BEYOND A-76:
HOW TO ACHIEVE THE GOALS WITHOUT THE PAIN

THESIS

Kurt A. Chelf, Captain, USAF

AFIT/GAQ/ENV/02M-02

DEPARTMENT OF THE AIR FORCE
AIR UNIVERSITY
AIR FORCE INSTITUTE OF TECHNOLOGY

Wright-Patterson Air Force Base, Ohio

APPROVED FOR PUBLIC RELEASE; DISTRIBUTION UNLIMITED.

The views expressed in this thesis are those of the author and do not reflect the official policy or position of the United States Air Force, Department of Defense, or the United States Government.

AFIT/GAQ/ENV/02M-02

BEYOND A-76:

HOW TO ACHIEVE THE GOALS

WITHOUT THE PAIN

THESIS

Presented to the Faculty

Department of Systems and Engineering Management

Graduate School of Engineering and Management

Air Force Institute of Technology

Air University

Air Education and Training Command

In Partial Fulfillment of the Requirements for the

Degree of Master of Science in Acquisition Management

Kurt A. Chelf, BS

Captain, USAF

March 2002

APPROVED FOR PUBLIC RELEASE; DISTRIBUTION UNLIMITED.

AFIT/GAQ/ENV/02M-02

BEYOND A-76:

HOW TO ACHIEVE THE GOALS

WITHOUT THE PAIN

Kurt A. Chelf, BS
Captain, USAF

Approved:

//SIGNED//	12 Mar 2002
Timothy S. Reed, Major, USAF (Chairman)	date
//SIGNED//	12 Mar 2002
William K. Stockman, Lt Col, USAF (Member)	date
//SIGNED//	12 Mar 2002
Michael A.Greiner, Capt, USAF (Member)	date

Acknowledgments

I would like to express my sincere appreciation to my wife and family for their patience and understanding during this tumultuous time at AFIT. Without support from home, this experience would have been much more difficult.

I would also like to thank my faculty advisor, Maj Tim Reed, as well as my readers, Lt Col Bill Stockman and Capt Mike Greiner, for their support and advice in completing this thesis.

Finally, I am thankful for the time and effort of the many people who went out of their way to provide me with information and their personal experience. Without their efforts, I would not have been able to complete this research.

Kurt A. Chelf

Table of Contents

Page

Acknowledgments iv

List of Figures viii

Abstract ix

I. Introduction 1

Chapter Overview 1
Introduction 1
Importance of Research 2
Background 3
Research Objectives 7
Problem Statement 7
Investigative Questions 7
Scope and Limitations of the Research 8

II. Literature Review 9

Chapter Overview 9
Definition of Terms 9
Activity Based Costing 9
Business Process Reengineering 10
Commercial Activity 10
Competitive Sourcing 10
Direct Conversion 10
Inherently Governmental Activity 11
Most Efficient Organization (MEO) 11
Outsourcing 11
Privatization 11
Revolution in Business Affairs (RBA) 11
Strategic Sourcing 12
The Problem 12
Why It Is Important 18
The A-76 Process 19
Existing O&P Literature 24
Outsourcing 25
Privatization 26
Strategic Sourcing 27
Chapter Summary 31

Page

III. Methodology 32

Chapter Overview 32
Research Objectives 32
Method 33
Definition of a Case Study 33
Research Design 35
Validity and Reliability 36
Case Study Protocol 38

IV. Results and Analysis 39

Chapter Overview 39
Case 1 – Andrews AFB Aircraft Maintenance and Supply Cost Comparison 39
Background 40
Program Description 40
Acquisition Strategy 41
Unusual Conditions 43
Performance Period 45
Acquisition Approach 45
Source Selection Procedures 48
Acquisition Reform Initiatives 49
Market Research 50
Special Considerations 52
Proposal Evaluation 53
Case 2 – Wholesale Logistics Modernization Program 53
Background 54
Economic Analysis 55
Acquisition Strategy 57
Acquisition Reform Initiatives 59
Benefits From Supply Chain Management 61
Reengineering 62
Program Status 62
Case 3 – Naval Air Station Lemoore 63
Background 63
Acquisition Strategy 64
Acquisition Reform Initiatives 66
Assumptions 69
Outcome 70
DFAS - Denver Out Of Service Debt Operations 71
Background 71
Results 72
ACC Program Management Squadron 72

Page

Background 72
Lessons Learned 73
Chapter Summary 74

V. Conclusion and Recommendations 75

Chapter Overview 75
Common Themes 75
Common Practices 76
Barriers to Effective Competitive Sourcing 77
Recommendations 79
Large Scale Implementation of MEOs 80
Streamline Competitions 81
Capitalize on Experience 81
Strategic Sourcing 82
Limitations 83
Recommendation for Future Research 83

Appendix A: List of Acronyms 84

Bibliography 85

Vita 88

List of Figures

Figure Page

1. Strategic Sourcing Decision Process……30

2. Cost Summary of Alternatives……...…56

3. Investment/Implementation Comparison……..57

AFIT/GAQ/ENV/02M-02

Abstract

The Department of Defense (DoD) has determined that Outsourcing and Privatization is key to reducing operating costs and subsequently providing the fiscal dollars necessary to modernize the U.S. Armed Forces. In an effort to achieve this goal, the DoD has mandated that the Air Force study at least 5% of its manning positions for possible conversion to contract (A-76 Contracting, 2001). This mandate effects over 200,000 positions throughout the department. Office of Management and Budget (OMB) Circular, Number A-76, Performance Of Commercial Activities dictates the process used to study the appropriateness of these conversions.

This thesis explores the usefulness and applicability of this process, commonly referred to as "A-76". More specifically, this researcher's goal is to determine if the current process is the most effective and efficient way to accomplish the goals of reducing the Department of Defense operating costs. This thesis explores recent A-76 studies and other strategic and competitive sourcing issues to determine how to drive down cost most effectively.

BEYOND A-76: HOW TO ACHIEVE THE GOALS WITHOUT THE PAIN

I. Introduction

> One of the most significant issues facing the Air Force today is Outsourcing & Privatization. It represents a fundamental change in how we provide essential services and how we perform key mission support tasks.
>
> Getting the Word Out on Outsourcing and Privatization
> General Michael Ryan, Chief of Staff, USAF

Chapter Overview

This chapter describes many critical aspects surrounding the Competitive Sourcing initiative. It begins with a brief introduction of Competitive Sourcing and continues by explaining the importance of the research. The chapter goes on to give the reader background information necessary to help understand the history of the subject. The chapter concludes with an explanation of the research objective, the problem statement, and the investigative questions the research will answer. The problem statement will establish the framework for the research effort and the investigative questions serve to focus the attention and provide a path to follow.

Introduction

Outsourcing is a competitive process that allows organizations to create efficiencies and reduce overhead costs. Outsourcing is not about eliminating functions or services and not necessarily about eliminating personnel. Rather, it is about investigating the most efficient and effective means to accomplish mission essential tasks and eliminating those that are not value added. Further, it is about retaining core

competencies within the organization while outsourcing non-core tasks to another firm that can perform the functions more efficiently.

Clearly, a competitive outsourcing process is one way to create and sustain efficiencies as well as reduce operating costs. This is one of the main reasons the Department of Defense (DoD) has embraced the practice. This thesis researches the outsourcing process used by the DoD and investigates the potential of obtaining the benefits of outsourcing by employing other practices.

Importance of Research

The size of the DoD has reduced by 39% since FY 1985 (Ryan, 1998:3). With this reduction in size has come a reduction in budget. During the same period, the Air Force budget has dropped 50% (Ryan, 1998:2). Prior to the budget reductions, The DoD slated a large portion of its budget for force modernization programs. The reductions caused by the Reductions In Force, commonly called RIFs, caused many acquisition programs to face cutbacks or even cancellation. The drastic reductions in budgets forced the Department to find ways to save money.

One solution to this problem is to reduce operating costs of government activities. A method to meet this goal is to inject competition into the process in an effort to drive costs down. This process promises to save money that is necessary to fund the force modernization programs deemed critical by our senior leaders (Ryan, 1998:2). The DoD has already programmed forecasted savings from Outsourcing & Privatization (O&P) programs into the budget (GAO-01-907T, 2001:1). This is necessary to provide funding

for many critical acquisitions but it puts more importance on actually realizing the savings.

The critical nature of achieving projected cost savings elevates the importance of this research. To continue funding modernization programs, the DoD must become more efficient and must reduce operating costs. We must also maintain an acceptable level of service quality. To maintain acceptable levels of service while reducing costs, the government must seek out and employ innovative approaches. Within the DoD, we must clearly understand our processes and limitations to be able to innovate and improve them. Our processes must be efficient and effective to ensure we meet these tight budgetary goals forced upon us.

Background

> In the process of governing, the Government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength. In recognition of this principle, it has been and continues to be the general policy of the Government to rely on commercial sources to supply the products and services the Government needs. (OMBC A-76, 1999:1)

The outsourcing initiative in the DoD is not new. As early as 1955, the department received guidance establishing policy for obtaining goods and services from the private sector (OMBC A-76, 1999:1). The Office of Management and Budget (OMB) quickly followed with guidance to direct the actions of this new Commercial Activities (CA) Program. This guidance described the use of outsourcing to obtain cost-savings. It also supports the process known as "A-76". The term "A-76" has caught on as the informal name for the O&P program. It comes from the Circular Designation

originally assigned by the OMB. Although this guidance existed, few agencies employed it. However, in 1996, the OMB updated this guidance and many government agencies began to look at the process as a means to reduce operating costs.

The theory of the program is relatively straightforward. If a function or position is determined to be "commercially available", the in-house government activity (hereafter called public or public entity) prepares a proposal detailing what it will cost them to perform the function. This proposal is competed against proposals submitted by private contractors. If the private sector offer is either lower by an amount equal to 10% of the direct personnel costs of the public cost estimate or is $10 million less over the performance period than the public estimate, whichever is less, the activity will be converted to performance by the private sector (OMBC A-76, 1996:28). The objective of the A-76 program is to reduce operating costs. Competition helps achieve this objective and promotes efficiency within the DoD operating support structure.

This 10% hurdle is an important factor. The government recognizes the impact of converting a function to contract. This experience can be burdensome and the government does not necessarily want to go through that process unless there are savings large enough to justify the inconvenience. The 10% hurdle ensures the government does not convert to contract when the savings are too small to offset the costs of conversion.

Outsourcing is too generic a term to use when describing this process. More accurately, the agencies have been charged with "competitively sourcing" their manpower positions. The definition of competitive sourcing is "the process of obtaining the best value in the provision of commercial activities" and includes the analysis and possible transfer of a function previously performed 'in-house' by government employees

to a private entity, or vice-versa (OSD Emissary, 2001). The process of competitive sourcing allows completion of cost comparison studies that ensure the government is getting the best value for the taxpayers' dollars.

Nearly all areas of government service are candidates for competitive sourcing, with one major exception. Any position deemed "inherently governmental" is not subject to this cost comparison. Examples of these organic functions include: judicial functions, managing and directing the armed forces, combat support, tax collection, and control of treasury accounts and money supply (OMBC A-76, 1996:3).

Fluctuating public support resulting in reduced congressional funding has forced the DoD to re-think its budget priorities year after year. As previously mentioned, budgets have been becoming increasingly tight. Unfortunately, this is occurring at the same time that our weapons systems are reaching or exceeding their useable life expectancies (Ryan, 1998:2). This has left the Department with few options on how to fund the necessary modernization programs. A logical approach to finding the necessary funds is to reduce overhead in the area of operating and support costs within each agency.

In addition to the need to save money, another influence attacks operating and support functions. This influence is congressional pressure to conform to the standards of the OMB Circular A-76. This guidance directs government organizations to obtain commercially available goods and services from the private sector whenever practicable.

The legislative branch has directed this practice for many years. As previously stated, policy existed as early as 1955 that made it clear that the government would not compete with the private sector on commercially available goods and services. There are just two exemptions from this guidance. First, the goods or services must not be

inherently governmental, sometimes called "organic". Examples of inherently governmental functions are: security forces, pilots, contracting officers, etc. Second, the private sector must be able to provide the goods or services at a lower cost than the government. If the government proves it can provide the goods or service at a lower cost than the private sector, it will continue to do so. The government will outsource an activity if the services are not inherently governmental and if the private sector can supply them at a lower cost.

The government does not arbitrarily outsource activities. The first step in the process is to identify the Commercial Activities within each agency. The Federal Activities Inventory Reform (FAIR) Act requires each agency to identify these Commercial Activities. The FAIR Act also requires that OMB publish an announcement of public availability of agency Inventories of Activities that are not Inherently Governmental upon completion of OMB's review and consultation process concerning the content of the agencies' inventory submissions (OMB Web, 2002:1). This list outlines the activities that are candidates for outsourcing competition. Then, there is a structured process to follow when performing the competition. OMB A-76, Revised Supplemental Handbook, Performance of Commercial Activities details these procedures.

The Revised Supplemental Handbook details each portion of the competition. Included are such areas as: rules for developing the in-house cost estimate, inflation tables to baseline cost information, and how to technically level the bids. While the Revised Supplemental Handbook does detail many facets of the competition, it also allows the agencies some latitude in developing their own standards. For example, general instructions are provided but specific guidance is not. This allows the agencies to

use their own business practices to the maximum extent while remaining within the framework of the OMB guidance.

