PITFALLS OF THE A-76 PROCESS

THESIS

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Abstract

The DoD and the Air Force have turned to outsourcing support functions as a way to reduce both costs and the number of soldiers required to provide support for combat forces. The process used to determine whether it is economically feasible to outsource a function is called A-76, after the circular that describes the process.

Outsourcing, like any other tool, must be used in the right way, in the correct environment if the desired goal to be reached. To understand what these goals are, it is necessary to examine past case studies where outsourcing has worked, to determine why outsourcing works. It is then necessary to see if the United States implements policy in such a manner as to ensure the success of the driving forces of outsourcing. In addition, it is necessary to review the A-76 from initiation to implementation of either the contractor or the Most Efficient Organization (MEO) to see if the military has set up policy and implementation to ensure that outsourcing produces the best results possible. It is finally necessary to examine what happens after the A-76 is completed to see how the remaining force structure is affected.

PITFALLS OF THE A-76 PROCESS

1. Introduction

1.1 Background

The DoD currently faces four major problems: No well-defined threat, a shrinking budget, a decreasing labor pool and an increased commitment around the globe. As the military has gotten smaller, it has been asked to go into more areas than ever before. Examples of this include Iraq, Bosnia and Kosovo. Lourdes Castillo points out that since the fall of the Iron Curtin, the DoD has eliminated over 700,000 active duty military members and 300,000 civilians, yet has been deployed five times more frequently (Castillo, 2000: 2).

The high operation tempo, combined with pressure of a shrinking budget, has called for the military to find ways to lower costs, while providing a higher level of service; one method currently employed is outsourcing and privatization of various support functions.

Many writers inside and outside of the DoD use the terms privatization and outsourcing interchangeably. However, privatization is not to be confused with outsourcing since the two refer to very different degrees of governmental involvement. Privatization, as defined by the Internet site Government Executive is "shifting the production of a good or the provision of a service from the government to the private sector, often by selling government owned assets"(Shoop, 1999: 4). Functions that are normally privatized include power production, water, wastewater, etc. Outsourcing, as

defined by the Defense Science Board, is the "transfer of a support function traditionally performed by an in-house organization to an outside service provider, with the government continuing to provide appropriate oversight" (Deavel, 2000: 1). Privatization is a subset of outsourcing, but with the total loss of assets and control over the good or service. All privatization is a form of outsourcing, but not all outsourcing is privatization.

The goals of outsourcing and privatization are to free up manpower, lower the cost of performing that operation and increase efficiency. By using civilians where military members were previously used, those military members can be retrained for duty in another area that is undermanned. The Federal Government expects economic gains to occur because the private sector is constantly faced with competition, whereas the government is not. A company that survives in competition is generally very efficient. It is expected that by exposing government agencies to this competitive force, the government will be forced to become more efficient. The government will become more efficient by either hiring the most efficient organization or by becoming the most efficient organization. In either event, the government wins.

There are several key players that influence and are affected by the decision to privatize or outsource any military function. First, the military represents a great source of steady income to any potential supplier. Second, the American taxpayer ultimately foots the bill for these goods or services purchased by the military. Third, Congress serves as a governing body for all monetary transfers, and as a source of decision approval and budgetary planning. Fourth, the military is the affected organization of any outsourcing and privatization decision.

Congress has been placed in a unique position of trying to obtain the highest level of national defense necessary, at the lowest possible cost. The service providers have attempted to maximize profit in this new market. The American taxpayer cannot be quantified by any single desire. As the national budget reflects, there are a variety interests as to what the collected tax dollars should be spent on. However, it can be assumed that the taxpayers have agreed with Congress -- a strong national defense at the lowest possible cost. As the affected party of any outsourcing decision, the military branches represent the final key players.

While contractors have performed support functions in the past, the degree of contractor support has reached unprecedented levels and closer proximity to the battlefield. It is unlikely that outsourcing will be halted in the near future; so one question has risen to the forefront, what are the pitfalls of outsourcing on the Air Force?

The first part of this answer lies in understanding the complexity of the organization, the goals of that organization and the interrelationship of each activity in the organization. It may be that some organization, far removed from the battlefield, does not appear to be a major concern. However, this function, traced down the line, may prove to be so vital that it could threaten the entire organization by failing to perform. The second part lies in answering to what degree does outsourcing prove to be beneficial in terms of cost and manpower. If these questions are not answered quickly, the answer may come too late to be of any use to either the Air Force or the American public that it defends.

Part of answering the cost question will be to examine the way money is dispersed and how the military monetarily evaluates each function. There are many aspects of the

military that are not any different from the private sector. Other aspects and needs are unique to the military and cannot be duplicated by the private sector. Unfortunately for the military, some of the unique aspects are intertwined with those that are not. If these unique aspects are not assigned a dollar value, then critical aspects of the military may disappear. These unique aspects may be critical to mission success and if they are gone, the mission will fail.

Failure for the military is not merely a momentary set back. The US military reputation is a huge deterrent for the nation's opponents. Failure is a destruction of all past successes. Because of the huge costs in reputation that even a minor failure can produce, it is critical that changes to the military be done carefully. With outsourcing focused so heavily upon costs, it is necessary to examine the process to ensure that all aspects are being evaluated, not just those with an easily defined price tag.

In pursuit of answering what the long term affects of outsourcing are, this thesis will focus upon personnel, in terms of experience, costs, morale and other such factors. It is unlikely that the tools or training that the military depends upon will change merely because a function is outsourced. Training may disappear in some fields, since it will no longer be necessary to teach military personnel how to perform the function, but unique military training will most likely remain. This is because outsourcing replaces only those activities that the military and the private sector share. Ergo, training does not disappear; rather it is merely eliminated from the military sector, while being maintained by the private sector.

To examine the effects several key areas must be examined. To properly understand the effects of outsourcing, it is necessary to determine what the ultimate goals

are in outsourcing. To do this, it will be necessary to review case studies of outsourcing and privatization. The next step will be to examine the competition process, known as the A-76 process. The A-76 process will allow for the identification of key assumptions, which will provide a standard against which to measure outsourcing practices and results. The third step will be to examine how the military, DoD civilian corps and contractors recruit and retain personnel.

By examining the goals and driving forces behind each step, it will be possible to determine what is being done correctly and where challenges exist that may make these goals obtainable. It will be necessary to identify the short-term problems, as well as the long-term problems, if the American Air Force is to remain strong enough to defend the Republic that depends upon it.

II. Literature Review

Many articles highlight the benefits that are derived from outsourcing. Lower costs and the ability to free up military personnel for combat related functions are the two common elements of most arguments that propose outsourcing. By outsourcing a function, the government hires a more efficient organization (i.e. using fewer people). Because the organization is more efficient, it will cost less to perform the same function. Also, because a private firm is performing the function, military members are not used. So these military members are now free to be directed elsewhere. However, these two arguments are not the only arguments for outsourcing.

Paul Taibl, in his article "Outsourcing and Privatization of Defense Infrastructure", points out two additional benefits of privatization -- keeping up with private sector advances and a reduction in overhead costs in upkeep on assets (both material, and personnel) (Taibl, 2000: 5). Taibl examines the Defense Travel System (DTS) and Military Family Housing (MFH) and comes to the conclusion that there will be tremendous benefits to outsourcing the DTS and by privatizing MFH (Taibl, 2000: 5). Outsourcing DTS, the DoD travel system will move forward with the industry, thereby taking advantage of innovations as quickly as the commercial sector (Taibl, 2000: 5). In addition, the DoD will be able to lower processing costs to around 6 percent of direct costs, a reduction of almost 27 percent (Taibl, 2000: 5). Taibl concludes privatizing military housing will give military members a greater selection of housing and the military will no longer "be in the business" of providing housing. This would save costs, since the government would no longer have to pay for up keep on housing and many

military members would then begin to rent, rather than live on base. The government would save on housing costs and the local economy would then collect the rent from the military people that would normally live on base, rather than paying for their housing through the defense budget. The government would have to pay more in the military housing allowance, since no one would live on base, but this money would be funneled back into the local economy.

In her article, Lourdes Castillo notes what can be considered an extremely strong argument for using civilians in support functions; contractors in support functions do not count as military troops. Several presidents from Lyndon Johnson to William Clinton have been able to send more combat troops into politically sensitive situations, because contractors rather than military troops are providing the support of those troops (Castillo, 2000: 2). She also points out the military will no longer have to "grow" experience. In other words, the military will not have to support a person for eight years, to gain eight years of experience (Castillo, 2000: 4). This ability to hire expertise, at whatever level, can make "growing" your own knowledge base unnecessary, and much less costly.

There are several secondary benefits to outsourcing and privatization that have been acknowledged by many authors. Deavel brings up the example of privatization in Britain. Britain, prior to 1979, was in the job of subsidizing companies to keep them from going bankrupt. However Margaret Thatcher decided to divest several government assets (and the services they provided) to the private sector. Deavel notes, "companies that extracted the equivalent of $600 annually from each tax payer in subsidies in order to keep them from collectively going bankrupt" were by 1996 paying $200 for each taxpayer (Deavel, 2000: 6). By changing a drain of revenue into a source of revenue, the

entire economy benefits. Not only will this removal of the drain allow resources to be used elsewhere, but by producing revenue, the additional revenue can then further the goals of the government. Further strengthening this conclusion is a study performed by the World Bank on the effects of privatization. The study found "nations as a whole gained prosperity from the enhanced economic performance those reaped from privatization" (Deavel, 2000: 6). Essentially, whenever one country's economy improved, every nation that traded with that country also benefited.

Many articles suggest that all is not roses when outsourcing a military function. Deborah Westphal recommends this-- "don't form an alliance to correct a weakness" (Westphal, 99: 9). The weaker party, by definition, will be at the mercy of the stronger. If the military forms an alliance to correct a weakness, the private sector that will dictate to the military, rather than the military dictating to the contractor. As Westphal points out "Although the alliance may be 50-50, the weak partner will never be an equal partner because weaknesses don't bring leverage in the marketplace" (Westphal, 99: 10). Presenting the other side of the argument Castillo cautions about the effects of outsourcing after it has occurred. If the outsourcing proves unsuccessful, the military cannot instantly "grow" this experience at the end of the contract. She points out that it will take almost an entire generation before the military can regain the capability currently resident in its personnel (Castillo, 2000: 4). Over the duration of the contract, military members with expertise in that function will be leaving the military, either through retirement, retraining, or seeking employment outside of the military. Combined with this, additional expertise in that area will not be trained, since the opportunity to obtain experience will not be available. Consequently, if the outsourcing fails to meet the

needs of the military, the military will not be able to quickly make up the combined losses of experience in its personnel. If a function is completely outsourced, it will take two to three times the length of the contract to "re-grow" the experience lost. In essence, a failed contract would cost the military two times the length of the contract to regain the experience.

While the military is in new territory with outsourcing at this level, there are others that are not, namely the private sector. The military can look to the private sector for a precedent when outsourcing, because the private sector has been outsourcing for several years. The private sector has developed a rough (but generally successful) heuristic to aid in the decision of whether or not to outsource a function. Therefore, it is logical for the military to turn to the private sector to benchmark this heuristic and apply as much as possible to reduce its own errors.

One of the first questions that a company should to answer in deciding whether to outsource "Is that function a core competency?" A core competency can be defined as a function or skill so integral to the success of the business that if this function cannot be performed efficiently then the organization should not be in that market. However, there are some support functions that can be performed by third party logistic companies without impacting the organization's success in the market. Only those functions that the company can perform better than anyone else should be kept, with others handling those functions in which they excel.

The second question is "How much does this function cost the company to perform versus using a third party?" Cost, at least in the market place, is a solid measure for comparison. Cost can be an indictor of new advances or of new competitors. If

another company can perform the function cheaper, it may have more expertise or some other advantage in that area that allows it to perform more efficiently. If the third party can perform it at a lower cost (quality being held constant), it may prove beneficial to outsource the function to the more efficient company.

The third question is "What is the required degree of control?" The more control needed over a function by the company, the smaller the desire the company has to outsource the function, since the function becomes more critical to the survival of the company. Consequently, companies tend to not outsource functions that they are so dependent upon, that should the supplying company fail, the hiring company will also fail.

However, if a function (critical or not) is outsourced, the company can take measures to protect themselves. By using more than one supplier, the company can ensure a continuation of a good or service, should one provider fail. In addition, it insures the company has an alternative option should a provider begin to make demands. In addition, the company can form an alliance, thereby locking a portion of the function provider's future with its own.

In any event, the outsourcing company must clearly understand the impact of each function under review. It must also understand the capabilities of the providers to ensure a continuation of the desired good or service. The company must have a master plan when outsourcing, otherwise, they could get a whole lot more problems than they had before, at a much higher cost then they had before.

