY USE ONLY (Leave blank)		2. REPORT DATE September 1999	3. REPORT TYPE AND DATES COVERED Master's Thesis	
4. TITLE AND SUBTITLE PUBLIC-PUBLIC PARTNERSHIPTS: DEVELOPMENT OF AN ALTERNATIVE OUTSOURCING METHOD DECISION MODEL			5. FUNDING NUMBERS	
6. AUTHOR(S) Michael R. Hackman, Captain, USAF Jack L. Nemceff II, Captain, USAF				
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Air Force Institute of Technology 2750 P Street WPAFB OH 45433-7765			8. PERFORMING ORGANIZATION REPORT NUMBER  AFIT/GCM/LAS/99S-4	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES) 311 HSW/CDB 2513 Kennedy Circle Brooks AFB TX 78235-5115			10. SPONSORING/MONITORING AGENCY REPORT NUMBER	
11. SUPPLEMENTARY NOTES				
12a. DISTRIBUTION AVAILABILITY STATEMENT Approved for public release; distribution unlimited.			12b. DISTRIBUTION CODE	
13. ABSTRACT (Maximum 200 words) The purpose of this research was to explore the phenomenon of public-public outsourcing partnerships as it may be employed by the DoD from a Federal Government perspective. Current outsourcing methods, guidance, and models are discussed as well as outsourcing related theories. Based upon the literature reviewed, a conceptual public-public outsourcing decision model is presented. A case study of the Brooks AFB initiative is then used to analyze the conceptual model.  As a result of our analysis, an analytical public-public outsourcing decision model is developed. The analytical model also depicts the overall process path along which a decision-maker will travel. The end result is that decision-makers are now armed with an innovative decision-making tool that expands the envelope of opportunities to reduce base operations, support, and infrastructure costs.				
14. SUBJECT TERMS Acquisition, Acquisition Reform, Contracts, Decision Making, Decision Aids, Government Procurement, Infrastructure, Models, Outsourcing, Public-Public Partnerships			15. NUMBER OF PAGES 108	
			16. PRICE CODE	
17. SECURITY CLASSIFICATION OF REPORT UNCLASSIFIED	18. SECURITY CLASSIFICATION OF THIS PAGE UNCLASSIFIED	19. SECURITY CLASSIFICATION OF ABSTRACT UNCLASSIFIED	20. LIMITATION OF ABSTRACT UL	