Research Objectives

The objective of this research is to evaluate the current A-76 procedures and to investigate alternatives to achieving the common goal of reducing operating and support costs. A common theme emerges when discussing the A-76 process with the people involved in the process. This theme is that the A-76 process is broken.

The problems range from inadequate training and staffing to incomplete cost and technical comparison techniques. As explained in Chapter 2, A-76 studies are difficult to complete and increasingly complicated while at the same time consuming more resources than originally anticipated (GAO/NSIAD-00-106, 2000:14).

Problem Statement

If one believes fundamental problems exist with the current A-76 procedures, where does that leave the DoD? The need to reduce operating costs still exists and there is no apparent change on the horizon to alleviate the budget constraints. This drives us toward one overall question: Can the government obtain increased cost savings by modifying or bypassing the traditional A-76 Competitive Sourcing process?

Investigative Questions

To accomplish the objectives stated above, the researcher collected data from multiple sources through interviews and study of recent cases. The interviews occurred

with a broad range of experts from the field, from high-level executives to the contract specialists at the operational level. While the interviews provided useful information about issues and feelings, the researcher obtained the majority of information through research and study of recent competitive sourcing cases. The researcher selected these cases based on their currency, innovative approach, and the ability to generalize them to other situations. The data collected helped answer the following investigative questions:

1) What are the primary barriers or limitations of the current A-76 process?
2) What alternatives exist that satisfy the objectives of A-76?

Scope and Limitations of the Research

This research contains some clear limitations. First, as a case study, the specific findings are limited to the cases under study. However, this does not mean the conclusions are not generalizable to other situations. The intent of this research is to provide ideas on ways to meet the objectives of the A-76 process while providing data to support these conclusions. The findings of this research can help encourage innovative thinking in countless competitive sourcing decisions and studies throughout the DoD in an effort to make the process more efficient and effective.

II. Literature Review

Chapter Overview

This chapter contains information gathered while researching the subject of A-76 Competitive Sourcing. It exists for two basic purposes. First, it is important to discuss previous research and identify a gap in the existing literature. The existence of this gap demonstrates the need for more research into this area. Second, this chapter serves to educate the reader about the current state of the subject.

To aid the reader in understanding terminology used throughout this research, the chapter begins with a list of terms and their most appropriate definitions. Following the terminology is an explanation of why this is a problem and why it is important. A description of the A-76 process and a brief summary of the existing O&P literature follow. The chapter concludes with descriptions of both outsourcing and privatization. The reader will gain an understanding of the competitive sourcing process as well as an insight to the issues and alternatives surrounding it.

Definition of Terms

It is important to understand several key terms to better understand the research in this study. This section attempts to highlight the most common, and some of the more controversial definitions as an aid to the reader.

Activity Based Costing

> Activity Based Costing is a methodology that assigns costs to products or services based on the resources they consume. It assigns functional costs, direct and indirect, to the activities of an organization and then traces activities to the product or service that caused the activity. ABC gives

visibility to how effectively the organization uses resources and how relevant activities contribute to the cost of a product or service. Such information may be key to making decisions about whether to restructure or privatize an activity (Q'Guin, 1991:31).

Business Process Reengineering

BPR is the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service, and speed (Hammer, 2001:35).

Commercial Activity

A function that provides a recurring service obtainable from a commercial source. It may be an entire organization or a part of an organization. The type of work must be separable from other functions or activities so that it is suitable for outsourcing. There are two types of commercial activities: in-house commercial activities (operated by government employees) and outsourced commercial activities (operated under a service contract by the private sector or another element of the public sector) (AFMIA, 2001).

Competitive Sourcing

The process of obtaining the best value in the provision of commercial activities; utilizing OMB Circular A-76 cost comparison process to develop a performance work statement (PWS), structure a most efficient organization (MEO) of the in-house government work force, and then compare the MEO with any qualified commercial providers based on the requirements developed in the PWS. Cost comparison studies are mandated by OMB circular A-76 for commercial activities involving more than 10 FTE positions. In this process, there is no assumption that the private sector will win the competition. This process has been referred to as "outsourcing" or "contracting-out", but only "competitive sourcing" accurately describes and refers to the A-76 process. (OSD Emissary, 2001)

Direct Conversion

The conversion of a federal government activity directly to contract without completing a full A-76 cost comparison. The agency can directly convert commercial activities to contract operation only if 10 or fewer civilian employees staff them. The Defense Appropriations Bill, Section 8014, allows direct conversion of these to, in order of preference: 1) National Institute for the Blind (NIB), National Institute for the Severely Handicapped (NISH), Javits-Wagner-O'Day (JWOD) firms and 2) Native

American (Indian Tribe, Alaskan Native, or Native Hawaiian) owned firms. (Navy Direct Conversion Website, 2002)

Inherently Governmental Activity

An Inherently Governmental Activity is one that is so intimately related to the public interest as to mandate performance by Federal employees. Activities that meet these criteria are not in competition with commercial sources, and are, therefore, not subject to Circular A-76 or the supplement (OMB A-76, 1996:36).

Most Efficient Organization (MEO)

An MEO is the government's in-house organization that would most efficiently perform a commercial activity after a managed competition under A-76. It may include a mix of federal employees and contract support and is the basis for measuring all government costs (direct and indirect) and performance against competitive contractor or inter-service support agreement (ISSA) offers. To determine the MEO, the in-house activity may reinvent, reorganize and restructure itself, including making capital investments, in order to arrive at the agency's most efficient method of performing the commercial activity. The MEO is the product of the management study and is based upon the Performance Work Statement. (AFMIA, 2001)

Outsourcing

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

The transfer of ownership of a function, business asset, or both from the public to the private sector (AFMIA, 2001).

Revolution in Business Affairs (RBA)

An effort to reengineer the Department of Defense's business practices, shrink the department's supporting infrastructure and make the remaining infrastructure significantly more efficient. It includes not only reducing overhead and streamlining infrastructure but also taking maximum advantage of acquisition reform, outsourcing and privatizing a wide range of support activities when the necessary competitive conditions exist, leveraging commercial technology, dual-use technology and open systems, reducing unneeded specifications and standards, utilizing

integrated product and process development and increasing cooperative programs with allies (DAG, 2001:145).

Strategic Sourcing

An approach that focuses on functions, rather than human resource positions, for competition under A-76 guidance. It allows the agency to make enterprise-wide, versus compartmentalized, analysis and decisions. This approach looks across the entire organizational spectrum at all functions, including those that are exempt from the traditional A-76 process, as well as commercial activities, to determine if the function should be retained, eliminated, or revised.

The Problem

Conducting Competitive Sourcing projects is costing the government more money than anticipated (GAO/NSIAD-00-106, 2000:15). There have been hundreds of A-76 studies conducted over the past several years. These studies have covered the spectrum from simple activities to extremely complex organizations. The simple studies, such as grounds-maintenance, real property maintenance, and dining facility operations, have proved to cost the government much more than estimated. These costs are significant. In the Air Force alone, the GAO has found that it can cost up to $9000 to study one manpower position versus the $2000 forecasted by the service (GAO-01-907T, 2001:2). Magnifying this problem are situations where the Air Force studies a complex organization, such as an aircraft maintenance depot or an aircraft maintenance squadron. This is because the evaluation process becomes much more intense and difficult to conduct.

In 2001, KPMG Consulting conducted a study of actual costs incurred while conducting A-76 studies for the Defense Logistics Agency (DLA) (McLain, 2001). The study investigated the A-76 process and analyzed actual costs involved in 15 studies

recently conducted. As described in the following section, the KPMG study found that there were gross discrepancies between the anticipated costs of conducting A-76 studies and the actual costs.

Clearly there are administrative costs involved in conducting any A-76 study, but what are the true costs? One reason it is difficult to capture true costs is that the government has historically employed inadequate cost accounting systems. Traditionally, it is difficult to identify costs associated with a particular activity since the government typically organizes its employees by function rather than project and they are not required to allocate their costs or time. Failure to identify all the people and the level of their involvement in a study is another problem associated with recognizing true costs of conducting A-76's. Some examples of these people often under-costed are consulting firms, Most Efficient Organization (MEO) development team, Headquarters support, Commercial Activities office support, Contracting support, and legal support. While some may say that all these functions are included in the cost estimates, experts interviewed from the field unanimously feel that the estimates are in error (McLain, 2001).

The DLA study should be a wake up call for the Competitive Sourcing field. This study is one of the only comprehensive studies that truly reflect the numerous cost drivers involved in an A-76 study. The DLA has an automated cost accounting system that is used to track actual costs associated with their Competitive Sourcing program. This system helps them ensure that they identify and assign all relevant costs to the appropriate project. The system includes Contracting expenses, Legal, Headquarters support, and any other support costs required for a particular study. Varieties of sources

reflect that the government cost estimate for A-76 studies is $2000 per FTE. This is the number used in the Program Objectives Memorandum (POM) to forecast the cost of conducting a study. The DLA had previously recognized that this number was too low and was using an estimate of $4000 per Full Time Equivalent (FTE). While they believed this was a more accurate estimate of the true costs, they wanted to be sure. To help validate this number, they hired KPMG Consulting to study the most recent competitions conducted in the DLA. The findings are remarkable. Once KPMG properly assigned all costs associated with each study, they found that, on average, it cost DLA $12,000 per FTE for their studies. One FTE is a single full-time employee. This is six times the amount that congress approves when deciding to conduct an A-76 study.

The Government Accounting Office (GAO) also recognizes that studies are taking too long to complete and cost more than originally anticipated. In a July 2001 report entitled "A-76 Program Has Been Augmented by Broader Reinvention Options", the GAO found that the costs to conduct A-76 studies vary greatly and are difficult to ascertain. While the 2001 President's budget showed study costs ranging from $1300 to $3700 per FTE, officials with each service believe these figures underestimate the true costs (GAO-01-907T, 2001:10). These officials believe the actual costs can be as high as $7000 to $9500 per FTE. A GAO assessment of sample completed A-76 studies shows that study costs range from an average of $364 to $9000 per FTE (GAO-01-907T, 2001:10).

There are other barriers to effective competitive sourcing. In the DoD, there exists an environment of mistrust and cynicism towards outsourcing. We often attribute this attitude to the belief that the military must be self-contained and self-sufficient. An

alternative explanation may be self-preservation. No matter the motive, the feeling persists. Michael Brower points out in his November 1998 article on DoD Outsourcing and Privatization, "As average defense workers know, many DoD activities have been directed to 'save money by outsourcing' no matter how much it costs." (Brower, 1998:1)

Another barrier to effective competitive sourcing has to do with cultural issues. The government stands on tradition. Naturally, this tradition effects decisions and attitudes. In an Executive Research Project, McFadden identified four key cultural factors that are prevalent throughout the cases studied for this thesis (McFadden, 2001:13). The first factor McFadden discusses is Organizational Culture. The services all embody their own culture and tradition. A characteristic common to all is their independence and desire to be self-sufficient. This creates a resistance to changes that threaten the independent control upon which each service prides itself. This can be a significant factor to recognize and overcome in competitive sourcing initiatives. Through education and personnel programs, agencies can mitigate this threat and ensure success (McFadden, 2001:13).

The culture of the organization is not the only factor that impacts effective competitive sourcing. Fragmented Processes also plague many organizations. As functionally aligned organizations, the services have limited interaction with other functions. This promotes a strong sense of ownership and dedication to individual functional areas. This makes it difficult to conduct competitive sourcing initiatives because it is difficult to gather information, difficult to comprehend organizational structures, and difficult to agree on courses of action (McFadden, 2001:14). Fragmented Execution is also a problem with most organizations. Functionally aligned organizations,

such as the services, traditionally have a difficult time working together. It is difficult to accomplish multi-functional change in fragmented organizations. Often, contractors have a distinct advantage due to their total integration of functions and efficient hierarchy of leadership (McFadden, 2001:15).

Finally, there is a Lack of Business Management Training in the services. Each service has addressed this problem on repeated occasions with acquisition reform days and quality initiatives, just to name a few. However, few employees in the DoD have actual formal business management training. This represents a fundamental paradigm, especially in the military services. This paradigm is "the belief that national defense cannot be compared to commercial business, and that a business mentality and its philosophies do not apply" (McFadden, 2001:16). While the services have identified this problem, they are slow to implement sweeping changes that will overcome this paradigm.

Attitude, trust, and cultural issues are not the only barriers to effective competitions. Several recent A-76 studies have had flaws serious enough to force the DoD to cancel them and start over from scratch. Examples of these are Lackland AFB and the Precision Measurement Equipment Laboratory (PMEL) studies. The number of protests received represents another significant problem. While it may be easy to submit a protest, we must carefully analyze them to help identify real problems in contracting actions.

According to the Installation & Logistics Support Team, SAF/AQ, every major A-76 decision the Air Force has made has received at least one protest (Boochholdt, 2001). More important is the fact that the GAO has overturned several recent competitive sourcing decisions. An example of this is the Maxwell AFB Base Operating Support

contract. In this case, the government MEO was tentatively awarded the competition. Subsequently, the private offeror, DynCorp Technical Services, protested on the grounds that the government violated the public-private competition rules. The court found that the government made a mistake when evaluating the cost elements in the offers and mistakenly inflated the private offerors costs (Peckenpaugh, 2001:2). This is just one example that demonstrates a significant problem with the way the Air Force conducts A-76 Competitive Sourcing studies.