As Steven Zamparelli points out, there does not appear to be a master plan directing where, when and under what circumstances outsourcing for the military should

occur (Zamparelli, 1999: 24). Official guidance at this point has been sketchy. The Inspector General (IG), the military equivalent of an independent counsel, in an investigative report titled "Civilian Contractor Overseas Support During Hostilities" highlights two key areas where clear guidance is not available.

The first finding is "DoD components can not ensure the continuance of emergency-essential services during crises or hostile situations" (Zamparelli, 1999: 19). The DoD responded to this finding by quoting DoD Instruction 3020.37, which stated that commanders ensure annual reviews are accomplished to identify such services. The commander must then either obtain extra personnel to perform these measures or find an alternative contractor or accept the risk (Zamparelli, 1999: 19). In essence the DoD appears to believe that since these reviews are performed, our commanders have found ways to work around failures or find the risk acceptable. Zamparelli notes that under law, commanders cannot force contractors into the battlefield (we can force the firm into harms way if it is in the contract, but the individual employees do not hold such a contract with the US military), and that other resources are not available (Zamparelli, 1999: 19).

The purpose of the commander's review is to prevent the risk of mission failure. With the given constraints-- little to no additional manpower, and limited legal authority over contractors (compared to soldiers) -- the commander is incapable of preventing the risk and has no choice but to accept it.

The second finding of the IG Investigative Team states that "war stopper positions" needed clear identification. A war stopper position is one that should it fail, the war effort would be seriously undermined. Examples include pilots, combat infantry,

computer security, transportation, etc. The DoD replied that DoD Directive 1100.4 "Guidelines for Manpower Programs" does identify war stopper positions. The IG's response to the DoD was that the document was 37 years old and no standards were developed within it (Zamparelli, 1999: 19). It appears that the DoD Directive and the Commander's Reviews do not provide clear outsourcing guidance. Though some positions are still valid, such as contractors, the directives do not provide an updated war stopping position that clearly indicates which positions cannot be outsourced. In addition, the lack of clear guidance on the methodology to identify such positions leaves commanders without clear boundaries. In 1998, the Federal Government developed the Federal Activities Inventory Review (FAIR) which did identify updated functions of could and could not be outsourced. However, it was not clear what methodology they used. Without clear guidance, mistakes can and will be made. These mistakes may not be fatal in isolation, but taken as a whole, they could be. The DoD could, through lack of guidance or experience, experience death by "a thousand paper-cuts."

Currently the military does not expect a reduction in the push from Congress to outsource. As stated in the Air Force document "Global Engagement":

> Our war fighting activities will be designated for effectiveness and our support will be designated for efficiency. . . . support activities not deployed for combat will be preformed by a robust civilian and competitive private sector. The Air Force is committed to the organizational and culture change to make the vision a reality. (Global Engagement, 1997:22).

Consequently, the services have opted for tighter management of contractors' contracts so that key resources are less likely to be unavailable during critical moments.

Because there is no clear methodology guidance, and there is a continued push to increase outsourced positions, the military has looked for ways to provide guidance on

how to write up contracts. A corporation called BRTRC has developed a "battlefield cube"(See Figure 1); to help the Army train it's contracting personnel. This cube is significant to outsourcing because it represents the latest attempt of the military trying to protect its ability to perform the mission. This cube is starting to be taught to other branches of the DoD, so the concern and relevance is not limited to the Army. By using this cube, contracting officers will be better able to identify risks to the military mission and to the contractor in various situations using three main factors: Duration, Activity Level and Environment.

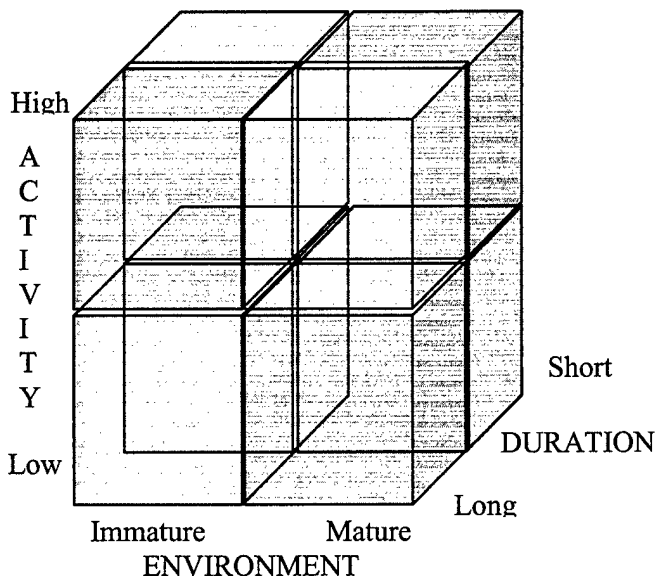

Figure 1. Battle Field Cube for Contractors
Source BRTRC

In the battlefield cube, duration is defined as the spectrum of time the activity is expected to last. Short duration covers a period of days, while Long Duration covers a period of years (BRTRC, 2000: slide 71). The Activity Level covers the spectrum of

conflict from minor engagement (soldiers being sent to train local soldiers) to military battles (BRTRC, 2000 slide 70).

The Environment is defined as either immature or mature. An immature environment is described as little to no infrastructure, few vendors or none with experience in dealing with the US, or vendors with little capitalistic business experiences. (BRTRC, 2000: slide 69). A mature environment is defined as a well-developed infrastructure, with a sophisticated distribution system and many vendors and supplies (BRTRC, 2000 slide 70).

Each criterion is set along an axis of the battlefield cube, thus helping to define any situation into one of eight sectors (see Figure 1). Using the inputs of duration, activity, and environment from the cube, the cube then references an appropriate set of recommendations of contract controls. Contract controls are incentives or penalties that are written into the contract; they are designed to reduce the probability of contractor performance failure. The higher the penalty, it is expected; the less likely the contractor is to fail in accomplishing the contract.

Due to the design of the battlefield cube, it is for most purposes useful only after the decision has been made to use a contractor. It is not useful in determining what should be outsourced or not, since the cube is limited in scope. There are no criteria in the cube that judges the mission impact of each function. It does note an increasing difficulty in obtaining contracts for adverse conditions, but it does not state that contracts cannot be obtained. This is somewhat true, since mercenaries can be hired to fight. However, there appears to be reluctance on the part of the military and the nation to outsource everything within the spectrum of national defense. Consequently, the

battlefield cube does not provide guidance on what not to outsource, it merely highlights the ease or difficulty in doing so, and the recommendations to discourage contractor failure.

The military can look to the public sector to provide some basic questions to ask before outsourcing a function. In addition, it can also provide some proven alternatives that will protect the mission capability, should a function be outsourced. The public sector cannot define functions that should not be outsourced, because for every position in the military there is an equivalent in the private sector, if one counts mercenaries among the private sector. Military guidance is out of date. The last specific guidance was published over 37 years ago and much has changed in this time. In fact, with the increasing capabilities of computers and other technology, a lot can change in a matter of months. While the specific positions may be outdated, there remains no clear standard for developing updated positions. Even the most rudimentary of guidelines does not appear to exist for the lower decision levels. If higher guidance does exists (that is not case by case specific) no one seems to know what it is, so it does not exist, as far as local commanders are concerned. The battlefield cube is the latest attempt to develop guidance. While it is not the greatest help in what to outsource, it does provide some guidance and training on how to determine what should go into a contract. Currently there is nothing that indicates what the long-term benefits or penalties will be for outsourcing. There is no boundary that states we have outsourced too much or too little. There is no guidance to indicate if the military has outsourced the correct function or what the right functions could be. The military just does not know. And in this case,

what the military does not know can be harmful to the military, to the allies it fights with and to the people it serves.

III. Results

3.1 Introduction

As discussed in Chapter One, this thesis will not be looking at quantitative data. Rather, it will examine management and mission problems created from outsourcing and privatization in the military. To accomplish this objective, there are several key areas that must be examined. The evidence is obtained either from case studies, interviews or Government Accounting Office (GAO) reports. In most cases, the studies were limited to Air Force documents and can only accurately reflect the Air Force. In some cases, the entire DoD was examined, so these results could be applied to the Air Force. Since no other branch was studied, it cannot be definitely stated that some of these problems exist in other branches without further research. Results and conclusions can only be applied to the Air Force.

The first step is to examine case studies where outsourcing has been performed. This is expected to show-the goals of outsourcing, and how these goals are achieved by outsourcing. The case studies are also expected to reveal the political forces that drive outsourcing. Because the military is an extension of political policy, it follows that political forces play a role in shaping military policy from training to execution. To fully understand outsourcing, it is necessary to understand the political goals that outsourcing is intended to achieve. Once the goals are understood, it will be possible to measure whether or not outsourcing is achieving these goals. In addition, by examining case studies of previous outsourcing and privatization attempts, it may be possible to

determine what the driving forces are for outsourcing's success or failure. Once these are known, it is possible to determine if the military is actually utilizing the right forces to make outsourcing a success.

The next step involves examining the A-76 process. This is the process by which the Air Force (and the entire DoD) competes different jobs for comparison with the private sector. To completely view this process, several interviews were conducted. The first interview was with Lieutenant Col William Stockman, a leading Air Force expert in the outsourcing community. The second interview was with Bob Perry, a PWS/MEO team leader at Edwards AFB, which had recently gone through the A-76 process. The third interview was with three people at the Wright Patterson Communications Squadron. These individuals developed the PWS/MEO teams and oversaw the resulting MEO. The three interviews provide insight into possible problems between theory and practice of the A-76 process and what happens after the A-76 is performed to include impacts on morale and retention, key elements of a successful military force. Additional information about Air Force practice and implementation of the A-76 process was provided by GAO reports.

The third area to examine is the recruitment of the personnel that accomplish the mission. The process the military uses to recruit members is widely known and will be briefly outlined. The process will examine both the enlisted and officer corps. The process for recruiting DoD civilians is not widely known by many people outside of its field. To determine how civilians were hired, Kay Frost, head of the PALACE program, which hires civilians for the Air Force Logistics programs was interviewed. To determine how contractors recruit their members, two interviews were conducted with

contractors who have successfully won Air Force outsourcing proposals, one at Wright Patterson AFB OH and the other at Tyndall Air Force Base FL.

The second part involves examining how personnel are promoted within each of three different groups. This is critical, since promotion can be a force for or against recruitment and retention. Retention then becomes a key element for retaining experience within the organization, critical to the development of organizational efficiency. Essentially, efficiency develops as a result of training, education and experience. While efficiency can occur from outsiders (such as consultants), this is both costly and time consuming. In either event, it becomes necessary to know and understand current functions before improvements can be made. If experience is not retained in a career field, true jumps in efficiency are not likely to result. Retention is then critical to achieving huge leaps forward.

Once cases studies were reviewed and interviews were conducted, the information was broken down into three major sections. These sections were broken down into political considerations, the A-76 process and recruitment and retention within the military.

3.2 Political Considerations

The first step to understanding what the effects of outsourcing and privatization are is to understand the motives behind outsourcing and privatization. The motivation is not simply to reduce costs. If this were so, there would be no military, since the entire cost would then be eliminated. However, this solution is not realistic. The second lower cost would be to hire mercenaries to fight our wars or any other endeavor, however there

is the ultimate question of loyalty. Seeing as how these two options are available, but not used, there must be other motivations.

3.2.1 Air Force political considerations

The Air Force states that outsourcing and privatization are necessary and in the self-interest of the Air Force for lower costs and increased efficiency. In an Air Force News interview, Col Michael A Collings, then chief of the Air Force Outsourcing Office, states

> There are a number of contractors that are out there that will provide the competition necessary that will yield those efficiencies, increase our production capability and also yield our cost savings. We need to take advantage of those things that are done better in the private sector. (Arana, 1996: 1).

Col Collings clearly states three goals that the Air Force expects to achieve through outsourcing. The first is in an increase in production capability, the second in an increase in efficiencies and as a result of the former two, a decrease in costs.

As stated previously, the military is merely an extension of politics. It therefore stands to reason that impetuous for change does not come strictly from within the military itself, especially when it comes to private sector. As Col Deaval states, the military tends to "cast a jaundiced and distrustful eye at the freewheeling private sector" (Deaval, 2000: 7). Consequently, there must be a powerful reason for the military to depend upon a sector that it doesn't trust or really understand for support.

Former Air Force Chief of Staff General Ronald R. Folgeman stated that outsourcing and privatization are "central to our ability to do business in the future" (AFN Jan,1997 3). The driving fear prompting the military into using outsourcing and

privatization is a fear that the military will not be able to perform its mission at all in the future, unless it outsources some functions now. This begs the question, why wouldn't the military be able to function in the future? Currently the US military faces few disabling threats from the rest of the world. So the big disabling threat must come from within. Former Chief of Staff for the Air Force General Folgeman stated the military needed to obtain "the best possible support at the least cost to the service" (AFN, Jan 1997: 3). So cost has become the internal threat to military continuing its mission.