The GAO has also recognized many of the problems with the A-76 process. In an August 2000 report, they noted that A-76 studies are taking longer than two years, as originally anticipated, to complete (GAO-NSIAD-00-106, 2000:4). They also found that agencies are overstating their savings estimates. The estimates failed to recognize several key costs such as costs associated with completing the studies and implementing the results. Their estimates also failed to reflect the fact that the services did not intend to eliminate military positions displaced by the studies. Rather, the services intended to reassign these military positions, circumventing a major benefit of the Competitive Sourcing program (GAO-NSIAD-00-106, 2000:5).

In another report, the GAO identified additional A-76 program shortcomings. In a December 2000 report examining A-76 studies that occurred since 1995, they found three major reasons why the services cannot estimate savings accurately (GAQ-NSIAD-01-907T, 2001:2). First, at the time these A-76 studies began, the services had no official guidance on calculating baseline costs. This makes it impossible to determine how much money the DoD is saving after completion of each study. Second, as found in previous reports, the services have not tracked the costs of conducting the studies nor have they

incorporated those costs into the savings estimates (GAQ-NSIAD-00-106, 2000:14). The services need to identify these costs and offset them before they proclaim their savings. Finally, the report identified inadequacies of the CAMIS database system. It did note that the DoD has identified problems with CAMIS and they are in the process of improving the data systems to address these weaknesses and develop mechanisms to better track costs (GAO-NSIAD-00-106, 2000:11).

Why It Is Important

> The Air Force and its people benefit from A-76 competitions. We gain an increase in capability, by freeing up military manpower from non-wartime requirements and migrating them to functions directly supporting the combat mission, and save money to reinvest into quality of life programs, benefiting all Air Force members. (Brig. Gen. Michael McMahan, Director of Manpower and Organization, Headquarters US Air Force)

The high cost of conducting A-76 studies can be a significant problem for all government agencies including the Air Force. There have been approximately 958 Air Force studies conducted since 1978 (Parsons, 2001). Complicating the issue further is the fact that in 2001, the DoD directed the Air Force to study at least 5% of its Commercial Activities positions (Agresta, 2001:1). This mandate affects a large number of people and organizations. Further, at costs between $2000 and $12,000 per position studied, the cost to the taxpayer could be enormous. This issue is significant and warrants a more thorough analysis.

The ambiguous and underestimated A-76 study costs revealed by the GAO make it clear that A-76 studies are costing much more money than originally anticipated (GAO/NSIAD-00-106, 2000:14). The exact amount is not clear and perhaps completely

unknown. The GAO reports that is due to the lack of a comprehensive cost accounting system throughout the Air Force. Further, the Air Force has only recently begun to study organizations that are more complex for Competitive Sourcing. This means that the actual costs of conducting A-76 studies is only going to increase as the Air Force places more complex organizations under study. Additionally, all the complex studies that are currently under study are either delayed, cancelled, or under protest (Boochholdt, 2001). It is partially due to the experience with these complex organizations that the contracting community has recognized the severe inadequacies with the A-76 process. This realization is the force behind this research, the force that begs the question: "Is there a better way to make organizations more efficient?"

To understand the problems, and to be able to answer that question, one must first comprehend the A-76 Competitive Sourcing process. As stated earlier, the A-76 process is a very structured and systematic process. The competitive sourcing teams must pay careful attention to each step in the process to ensure completion of all necessary actions before moving into the next phase.

The A-76 Process

Each competition proceeds by carrying out a series of steps. These steps, as outlined in the "Share A-76" website sponsored by the Office of the Secretary of Defense (OSD) are:

1. Packaging Phase
2. Public Announcement
3. Develop Performance Work Statement and Quality Assurance Surveillance Plan
4. Solicitation
5. Independent Review

6. Negotiation
7. Cost Comparison
8. Administrative Appeals

The first step is the packaging phase. This is where the team decides how to group the functions that logically fit together into a business unit to be competed. The Commercial Activities team looks at the eligible functions and determines the most effective and efficient way to organize them to ensure a successful competition. Next is the public announcement phase where the decision to compete a function is passed on to such entities as congress, the workforce, and the local communities.

Once Congress makes the announcement, the clock begins ticking for the Commercial Activities team, who immediately begin the Develop PWS/QASP phase. The Performance Work Statement (PWS) defines the technical, functional and performance characteristics of the work to be performed, identifies essential functions to be performed, determines performance factors, including the location of the work, the units of work, the quantity of work units, and the quality and timeliness of the work units. It serves as the scope of work and is the basis for all costs entered on the Cost Comparison Form (OMB A-76, 1996:36).

Also developed is the Quality Assurance Surveillance Plan (QASP). The QASP describes the methods of inspection, required reports, and resources required to complete the work indicated in the PWS. Quality Assurance Surveillance is the method by which Federal employees supervise in-house or contract performance to ensure that the standards of the PWS are met within the costs bid (OMB A-76, 1996:37).

Following the completion of those critical documents is the start of the Solicitation phase. During this step, the Contracting Officer, along with the Commercial

Activities team leader, determine the type of contract to use. The type of work as well as the risk involved in completing the work will determine the type of contract vehicle to use. Selecting the proper contract type is critical to the success of the project.

Once the team creates the PWS and determines the type of contract, they generate the Request For Proposals (RFP). The government advertises the RFP so that private contractors can receive it and respond with formal offers. The manner in which the government releases the RFP determines the level and type of competition desired. Several other documents must be prepared at the time of RFP release. These documents fall into two main categories: The Management Plan and the Independent Review Step. The most intense and time-consuming work is involved in creating the Management Plan.

The Management Plan is the document that outlines the changes that will result in the Government's MEO to perform a commercial activity in-house. It provides the staffing patterns and operating procedures that serve as a baseline for in-house cost estimates (OMB A-76, 1996:36). This plan contains four primary documents, the Government MEO plan, the In-House Cost Estimate (IHCE), the Technical Performance Plan (TPP), and the Transition Plan (TP).

The MEO refers to the Government's in-house organization that will perform the commercial activity. It may include a mix of Federal employees and contract support. It is the basis for all Government costs entered on the Cost Comparison Form. The PWS drives the development of the Management Plan, which is an important part of the MEO (OMB A-76, 1996:36). Once the team forms the MEO, their costs are calculated.

The team then uses the In-House Cost Estimate (IHCE) to develop these costs. The IHCE includes personnel costs, material and supply costs, Overhead costs, and other

specifically attributable costs such as: depreciation, cost of capital, rent, maintenance and repair, utilities, insurance, travel, subcontract costs, and other related costs (OMB A-76, 1996:18). The IHCE contains the estimated cost of the MEO's performance of the commercial activity as defined in the Request for Proposal (RFP). The team enters these costs into the Cost Comparison Form as produced by the COMPARE2 software model. It is important not to confuse the IHCE with the term "Independent Government Estimate" (IGE), which is an estimate of the costs and profit to perform the work depicted in a PWS used in evaluation of contract or ISSA offer. The contracting office develops the IGE and uses it to determine if the contract or ISSA offers are fair and reasonable.

The next portion of the Management Plan is the Technical Performance Plan (TPP). The TPP explains how the Government will perform the PWS if the cost comparison decision results in selection of the MEO. Generally, Section L of the RFP explains what is required in the TPP and Section M of the RFP explains how the evaluation team will evaluate the TPP and contractor's proposal.

The final portion of the Management Plan is the Transition Plan. The TP outlines how the Government will transition from the current organization to MEO or contractor performance. Upon completion of the Management Plan, the Source Selection Evaluation Board (SSEB) reviews it. This step, called the Independent Review Step ensures that the government's plan reasonably establishes the government's ability to perform the PWS within the resources provided by the MEO, and to ensure that all costs in the IHCE are fully justified.

Once the contracting office receives all the offers from the MEO and the private sector, the process enters the Negotiation phase. During this step, the Contracting Officer holds discussions with offerors to clear up any confusion or deficiencies in their cost proposals or their technical proposals. The Contracting Officer may hold discussions with all, some, or none of the offerors, depending on the need. At this point, only the private sector offers and any Inter Service Support Agreement that has been submitted are reviewed, the government MEO is not part of this selection. An Inter Service Support Agreement (ISSA) is an offer made by a non-DoD governmental agency. The A-76 process does allow non-DoD governmental agencies to compete as a private offeror in all Competitive Sourcing actions. Once discussions are complete, each offeror has the same amount of time to revise their proposals and submit them for final evaluation by the Technical Evaluation Panel. At this time, the Contracting Officer selects the best candidate to compete with the government's MEO. This selection is the final step before the actual competition between the public and private sector.

The final step in this process is the Cost Comparison step. During this step, the Contracting Officer, with the help of the Source Selection Evaluation Board (SSEB), selects the offer that gains the government the best overall value. The best overall value is that offer which gives the government the most in terms of performance at the best price.

In some cases, the cost comparison step is not the final step. Once the Contracting Officer makes their final decision, unsuccessful offerors may elect to appeal the decision though the Administrative Appeals process. This right is reserved to address any allegations of improper actions during the evaluation and cost comparison phase.

Existing O&P Literature

An understanding of the basic steps involved in conducting an A-76 Competitive Sourcing Study process enables a review of the existing literature as it pertains to the many components of the A-76 process and the ultimate objective of the A-76 initiative. A review of the literature, as summarized below, identifies a gap in the existing Competitive Sourcing literature. The existing literature covers the A-76 process and how it aims to reduce overhead and operating costs in the government. There are many success stories that proclaim savings after conducting A-76 studies. Nevertheless, there is something missing.

What is missing is a focus on the issues that fundamentally drive the Competitive Sourcing initiative and an analysis of how to achieve these goals. Two basic forces drive the process. First, direction by the OMB states that the government should not compete with its citizens in business. This policy has been in existence for many years, since at least 1955, when the Bureau of the Budget issued the directive. Largely, the Department of Defense, as well as other government agencies, ignored this directive. Support for this drive has come primarily from congress. Over the years, Competitive Sourcing has fallen in and out of favor with the congress. The issue has become extremely political as each Competitive Sourcing decision can have dramatic effects on the congressional district involved. Unfortunately, this force is one that cannot be resolved at the DoD level. However, the second force is not so out of reach.

The second force that drives the Competitive Sourcing process is that of money rather than politics. The motivating factor for the DoD is to save money by reducing overhead and operating costs. The downward trend in military spending has forced the

Department to find ways to become more efficient in order to ensure funding for critical force modernization programs.

> O&P (Outsourcing & Privatization) is necessary to free up critical dollars to modernize our forces and maintain our combat superiority. Since FY 85, our Air Force budget has dropped by 50%. The Air Force budget is nearly flat-lined over the next six years, even though our modernization, infrastructure, readiness and personnel cost requirements continue to grow. (Getting the Word Out on Outsourcing and Privatization, General Michael Ryan, Chief of Staff, USAF)

If one believes that saving scarce defense dollars is the primary reason the DoD, and particularly the Air Force, supports Competitive Sourcing, there is a clear problem. The problem is that the Air Force uses inefficient, and in many cases inappropriate, processes. Fortunately, much of the difficulty found in the Competitive Sourcing process is self-inflicted in the form of over-restrictive regulations and instructions. This thesis will expose the problems encountered during recent studies and will discuss ways to achieve the goals of the A-76 program more efficiently.

Outsourcing

A great deal of literature exists on outsourcing. Outsourcing is the contracting out of an activity or function. The government is not alone in its efforts to exploit this potentially valuable business opportunity. Private industry has embraced the outsourcing, or "make or buy", decision-making process due to its ability to conserve resources and ultimately increase profits. Most people are more familiar with the outsourcing concept than they realize as they fail to recognize its affects on every one of us. "Do I fix the brakes on my car myself or send it to the shop for repairs?" "Do I work from my house

so I can watch after my kids or send them to daycare?" "Do I remodel my kitchen or hire a contractor to do the work?" These are all questions that many people have asked themselves in their private lives. Each question is ultimately an issue of outsourcing.

The government has used outsourcing as a tool to gain efficiencies for many years. Since issuance of the first governmental guidance, there have been thousands of positions converted to the private sector. As may be expected, there is a lot of literature available that discusses the methods for conducting a traditional outsourcing study.

While it is common to use the term "Outsourcing" to define the government's A-76 program, it is not specific enough. A more exact term to explain the process within the government is Competitive Sourcing. While outsourcing refers to a decision to contract out an activity or function, competitive sourcing describes the process of comparing the costs of the private versus the public sector and making a business decision based on that analysis. In Competitive Sourcing, it is just as likely that the function or activity will remain with the public entity, as that the private will perform the work.

Privatization

Privatization is a subset of the outsourcing issue. When the government wants to get out of a particular business, they employ the process of Privatization. Some of the most prevalent areas for privatization the Air Force is currently studying are: military family housing, utilities, and depot maintenance for aircraft. Recent studies and theses have addressed each of these areas. In his thesis, "Depot Maintenance: Barriers To Privatization", Spaulding investigated a very important and applicable question of

whether privatization is a one-way street or if the government could ever regain control of a function once privatized. He found that once the government privatizes an organization such as depot maintenance, it is difficult, if not impossible, for the government to rebuild its workforce and facilities to compete for the work again (Spaulding, 1997:11). The primary problem the government has in trying to re-compete is in trying to recover the knowledge and expertise lost by the privatization effort. Once the government employees are let go, it is difficult to recruit the experts back at a later time.

While the focus of this thesis is not on privatization, Spaulding uncovers an important facet that does affect the view on competitive sourcing. There are far reaching implications associated with a "buy" decision. Once an organization has been converted to the private sector, the organic capability the government possesses to complete the work disappears. Because of the government's difficulty in attracting or hiring experienced workers or mid-level managers, especially on the military side, each "buy" decision may be the last time the "make or buy" choice can be made. This subject should be of great concern to the individuals who determine what organizations to study and which to exempt.

Strategic Sourcing

Strategic Sourcing is an initiative that steps outside the realm of traditional A-76 competitive sourcing studies. Strategic Sourcing is an approach that "encompasses all functions or activities that could be reengineered or consolidated regardless of whether they are inherently governmental, military essential or commercial activities" (Gansler,

2000:1). This initiative can encompass consolidation, restructuring or reengineering activities, privatization, joint ventures with the private sector, or the termination of obsolete services (GAO 01-907T, 2001:4). Strategic Sourcing actions may be taken on any positions whether inherently governmental, mission essential, or commercial.

Strategic Sourcing is not a way to avoid competitive sourcing; rather its intent is to complement the A-76 program. This initiative is a broader approach to the traditional A-76 program. It incorporates Business Process Reengineering initiatives and focuses on functions rather than just billets. This allows the DoD to move beyond the theoretical debates about what is inherently governmental and refocuses organizations on enterprise-wide business decisions. The key to strategic sourcing is its drive to make smarter decisions by analyzing processes first, then deciding the most efficient way to perform those processes.

Senior leadership in the Air Force acquisition community realizes the critical need for rapid and focused action. In the latest round of "Lightning Bolts" released in November 2001 by SAF/AQ, over half of these Lightning Bolt initiatives relate to the souring issues raised in this research. The first directive is "Results, Not Process". This promotes the idea that acquisition professionals need to focus their attention on the "big picture" results rather than on the individual details and limitations of the processes. Law covers less than half the major requirements of DoD Directive 5200.2-R. Therefore, the majority of the requirements we deal with in the DoD are self-inflicted by regulation or instruction. The acquisition leaders in the Air Force belief that "unbridled risk aversion" leads to "uncontrolled non-value added processes". This drives several factors that ultimately result in "undelivered capability and lives lost in battle" (Druyun, 2001:13).

Another directive is entitled "Roadblock Busters". The basis for this directive is the idea that to be a true change agent, you must be able to think outside traditional boundaries. The Air Force sees the need to create innovation by promoting higher risk-taking with high-potential experiments (Druyun, 2001:22). They are getting the word out that it is better to take some risks and learn from the mistakes, than to take no risks and realize no rewards.

A third directive promotes a long-term effort to "Breed Innovators". They recognize that one-time or limited exposure to reform ideas and innovative business practices is not enough to change the culture of the acquisition community. They intend to develop an Acquisition "Change Culture University" at Wright-Patterson AFB, Ohio to teach change and provide "continuous inoculations' to the acquisition professionals throughout the Air Force.

Finally, they plan to build a "Knowledge Pipeline" to help push and pull information and ideas throughout the Air Force. This plan recognizes the potential private industry has to help solve the problems in the DoD and the lack of a means of tapping into that potential. They will design methods that promote communication and idea sharing between government acquisition professionals and the private sector. The senior leaders clearly recognize the need to reform the way we conduct A-76 competitions, especially in complex, multi-functional organizations. The following figure demonstrates the strategic sourcing process as formulated for the Navy.

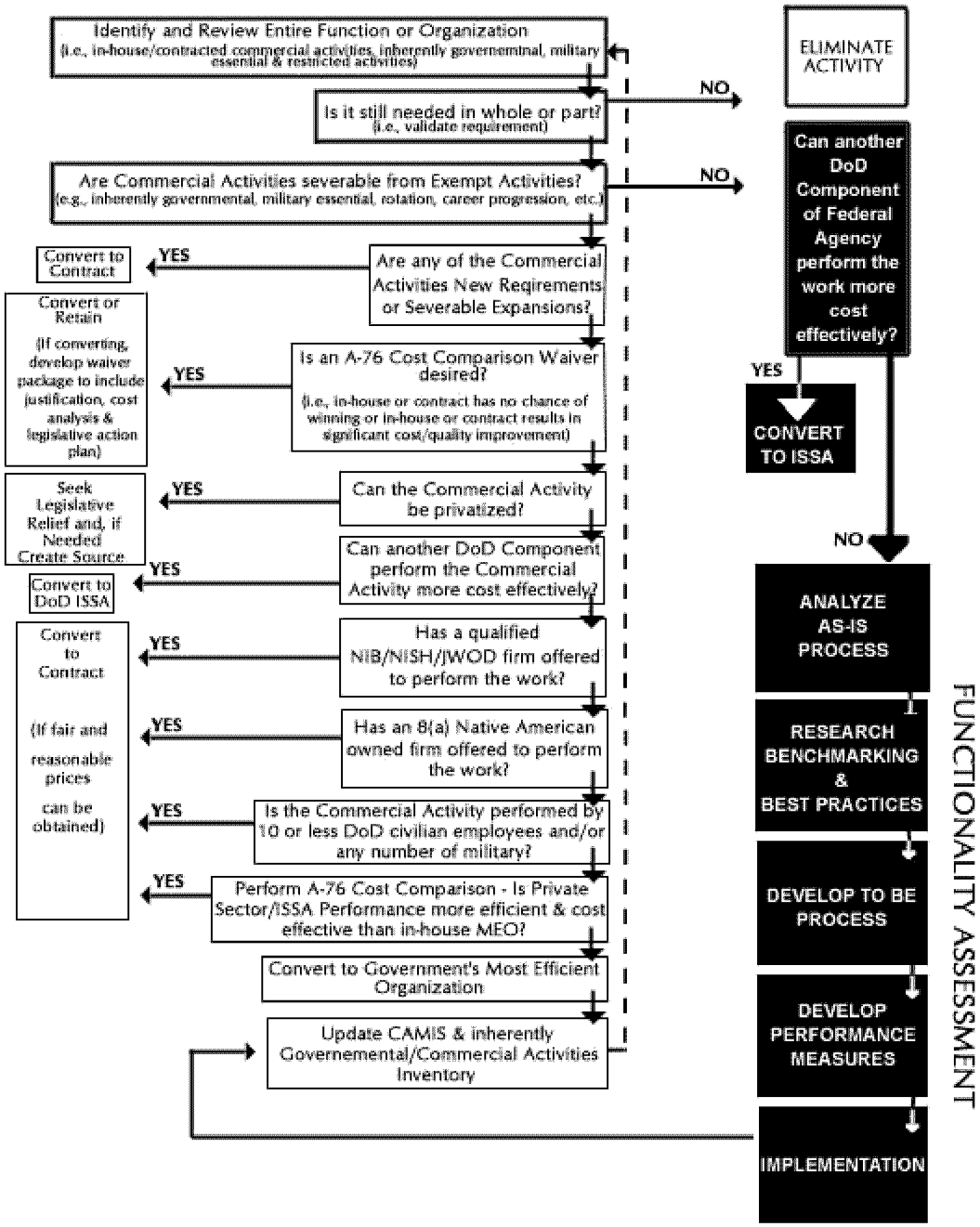

Figure 1. Strategic Sourcing Decision Process (Navy, 2001)

Chapter Summary

This chapter exposed the reader to some of the existing literature on the subject of Competitive Sourcing. It also informed the reader of key terms and processes necessary to understand the case studies contained in later chapters. The objective of this chapter was to discuss the problems with the A-76 process and demonstrate the gap in the existing literature. The gap is the absence of research that identifies alternative ways to achieve the savings of A-76 programs without going through the often inefficient and inadequate process of A-76. This gap forms the foundation that this thesis it built upon.

III. Methodology

Chapter Overview

The purpose of this chapter is to describe the research objectives that the researcher must meet in order to complete this study and the methods employed to meet those objectives. To meet this goal, the reader must understand what a case study is and why this researcher chose it as a method of study for this research. Then, the chapter will discuss the research design used in gathering data. Finally, since it is critical to the formulation of appropriate and useful recommendations that the research proceeds correctly, this chapter will discuss important issues including validity and reliability.

Research Objectives

As previously stated, the objective of this research is to evaluate the current A-76 procedures and investigate alternatives to achieving the common goal of reducing operating costs. As explained in Chapter 2, A-76 studies are inflicting great pain on the workforce while consuming more resources than anticipated. The broad range of problems the DoD is realizing through the latest studies is even more apparent by the record number of protests that the GAO receives. Through discussion of the cases and the research questions that follow, one will be able to see the shortcomings of many A-76 studies and recognize innovative ways to meet the objectives of the program.

Method

The method, or strategy, chosen for this research is the case study. There are several other methods available for research such as: experiments, surveys, histories, and analysis of archival records (Yin, 1994:3). Choosing the type of method to use requires analysis of three conditions: the type of research question posed, the extent of control the investigator has over actual behavioral events, and the degree of focus on contemporary as opposed to historical events (Yin, 1994:4). The Competitive Sourcing process is a contemporary event. Each case under study is less than five years old as is the competitive sourcing guidance, OMBC A-76.

Since this research seeks to answer questions such as how the government is conducting these studies and why they are making certain decisions, Yin suggests a case study as the appropriate method for research. This choice is further validated by the fact that the research requires no control over behavioral events, as would be required for an experiment, and focuses on contemporary events, as opposed to historical records. The choice of a case study adds two sources of evidence to the researcher's choices, direct observation and systematic interviewing (Yin, 1994:8).

Definition of a Case Study

Before we can discuss the details of this research method, we must understand the definition of a case study. The essence and central tendency of case studies is to try to illuminate a decision or set of decisions. They determine why the individuals took certain steps, how they implemented their actions and what the results were (Yin, 1994:12). Yin suggests a technical definition of a case study as:

A case study is an empirical inquiry that:

- investigates a contemporary phenomenon within its real-life context, especially when
- the boundaries between phenomenon and context are not clearly evident.

(Yin, 1994:13)

This means that a case study is an inquiry derived from observation that looks into a modern occurrence or circumstance within the context of the subject that the researcher is studying. Further, the boundaries or parameter between an occurrence and the limits of related occurrences is not apparent. The technical definition suggested by Yin goes on to state:

The case study inquiry:

- copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result:
- relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result:
- benefits from the prior development of theoretical propositions to guide data collection and analysis. (Yin, 1994:13)

Case studies can include either single- or multiple-case studies. This research uses the multiple-case study, known also as the comparative case method. Further, case study research can include quantitative evidence. Yin points out that the contrast between quantitative and qualitative evidence does not distinguish research strategies. He further states that it is important to not confuse the case study method with qualitative research. Rather, case studies often use a mix of quantitative and qualitative evidence to meet their objectives.

Case studies have an important place in evaluation research. As described by Yin, there are at least five different applications for case study research. First, is to explain the complex casual links in real-life situations. Second, is to describe a situation and the context in which it occurred. Third, they can illustrate key topics within a study.

Fourth, they can explore situations where there is no single, clear set of outcomes. Finally, they may serve as a study of an evaluation study, or a "meta-evaluation" (Yin, 1994:15).

Research Design

Research design is the logic that links the collected data to the initial questions of the study (Yin, 1994:18). Yin goes on to call it an "action plan for getting from here to there" (Yin, 1994:18). The "here" in his statement refers to the initial investigative questions that the research will answer while the "there" refers to the actual answers to these questions.

According to Yin, five components of a research design are especially important when conducting case study research. They are:

1) A study's questions
2) Its propositions, if any
3) Its unit of analysis
4) The logic linking the data to the propositions
5) The criteria for interpreting the findings (Yin, 1994:20).

The first component is the study's questions. These "investigative questions" are critical in determining the scope and direction of the research. They are the starting point from which all work follows. Chapter 1 lists these important questions. The second component is the study propositions. While this case study does not have any specific propositions as such, it does have a specific purpose. The purpose of conducting this case study is two-fold. First, it is to explore the process of competitive sourcing and determine if it is effective and appropriate for complex studies. The second purpose is to determine alternative ways to meet the goals of the A-76 program. The third component

is its unit of analysis. The unit of analysis is the subject around which the researcher organizes the case study. This subject may be a person or group of persons, an event, or a process. The unit of analysis for this case study is the competitive sourcing process and each individual study. The fourth component is the logic linking the data to the propositions. Yin suggests a "pattern-matching" approach, first described by Donald Campbell in 1975 (Yin, 1994:25). Pattern matching is a process whereby bits of information and findings from each case are "matched" to a theoretical proposition. In this case study, the researcher used the matching technique to relate information from each individual case to the questions and objectives described in Chapter 1. Accordingly, by reviewing these relationships and analyzing their importance, the researcher generated findings used to formulate the conclusions and recommendations found in Chapter 5. The final component is the criteria for interpreting the findings. This is perhaps the most difficult component to deal with when conducting case study research. Case studies typically consist of few data points, in some cases as few as four. This creates a problem in interpreting findings in any statistical manner. However, case study research best suits the objectives of this thesis. The findings, while not specifically generalizable to the entire universe, can support general propositions useful in other cases.

Validity and Reliability

We measure the quality of a research design on two dimensions, validity and reliability. Validity refers to the appropriateness, meaningfulness, and usefulness of the specific inferences made from the measures. Reliability refers to the degree to which the observed data is free from errors of measurement (Dooley, 2001:76).