Former Secretary of the Air Force Shiela E. Widnall again states that cost is the driving factor for outsourcing, while also stating that other "resources" need to be freed up (AFN, Jan 1997: 3). The fact that the Secretary of the Air Force and General Folgeman both account for a increasingly smaller amount of resources indicate that the constraint comes from those that dispense the ability to obtain resources, Congress.

3.2.2 Congressional political considerations

Congress is charged with the dispensation of funds for the military, in addition to the rest of the nation's programs and interests. As a result, Congress must balance the nation's need for defense against the rest of the nation's needs such as highways, education, social security, etc. In addition, Congress must balance the nation's monetary needs against the American taxpayer's willingness to pay taxes. If the taxes are too high, the Congressional representatives will not be reelected. If the nation's needs are not met, the Congressional representatives will not be reelected. Consequently, the representatives can neither raise taxes to meet all the nation's monetary needs nor can it

ignore the nation's entire needs, ergo they must try to stretch every dollar to the maximum.

Shrinking defense budgets leave little doubts that dollars spent on defense must go farther. Combat equipment is not becoming cheaper, nor is the cost of support. If the military were used only occasionally, the small amount of dollars to combat rising costs would not be as large of a threat as it now. The fact remains that the military is increasingly active and costs are a major problem.

Since the end of the cold war, DoD has shrunk by over seven hundred thousand active duty military personnel, yet has deployed nearly five times more frequently. Furthermore, DOD has cut over three hundred thousand of its civilians since 1989 (Castillo, 2000: 2). While there are fewer people to spend money on, the increased number of deployments offset these savings, since the increased activity increases costs throughout the military chain from the front lines to military equipment suppliers.

The fact then remains that each dollar must be stretched both towards strengthening our fighting forces and support forces. Outsourcing and privatization are one way of doing this. The military has little trust for the private sector and Congress dislikes spending money, so why does Congress turn to a sector that exists solely to make a profit?

Part of the answer lies within the private sector itself. Because the private sector is in constant competition for a great many products and services, a high degree of efficiency is necessary to remain in business. The provider must use production resources to the maximum extent possible, if costs are to be reduced. It is necessary to reduce costs since it is not possible to always raise prices. To maximize profits, prices

must be as high as the market will bear and costs must be as low as possible. So the private sector is always looking for ways to increase efficiency to lower costs. It is this aggressive examination of cutting costs that Congress hopes will be captured by outsourcing. By tying military support into the private sector, Congress hopes to be able to capture the efficiencies of the private sector, while lowering costs of the military to perform support functions. The underlying assumption is that the military has become inefficient over time and the private sector can either teach the military to become efficient through experience with the private sector or will completely replace the military in that support function. In either event, costs are lowered and dollars can be spent in other support and combat areas of the DoD.

It becomes relevant at this point to discuss, in general terms, how money is allotted and spent by the DoD. The money comes first from Congress. Congress allots a certain amount of money to different sections within the DoD, which is commonly referred to as a "color" of money. Money of a certain color can only be spent in functions that are of identical color. For example, dollars earmarked for research and development cannot be spent for general military operation and management funds. While there are some exceptions to this policy, exceptions are covered by stringent rules covering these exceptions and the overall money distribution system, as relevant to this discussion, is not impacted. These monies are then given to each separate branch of the military to utilize. The head command then separates the money to its different subcommands. The subcommands then apportion the money to its various bases. The base commander then distributes the money to various groups, who in turn distribute the money to squadrons, who then dispense the money to its flights. For example, money

would be given to the Air Force, which would designate some dollars to Air Combat Command, which in turn would designate money to some base, such as Lajes Field, where money would be designated for each group such as the logistics or support group. Money would then move from the logistic group to each of the different squadrons such as supply or transportation. Money would then be divided up in the transportation group to each of the various flights for spending.

Money is then spent throughout the year. Whatever money not spent by a given calendar date is collected by the base for transfer to other base units, to spend on similar color needs. Whatever money not spent by the bases by a given date is then submitted to the command for other bases, again for similar color functions. Whatever is not spent by the commands is then submitted to the head of the branch to spend on identical color functions. Whatever the branch has not spent is then given back to Congress.

Here comes the point that is of interest for the discussion of outsourcing; whatever the amount of money not used by the branch is what Congress will cut the budget by the next year. This is simplified into "use it or lose it." The incentive is to cut costs, but to not allow any money to leave its current level. If a flight saves money, the goal is not give that money to the squadron, but rather to spend it on other needs that have not been funded throughout the year. While certain incentives have been started to encourage money to be given to higher levels, the general feeling among money managers is that they already have needs that are not met such as structural repairs, furniture, computers, paper or other such needs that can absorb most of the free money in the flight, squadron, group, base, command or branch. In short, a dollar saved in supply does not mean an extra dollar can be spent on aircraft, since they are a different money

color. As a result of the use it or lose it policy, there is an active disincentive to produce savings, since savings result in a lower budget for every unit within the chain.

However, since this process has been going on since Vietnam, it is quite likely that there are other monetary motivations for outsourcing than just immediate savings within the DoD. There are two benefits that history has shown outsourcing to produce simultaneously. The first is a cost reduction, since many costs can be reduced or eliminated. The second is that this function now results in paying corporate taxes, rather than absorbing taxes. There is a precedent for this in modern history. In 1979 Margaret Thatcher began privatizing various functions of her government, with great success.

In Britain, a number of nationalized industries were requiring $600 annually in subsidies from each taxpayer to avoid bankruptcy (Deaval, 2000: 6). The drain these industries were causing upon the nation was immense. After the industries were privatized they were paying $200 dollars per taxpayer into the national treasury. It can be said that privatizing these functions resulted in $800 per taxpayer that could be used for other purposes. Drawing upon this example, it could be suggested that Congress hopes to attain two things by encouraging outsourcing of selected military functions. The first would be a reduction in the cost to pay for these services. The second would be that the outsourced functions would end up paying more in taxes than Congress has spent to purchase the functions.

Simply turning a function over to the private sector does not make it a success. There must be something that is working in the private sector that does not exist in the public sector. The World Bank performed a study in 1972 that studied the effects of privatization in four nations: Britain, Chile, Malaysia and Mexico. The driving factor

behind the success of privatization was the new found ability of the firms to "hire and fire employees and to craft compensation packages that reflected the true value of individual productive output" (Deaval, 2000: 6). This fact is critical to the success of any outsourced or privatized function; the new firm must be able to hire, fire and compensate according to the market. If it cannot do this, then the success that Congress hopes to achieve will not happen.

3.2.3 Presidential Considerations

Congress is not alone in an interest in the benefits of outsourcing support functions with the military. The president, as Commander-in-Chief of the Armed Forces does have substantial interest in outsourcing. Support functions can dictate the tempo of a battle or the success or failure of a war. History has shown how brilliant commanders have been defeated more from a lack of supplies than outmaneuvered. If the support functions do not keep pace with the front line, valuable momentum will be lost as the front line slows. The modern military is similar constrained, but the support functions are better at keeping up.

Public opinion also forms a major constraint in military application. The fears of repeating Vietnam have made many Americans leery about entering committing soldiers to conflicts with no clear end. When the Bosnian peacekeeping operation kicked off President Clinton promised to limit the operation to 20,000 troops. However, he also had the authority to send 2,000 additional contractors. This allowed him to send 2,000 more combat troops than he would have been able to send without contractors (Castillo, 2000: 2). In this instance, as in several others, contractors allow the United States to apply

more combat troops in ratio to support troops than before. This is a very powerful tool in situations that require a delicate political touch.

3.3 A-76 process

However, before a function is outsourced, there are certain rules that must be followed. The A-76 process is confusing and few truly understand it. One of the few that do understand it is Lieutenant Colonel William Stockman, one of the Air Force's leading experts. The Federal Activities Inventory Review (FAIR) of 1998 identified those functions that can be outsourced and those that cannot. The first step to outsourcing is nominating a function that the FAIR allows to be outsourced; either by the squadron, base, command or functional. Once the decision is made to compare the function, the function undergoes a study called A-76.

The A-76 process is not the same as a normal cost comparison bid. In a normal bid, all competitors would be notified at the same time and all bids would be reviewed at the same time. However, the A-76 has two different bid categories. The first is the development of a governmental bid organization called an MEO that is composed entirely of DoD civilians and the other from the private sector. Each category submits a bid according to the newly developed Performance Work Statement (PWS).

Once a function is selected for outsourcing, a team is trained to study each of the selected positions to determine the type and quantity of work. According to Charlene Gipson, the chairwoman for the development of an MEO at Wright-Patterson AFB, the training was one week long and consisted more of administrative details than actual training in how to determine the type and quantity of work (Gibson 7 Dec 2000). Bob

Perry and Colonel Stockman both stated that the training was short and not as detailed as the team needed.

The newly formed team then begins to determine what work should be included in the PWS. Once the PWS is developed, contractors are invited to bid on it. The government will continue to develop a MEO, based on the work requirements of the PWS (Perry 15 Nov 2000). The contractors then come in to bid, with their teams. Most contractors, according to Colonel Stockman, have professional teams that have looked at similar PWS descriptions seven or eight times, vs. the people who have prepared the PWS for the first time. The contractor brings experience to the table and the government does not (Stockman 11 Dec 2000). This allows the contractor to identify holes and determine if costs (and profits) can be increased later on. In addition, the contractor can examine the type of contract being offered (cost plus, fixed price, etc). Each bid is then sent through a computer program named COMPARE, which evaluates each bid; primarily driven by personnel costs (Stockman 11 Dec 2000).

For a civilian firm to win the bid, the civilian firm must beat the government by 10 percent, with technical leveling (Stockman 11 Dec 2000). While many state this provides an advantage to the government, Colonel Stockman stated that this is considered the cost to transition from one group to another (Stockman 11 Dec 2000). Once the COMPARE model finishes and a decision is made, the decision is then sent up the chain of command for approval. The final stop of the decision process for the Air Force is Headquarters Air Force where all those that need this information can use it accordingly.

With the conclusion of the A-76 process, one of two organizations will remain. Either the government's Most Efficient Organization (MEO) or a contractor will win the

bid. If the MEO wins the bid, its job positions are classified according to government standards and wages remain fixed at that classification. In addition, the compensation package is the same standard package that existed before the outsourcing. The ability to fire an employee within the MEO remains as difficult as before (Jet 7 Dec 2000). If the contractor wins the bid, his positions also remain classified according to government standards and the compensation package is left to the contractor. However, to make a profit, the contractor must pay out less in compensation (wages and benefits) and taxes than he/she is going to be paid. As a result of these classifications, the wages are already lower than the market value for most functions. And after all the costs are factored in (business licenses, taxes, employee benefits, equipment, etc) enough money must remain to create a profit to entice the contractor to compete. Consequently the ability of the firm to hire and compensate is severely impacted, as well as the ability to fire, since there are worker unions and governmental regulations about firing employees (Ward 15 Nov 2000).

3.3.1 A-76 Training problems

As hinted at, there are several flaws that experts and users have voiced about the entire process. One of the first begins with the training the PWS team receives. Of those interviewed, all stated the training was inadequate to meet the challenges the PWS team would meet. The training period is short and barely covers the tasked assigned. In addition, the personnel assigned to develop the PWS may not have the best of backgrounds for the job. In addition, those personnel that develop the bids may not be the best qualified. As Colonel Stockman points out "Contracting officers do not have

technical expertise to do the technical or cost evaluation. In addition they cannot go to the experts because they are preparing the bid." So the first problem arises from a lack of experience. Another problem with the training is that it does not teach a consistent method to develop the PWS. As a result, the method used to develop the PWS will vary from base to base, which can create very different results for the same amount of work.

3.3.2 Performance Work Statement Problems

The PWS presents it own set of problems that affect the entire process. As the interviews continue, Charlene Gipson pointed out there is a lot of work hiding and exaggeration. The work hiding is important because it allows for critical holes to develop in the PWS, which will cause the initial PWS to change as these holes are discovered. The work exaggeration is important because it creates what is called low return work. Low return work is described as work requiring a full time worker that cannot be utilized for other work, but is so sporadic in demand that the worker is never 100 percent utilized for the job. In addition the section chiefs can omit information or in some cases completely change testimony. The incentive to win the bid often overshadows the desire to accurately reflect the workload. This creates a very hostile environment to develop an accurate PWS.