Yin breaks these two factors down further into several tests. These tests measure such things as: internal validity, external validity, and reliability (Yin, 1994:33).

The first test was for internal validity. We achieve internal validity by establishing a causal relationship, whereby certain conditions lead to other conditions (Yin, 1994:33). Since case studies dealing with past events lack the ability for the researcher to observe the event, we must infer the causes of some occurrences. Generally, we base these inferences on interviews and testimony gathered from witnesses of the events in question.

The next test deals with the problem of external validity or generalizability. A study's findings are generalizable based upon the external validity of the research (Yin, 1994:33). Researchers frequently criticize case studies for their inherent lack of generalizability to a larger universe. This research does not attempt to establish any statistical generalizations; rather it will show its relation to the universe in its analytical generalizability. We deal with the problems of external validity by using replication logic in studying multiple cases. Replication logic is the same logic that underlies the use of experiments that scientists use to generalize from one experiment to another (Yin, 1994:36).

The last test is that of reliability. Reliability demonstrates that we can obtain the same result in another study provided the researcher employs the same data collection procedures. The most critical factor in ensuring reliability is to carefully document each step in the research. This allows another researcher to audit the process and, if desired, replicate the findings. Reliability is a very important aspect in all research.

Case Study Protocol

When conducting a case study analysis it is important to follow a systematic and structured process for each case. The protocol used in this analysis was to identify as many relevant cases as possible. The criteria used to measure case relevancy were that it occurred within the past five years, it was driven by a desire to increase efficiency or lower costs, and it was a commercial activity subject to study under OMB A-76 guidelines.

Once the researcher identified the cases, a structured approach was important to ensure correlation of the data. To aid in the analysis, the researcher developed a set of common questions to serve as a guide through each case and to maintain focus. These questions are:

1. What difficulties or barriers have they encountered?
2. What were the benefits?
3. What types of innovations did they employ?
4. What types of positions did they study?
5. How long did the process take?

In the following chapters, the reader will recognize the correlations found in each of these cases as well as common themes that were uncovered. Through a careful analysis of these common themes, it is possible to develop recommendations that are generalizable to other Competitive Sourcing decisions throughout the government.

IV. Results and Analysis

> Our war fighting activities will be designated for effectiveness and our support will be designated for efficiency…support activities not deployed for combat support will be performed 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)

Chapter Overview

This chapter contains detailed analysis and review of the cases used to develop the recommendations and conclusions found in Chapter 5. The analysis for each case is by no means a complete record of events and rationale as there are numerous details and facets of each that one thesis cannot possibly cover. However, the details necessary to reveal the conclusions drawn by the researcher are included.

Case 1 – Andrews AFB Aircraft Maintenance and Supply Cost Comparison

The Air Force is attempting to lead the way in developing innovative ways to deal with A-76 competitions. Since 1996, they have been trying new methods for making the process quicker and more cost effective. They have pursued waivers to the A-76 process on at least three occasions with the depot competitions at San Antonio, McClellan AFB, and Kelly AFB. When the Air Force decided to study the 89th Airlift Wing's (AW) Aircraft Maintenance and Supply Squadrons, they also decided to step outside the paradigm of standard A-76 studies and develop a more efficient and innovative way to meet the objectives.

Background

The Air Force decided to conduct this competition as an Acquisition Reform Pilot Program Business Analysis. Authority for this innovative type of study came directly from the Undersecretary of the Air Force for Acquisitions (SAF/AQ). The motivation to conduct this type of competition was to "test new cost comparison procedures to determine if these revised procedures produce significant cost savings or service quality improvements" (AP, 1999:1). The drive to conduct this and other such cost comparison studies comes from competitive sourcing mandates by Headquarters United States Air Force as well as DoD direction. These mandates are necessary due to congressional monetary funding shortfalls programmed to transfer operating funds into modernization programs (AP, 1999: 2).

Program Description

This business analysis was in support of a multi-functional cost comparison of the Aircraft Maintenance and Base Supply functions for the 89th AW at Andrews AFB, MD. According to the public affairs office at Andrews AFB, the mission of the 89th AW is to "provide safe, comfortable and reliable aircraft support for the President, Vice President, First Lady, cabinet members, members of Congress, foreign heads of state, and other high ranking government officials." Additionally, the 89th provides supplies and equipment to their customers through the Base Supply function. Specifically, the requirements under this particular business analysis include: aircraft maintenance, helicopter maintenance, transient alert, base supply, fuels management, and "over and above" taskings for contingency and emergency support operations (PAR, 2000:4). Due

to the critical nature of the services performed by the 89th AW in these areas, a major objective of this study was to execute a complete and seamless transition from current in-house performance to the winning public or private offeror in a manner that did not disrupt or degrade mission support capability (PAR, 2000:5).

Acquisition Strategy

The process used in this case varied slightly from the common A-76 competition. Using a process that is more like a standard source selection than a normal A-76 competition, the government technical experts who would ultimately be responsible for performing the Most Efficient Organization (MEO) helped prepare the RFP. These experts participated in pre-solicitation conferences and provided feedback regarding the preparation of the RFP just as any private offeror would have been able to do. This is an innovative approach as traditionally, the personnel in the in-house activity had minimal input during this phase of the study.

While some government personnel provided input to the preparation of the RFP, they did not participate in the actual source selection. The public entity was required to develop a public proposal and submit it to the contracting officer at the same time and in the same manner as the private offerors. However, the public offeror was able to solicit assistance from the manpower office. The manpower office helped prepare the cost portion of the proposal and could request an independent review before submitting the package to the source selection team (Stockman, 2001:1). The Source Selection Evaluation Team (SSET) evaluated all proposals, public and private. This evaluation included the technical/management as well as the cost proposals. One important note is

that the personnel serving on the SSET could not participate in the preparation of the public offer.

This business analysis set out to test new and innovative procedures for conducting public and private cost comparisons. The objectives of this alternative process are two-fold. The government wanted to test new procedures that would achieve significant cost savings as well as achieve service quality improvements (PAR, 2000:4). If the government could attain either of these objectives, they intended to execute a waiver from OMBC A-76. According to the OMBC A-76, Revised Supplemental Handbook, Part 1, Chapter 1, paragraph E.3, the criteria for a waiver is as follows:

> (1) The conversion will result in a significant financial or service quality improvement and a finding that the conversion will not serve to reduce significantly the level or quality of competition in the future award or performance of work
>
> or,
>
> (2) The waiver will establish why in-house or contract offers have no reasonable expectation of winning a competition conducted under the cost comparison procedures of this supplement.

On 1 November 1999, the SAF/AQ directed the Air Mobility Command to proceed with a business analysis to test alternative outcome based procedures in lieu of the traditional OMBC A-76 process. Congress received notification of this business analysis on 1 December 1999 and AMC's team signed the revised Source Selection Plan on 3 December 1999 (PAR, 2000:4).

As an acquisition reform pilot program, a major goal was to streamline the overall solicitation package while taking advantage of industry quality processes to the fullest extent possible (AP, 1999:1). A significant part of this initiative was to provide the

offerors with a Performance Work Statement (PWS) that only described the requirements on a macro level. They accomplished this by using an "outcome-based" approach to developing the PWS. This outcome-based approach focused the requirements on the desired outcome rather than the traditional process-based approach. By dictating the outcomes required and not specifying the details on how to meet those outcomes, the offerors had the flexibility and freedom to propose their own innovative approaches to meeting those outcomes.

Additionally, this initiative eliminated the Quality Assurance Surveillance Plan (QASP) and associated Performance Requirements Summary (PRS) documents. As described in Chapter 2 of this thesis, the completion of a QASP can be a significant task that can demand a large investment of time and money. This acquisition reform pilot program recognized a commercial practice widely accepted in the private sector. This practice is one that relies on the contractor's own quality assurance control processes to accomplish the surveillance and quality assurance in accordance with the Inspection of Services clause incorporated in the final contract. A government team would still monitor contractor performance using an alternate surveillance plan developed by the contractor and approved by the Contracting Officer.

Unusual Conditions

A major factor influencing the decision to employ alternative procedures in this case was the time constraint. The DoD Appropriations Act requires completion of multi-function cost comparison studies within 48 months. However, OMBC A-76, Revised Supplemental Handbook, Performance of Commercial Activities directs the agencies to

complete cost comparison studies within 36 months after congressional announcement (OMBC A-76, 1999:3). The Air Force used the 36-month timeframe for funding and personnel planning purposes. This presented a significant challenge to the competitive sourcing team as failure to meet the 36 month deadline would have a serious impact on the people assigned to the 89th AW as well as the Wing itself in terms of personnel assignments and budget issues.

The Air Force was greatly concerned about the transition from the current provider to either a revised public entity or a private contractor. Due to the critical nature of the services supplied by the 89th AW, the winning organization had to phase in the transition seamlessly. To help mitigate the risk associated with this transition, the government required a detailed phase-in plan from both the public and private offerors. This plan was included in each offerors Technical Performance Plan. The SSET evaluated this plan in the source selection process and its risk incorporated into the best value decision made to select the winning offer. Additionally, the offeror's past performance in transitioning similar efforts was reviewed and a risk assessment was assigned (AP, 1999:2).

A final concern to the competitive sourcing team was the ability of the offerors to meet the staffing requirements. Primarily, they were concerned with whether the offerors would be able to recruit and/or retain adequate personnel to ensure successful accomplishment of the aircraft maintenance and base supply functions. The team dealt with this issue by requiring offerors to submit a plan that outlined their strategy for dealing with staffing requirements. The team evaluated this plan and assigned a proposal risk assessment as part of the best value decision-making process.

Performance Period

The Andrews team employed another innovation pertaining to the performance period that resulted in many significant advantages for both the government and the private offerors. The Service Contract Act (41 USC, Section 353(d)) limits the performance period of service contracts to a duration of 5 years. This 5-year limit is the standard by which the government handles most, if not all, service type contracts. However, an investigation of alternatives uncovered the potential for an extension to that 5-year limitation. The Code of Federal Regulations (CFR, Title 29, Part 4, Section 4.143(b)) provides support for extensions to the Service Contract Act limitation. An extension is allowable contingent upon the extension having the appearance of a new contract that takes into consideration any new or revised wage determination impacting performance (AP, 1999:3).

This allowed the government to issue the solicitation as a multi-year contract with a base year and four option years to comply with the Service Contract Act 5-year limitation as well as the potential to extend an additional 5 years under an Award Term incentive. The government administered the additional 5-year extension through modification for each additional performance period under the provisions of the award term requirements that would include any new or revised wage determinations at the time (AP, 1999:3).

Acquisition Approach

The Contracting Officer issued a competitive RFP on 26 May 1999 under full and open competition rules. This allowed any private firm to participate without any

restrictions on size or any other socio-economic factors. The essence of this reform process required that the SSET evaluate the public proposal simultaneously and in the same manner as private proposals (AP, 1999:4). Since this process deviates from the standard cost comparison procedures dictated by OMBC A-76, a waiver was required. The results of the business analysis determined whether the team would receive approval of the waiver request. If the business analysis resulted in significant cost savings or service quality improvements, the SAF/AQ would grant the waiver. However, if the analysis met neither of these conditions, the SSA would cancel the solicitation. If either of the conditions was satisfied and the approval authority did grant a waiver, the competition would proceed in a manner different from the standard A-76 process.

There is a significant difference between the cost comparison procedures in this case and the standard A-76 process. In a standard A-76 competition, the MEO offer would be kept sealed until the best private offer is determined. Then, the SSET opens and compares the public offer with the single best value private offer. In the Andrews case, the SSET compared the public offer and the private offers simultaneously. After the SSET reviews each offer, they technically level each proposal and make a decision on how to proceed. In this case, the SSET had three options available:

1. If the public entity proposal is lower than all private offerors, award will go to the public offeror
2. In the event that one private offeror is lower than the public offeror, award will go to that private offeror
3. If two or more private offerors result in a lower total evaluated cost than the public offeror, an award will be made to that private offeror of those lower than the pubic entity who is judged to provide the best value to the government by an integrated assessment of total evaluated costs, the remaining non-cost factors from the proposal evaluation, and the basis for award (SSP, 1999:10)

Using this approach, the SSET had greater flexibility in ensuring the government received the best value possible. By competing all proposals, public and private, at the same time, they were able to speed up the timeframe of the study as well as add the flexibility to enter discussions with more offerors in the final phases of the best value determination. The design of this competition also avoided the wasteful practice of finishing an entire competitive sourcing competition just to have the MEO receive the award. The SSET accomplished this goal by using the OMBC A-76 waiver criteria statement that if the government could not realize significant cost savings or service quality improvements, they would cancel solicitation. In a standard A-76 competition, the cost comparison continues through all the steps until the study is complete and the Source Selection Authority (SSA) makes a final decision. In this case, after the SSET completed the initial evaluation and cost comparison, the SSA decided that the government could realize significant savings and directed the study to continue.

Another significant difference in this innovative way of competitively sourcing the services at Andrews comes in the way the proposals were prepared. First, the offerors were encouraged to propose innovative ways to do the work. If the contractor and the SSET could quantify the benefit of these innovations, the savings would give a cost advantage to the offeror. This objective had two main parts. First, the government incentivized the offerors to exceed the minimum requirements set forth in the solicitation. However, the second part required them to quantify the effects of their innovation. This put the government in the best possible position, allowing them to evaluate innovation potential while being able to validate its savings.