The PWS highlights another problem within the process, namely not all work performed by Air Force members or DoD civilians is reflected in the PWS, regardless of the honesty of individual. The PWS does not reflect the additional duties that are performed by the military on a daily basis. For example a PWS describing a computer programmer would not reflect the work the programmer may have done for squadron

functions, group functions, wing functions, military formations, meetings, or training like customer service that have little to do with the programming. Additional duties, while not reflected in the PWS, is still work that must be performed, but has no manpower assigned to do it. Cena Buchanon stated that as much as 15 to 20 percent of the workload in her organization was additional duties (Buchanon 7 Dec 00). The contractor however, does not have to bid on performing such work. Howard Funkhouser, a contractor at Tyndell AFB, confirmed this when he stated his people were allowed to be more efficient because the military requirements were removed (Funkhouser 15 Nov 00). So a person hired to perform a job could focus entirely upon the job. This is a luxury that is not allowed for military and DoD civilians, but is not reflected in the developed PWS. Because the evaluation of the bids is based upon the PWS, the military function will always look inefficient because government workers are not allowed to focus strictly upon their jobs (Buchanon 7 Dec 00). According to Bob Perry, the Civil Engineering squadron at Edwards AFB eliminated all work that was not mandatory by regulation and was able to cut costs by a substantial amount (Perry 15 Nov 00).

3.3.3 COMPARE problems

Additional problems arise when examining the COMPARE model. While a new model may be in development, Colonel Stockman spoke about the current COMPARE model. To start with, the current compare model is driven primarily by personnel costs. While this may be a good standard for low technical work, it does not perform nearly as well when comparing higher-level type jobs (Stockman 11 Dec 00). The Government Accounting Office (GAO) found that up to 15 percent of the MEOs' or contractors' bids

were not personnel costs (GAO, 2000: 00-107, Aug 2000). In addition the model does not account for such components such as morale, experience or military culture. In addition, government bid developers rarely have the accounting experience to develop a competitive bid, so the government bid is generally poor (Stockman 11 Dec 2000). Part of this derived from the fact that the Air Force bases its accounting on budget flow, not cost accounting. As a result of this, the Air Force is not prepared to face a contractor that uses cost accounting, nor is the COMPARE software prepared to deal with a bid that does not use cost accounting.

3.3.4 Bid structure problems

The type of contract used could influence the efficiency of the contractor. If the contract is a standard cost plus contract, there may be little incentive to control costs, outside of losing the contract upon re-competition (Stockman 11 Dec 2000). The contractor is also in a position to bid the bare bones, since he will be reimbursed for any cost overruns. If the contract is firm fixed price, the contractor must bid against possible contingencies, so the bid will be substantially higher than other bids, since risk cots must be covered as well as maintaining the profit margin. Accordingly, the type of contract given to the contractor plays as much a role in contractor performance as the PWS.

According to Colonel Stockman, the contractor knows that a cost plus type contract allows the contractor to bid the bare bones, since there is almost no incentive to control costs. There is also an incentive for firms to lowball or under bid the actual price of the contract (Stockman 11 Dec 2000). The contractor will then absorb a loss because the profit at some later point is greater than the current loss. This is best represented in

Figure 2. If the area below point A is less than the area above point A, there is an incentive to lowball the bid.

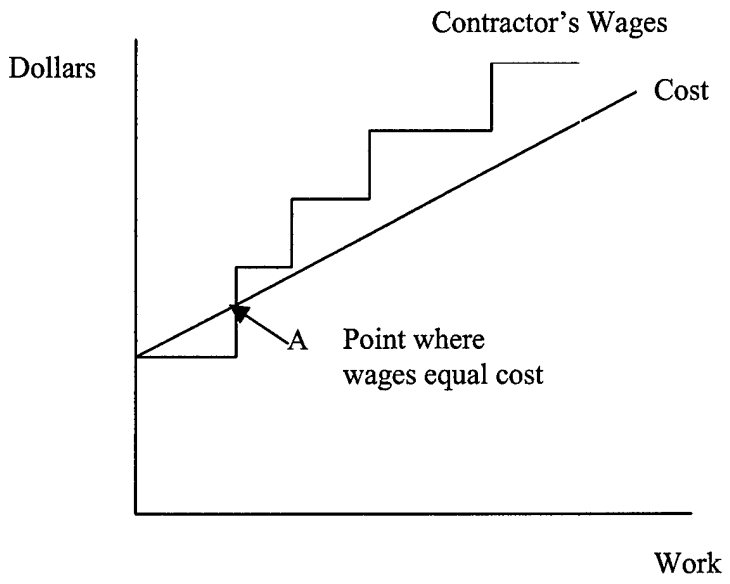

Figure 2. Contractors Wages as Work Requirements Change

It should also be noted that the contractor's line is not a straight line, but rather a step function. Each step represents a moment when the contract is adjusted to reflect a modification in the PWS. As a result of this line, a small increase in work may not result in a small increase in cost.

3.3.5 MEO problems

Another problem arises from the development and evaluation of the MEO. Those that evaluate the MEO often include members that developed the MEO, creating a definite conflict of interest. According to Bob Perry, head of the A-76 office for Edwards

AFB, "we looked at this [the A-76 process] not as outsourcing 500 plus jobs, but as impacting 500 plus families" (Perry 15 Nov 2000). When put into this perspective, it is understandable that this is a highly charged emotional issue. And, as in all other fields, there is serious lack of personnel to develop the three separate teams that would be required to de-conflict interests.

3.3.5.1 Classifications

Current military classifications tend to group whole functions together under one manning code. For example a Traffic Management Office (TMO) household goods processor shares the same category as a TMO freight processor, despite the fact that the two functions are radically different and personnel cannot be readily shifted from one function to another without training. As Major Steve Swartz states "We are aggregating functions that exist only in the disaggregate" (15 Nov 2000). This did create a problem during the operation in Kosovo. When Scott Tiedt, the head TMO officer at Aviano AB, requested additional freight personnel, he received additional household goods personnel that lacked training and experience with freight. While he had the aggregate amount of labor, he did not have the disaggregate amount necessary because these personnel could not perform the specialized function without training (Tiedt 15 Aug 00). The MEO falls victim to this classification process, especially when hiring individuals.

The MEO is required to hire those employees that have been with the military the longest, if the person wishes to stay. This can result in serious harm to the MEO if an employee is hired that does not have all the necessary training. This happened to Cena Buchanon when hiring computer repair personnel for her MEO. She was required to hire

personnel that had mainframe training, but had almost no personnel computer training. However, mainframe and personnel computer training were classified together, so there was not much that could be done. This created a frustrating situation for both management and employees, since both want to accomplish the defined goals and neither is capable due to circumstances beyond their control. When Scott Tiedt was asked how he accomplished the mission, despite the lack of proper training, he stated "We accomplished the mission on the backs of our people" (Tiedt 15 Aug 00). The MEO is no different.

Another problem with the classification process is that each position is assigned a wage grade, which dictates the amount of money the government will pay. While this wage (with other benefits) is intended to be equal to the market rate for the skills, often times it is well below the market for a vast majority of skills. This rigid system is the same system that was used to develop the previous organization.

3.3.5.2 Training

Training personnel in an MEO on different job skills is extremely difficult. Because the MEO operates on a minimum operational level, supervisors feel forced to choose between training employees in other areas and accomplishing the current job mission (Buchanon 7 Dec 00). This results in two dangerous situations. The first is that vital experience cannot be effectively transferred when new training is needed. The second is that when employees leave, their operation is seriously slowed down, if not completely stopped.

While the military may preach that everyone can take time for training, the military does seem willing to let the mission suffer for the needed training time. This is evident throughout the DoD as new tools, such as computer programs, are handed to organizations with almost no training on how to use them. Almost as soon as a new tool is available, organizations are presented with a requirement to use it. The organizations have a new tool, but little to no idea how to properly use it and an immediate requirement to use it exists. Larger organizations can spare some manpower to learn the new tool, without impacting the mission. However an MEO that is manned only for the day to day mission has no such manpower to spare. The MEO is then stuck between choosing to accomplish the current mission, or letting the current mission fail somewhat so that the training can occur.

3.3.5.3 Morale

Morale is a critical factor for almost any organization within the military and in an MEO this remains true. The MEO is completely civilian and morale is generally low. While the MEO may have won one year, that is no guarantee about the next year. And since the motivation was to beat all the competitors, an organization may exist that does not match up against the real workload. And since there is no outside force to enforce the PWS, commanders continue to use the MEO to fill additional duties, so morale remains low. And it was pointed out that MEO must justify its positions yearly, so an organization that has been cut to bare bones continues to face pressure both from the commander to perform more with fewer people, and from the functional to perform these functions at a higher efficiency and a lower cost. Morale is very low in MEOs.

3.3.5.6 Mindset Problem

Problems with the A-76 process do not stop there. According to Cindy Jet head of the Wright-Patterson AFB communications MEO, the Air Force assumes that at the end of outsourcing process there will be a 20 percent manpower reduction (Jet 7 Dec 00). The Air Force does not budget after the allotted time period, two to three years, for the expected 20 percent reduction. So no matter when the process hits the specific organization, the Air Force already has a set timetable after which money is reduced. In the organization Cindy Jet was involved in, she had to complete in six months instead of two years because the money would not be there after six months for 20 percent of the employees (Jet, 7 Dec 2000). As a result there was huge pressure to complete the process by the manning funding deadline and not by the process deadline.

As stated above, if the contractor is selected, the contractor has an advocate within the military to make sure that stated efficiencies will be captured, the contracting officer. The contractor will perform no work that is outside of the PWS and the contractor cannot be forced to perform it. The MEO does not have the same luxury.

The MEO falls under the same commander that was in charge of the organization before it was reduced. The mindset of the commanders often does not change, should the MEO win. Instead of viewing the MEO as a government owned contractor, commanders tend to view MEOs as smaller version of their previous units. Work outside of the PWS remains in effect, but the burden is then forced onto a smaller number of people. Commanders have been known to go so far as to tell the rest of the base that the same level of service can be performed, despite the fact that PWS shows this is not possible (Buchanon, 7 Dec 2000). In the MEO examined at Wright Patterson, the MEO was at 50

percent manning of the former squadron and had the same workload, so the workload per person effectively doubled (Buchanon 7 Dec 2000). However, because the commander rates all employees, they will live up to whatever workload is assigned because there is no one that will stand between the MEO and the commander. This creates all sort of additional morale and retention problems. Cena Buchanon stated that some people would refuse a promotion if the promotion places them in an MEO (Buchanon 7 Dec 00). Filling positions from the outside remains as difficult for the MEO as it does for the rest of the military.

3.3.5.7 Organizational History

Cena Buchanon and Charlene Gipson both pointed out a startling fact. Sections that had had difficulty living up the mission goals before continued to have difficulty after outsourcing had occurred (Buchanon, 7 Dec 2000 and Gipson, 7 Dec 2000). The small size of the MEO amplifies this problem. The PWS does not allow a buffer for these sections. The small size of the organization does not provide a buffer of manpower to compensate for this problem. Colonel Stockman stated, "The MEO is a victim of past successes and past failures" (Stockman 11 Dec 00).

Not only does the organization not have a buffer against past failures, but also it does not have a shield against past successes. If an organization had a great success rate in past years, the success rate is assumed to continue into the future. Since no one can determine the exact cause of organizational success, one cannot assume the creation of an MEO will not disrupt or eliminate that cause. And if the contractor hires the entire crew

that would have been outsourced, he/she cannot assume the same success rate because again, the climate has changed and that may seriously affect the organization itself.

3.3.6 Savings estimates problems

Other problems are presented in terms of manning. The A-76 process looks at authorized manning, which in most organizations does not reflect actual manning. Just because a position is authorized does not mean that it is funded or filled. According to Charlene Gipson, the posted reduction for her MEO was approximately 68 percent. However, only 40 percent of the positions fell into a function that was outsourced from (Gipson 7 Dec 2000). The GAO backs up this finding. The GAO states "baseline cost estimates from which savings were estimated were usually calculated using an average cost of salary and benefits for the number of authorized positions rather than using actual costs for the positions actually filled, which would have been more precise" (GAO 00-107, Aug 2000). This can create a very distorted picture of the true savings for both Congress and the military.

In effort to examine what has occurred, Congress asked the GAO to review outsourcing over the last five years and determine the results. The GAO reviewed 286 separate cases and found not all information has been recorded on A-76 studies (GAO 01-20, Dec 2000). In addition, overall savings estimates are not consistent within the DoD due to a lack of official guidance (GAO 01-20, Dec 2000). In addition, the GAO found it difficult to track if savings estimates were accurate since workload requirements changes and these changed costs cannot be accurately compared to the baseline estimates (GAO 01-20, Dec 2000).

While the GAO could state that savings were occurring, how big these savings were could not be accurately stated. This makes it difficult to measure one of the key requirements to outsourcing, a lower cost. If the DoD cannot state how big the savings are, it may be that the savings may not justify the risks to the mission that many authors have already pointed out.