Another difference in this alternative process is how the SSET handled the public offer. In standard A-76 competitions, the SSET automatically forwards the public offer to the final evaluation phase. Traditionally, the SSET kept the public offer sealed until the lowest cost private offeror was determined. Then, the team compares the public and private offerors and selects the overall winner. In this alternative process, the SSET treated the public offer just like all the private offers and evaluated it at the same time and under the same conditions. The only stipulation was that the SSET could not exclude the public offer during the source selection.

Source Selection Procedures

The team derived the source selection process from both agency source selection procedures (AFFARS 5315.3, Source Selection) and acquisition reform initiatives. This provided an impartial, equitable, and comprehensive evaluation of all offeror's proposals and related capabilities (AP, 1999:5). The use of these procedures ensured the SSA that the effort would maximize competition, minimize the complexity of the solicitation, technical evaluation, and the source selection decision, and ensure impartial and comprehensive evaluation of offeror's proposals by the SSET. This also allowed the SSA to select the offeror whose proposal reflected the best value for the government in accordance with the criteria specified in the solicitation and their relative order of importance (AP, 1999:5).

The SSA developed and approved the Source Selection Plan (SSP). This SSP specified the evaluation factors, relative importance, and the rating system the SSET used to evaluate the proposals. The evaluation factors were: past performance, mission

capability, proposal risk, and price/cost. Under the mission capability factor, the SSET individually rated the sub-factors of quality, staffing, transition/mobilization plan, and logistics support (AP, 1999:6).

Acquisition Reform Initiatives

As previously stated, this business analysis incorporated standard source selection procedures as well as innovative acquisition reform initiatives. The government was able to complete a competitive sourcing study as large as this in a shorter time and for a greater overall savings in terms of both contract price and competition study costs by using the following acquisition reform initiatives. The team employed several acquisition reform initiatives as outlined in the Acquisition Plan, each of which is described below.

> Streamlined Performance Work Statement – The minimum performance requirements will be identified in a streamlined performance based PWS. All extraneous documentation, while necessary for reference purposes in preparing a proposal, will be included in a technical library.
>
> Electronic Commerce – The draft solicitation, the proposed acquisition strategy, solicitation, and other beneficial information has been posted on the AMC Contracting Flight's Business Opportunities Web Page and the Electronic Posting System (EPS) for contractor's review and comment. Updates to this information will be posted on EPS throughout this business analysis process.
>
> Proposal Preparation and Evaluation – The public offeror will also be required to prepare their TPP in accordance with proposal preparation instructions in the same manner as all private offerors. Upon receipt of proposals, the Technical Evaluation Team will evaluate all offerors in the same manner and against the same evaluation criteria.
>
> Oral Presentations – It is our intent to utilize oral presentations in the factor of Mission Capability to augment written proposal information. Oral presentations for the logistic support sub-factor will address three test scenarios which will allow offerors the opportunity to expand on their written proposal regarding their overall logistics approach and allow them to demonstrate their abilities to meet mission requirements.

> Competitive Range – Although the solicitation will reserve the Government's right to award without discussions, we anticipate discussions will be needed. The solicitation will also state that we do intend to limit the competitive range for efficiency purposes, whereby, only the highest rated proposals will be included in the competitive range for discussions. The public entity will be excluded from any competitive range decision as law mandates their inclusion throughout this process.
>
> Discussions – Upon conclusion of the initial round of evaluations and determination of a competitive range, all private offerors within the competitive range and the public entity will receive evaluation notices identifying areas for discussion. In addition, all offerors will be notified of the color codes and ratings assigned to their proposal. Face-to-face discussions will be held to explain evaluation notices prior to formal release and to discuss offeror responses to further streamline the evaluation process and enhance the offeror's understanding of the acquisition requirements and the evaluator's understanding of the offeror's approach.
>
> Dollarization – We intend to utilize a dollarization process whereby we will assess a specific dollar value based on both strengths and weaknesses, and risks identified in each offeror's proposal where opportunity costs based on the proposed considerations when calculating the total evaluated costs of each offeror's proposal.
>
> (AP, 1999:6)

These initiatives were instrumental in obtaining the benefits realized by the competitive sourcing team in this complex study. They all reflect a theme common to innovative A-76 studies. That theme is one of using best commercial practices and breaking down barriers to communication.

Market Research

The Andrews team identified the need for extensive and comprehensive market research early in the competitive sourcing process. As early as 31 July 1997, the Contracting Office released a Request For Information (RFI) as a tool to survey the

market and collect information regarding interest in the acquisition. The RFI requested information about interest as either a prime or sub contractor, capabilities to perform based on past performance, and their status as a large, small, small disadvantaged, woman owned, or 8(a) business. This request resulted in 21 responses by business interested in the acquisition. Of these 21, there were eight large businesses, seven small businesses, and six small disadvantaged businesses. However, only eight of the respondents reflected interest in both the aircraft maintenance and base supply functions. Further research uncovered the fact that only one small business and three large businesses had a strong enough background and experience to perform all aspects of the acquisition (AP, 1999:7).

The team also used industry-forum type events to help promote communication and ensure success. They conducted multiple site visits and contractor conferences to inform the contractors as well as solicit feedback. They garnered feedback from industry on issues such as the RFP, PWS, draft solicitation, and the award term plan. This incorporation of this feedback was another crucial factor that attracted competition and helped guarantee success.

The competitive sourcing team also recognized the need for market research within the Federal government. They queried agencies throughout the DoD and other Major Commands (MAJCOMS) within the Air Force about their processes and experiences accomplishing similar cost comparisons. The team discovered that most were proceeding with firm-fixed-price arrangements, some with award-fee or incentive-fee provisions (AP, 1999:7).

Special Considerations

The competitive sourcing team recognized the need for outside pricing support due to the complexity and magnitude of the aircraft maintenance and supply requirements for Andrews AFB. While SSET's do not normally perform cost realism studies in support of firm-fixed-price type contracts, such analysis may be necessary competing offerors may not fully understand new requirements (FAR 15.404-1(d)(3)) (AP: 1999, 8). The SSET used pricing support, provided by the DRC Corporation, to assist the SSET in determining the cost realism, completeness, and reasonableness of submitted proposals. The systems analysts helped by participating in oral presentations and discussions, in negotiating price with various offerors, in dollarizing proposal strengths and weaknesses, assisting in the development of the Proposal Analysis Report (PAR), and in development of the government's total evaluated cost for each offeror. The team also anticipated Audit Agency assistance to review and validate pricing issues as well as overhead rates and other cost factors. The price and cost support provided by the contractor and the Air Force Audit Agency were instrumental in mitigating both cost and performance risk after award.

While innovative thinking and reform initiatives played significant roles in this acquisition, the core of the business analysis revolves around the deviation from OMBC A-76. This deviation from the cost comparison procedures in OMBC A-76 (Revised Supplemental Handbook, Performance of Commercial Activities) and AFI 38-203 (Commercial Activities Program) require a waiver from the SAF/AQ. As previously mentioned, the SAF/AQ granted the waiver after successful accomplishment of the

business analysis that demonstrated the alternate cost comparison process would produce significant cost savings and/or service quality improvements.

Proposal Evaluation

The SSA made a decision based on several factors as outlined in the SSP. The basis for this decision included the SSET's evaluation of the specific criteria stated in the solicitation. These criteria included past performance assessments, mission capability, proposal risk, general considerations, and the total evaluated price. In determining the overall evaluated price of each offer, the SSA utilized a dollarization process to quantify the strengths and weaknesses of significant discriminators in each proposal. The SSA recognized the subjective nature of the dollarization process and stated in the solicitation that this subjective judgment was implicit throughout the decision process.

Case 2 – Wholesale Logistics Modernization Program

The Air Force is not alone in its attempts to improve the competitive sourcing process. The Army has explored the use of Business Process Reengineering (BPR), Direct Conversions (DC), and activity streamlining to reduce operating and support costs. In the case of the Wholesale Logistics Modernization Program (WLMP), the Army had to deal with several unique and challenging issues. Among these issues were the age, magnitude, and importance of the existing logistics systems. The Army tackled these issues by designing an innovative acquisition strategy that ensured a successful competition.

Background

The WLMP is an initiative that includes the modernization of the Army Material Command's two largest wholesale logistics systems. First, is the Commodity Command Standard System (CCSS). The Army uses the CCSS system to manage wholesale inventory including making the repair/buy decision, inventory control, planning, and budgeting. Second, is the Standard Depot System (SDS). The Army uses the SDS to manage depot, arsenal, and ammunition plant operations including inventory accountability, maintenance management, equipment management, ammunition management, and facilities management (WLMP Road-show Brochure, 2000:2).

The CCSS and SDS are expensive systems to maintain and have become technically obsolete. These systems currently support wholesale logistics at the Army Material Command Integrated Material Management Centers, depots, arsenals, and Army Material Command installations (Ross, 2001:1).

The goal of the WLMP is to modernize the wholesale logistics process. The Army accomplished this by using Commercial Off The Shelf (COTS) software from the civilian logistics marketplace. While the current system worked for the Army, it was rapidly becoming insufficient. The software and hardware was seriously outdated and unable to keep up with the changing requirements of the 21st century Army. Further, the current bureaucracy and staffing problems provided neither the assets nor the time to properly reengineer the process. Consequently, the process was doomed for failure if not for rapid and sweeping change.

Economic Analysis

The WLMP included an in-depth economic analysis study. The Army needed to evaluate the costs involved in the modernization and implementation strategies for the WLMP. The analysis studied the three modernization implementation strategies and the baseline plan as described below.

> Program Alternatives:
> Status Quo: Continue to maintain and enhance the Legacy system utilizing present capabilities.
>
> Alternative 1 - Perform legacy sustainment while minimizing changes to existing systems. The Government also performs wholesale logistics modernization. This in-house effort employs the current workforce to implement a modern enterprise project with COTS software. This alternative assumes that the in-house organization will be reorganized, provided the skills and trained to perform industry-quality BPR. Additionally, they (the in-house provider) will acquire the skills to design and implement a system that will achieve the modernization and sustainment goals of the WLMP and GCSS-Army.
>
> Alternative 2 - The Government performs legacy sustainment; the contractor performs wholesale logistics modernization and sustainment of the modernized system. Alternative 2 relies on the private sector for modernization while the Army continues to maintain its legacy system.
>
> Alternative 3 - The Contractor performs legacy sustainment services and wholesale logistics modernization services
> (EA:2).

The Army did not study the baseline plan, that involved maintaining the status quo, due to its lack of viability as an option. Before investigating the costs in any depth, the WLMP team had to formulate a list of assumptions to ensure equal performance of all analyses. The team addressed the alternatives based on a 10 year period of performance beginning in Fiscal Year (FY) 1999. The Army would reengineer the logistics processes and support them with a modernized COTS based Information Management System. The present system and end state would be the same for all viable alternatives. The Army

would maintain the existing legacy system throughout the deployment of the modernized system. The analysis covered only CCSS and SDS functions and did not address operational data processing costs performed by external functions such as the Defense Information Systems Agency (DISA). Finally, while the contract incorporated Cost As an Independent Variable (CAIV) principles, an annual target limit to what the government was willing to invest or require the contractor to invest for program success (EA:1).

The methodology employed used parametric cost estimating models. The model used the costs associated with the three alternatives and all included sustainment of the legacy system. The team estimated the cost of new requirements using the PRICE-S parametric software cost and life cycle estimating models and analogy to Army COTS based software programs (EA:2).

After a thorough and detailed cost analysis, the team formulated the following cost data. The table below shows a summary of costs for each alternative and includes sustainment of the legacy system and modernization to a common end state over a 10-year performance period. This summary clearly demonstrates that Alternative 3 was the most cost effective and viable option for the modernization program.

	Baseline	Alternative 1	Alternative 2	Alternative 3
Constant $	$387.0M	$533.6M	$396.3M	$392.4M
Current $	$426.0M	$581.7M	$425.2M	$420.9M
Discounted	$316.6M	$438.8M	$337.3M	$335.1M

(10-year program)

Figure 2. Cost Summary of Alternatives (EA:2)

Additionally, the team conducted a study to determine the correlation of costs to deployment time of each alternative. Figure 1 reflects the government's investment costs to deployment of the modernized system (EA:4). Once again, the planners could clearly see that Alternative 3 provided the best cost and potential for rapid fielding. As shown on the chart, they could field Alternative 3 in approximately four years versus five to seven years for the other alternatives.