Another problem in determining savings is the assignment of overhead in evaluating costs of a governmental function. When the Air Force Institute of Technology (AFIT) was being examined for outsourcing, many costs were included in running the organization. Such costs included Security Forces personnel to man the gates, the cost of maintaining the buildings, cost of utilities, etc. Many argued that these costs should not be included, since these costs would exist even if AFIT were closed. As Major Swartz stated "Overhead is a cost that exists only in the aggregate and cannot be successfully broken down into the disaggregate" (Swartz,15 Nov 2000). Regardless of this insight the same types of cost were included in several other outsourcing bids, to include two bids for TMO functions at Tyndell AFB and Wright-Patterson AFB. The contractors were both asked where offices were maintained. Both responded that they were placed into the same buildings the TMO function had existed in (Ward 15 Nov 2000 , Funkhouser 15 Nov 2000). One civilian, hired by the contractor, went to her same office. The turn around was so fast that she did not have to remove any pictures on her walls (Ward 15 Nov 2000). The contractors were asked if they had to pay the government any sort of reimbursement for the buildings, both replied that they did not. In addition, if there were problems, they went to the contracting officer who informed the Civil Engineering squadron to come and fix them (Ward 15 Nov 2000, Funkhouser 15 Nov 2000). Not only

did the overhead remain for the government no matter who won the bid, it is quite likely that overhead would not be significantly reduced if the entire function ceased operation.

Very rarely is one person completely designated to the administrative requirements of an organization. Often times the administrative requirements are lumped together according to tasks and one person will perform the same task for several organizations. If one organization is removed, only the time the person spends on that task is removed, not the person. The only way the person can be removed is if the majority of their time is spent on the removed organization. As a result, several of the overhead functions are performed by a great number of people, so the reduction of the organization does not remove the need for the individuals. An excellent example is the Air Force Chief of Staff. He is not assigned to any particular unit or command, and the reduction of an entire base or command would not eliminate the need for his position. His cost exists only in the aggregate and cannot be accurately broken down to any unit. The minute it is, the picture is distorted because he will not be paid less or work less by the loss of even one unit.

How overhead is assigned can be a major factor in how much overhead costs are assigned to a function. Activity Based Costing is becoming more common, but the military is not a cost accounting driven structure. The personnel that are performing overhead evaluations are not always cost analysts and may have little to no prior accounting experience. In addition, the assumptions the evaluator uses play a huge role in determining costs. Overhead estimates can then vary greatly from one person to another. Experts do not agree on any one best way to evaluate overhead, so several

different estimate methods may be in use across the DoD and the Air Force. And this can create quite different pictures for the exact same question.

3.4 Recruitment

Personnel are leaving the military on a daily basis, and being replaced on a daily basis. However, the military has begun to notice that the number of those exiting and those entering are not equal. Recruitment remains critical to maintaining an effective force for any organization.

3.4.1 Air Force recruitment

Recruitment begins before the volunteer ever inquires into the branch. Every branch has its own recruitment commercials and demographic focus. The military can recruit from only two areas. The most prominent is from the private sector where individuals have no prior experience with the military. Each service can recruit from the other services, if members wish to transfer branches. Interservice transfers are rare, but do occur.

For each branch there are two different tracks, enlisted and officer. Every member must meet certain age, physical and mental standards. Enlisted personnel are sent to basic training and upon completion are sent to a technical training school. After technical training, enlisted personnel are then sent to their jobs. In exchange for training and benefits, enlisted personnel are enlisted for a designated period of time. Officers can enter either through Reserved Officer Training (ROTC), Officer Training School (OTS) or a military academy such as West Point or the Air Force Academy. Upon graduation from the program participants are given a commission and receive training, for which

they will incur a time commitment. Training is based upon the needs of the branch, not necessarily upon the desires of individual. Job location is also based upon the need of the government. Disobedience can be punished to include discharge or prison. Control over the individual is almost absolute, as covered by the Uniform Code of Military Justice (UCMJ). This is important because the UCMJ is an independent judicial system that closely regulates individual behavior and rights, both on and off the job, giving the military a huge degree of control over its soldiers. This stands in stark contrast to the other two sources of personnel.

3.4.2 DoD Civilian Recruitment

DoD civilians remain an interesting and important source of personnel manpower. Kay Frost, head of the PALACE program stated that members are recruited from a wide variety of sources, depending upon their ability to meet the skill requirements identified in the PWS for each position. Some members are recruited out of high school and can work their way to higher positions as they gain experience. Other members are recruited from college and will work their way to higher positions as they gain experience. Other workers come with experience, mostly prior military personnel that either served their commitment and left or retired from the service and are then hired. However they come in, the DoD civilian contract specifies the level of work performance according to the PWS. After a minimum time served in a position, civilians can then submit their names for other jobs within the branch where they think they have enough skills on the new PWS to compete. If selected, they are then transferred to the new job. These workers are

not subject to all the rules of the UCMJ, but are subject to job requirements in the PWS and professional behavior obligations as instructed.

Control of the individual is not nearly as complete as it is for a military troop. Job and training are voluntary based upon the agreement of the individual and the government. Job location is 100 percent voluntary; the government cannot force a civilian to depart to any area against their will, unless this option has already been agreed upon in their contract. According to Kay Frost there is a great difficulty in placing civilians in various locations, where dangers or cost of living is high (Frost 20 Jun 2000). Such areas include Korea, Boston, San Francisco, etc. This highlights three things to bear in mind when dealing with DoD civilians: control is not absolutely military, they retain many civilian rights and they sign a contract between themselves and the US government.

3.4.3 Contractor

The former two sources stand in stark contrast against a civilian contractor. The civilian contractor may hire anyone who can meet the job requirements. He/she is not limited to restrictions of health or age. They can hire anyone who agrees to perform the desired work at the wage offered. Depending on the contract, the contractor is capped at the number of bodies he can hire, since the government will not pay for additional bodies. He/she can hire more personnel, but they must pay for the person out of their own pocket. The only time additional bodies are hired is when the contract is adjusted. Then the price is changed to reflect the nature of the work. Former military personnel are preferred workers for the contractors. The prior military personnel already have training and

experience with the government. One contractor stated as much as 40 percent of his work force was prior military or DoD civilians who lost their position when the function was outsourced (Ward 15 Nov 2000). The contractor is hired to fulfill a contract and must abide by the government rules for employment. Workers do not sign individual contracts with the DoD, but with the contractor. If they chose to leave, the problem remains with the contractor and not with the DoD. Control over the contractor does not lay with the military commander the contractor produce work for; rather it lies with the contracting officer. In addition, if a dispute arises about the PWS, the contractor and the DoD must settle the matter either internally or through the courts. The contractor cannot be forced to perform any work outside of the PWS. If work must be added, both the PWS and the cost of the contract must be changed.

This stands in contrast to both the military and the DoD civilian corps. The DoD civilian corps has more individual freedom than soldiers, but less freedom than contractor employees. In addition, their contract is directly with the government, so they report directly to a commander, not a contracting officer. The military have even less freedom than DoD civilians and report directly to a commander, subject to the UCMJ.

3.5 Promotions

Promotions are a major part of retention and can heavily influence the organization's ability to retain experience and recoup training costs. Outsourcing affects promotions and so promotions must be examined.

3.5.1 Air Force Promotions

Promotion among enlisted personnel is based upon job knowledge, performance evaluations and time in grade. For officers, promotion is based upon time in grade and performance evaluations. The higher the rank, the more important leadership and management skills become to advancement in both the officer and enlisted corps. The military, for the most part, does a good job at promoting its individuals and promotion remains a strong selling point for the military. However, it must be noted that promotions do not occur for those that do not want to manage or lead others. If a computer programmer only wants to write computer code, he/she is not likely to be promoted very high, since they will not develop the necessary leadership skills to warrant the promotion.

3.5.2 DoD Civilian Promotion System

Among DoD civilians, promotions are based upon job classification and time served at grade level. For example if a GS-13 wishes to be promoted to GS-14, he/she must be hired to a position that is classified at GS-14. It thus becomes difficult to promote within an organization, because for a person to advance within the organization itself, a superior must have vacated the higher classification. Since such situations are rare, an opening is far more likely to appear in another organization than in the one the employee has experience in. So if a manager of an organization wishes to promote an individual, he/she must almost always promote the employee outside of the organization. All experience and knowledge then transfers out of the organization. It remains difficult

to impossible to promote experience within a DoD civilian organization. And since all MEOs are civilian organizations, it remains difficult to retain experience within an MEO.

It is also difficult to reward skill within an MEO or any organization with DoD civilians. This is because DoD civilians can compete in award programs similar to what the military competes in. Pay raises are based more on time in grade than any other factor, so it is difficult to reward people based on merit. Cena Buchanon also noted that many civilian positions are becoming more management orientated than ever before (Buchanon 7 Dec 2000). If a person joined to perform a certain task, he/she is more likely to manage a contractor than to perform the task he/she signed up. Cena Buchanon states that this factor lowers morale and encourages personnel to leave the DoD civilian corps and go work for contractors (Buchanon 7 Dec 2000). No matter what, experience remains difficult to impossible to retain within the organization itself.

3.5.3 Contractor Promotion System

The contractor is not confined in the same manner that the military and DoD system is, but they are constrained by spaces and money. As a result, promotions are difficult for the contractor, but not impossible. When asked about promotions, both contractors found that while promotions did help retain experience, they were not essential, since they could offer wage increases (Ward 15 Nov 2000, Funkhouser, 15 Nov 2000).

3.6 Manning Considerations

The underlying assumption for the A-76 is that military has too much manpower and is inefficient. Current outsourcing resources seem to indicate this is true. However,

the military does not program itself for a peacetime mission. The military maintains the manpower necessary to fight a war, something the nation has not really experienced for many years. The manpower and equipment maintained is to meet peak contingency needs, not minimum peacetime needs. The military needs to be maintained at this level because it has a limited response time and a limited production capability of both manpower and equipment.

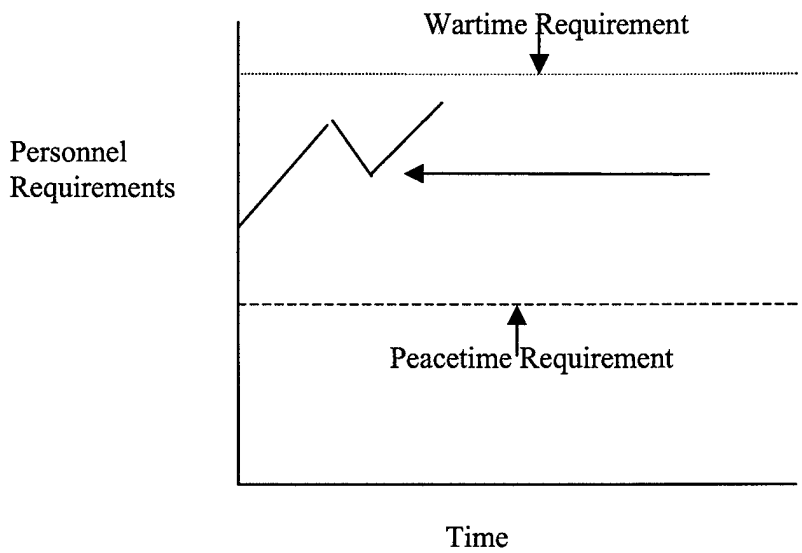

Figure 3 Manning Requirements Over Time

If manpower is viewed as commodity such as a vehicle or computers, and war viewed as a demand for that commodity, then the DoD could consider the problem in the same manner that the private sector does. The private sector must manage demand against the most efficient production methods available. Essentially, to meet demand, is

it best to produce a lot at once for immediate sale or is it better to produce a little and allow inventory to build up to meet the surge.

For the sake of this example, we will use wrapping paper with only one producer. Wrapping paper has a low demand throughout the year, with a huge peak at Christmas. The producer has a choice either to produce the mass quantity at one period or produce all year and store the excess to meet the peak. If the producer produces wrapping paper year round he/she can maintain a small production capacity, but store the excess. Or the producer can maintain a huge production capacity that is used once a year and remains idle for the rest of the year.

The military has the same choices and has tried both. Before WWII, the military produced only at peak seasons, maintaining a small professional corps of troops from which to expand. This has commonly been referred to as the "hollow army." After WWII, the military maintained personnel to meet the Soviets in a major war. The amount of personnel trained on a daily basis was low, but personnel were allowed to accumulate to meet a potential surge.

3.7 After Affects of the A-76

Once an A-76 has been performed, there remain an issue that is rarely addressed by anyone, but is having a huge impact upon the DoD. As stated in Chapter Two, business has been outsourcing for years. One of the results of downsizing was a reduction in employee loyalty to firm. Since the employees feel the firm is no longer loyal to them, they are not loyal to firm. When Bob Perry and Cena Buchanon were asked about employee loyalty, both agreed that many people were looking for other jobs

since the start of the A-76 process (Perry 15 Nov 2000, Buchanon 7 Dec 2000). In fact, some employees have been through the MEO process before and continue to look for jobs. The minute a job becomes available that meets their criteria (which is not always salary, but could also be job tasks or other benefits), the employees leave. This creates another loss of experience, which must be replaced as quickly as possible, since the MEO have already been cut to the bare bones.