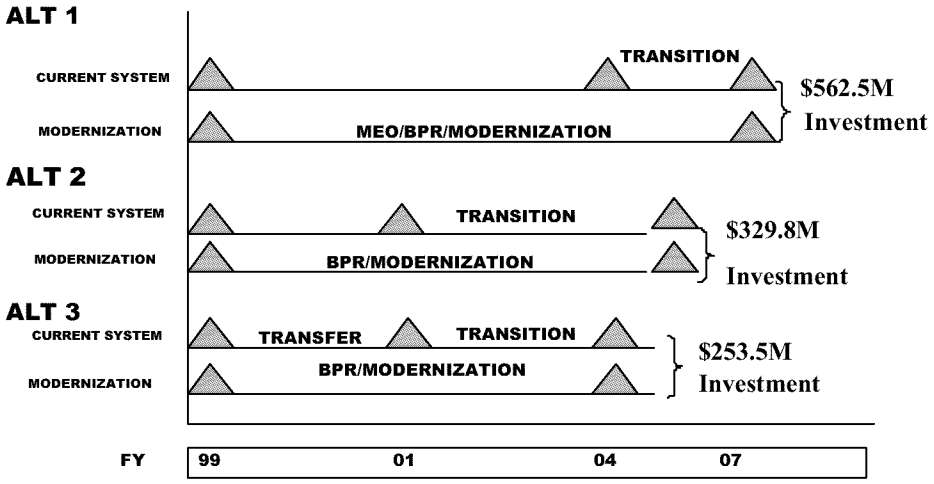

Figure 3. Investment/Implementation Comparison (EA:2)

Acquisition Strategy

The Army utilized a well thought out and detailed acquisition strategy for the WLMP. Early in the planning phase, they believed that the in-house capabilities were too limited to mitigate the need for outsourcing. Through the Army's thorough evaluation of capabilities and its economic analysis, it was clear that the government did not possess the ability to implement a new logistics system of this magnitude. Therefore, the competitive sourcing was limited to private offerors. This realization and decision to

exclude the public entity from preparing an offer was one that was necessary and very appropriate. Once it was determined that the public entity could not effectively conduct the modernization effort, excluding them from offering saved the Army a great deal of effort, time, and expense.

The strategies employed made maximum use of acquisition reform tools and techniques. They used a best value tradeoff process during proposal evaluation and source selection. They recognized the need for thorough evaluations and communications with offerors to ensure establishment of an appropriate and efficient competitive range. In another effort to increase efficiency, the competitive range was limited to no more than three offerors. Once in the competitive range, the government intended to conduct extensive exchanges with the offerors. These exchanges were necessary to negotiate and bargain with each offeror.

The Army had the vision to recognize an important aspect of the past performance portion of the evaluations. As part of the proposal submission, each offeror was to provide examples of their implementation of similar logistics modernization programs. The Army then visited these sites and evaluated the success of the offerors past performance. This provided the Army with a keen insight, not normally achieved in government acquisitions, into each offeror's performance and potential to meet the needs of the WLMP.

Upon completion of the exchanges, each offeror submitted a final proposal for evaluation. The team selected the offer with the best overall value to the government to undertake the modernization of wholesale logistics for the Army. The contract instrument was a 10-year indefinite delivery contract with one part being a requirements

contract and another part being an indefinite quantity contract. This contract provided a means of issuing task orders on both a fixed price basis as well as a time and materials basis (AS:B-1).

Acquisition Reform Initiatives

The Army employed several acquisition reform tools and techniques to help ensure a successful competition and award. The use of these techniques greatly aided the government's ability to build a comprehensive solicitation, conduct negotiations, and ultimately award a quality contract to a quality offeror. One very successful tactic used in this acquisition was bringing in multi-functional teams of subject matter experts from throughout the DoD. This helped the team develop the highest quality source selection and requirement definition possible.

The Army utilized two techniques that promoted successful communication with the private sector. The first was simply their open communication with industry, a technique that eludes government contracting specialist too often. To obtain this, they used a variety of tactics such as: advance acquisition planning, one-on-one meetings, Internet market research questionnaires, continuous dialogue via the World Wide Web business opportunities page, virtual library, and a draft solicitation. They capitalized on new opportunities for expanded communications provided by the re-write of Federal Acquisition Regulation (FAR) Part 15 (AS:B-1). The second technique that helped ensure a successful interaction with the private sector was the decision to implement a multi-step advisory process. This process allowed companies to make informed decisions pertaining to their level of effort in proposal preparation. The government

posted a RFI in the Commerce Business Daily (CBD) that required prospective offerors to submit specific information that would be used to determine if each offeror was a viable competitor for the acquisition (AS:B-2).

Several other techniques were instrumental in the success of this acquisition. The Army used performance-based specifications that provided for flexibility in contractor performance. This allowed the government to specify "what" they wanted rather than describing in detail "how" to accomplish the task. They used paperless contracting processes that not only reduced the use of paper but allowed quicker response times and more efficient communications between the government and industry. Along with paperless contracting, the Army used an electronic source selection process using computer based evaluation software. Due to the nature of the acquisition, the Army developed a partnering with industry. The contract entered into a 10-year partnership with the winning offeror. The Army recognized the need to establish mutual goals and objectives as well as building trust and encouraging open communication with the contractor. This "partnering for success" technique not only helped the initial acquisition succeed but will continue to pay dividends throughout the life of the contract. As previously mentioned, the government limited the competitive range to provide for a more efficient competition. In an effort to keep the government's costs under the annual limit while still meeting or exceeding the mission requirements, they incorporated CAIV concepts that ensured the use of trade-offs when appropriate (AS:B-2).

Finally, to motivate the contactor to continually provide top quality service, the government incorporated two important incentives into this acquisition. First, the government reserved the right to extend the contract beyond the initial 10-year

timeframe. The government will extend the performance period provided the contractor continues to meet or exceed the performance objectives. Second, the government reserved the right to expand the scope of the contract to include services similar to those provided in the Statement Of Work (SOW). These two incentives served to motivate the contractor to partner with the government more closely and work hard to establish a long lasting relationship. This relationship was necessary to ensure the continued success of a mission critical program such as the wholesale logistics program (AS:B-2).

Benefits From Supply Chain Management

Before beginning an undertaking of this magnitude, the Army had to determine the potential benefits. While industry has long recognized the importance of supply chain management, their lessons are not always directly applicable to government practice. However, the government can learn many lessons from the private sector in business related issues. Many of these lessons surround the efficiencies obtainable by making investments into the future. Due to the government's budgetary and fiscal policies, capital for major investments is typically difficult to obtain. Additionally, government agencies often overlook return on investment issues due to a persistent focus on short-term issues.

In the case of the WLMP, it was clear that the existing processes did not conform to effective Supply Chain Management (SCM) principles. The Army knew that by using an effective SCM process, they could realize large cost savings in the wholesale logistics program. A study of SCM management success by American industry, completed by the Center for Transportation Studies at MIT, supported this belief. In that study, researchers

found that implementation of supply chain management processes resulted in 50 percent inventory reduction, 40 percent increase in on-time deliveries, 27 percent decrease in cumulative cycle time, and a nine-fold reduction in out-of-stock rates (App D:D-1). In the same article, Francis J. Quinn, Editor at Large of Logistics Management and Supply Chain Management Review stated: "Effective supply chain management can cut costs, improve service and enhance revenues and that's just the beginning" (App D:D-1).

Reengineering

The Army recognized the need to implement SCM principles to modernize the wholesale logistics program. They acknowledged that, "At the core of supply chain management is the requirement to reengineer business processes requiring new skill sets, workforce mixes, and a future need to remain flexible to allow for the infusion of new technologies" (App D:D-8). They determined that industry was best suited to provide for the modernization of the wholesale logistics program. It was clear that a private contractor would be best prepared to implement these new strategies and best prepared to adapt as necessary to keep up with the rapidly changing world of logistics. This tactic would permit the Army to constantly avail itself to the best services and products at the best market prices; all while retaining a competitive edge as new technologies emerge (App D:D-8).

Program Status

The Army considers the WLMP program a great success. The winning contractor, Computer Sciences Corporation, signed the original contract on 29 December

1999. This contract called for the transfer of the existing legacy system support for CCSS and SDS to the contractor on 1 Jul 2000 to ensure deployment of the entire system by 2004. Once in place, the contractor determined that they could accelerate the program and reduce the deployment schedule by one year. They accomplished this by deploying the system by command rather than by functionality. This is just one example of the innovation made possible by the unique partnership between the contractor and the government.

The program also succeeded in other areas. One such area is with the employees. While most A-76 competitions result in the loss of positions, the WLMP succeeded in transferring 205 out of 206 displaced government employees. These employees accepted positions with the contractor with comparable pay, benefits, and a signing bonus. The Army also succeeded in developing a comprehensive BPR initiative. This initiative evaluated and re-designed process where appropriate and served to model the organization's processes to fit the Enterprise Resource Planning package selected for the modernized system.

Case 3 – Naval Air Station Lemoore

Background

The Navy has been a major player in the innovation effort that has spread throughout the DoD. They have been leaders in the DoD for years in developing innovative strategies not only for competitive sourcing but for acquisition reform as well. In 1999, the Navy conducted an A-76 Competitive Sourcing competition at Lemoore Naval Air Station (NAS), California. The functions covered under this study included:

fire fighting school, ground electronics, bachelor quarters management, family services center, morale welfare & recreation, public affairs, POL management, building services, facilities management, utilities, transportation, administrative services, information technology, accounting, base operating supply and occupational safety & health (Lemoore Web Site, 2001).

Acquisition Strategy

The Navy recognized the importance of utilizing a "best value" approach to procurements. Specifically, they implemented an "outcome based" approach to contracting, along with other A-76 strategies to obtain the best value for the government. Lemoore NAS was the first Naval installation to utilize the outcome-based approach to requirement development.

An outcome-based approach is a method of developing a PWS in a manner similar to a design-build construction contract. An outcome based PWS is unlike both a traditional SOW, which dictates the outcomes and the methods to achieve those outcomes, and a standard PWS, which specifies the performance requirements the contractor needs to achieve. An outcome based PWS provides broad outcomes that the government has determined it wants the contractor to achieve in support of the activity. By employing this approach, the government solicits the contractors to design the approach and methods to meet or exceed the outcome required. They do this by developing their own performance requirements as they plan on proposing.

A key difference in this approach is that the Navy provided only a Statement of Requirements (SOR) to the prospective offerors. The offerors took this SOR and

developed their proposal to the government on what, when, where, how, and how often they intend to accomplish the tasks necessary to meet the desired outcome. A major benefit of this approach is that it allows contractors to incorporate into their proposals innovative techniques and approaches that the private sector is currently using (Lemooore Web, 2001). This approach promises to cut down on the number of change orders issued, eliminate ambiguities in the PWS, and reduce the level of miscommunication between the government and the contractors. By requiring the contractors to prepare their own performance plan, the government avoids the risks involved in providing that information to the contractors.

One significant drawback to this approach was the contractor's cost involved in preparing a proposal. To be an outcome-based solicitation, the government must identify the approximate dollar value of the budget available. This allows the prospective offerors to make a decision as to whether it is worth their time to prepare a proposal or if the job is unprofitable or unmanageable. With the budgetary information available and the desired outcomes identified, the contractors can develop an action plan that meets or exceeds the outcomes while saving the government money.

A key factor in the success of this approach is communication with industry. The contracting staff at Lemoore NAS decided the best way to satisfy this factor was to conduct a one day Industry Forum. This forum gave them a chance to communicate the strategy behind the outcome-based approach to industry while obtaining feedback in real time. They were able to explain to industry several important items such as: the type of solicitation planned, the functions under A-76 review that would be included in the solicitation, and the approximate dollar value of the study (Lemoore Web, 2001).

Another method utilized involved the extensive use of the Internet. Throughout the entire study, documents and instructions were available on-line. This enables all interested parties to keep up to date on any changes, provided them with more time to prepare their proposals, and substantially reduced the amount of paper that would normally change hands (Lemoore Web, 2001).

The innovative approach employed by the Lemoore team received encouraging support from industry. They were supportive of this method of solicitation because it allowed the contractors to design programs to meet outcomes that are more effective and will realize cost savings. According to a report on lessons learned, "It is their (contractors) opinion that in the prescriptive and performance based solicitations the Government builds in requirements that are not necessary" (ACQNET, 2001).

Acquisition Reform Initiatives

The heart of this approach is the development of clearly defined outcomes. The core requirements of each function determine the outcomes. They may be attributable to only one function or may combine requirements of multiple functions. The important factor is to allow the contractors maximum flexibility in developing their performance plan. According to the Lemoore team, the first thing to do is have the MEO team develop the requirements it plans to perform to meet the outcomes. Then, starting from the ground up, the planners need to identify resources necessary to meet the requirements to crucial to achieve the outcomes (ACQNET, 2001). The impetus of this approach is that the government learns to "think outside the box" and employ BPR concepts and methods. This will help ensure that the planners analyze processes and do not simply

accept things because it "is the way things have always been done". Starting from scratch ensures the team will build a new, more efficient and effective, organization to achieve the stated outcomes.

The team also developed the following format recommended for developing the MEO. The Navy recommends this format for all their competitive sourcing projects.

EXECUTIVE SUMMARY

A. Purpose of Study
B. Approach
C. Assumptions

INTRODUCTION

A. Purpose of Study
B. Description of the Functions Under Review
C. Description of the Methodology/Approach

ANALYSIS OF FUNCTIONS UNDER REVIEW

A. Statement of Desired Outcome
B. Requirements to Meet the Outcomes of the PWS
C. Performance Indicators
D. Performance Standards
E. Tasks to Achieve the Requirements and Standards
    - Based on requirements to achieve outcomes in the future, new workload is developed. Current workload data is reviewed but not analyzed.

F. Required Resources to Meet the Desired Outcomes (Labor, Material, Equipment, Facilities
    - Direct Resources first
    - Indirect Resources next
    - Supervision last

MEO DEVELOPMENT
RESOURCE IMPACT ANALYSIS -- Quantify the Impact of the Management Plan

A. Recommendations on the Current Organization
    - Funding – quantify personnel savings, new equipment costs, total savings to the Government from implementing the MEO.
    - Personnel – quantify the difference between the current organization and the Most Efficient Organization.
    - Equipment and Facilities – quantify costs and anticipated savings associated with recommendations.