However, the reduction of loyalty is not restricted to those personnel affected by the outsourcing. Rather the entire organization is impacted with these feelings. Several young support officers and enlisted troops wonder when their positions will be outsourced or if the military will have a place for their skills in the coming years. While military personnel are not lost when a function is outsourced, the displaced personnel are not placed in a secure job field that the military is not going to outsource such as pilots. Instead they are shuffled to another support function position.

For the DoD civilians, the impact is stronger. This is because the DoD civilians can permanently lose their jobs. They have little to no guarantee of future employment. This makes the idea of an A-76 much more of an emotional issue and the tremors run stronger through the remaining civilians.

3.7 Mercenaries

As stated earlier, mercenaries are not used by the United States because there is a question of loyalty. Machiavelli warns the prince ". . . They have no love or other motive to keep them in the field beyond a trifling wage, which is not enough to make them ready to die for you" (Machiavelli, 1962 72). Ultimately, without some stronger loyalty,

money is not enough to ensure performance during war. Hence, mercenaries provide outstanding service during peace (a time period where activity is relatively safe and slow), but may leave during war or demand higher wages.

While many have debated if the current volunteer military is little more than a mercenary force, according to Machiavelli, they are not since they work for something more than money. This does not mean that wages are not a strong incentive for current soldiers, only that it is not the only one. No one joins the military in the expectation of getting rich while in the military. As the current pilot shortage reflects, the military does not pay its own pilots the amount equal to the private sector. However, people are still willing to become pilots and fight for the country. So money is not the single, driving motivator.

Contractors have a different motivation, profit. Money is the primary motivator for their service. If it were not, they would offer their services for less than market prices or would join the military. Consequently, they can be viewed as mercenaries in the loosest sense of the word.

The motivation of a profit is a strange concept in an organization that strives to keep costs as low as possible, while offering the highest level of service possible. Many military spend many long hours and months away from homes without a serious increase in wages or compensation. They are motivated by words such as duty, honor and country. This stands in contrast to a contractor that is motivated by the profit margin. If there were no profit to be made in their service, they would not compete in that area.

This is an important distinction, since it will dictate three things. First, contractors are not going to accept additional work to the contract without wage

adjustments, either before or after work starts. Second, the contractor will try to maximize profits, which means offering the lowest level of customer service that the customer will tolerate for the maximum price the customer will pay. Third, the contractor is going to charge based upon skills, demand, risk and level of competition present in the marketplace.

Cindy Jet stated that contractors "are interested in marginally satisfying the contract" (Jet 7 Dec 00). And many that have worked with contractors note that the contracting officer must constantly be brought in about questions over the contract. Dr. William Cunningham notes that in the private sector there is no profit in having more service than the customer is willing to pay for, it only decreases profits and does not increase customer loyalty. If the customer wants the service, the customer will pay for it (Cunningham 17 Oct 2000).

The contractor relies upon the economic theory of supply and demand in making a profit. As shown in Figure 4, as demand curve shifts to the right, the equilibrium price of the good or service goes up.

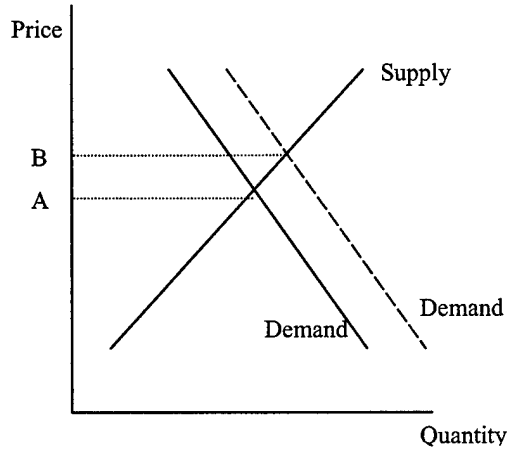

Figure 4 Supply Versus Demand

The steeper the curve, the greater the change in quantity demanded compared to the percent change in price, which is called elasticity. The best example is that of gasoline and soda. As the price of soda increases, the quantity demanded for the product decreases, as shown in Figure 5. If a one percent change in price of soda results in more than a one percent reduction in quantity demanded of soda, then soda is elastic.

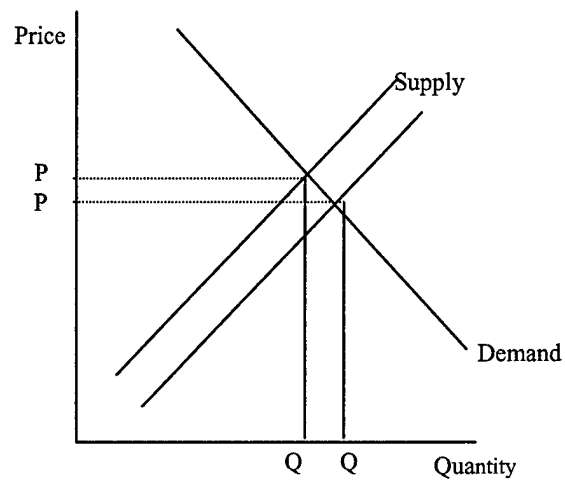

Figure 5 Soda Demand Curve

For gasoline, the demand function is steeper than the demand function for soda. A one percent change in price results in less than a one percent change in quantity of gasoline demanded, so gasoline is inelastic, at least in the short run. Part of the reason that gasoline is inelastic in the short run is there is a lack of close substitutes. We do not have the capability in the short term to convert our vehicles to electrical power or some alternate fuel. As a result, we must suffer high gas prices, or endure the inconvenience of not using our vehicles as much. The best example of the short term problem was the OPEC oil embargo of 1973. In the short run there was nothing that the country could do,

because they lacked the resources necessary to make and immediate change. In the long run, the consumers may buy more fuel efficient vehicles, find other energy sources or use some other method of transportation such as a bus or rail system, but in the short term, consumers must accept the change in price.

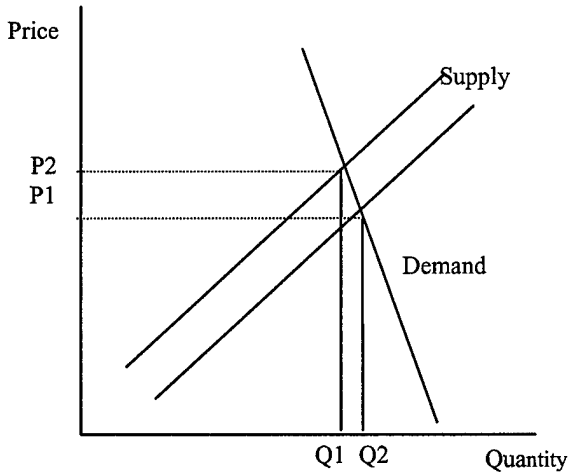

Figure 6 Gasoline Demand Curve

When a conflict starts, time is at a premium. As the Air Force increases its reliance upon contractors, the alternative to using private sector sources is decreased, making demand more inelastic. In addition, because developing the skills required will take time, the Air Force will be forced to accept whatever price the marketplace dictates, as shown in Figure 7.

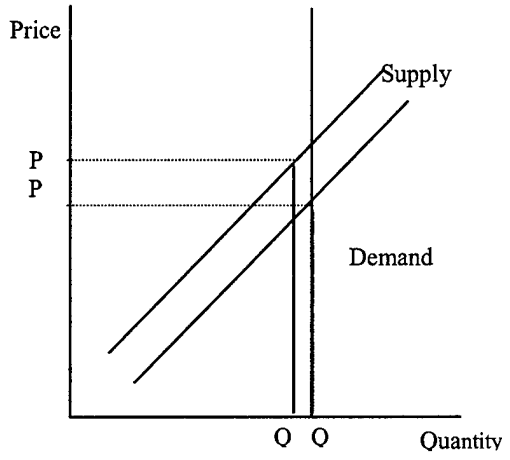

Figure 7 Military Support Demand

No matter what price the contractors charge, in the short run the military will have to pay it because existing needs cannot be meet by an other method. Should a surge in demand occur, there is not enough time in the short run to recruit and train troops to meet the change in demand.

As a result, the military will be extremely insensitive to any change in price the contractor may demand. While the contractor may not increase the price, there are few assurances that the contractor will not. At this point the contractor will be in a position similar to that of a monopoly. And a monopoly tends to easily increase prices to extract the maximum amount of money.

Many will point out there the military is not outsourcing any functions to a monopoly, but rather to several different companies within a function. However, once a contract is awarded, often times, the contractor becomes the sole source, at least for that

base. As a result of this, there is not a legal close substitute for the military to turn to. The overall effect of the contract and no close legal substitute is that a monopoly has been created.

Once the monopoly is created, it will require time to change the situation back in favor of the consumer. The ability to switch is simply not available in the short term. As a result of this, the military has no effective way to counter the effects of the market place, so it must suffer like every other consumer of the market place suffers under a monopoly. In the long term, the military can make changes, but as stated above, time is the one thing the military really does not have.

3.9 Summary

There are several problems with outsourcing as it is currently being performed. Table 1 provides a one-sentence review of each of the subheadings so that a brief view may be obtained of the current process.

Table 1 Summary of Results

Problem Heading	Problem Summary
3.2.1 Military Political Considerations	The military is outsourcing primarily because of congressional demands and pressure
3.2.2 Congressional Political Considerations	1. Congress has disconnected the driving factor behind the success of outsourcing from the process, the ability to hire or fire easily 2. Current military budgeting system punishes commanders for revealing savings
3.2.3 Presidential Considerations	Contractors provide a way around congressional or public pressure on troop limits
3.3 A-76 process	Few understand it, personnel performing the process lack the proper training and background and experience
3.3.1 A-76 Training Problems	The team developing the PWS is generally new to the process and is not given the needed amount of time or training needed
3.3.2 Performance Work Statement Problems	1. There is no consistent way to develop the PWS 2. There is work hiding and exaggeration 3. Not all work (additional duties) performed by the unit is reflected in the PWS, only the task being examined
3.3.3 COMPARE Problems	A complicated software program that treats all problems equally and focuses mostly on personnel costs, which is not accurate

3.3.4 Bid structure problems	1. Contract type influences the contractor's bid, which distorts the actual cost 2. Contractor wages is a step function, which results in large changes to any change in work
3.3.5.1 Classifications	Specialized skills are aggregated, creating the impression that there is more skill available than there may be in reality.
3.3.5.2 Training	With a small force it is difficult for the MEO to spare personnel for training purposes
3.3.5.3 Morale	Morale is low in the MEO, so low that employees have refused promotions if the promotion places them in an MEO
3.3.5.6 Mindset problems	Commanders treat MEO as a smaller version of the previous organization, with all additional duties, instead of looking at the organization as the government's contractor working within the PWS.
3.3.5.7 Organizational History	The Air Force assumes problem work areas will change to be fully efficient, and assumes super efficient work areas will not
3.3.6 Savings estimate problems.	1. The number of personnel reduced is from authorized positions and may not reflect the number of personnel used 2. Overhead exists only in the aggregate but is assigned to various units using a variety of assumptions which may not be right 3. Constant changes in the PWS make it difficult to determine the extent of total savings
3.4.1 Military Recruitment	Air Force can recruits mostly from the private sector (no experience) and retains complete control over the individual
3.4.2 DoD Civilian Recruitment	1. Recruits from prior military and private sector 2. Military control is less than a soldier but more than a contractor.
3.5.3 Contractor	Recruits from private sector, prior military and DoD civilians
3.5.1 Military Promotions	Air Force promotes more on leadership skills than job skills
3.5.2 DoD Civilian Promotion System	1. Promotes more on leadership skills than job skills 2. Promotion normally occurs by transferring into a new unit
3.5.3 Contractor Promotion System	Wage increases appear to be more effective than promotions
3.6 Manning Considerations	1. Air Force is manned for war, which appears as inefficiency or excess in peacetime 2. Air Force is currently being downsized to reflect a peacetime need, which is much smaller than a wartime need.
3.7 After Affects of A-76	Morale and loyalty of the rest of the workers is reduced, prompting many to leave at first available opportunity
3.8 Mercenaries	1. Wages are not effective enough to keep personnel on the battlefield 2. Contractors are profit motivated and profit reflects risk 3. Change in risk or workload result in a change in cost 4. Use of contractors results in simultaneous reduction in internal capability 5. Loss of internal capability makes the Air Force more dependent on contractors for mission success. 6. During war, time is critical, placing the contractor in a position to exploit the situation for higher profits.

IV. Conclusions

4.1 Introduction

Both the World Bank and Great Britain have shown that outsourcing can work. Outsourcing and privatization can provide a tax revenue source from a previous tax expenditure source. However, the idea cannot succeed if it is cut off from the driving forces behind it.

4.2 Political Considerations

There are three major groups with a political interest in outsourcing in the military. The first is the military since it is both the object affected by outsourcing and it is an extension of political policy. The second is Congress, since they must pay for the cost of the military. The third is the President of the United States; the military provides a unique political tool for foreign policy, which falls under the President's constitutional responsibility. The success of outsourcing differs, depending upon each group's political agenda.

4.2.1 Military Political Considerations

Interviews with those at the top of the Air Force's chain of command indicate that outsourcing is expected to save valuable resources in the military; resources that can be applied to other areas to ensure the future success of the military. Military future successes may be in jeopardy due to an expanding world involvement and a shrinking monetary and personnel labor pool. The labor pool and money pool do not appear to be growing as politicians continue the mantra of downsizing the military's size and budget.

In addition, politicians continue to pledge support around the globe for everything from famine and floods to civil wars, which expand the military's role around the world. In an attempt to ease the money and labor pool, the military has been forced to turn to a sector that is very different from the military-the private sector.

Chapter Three points out that the military expects to achieve an increase in production capability, an increase in efficiency and as a result of the former two, a decrease in costs. However, the military has a political reason for choosing outsourcing-Congress is cutting funding and demanding that the military save funds by outsourcing functions. Because Congress is demanding outsourcing, it can be deducted that outsourcing is not the military's idea. Since outsourcing is not the military's idea, this means that the stated goals of outsourcing are a bonus if they occur. The true goal is to satisfy Congress.

When outsourcing is being measured as a success or failure, it is necessary to quantify what the standard is. Air Force News interviews with top Air Force officials reveal that there is a need to satisfy congressional demands. When measured against the standard of satisfying Congress, outsourcing is meeting the goal.

4.2.2 Congressional Political Considerations

Laws exist for the protection and benefit of those that are governed. If the governed are pleased with the laws enacted, they will re-elect those that made the laws, if the governed are not pleased, they will elect other lawmakers. The goals of the lawmakers are two fold—please the governed and be re-elected.

In order to be re-elected Congress must balance the nation's demands for new and existing programs with the cost these programs create. The less each program costs, the more funds remain for other programs. The more programs there are, the greater number of people that can be satisfied. However, these programs must function well enough to satisfy the stated goal of the program. Congress must then balance cost against function.

There are several initiatives already practiced to make the military more efficient and less costly. However, the incentives for the military to save money are counter productive. If a commander saves money, this money will be deducted from the unit's budget in the following year. In some cases, the commander is able to save money because of circumstances, such as cheaper gas or fewer deployments. These circumstances are beyond the control of the commander, but are not considered in that manner. Rather savings achieved are viewed as permanent and deducted from all future budget considerations. Commanders are thus indirectly encouraged to hide all savings in other areas.

Hiding savings are not difficult. Every need for the unit is not funded, such as new office computers, furniture, training classes, conferences, equipment, etc. Money saved is thus spent on these unfounded requirements, so job savings may not appear at all. If savings do not appear to Congress, then it probably appears to Congress that current programs are not saving as much as expected and new programs are needed.

In a new effort to decrease costs, Congress is attempting to turn previous revenue drains into potential sources of tax revenue. As the World Bank and Great Britain have demonstrated, it is possible to do this. The theory has been proven to work in other areas,

so Congress is well backed by theory and example when it attempts to perform outsourcing.

Outsourcing works at turning a drain into revenue source when the free market system into which the function is placed is allowed to work completely. As the World Bank study indicates, the primary source of success for outsourcing is the ability of the private sector to quickly reciprocate good and poor performance. If the private sector is not allowed to do this, then optimal results cannot be obtained.

Current evidence suggests that savings are occurring, but to what extent, the GAO was unable to say. If the MEO wins the bid from the A-76 study, fewer personnel are used, so there will be some savings there. However, the MEO is not able to hire effectively from the free market, nor can they fire employees more easily than before the A-76. Consequently, the MEO is effectively separated from the driving forces behind the success of outsourcing.

Should the contractor win the bid for the A-76 study, the contractor has more freedom in the hiring and firing process than the MEO, so it is more successful. However, the contractor is limited by what Congress is willing to pay, which may not be the going market rate for that skill. So even the contractor is somewhat separated from the driving forces behind outsourcing. However, should the contractor win the contract, they will pay more taxes than the MEO will. So Congress does, to some extent, turn a former drain into a revenue source.

When measured against Congressional standards for the success of the outsourcing; it is a mixed review. Outsourcing is successful in immediately cutting costs. In addition, it is successful in turning a drain into a producer. However, it is not as

successful as it could be if the proper incentives were placed to show savings and if the driving forces were not hindered as they are currently.

4.2.3 Presidential Considerations

The President's goal in outsourcing is probably not saving money, but in the enhancing the political flexibility when using military force. If the President needs to apply a lot of force but cannot commit a lot of troops to an area, outsourcing allows the President to commit more combat troops, since fewer support troops are being used.

As long as the contractor is willing to go, and the cost is reasonable, the probability of success of the mission is high. If the contractor is unwilling to go and the military has no organic capability, the success of the military is questionable. Currently contractor failure is not common.

Outsourcing has allowed support troops to be replaced with civilians acting in a support role. In addition it has allowed more combat troops to be placed in strategic areas, while keeping the overall number of troops low. When measured against these criterions, outsourcing is a success.

4.3 A-76 Process

While the A-76 is complex, the underlying theory is fairly simple. By comparing select military functions to similar functions within the free market, the lowest cost function can be obtained. In addition, the remaining functions within the military will become more efficient. However, the difference between theory and application can be the difference between success and failure.

4.3.1 A-76 Training Problems

The A-76 process's first problem lies in how those performing the study are trained. The team is generally composed of people who do not have an accounting or cost analysis background. In addition the team is not trained on how to verify the workload that is being documented or if their findings are right or wrong. In addition, the training received is usually administrative in nature, and not very helpful for the task at hand. As a result of this, the process is reinvented with every study.

The lessons learned from the first A-76 study are not easily passed on to the next team performing the study. There is no incentive to pass the information on to other teams, since to do so is additional work for which the team will not be rewarded or compensated. The information the new team needs is thus difficult to obtain, and there is no way verify how well the team understands the task that it is about to perform.

The A-76 process begins to set itself up for failure right from the start. It takes an improper background and combines it with inadequate training; with no way of ensuring the team is properly prepared before performing the task. As if this was not bad enough, the people asked to perform the study are friends and associates of those under scrutiny, which creates an unnecessary emotional charge around the issue. From the start, the process has definite disadvantages to it.

4.3.2 Performance Work Statement Problems

The development of the PWS is critical to the initial success of outsourcing. If the PWS is inaccurate almost every other aspect of outsourcing will be thrown off, such as worker authorizations, wages classifications and the overall cost of the work

performed. The overall success of the outsourcing attempts then falls on the accuracy of the PWS.

As stated above, the people responsible for the development of the PWS have neither the proper background nor the proper training for the task assigned. The developers are further hindered by the emotions surrounding the entire process, which prompts distortions of the work performed. Small tasks may be magnified, while vital tasks may be downgraded in importance or left out altogether.

At this point, the inexperience of the developers begins to play a role. An experienced person in the field may be able to detect abnormalities in the PWS when compared to similar performance work statements from other bases. However, those statements and lessons learned have not been passed onto the inexperienced team. The team then develops the PWS in almost complete isolation.

Another problem with the PWS is the lack of complete reflection of the work being performed by the individual or unit. Additional duties, charity work, and other unrelated tasks are often assigned to the unit members, but not reflected on the PWS. This means that the contractor will not duplicate some percentage of work, but the work will remain for others to do. Most likely, this work will be assigned to those remaining units on the base or to the MEO. In either event, the exclusion of this work creates a distorted picture of the contractor's or the military's efficiency. The amount of work can then be considered constant, it is not reduced, and rather it becomes more concentrated on those that remain.

The resulting PWS is the best PWS that the developers could form, considering the circumstances. The interviewers are not properly trained. The interviewees may be

100 percent truthful or not. Commanders along the entire chain of command may modify, eliminate or insert new testimony affecting the developing PWS. The developers have no prior experience and no examples for comparison. The resulting PWS will most likely be inaccurate and subjected to change.

4.3.3 COMPARE Problems

Colonel Stockman points out that the largest problem with the COMPARE model is that it is a one size fits all type of program. In addition, the program runs off a different kind of accounting process than that used by the Air Force. This creates different subtle aspects to the program that the Air Force may not be prepared to handle. In addition the model is driven by personnel costs, which may not be the driving factor in many of the latest outsourcing studies. Overall the model is outdated and is not as useful as it once was.

4.3.4 Bid structure problems

The largest problem with the bid structure is that it does not allow an effective control against cost or risk. If the government tries to protect against risk, then the contractor has few incentives to control costs. If the government attempts to protect against cost overruns, the contractor must protect against risk, which increases the cost of the contract. There does not appear to be any great remedies for this problem.

There is an additional concern about these contracts. It is the fact that increased work does not result in a linear increase in cost. Instead, due to the nature of contracts, there is a stepwise increase in contractor cost for any change in work. The cost of the

additional work will depend on several factors to include the ability of the negotiating team, the criticalness of the work and the cost to the contractor for performing the work.

Both the nature of the contract and the stepwise function of the changes in the PWS do create an incentive for the contractor to underbid. If the contractor can win the bid, and there are significant holes in the PWS (which is very likely) then the contractor can recover losses and increase profits on additional changes, since the contractor will no longer be working in the red.

4.3.5 MEO problems

The MEO is perhaps the most misunderstood creation of the A-76 process. It is composed 100 percent of DoD civilians, is placed under the same commander of the former organization, but is structured, manned and funded to perform only the work in the performance work statement. Many commanders fail to recognize the MEO as the government equivalent of a contractor and not merely a smaller version of the former unit. This misunderstanding creates sever problems in the MEO carrying out the functions of the PWS and correcting problems later on.

4.3.5.1 Classifications

The lumping together of unique work skills under a common heading are creating problems for the MEO. The umbrella under which these unique skills rest hides the fact that these skills are not interchangeable, only similar. While each individual position description does help reduce this problem, it does not eliminate it.

The Air Force must understand that aggregating skills that exist only in the disaggregate does not accomplish the mission effectively and may actually hinder

mission performance. Managers attempt to teach the necessary skills to workers not properly skilled while still attempting to accomplish the mission. In essence, the MEO which is manned to the lowest possible levels must perform additional work merely to perform as expected. This is not the problem of the MEO or the process. This could be a problem that is carried over from the existing system into the new one. This problem should be corrected in the current system, which would automatically correct it in the MEO.

4.3.5.2 Training

The MEO is manned to perform the current mission as stated in the PWS. The MEO does not receive additional time to train employees or the manpower room necessary to spare personnel for training. Training therefore remains difficult to obtain or continue in an MEO.

4.3.5.2 Morale

Morale in an MEO is extremely low. Bob Perry stated his units morale no longer existed and Cena Buchanon stated that her units morale was lowest its been since she joined, which was in the late 70s (Buchanon 7 Dec 2000). Morale continues to be a problem in the MEO because of the misunderstandings of the MEO's job, additional work that is not removed from the MEO, and the constant fear of job loss on subsequent bids. As pointed out, people will turn down a promotion if it the promotion places them in an MEO. This is the ultimate reflection of a low morale; people do not even want to join.

4.3.5.6 Mindset Problem

The mindset of many military commanders further dooms the MEOs successfulness. If the commander continues to insist that the workload does not change from old organization to new organization, the MEO is significantly undermanned. The new organization does not reflect any work not directly attached to the stated goal, which includes additional duties. The military does not promote commanders who constantly turn down additional duties assignments, so the MEO is constantly forced to perform above the PWS requirements.

In addition the MEO has nowhere to turn to when the commander orders additional work. Unlike the contractor that would go to the contracting officer, the MEO has no internal representative. There is no one to enforce the PWS and only the PWS for the MEO. If those in charge of the MEO point out that additional work is not allowed in the MEO they face poor performance reviews from commanders who may or may not have a background in that field and will only be in place two years before moving on to a higher position.

4.3.5.7 Organizational History

The real problem with the MEO history is that it is overly optimistic when it comes to determining the success of the new organization. Those in charge of the MEO assume problem areas will disappear and that successful areas will remain successful. This creates problems since problem areas do not tend to disappear and those areas that were successful may not remain successful. Ultimately the entire organizational climate

has changed, which could impact the performance of all involved. The MEO remains a victim of its past successes and a potential victim of its past problems.

4.3.6 Savings estimates problems

Estimating savings from outsourcing remains a problem. Constant changes in the PWS make it difficult to determine how much the savings really are. Part of this problem is a result of improper manning calculations. By basing savings off of authorized manning instead of actual manning, it is not possible to determine what the actual personnel costs were to start with. In addition, the assumption of overhead compounds the problem since it assumes some overhead costs will disappear, when in practice they do not.

Contractors seem to routinely occupy the same buildings as the organization they are replacing. The civil engineering squadron continues to provide the same amount of maintenance as they did before. The utilities are supplied by the same source. The contractors interviewed are not required to reimburse the government for any of these expenses, which may be a common practice. If this is true, few if any of the overhead costs are reduced.

4.4 Recruitment

In the long haul, the military will continue its mission as long as it is able to replace individuals lost to the organization. When any of the organizations cannot replace those that are lost, then the military will not be able to continue.

4.4.1 Military Recruitment

The military has one pool that recruits may come from. This is the civilian sector. These recruits will probably not have any military type training and will most likely have no marketable experience. These individuals will be trained in some skill to replace those personnel who have left the military.

The individual services may recruit from other services. While this source is small in comparison to the civilian sector, these personnel will arrive with both military experience and skills. However, these personnel represent a loss to the branch, but not to the DoD overall.

4.4.2 DoD Civilian Recruitment

DoD civilians can come from the civilian sector or from those leaving the military. The first source may have work skills, but no military experience. The second source will have both skills and experience. At worst, the person must be trained on the job. At best the person can work at the same type of job. If a military person is used, the military will retain the experience and training they provided the individual. If the person is unskilled, the military is no worse off than with a raw recruit. The only difference is that the military has less control over the DoD civilian than they do the raw recruit.

4.4.3 Contractor Recruitment

The contractor essentially draws from the same source as the DoD civilian sector does, with all the same benefits. If a person leaves the military to work for a DoD contractor, the military again retains the experience and skill of the individual. If not, the military is better off than with a raw recruit, since they will not have to train the

individual. However, they have no agreements with the individual and the individual has no obligation to the military outside of those stated in the employment standards of the company he/she works for.

4.5 Promotions

Promotions are a major part of retention and can heavily influence the organization's ability to retain experience and recoup training costs. Outsourcing affects promotions and so promotions must be examined.

4.5.1 Military Promotions

Promotions serve a number of purposes, motivation to perform well at work, a motivator to stay with an organization or as an incentive to separate. Some individuals do not want the extra responsibility that promotions may bring, or they may simply not like the type of work that a promotion requires. However, these cases are rare. In either event, the promotions serve as a way to retain experience within the organization.

For the military, a person will enter and be trained in some skill level. The individual will be promoted within this skill level for several ranks, some will remain within the career field for their entire career. The military promotions then serve to keep knowledge about a specific skill within the organization.

4.5.2 DoD Civilian Promotion System

Promotions are a little more skewed in the DoD civilian service. The individuals are promoted by volunteering to a higher skill level job. So rising upward is more a matter of the individual's choice than in the military. However, for the person to

volunteer, the job must open. This may not always be possible within the organization or skill category. Consequently, it is slightly harder to keep job experience within the organization, but it is still possible. Promotions also serve to keep people motivated to stay within the organization.

Within the MEO, promotions serve mostly to remove experience from the organization. While promotions may be offered within the MEO, this is not common. Most individuals receive promotions within other organizations, so the experience leaves the MEO. The individual may stay within the career field, so overall experience stays within the larger organization.

4.5.3 Contractor Promotion System

Promotions do occur within the contractor organization, however, they occur at the contractor's expense, since the government will only pay for the positions in the contractor. If the individual wants higher pay or a higher position, they will either have to move within the contractor's organization (if it is large enough) or move to a new organization.

The individual is extremely likely to move to a new organization, at which point the contractor loses the skill and experience with the individual. However, the contractor is able to hire other individuals from outside the organization to replace this skill level. Of course, this is made somewhat difficult if the pay offered is below the market rate for the skill and experience desired.

4.6 Manning Considerations

Manning in the military is based upon a wartime contingency need. Since the military does not know when a contingency is going to occur or how many people are going to be needed, the military attempts to man as close to the largest contingency as possible.

The A-76 process does not man to the wartime contingency needs. Instead it mans to the peacetime need, which may be significantly below the wartime need. As a result, the military will have to train individuals to make the jump from peacetime manpower needs to wartime manpower needs. This could cost the military critical time, during which valuable military opportunities could be lost.

4.7 After Affects of the A-76

During and after an A-76 study, morale is extremely low. There is a reduced loyalty to the organization by the remaining employees, who may feel threatened or betrayed as individuals they know lose jobs to the private sector or as a result of a draw down. How the individuals react to these emotions vary greatly. Some will look for other jobs, some will become bitter and be less motivated in their work.

Much of the workload that the military bears is possible due to the morale of the unit. Morale is so important that it is reflected in the Status of Resources and Training (SORT) report. If morale is high, the unit can be raised a level, if low, it can be downgraded a level. After an A-76 study, the morale of the unit is extremely low. The military must find a way to deal with the after affects of the A-76 if it is to avoid the problems that the private sector has encountered with its downsizing.

4.8 Mercenaries

The subject of mercenaries must be included in any outsourcing subject. If captured on a battlefield, contractors will be treated as mercenaries. During a war, they serve as mercenaries in the general sense. They are individuals working for profit, not out of higher desires. It can be argued that this is no different than the soldiers they serve beside. However, this is the difference. If a soldier desires to leave, he/she can be charged and placed in prison. The soldier answers to a chain of command and is not free to debate orders. If a contractor chooses to leave, the military has no right to stop them. The individual employees are not responsible to the government, but to the company. Consequently, it is the company that has a contract with the government, not the individual. And contracts can be legally broken. The soldier has no such freedom.

Contractors, no matter how loyal, are working for a profit. That is the nature of market, since those that do not make a profit go out of business. They are not as controlled as soldiers and do not answer to the battlefield commander. When ultimately examined, from motive to structure, they resemble the traditional mercenary unit.

4.9. Long term implications

There are many problems with the outsourcing for the military. It is difficult to isolate one problem and say "fix this and everything will be fine." Each of the problem areas, from the start of the process with Congress to the actual implementation in the field overlaps extensively with the other parts, so that the solution must study all parts at once. Despite this complication of the parts, the risk as a whole can be clearly identified and some long-term consequences can be predicated.

One of the most immediate consequences that appears is the military will be reduced in size to meet a peacetime mission. There will be no excess capacity to spare for training, and no reserve strength to draw from. The United States military will not be in a position to handle immediate surge requirements as it has before. This will create a higher demand for allies to contribute military strength to any endeavor. The United States will not have the ability to act independently should the need arise.

The second consequence of outsourcing will be a long term increase in costs. The military has a great deal of price leverage, but can be independent of the market place if necessary. As outsourcing continues, the military will not be in a position to walk away and must become a price taker if it is to have the services needed. It will not have the internal capability necessary to walk away from the market place, placing it in a weak position to deal with a profit driven sector. In addition, the market is currently using a large percentage of military trained personnel. The loss of this training will force the private sector to bear more costs of training, which will be passed on to the military. In the long term, the military will become more sensitive to the market and the market will incur more costs. The long-term savings that are being projected will not exist and the short run savings will be destroyed by large cost increases as the military weakens.

In addition, the military of today is destroying the ability of tomorrow's leaders to make choices. Tomorrow's leaders are in the cockpits, where training in support functions and contract requirements require more time than the pilots have to spare. In addition, the leaders they could depend upon to gain the necessary leadership are being removed or are quietly leaving. Future commanders will be forced to submit to contractors simply because they will lack the necessary knowledge base from which to

make decisions. Even if future commanders somehow have the knowledge, they will not have alternative options to contractors because the support force will be too small to be effective or eliminated entirely.

The long term of effect of outsourcing today's military will ultimately result in a restriction upon future leadership in terms of capability, options and knowledge. It will result in a more expensive support structure that has fewer controls and whose performance in war is questionable. The replacement force will not answer to the military commander, the commander in chief or even congress, but rather the contracting officer and the court system. Outsourcing is great to the degree that the government and the mission are not dependent upon companies for mission success. This point has mostly likely already close or has been passed. The Air Force will lose the majority of its experience within the next decade. To replace this knowledge will cost at least 3 additional years to every year that a contractor is used. Time is not on the side of the government or the Air force.

4.10 Recommendations

If outsourcing is to succeed, the MEO and the contractor must be allowed to hire and fire employees freely. The government must abandon wage classifications and match the free market price. The process to fire employees must be streamlined. The MEO must be regarded as a government owned contractor that will only perform the PWS. In addition, the government must keep sufficient internal force whose independence from the contractors can be ensured, at any time.

The next step is to create a knowledgeable group of personnel to develop the PWS and the MEO for each different function (Stockman 11 Dec 00). These teams would act much like the current inspector general teams for the different functions. This will create a group that is emotional disconnected from those being studied. The group will obtain experience examining and developing an accurate PWS. The holes in the PWS will be smaller, which allow the contractor to be more exact on the first bid. The incentive to underbid will be reduced.

To help create a more accurate government bid, the government needs to eliminate the assigning of overhead to the MEO's bid. Overhead costs generally exist only in the aggregate and cannot be accurately broken down. In place of overhead, the government should use a process called Net Effect Analysis. By creating a before and after picture, the bottom line can be generated that will more accurately reflect the cost of changes and any savings that will occur. Net Effect Analysis will allow the government to keep aggregate costs aggregated and disaggregate costs disaggregated.

The fourth step needs to be an inclusion of the full work performed by the organization, to include additional duties. There needs to be a value needs to be assigned to the duties so that organizational goals and needs, from the unit to the entire DoD, can be reflected. The accurate reflection of work will allow the government to accurately gage the efficiency of its workers. In addition, there needs to be a value placed upon the control of the soldiers and DoD civilians. That control is a guarantee of mission accomplishment, which must be reflected in the bid. As long as it is not reflected, the military is effectively comparing apples to oranges, a mistake which could bring the downfall of a powerful nation in a very hostile world.

The next step must be an acknowledgement of the military's manning rationale. If Congress wishes for the military to only perform at a peacetime level, then the current process is adequate. If Congress wishes for the military to handle a surge in work level effectively, it must allow excess capacity to exist in peacetime because there exists a time lag to respond to a contingency. Even if Congress could hire and place a contractor immediately, there is still a learning curve time line for integrating them with the military.

On a larger scale, Congress must change the military budget system. If producing yearly savings punishes the military, the military will not produce huge yearly savings no matter what is done. It is not that military is rebelling, rather it is that military realizes that yearly savings does not equal constant savings. If gas decreases in price this year, it does not mean that it will remain at the same price next year. It makes no sense to reduce the military's budget because it saved money on something no one in the nation could control.

4.11 Recommendations for Further research

This thesis has only scratched the surface of the problems with outsourcing. It has pointed out that the system is doomed to failure unless theory is fully applied. It has shown the opportunity costs of hiring contractors in terms of time and control. More can be done.

It is recommended that others pursue a way to determine the value of additional duties in terms of unit goals and efficiency. Another benefit would be to take past outsourcing studies and perform Net Effect Analysis. The results could then be

compared against the A-76 studies and determine if Net Effect Analysis results in a more realistic picture of cost. It would also be a benefit for the DoD if a specific career field could be traced and the effects of outsourcing determined solely on one career field. The career field would have to be traced throughout the Air Force. Given the interconnectedness of the career field, the student could then determine where performance increased or decreased as a result of outsourcing.

Given the level of dependence on contractors will continue to grow, it would be an additional benefit to determine at what level QAE is being performed and the qualifications of those doing the QAE. Along the same lines, it would be helpful is someone examined the overall effect of a contractor strike on the military. For example when the Teamster drivers went on strike against UPS, the entire Air Force was affected. When the base workers went on strike at Incirlik, Turkey, the Air Force was impacted as it sent personnel. The value of studying past strikes would show the dangers to mission success and base use as dependence on contractors, even in seemingly insignificant areas of support, can be.

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14. ABSTRACT

The DoD and the Air Force have turned to outsourcing support functions as a way to reduce both costs and the number of soldiers required to provide support for combat forces. The process used to determine whether it is economically feasible to outsource a function is called A-76, after the circular that describes the process.

Outsourcing, like any other tool, must be used in the right way, in the correct environment if the desired goal to be reached. To understand what these goals are, it is necessary to examine past case studies where outsourcing has worked, to determine why outsourcing works. It is then necessary to see if the United States implements policy in such a manner as to ensure the success of the driving forces of outsourcing. In addition, it is necessary to review the A-76 from initiation to implementation of either the contractor or the Most Efficient Organization (MEO) to see if the military has set up policy and implementation to ensure that outsourcing produces the best results possible. It is finally necessary to examine what happens after the A-76 is completed to see how the remaining force structure is affected.

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