IN-HOUSE QUALITY CONTROL PROCESS

A. Define the method by which Government will ensure quality
B. Discuss any variations from the Quality Assurance Surveillance Plan (QASP) (e.g., what steps in the QASP will be eliminated or added if the result of competition is in-house performance)
C. Identify specific tasks the Government must implement to ensure internal quality assurance

REQUIREMENTS ADJUSTMENT

A. Analyze the requirements developed in II
B. Analyze functions to match the requirements in the Statement of Requirements in the Best Value Contractor proposal selected by the Source Selection Board
C. Adjust the MEO FTEs if required

POST MEO PERFORMANCE REVIEW

A. How is the Best Value contractor selected?
    - The Best Value contractor will be selected using a Three Step Solicitation Process developed by the Naval Facilities Engineering Command.

    Step #1: The objective of the first step is to limit the number of proposals the Source Selection Board will be required to review by conducting a "down select". In a "down select" contractors interested in responding to the solicitation are evaluated on limited set of criteria related to corporate past experience and capabilities.

    The purpose of this first step is to accomplish two things:
    - Reduce the number of technical proposals the Source Selection Board must review.
    - Advise the contractors with little or no chance of being competitive that they do not meet the first set of evaluation criteria so that they can avoid preparing a costly detailed technical proposal and cost estimate.

> Criteria for the first-step down-select may vary, but at a minimum the following evaluation criteria are reviewed:
>
> - Past performance performing contracts of similar size and scope (i.e., estimated dollar value, type of contract, and functions to be performed).
> - Corporate financial condition
> - Resumes of key corporate personnel
> - General subcontracting plan for small business
>
> **Step #2**: The second step in the process is to select the Best Value contractor. In this regard, it is very important that Uniform Contract Format Sections "L" and "M" are well thought out and clearly delineate how the proposal is to be submitted. Early and frequent communication between the Contracting Officer and the activity under review is important to ensure that the technical proposal format and the Source Selection Board evaluation plan are structured in a similar manner to facilitate the review process.
>
> **Step #3**: The third step is the Price Comparison between the Best Value Contractor's proposed cost and the Government's in-house proposal MEO. The Government is required to adjust its costs to the same level of services being offered by the Best Value Contractor.
>
> (ACQNET, 2001)

Assumptions

This outcome-based approach requires several assumptions to be recognized. First, the government needs to recognize that industry knows the business better and is more capable of identifying the best way to achieve the required outcomes. Second, the use of the three-step solicitation process described above will result in the selection of a capable and reputable firm to compete against the MEO. Finally, if a contractor wins the competition, the government will partner with them to do what is in the best interest of the United States. The best interests of each partner need not be mutually exclusive. Rather, the government and contractor should work together to satisfy the interests of both parties.

There are many ways the government can structure the contract to promote partnering. The key to this is to award superior performance rather than punish inferior performance. Traditionally, government contracts have focused on the punishments for not meeting the requirements rather than rewards for exceeding requirements. The architects of the Lemoore study recognized this shortcoming and decided to incorporate an "Award Fee" structure in the contract. They wrote the contract as a Firm Fixed Price (FFP) with an Indefinite Quantity line item for specific job orders above $10,000. Most importantly, the contract included an Award Fee provision of up to 10%. No schedule of deductions was included and the basis for award fees was two fold. First, the contractor would receive a reward for developing innovative ways to save the government money. Second, the contractor would receive an Award Fee by improving the quality of service delivered. Validated customer complaints were the primary source of evaluating contractor performance. To minimize government Quality Assurance responsibility, the contractor was required to develop and implement a comprehensive quality control program (ACQNET, 2002).

Outcome

The study indicated that keeping the services in-house and re-engineering the processes would obtain the best value to the government. The SSA decided to award the competition to the MEO. This required the MEO to reorganize and revamp many of their procedures. They accomplished this by eliminating positions and employing strategies such as removing functional barriers and re-thinking processes.

DFAS - Denver Out Of Service Debt Operations

In some instances, it does not take a complete analysis of the entire case to derive potential benefits. In the case of the Denver DFAS Operating Location, we learned a valuable lesson from just one part of their experience.

Background

There are many success stories involving A-76 studies. Interestingly enough, there are some success stories derived from not completing a study. In the mid 1990's, the Defense Finance Accounting Service (DFAS) started an A-76 study involving the section that pursues debt collection. In the process or preparing for the study, DFAS formed the MEO. Soon after, they cancelled the study; however, they implemented the MEO anyway and realized considerable success in reducing costs.

As a result of developing the MEO, DFAS realized that they could perform all debt collection actions related to this particular section from one centralized location. They chose Denver as the location to absorb workload from Cleveland, Indianapolis, and Kansas City. In 1997, Denver had reengineered their debt collection process and absorbed the workload from all other centers. Remarkably, their operating costs rose only minimally, approximately 25%, while their workload increased tenfold (RAND, 1999:43).

Results

While this case does not include the complete analysis found in the preceding cases, it is important because it contrasts the power of the competitive sourcing process versus the traditional A-76 process. While many people focus on the completed study as the source of savings, it is clear that completing an entire study is not always necessary. DFAS learned that they could achieve dramatic savings in operating costs by employing just one part of the A-76 process, development and implementation of an MEO.

ACC Program Management Squadron

While the ACC Program Management Squadron is not directly an acquisition case, it does represent some important facets that are valuable to this research.

Background

The Air Force's Air Combat Command (ACC) has been leading the way on outsourcing initiatives for many years. Since the late 1980's, ACC has used their Program Management Squadron, located at Langley AFB, Virginia, to direct and manage all aspects of operations, logistics, communications, and engineering for seven large-scale operations and maintenance contracts (ACC PM Briefing, 2001:4). This organization administers more than $840 million in contracts at 29 different sites. The use of a single organization to oversee and conduct outsourcing initiatives gives ACC a distinct advantage in terms of efficiency and overall savings. The squadron is responsible for planning, coordination, managing, and budgeting services executed by contract or international support agreement (ACC PM Briefing, 2001:5).

The squadron is broken into seven major functional program and support divisions including civil engineering, computer-communications, logistics, surveillance, aircraft maintenance, plans and programs, and quality assurance (ACC PM Briefing, 2001:4). A major benefit of this structure is that program managers from all different locations within ACC as well as some from around the Air Force, can receive support without having the expense and redundancy of each having an expert within their organization. This structure enables them to be very proactive in developing and relaying Competitive Sourcing & Privatization strategies across the command to individual contracting offices. The squadron operates similar to a higher headquarters and has the authority to develop and publish guidance and provide assistance. This assistance is not limited just to the staff on hand. The squadron possesses the ability to contract outside help from other agencies and civilian sources when necessary. The dynamic nature of this squadron is key in its ability to provide timely, professional, and consistent support to its customers throughout the ACC.

Lessons Learned

Numerous agencies within the DoD can learn from the ACC Program Management Squadron structure. At a time when higher headquarter and support staffs are being downsized, ACC recognized the need for a competent staff to specialize in complex and cutting edge processes in an effort to maximize efficiency and productivity. ACC employed a concept that promotes centralization of knowledge. This, during a period of mass de-centralization in the military, is a testament to the foresight and vision of ACC's leaders. While many activities can benefit from the freedom of de-

centralization, the contracting community seems to suffer. Many of the key factors leading to unsuccessful or inefficient outsourcing projects have to do with knowledge and abilities of the government personnel responsible for conducting the competition. Often the source selection team or technical evaluation team consists of people from within the base under study. The team members usually have little to no experience or training in the area and have a steep learning curve to overcome. Once the competition is complete, they return to their regular jobs and take the knowledge and experience with them. This practice is clearly inefficient and validates the importance of propagating the concept of ACC's Program Management Squadron.

Chapter Summary

This chapter summarized the innovative techniques used in several recent competitive sourcing competitions. The executive branch is forcing federal government agencies to take on increasing numbers of A-76 studies. Fortunately, many of these agencies are taking advantage of the opportunity to improve the process and secure greater cost savings for the taxpayer. Through this research, it became clear that there are many innovative thinkers in the DoD. The challenge is to promote this kind of thinking and more effectively manage the vast amounts of knowledge that exists.

V. Conclusion and Recommendations

> Our success to date doesn't mean that our task is complete—on the contrary, so long as inefficient practices still exist—defense reform will remain one of my highest priorities. (William S. Cohen)

Chapter Overview

This chapter contains a discussion of the commonalities found in the cases studied and a list of recommendations derived from the research. Several common themes and practices appeared through the investigation of each case and study of other research. These helped identify a list of recommendations that will improve the process and promise increased savings.

Common Themes

Several common themes have persisted through this research. The research for the information contained in this thesis came from the case studies summarized in Chapter 4 as well as literature discussed in Chapter 2. Through all of this investigation, the following themes recur.

Competitions are taking too much time to complete – the longer it takes to finish a study, the higher the risk of problems. Personnel turnovers, changes in leadership, and negative impacts on morale are just a few of the reasons why we need to complete competitive sourcing competitions more rapidly.

Competitions are costing more money than anticipated – estimates on the costs involved in conducting a study and implementing the results are inaccurate. No one seems to know exactly how much each study costs but they are costing more than

estimated in the budgetary process. This represents an unknown hurdle cost that should affect the choice of activities to study.

Common Practices

By analyzing and matching key success factors from each of the cases studied for this thesis, the researcher identified several recurring processes. The actions listed below are factors common to successful competitive sourcing programs.

Request For Proposal Development – from the earliest stages of acquisition planning, it is clear that industry and government expert involvement is key to preparing accurate and complete requirements. The three major cases studied all used outcome-based performance standards. Government experts and industry leaders worked together to develop requirements such as the PWS and the Quality Assurance Plan. They also solicited innovation from the public and private organizations by giving credit for justified cost savings from alternate approaches.

Extensive use of communications – the acquisition teams employed several strategies that aided their success. First, they conducted extensive market research that included other government agencies as well as the private sector. The teams on the two acquisition case studies released RFIs to the public to gather information that would help them develop the acquisition plans and strategies. They also held industry forums to meet face-to-face with potential contractors. This helps disseminate clear and accurate information and helps the government obtain timely feedback from industry.

Heavy reliance on past performance – each acquisition team used past performance to mitigate risk. The Army seemed to maximize this effort by not only

collecting data on past performance but by visiting sites that each contractor has worked to discuss their performance directly with the customers. The Air Force used past performance data to generate a dollarization of potential risk. They used this admittedly subjective factor in their final decision analysis by incorporating the amount of risk into the overall best value calculation.

Partnership – each service recognized the need to enter into a partnership with the winning offeror. This promoted an attitude of trust by viewing the best interests of both the government and the contractor as equally important. This represents a fundamentally different approach than is typically seen in past government acquisitions where contractors were kept at arms length. The government proved its commitment to this partnership by selecting long-term contract types that had options to extend the performance period as much as possible.

Acquisition Reform – each case studied incorporated as many acquisition reform fundamentals as possible. Each of these reform initiatives had an impact on the quality and timeline of the acquisition. By using such reform initiatives as electronic commerce, oral presentations, discussions, and competitive range determinations, the government was able to improve the quality of the services and reduce the amount of time it took to complete the study.

Barriers to Effective Competitive Sourcing

This research has uncovered several common barriers to effective competitive sourcing. These barriers all have a negative effect on the outcome of the process. Each

barrier listed below comes from multiple sources studied or interviewed throughout this research.

Playing field is not level – while the DoD has taken steps to level the field more, there are inherent advantages to both the government and the private contractors. The government has the advantage of increased proposal preparation time because they are typically privy to the requirement of the PWS many months earlier than the private sector. The government also has the 10% bogey advantage as discussed in Chapter 2. This gives them a distinct cost advantage over the private sector. However, the government is not the only side that has advantages. Contractors have the advantage of experience over the typical public offeror, and they have more flexibility in hiring experienced consultants if necessary. Contractors have far fewer restrictions on their business practices such as hiring, firing, and recruiting employees.

Ambiguous direction from Executive Branch – the OMB releases guidance and direction that is often unclear or overly restrictive. Examples of this are in the Outsourcing & Privatization goals each service must attain, the unclear format of the FAIR Act Commercial Activities listings, and the redundant requirements involved in developing both PWS's and Management Plans.

Lack of effective cost accounting practices – the federal government does not require agencies to incorporate cost accounting practices, such as ABC, that support competitive sourcing decisions. This imposes severe limitations on the ability for business managers to make educated competitive sourcing decisions.

Cultural issues – the government stands on tradition, tradition that can affect decisions and attitudes. The barriers imposed by cultural issues are not exclusive to

cross-service rivalry. There exists a significant barrier within each service on a cross-functional basis. Most functions are stove-piped in the DoD. This creates a problem when cross-functional teams are required to work together to arrive at a decision that is best for the entire team, irrespective of each individual function's desires. The culture of the organization is not the only barrier; fragmented processes and fragmented execution are also problems. The successes in the case studies researched for this thesis had one commonality in this area; all the acquisition teams developed cross-functional teams and clearly defined roles and goals to keep the team on track.

Lack of Business Management Training – traditionally the DoD has not emphasized business management training for its leaders. The DoD often reserves this type of training for senior level executives. However, lower levels of managers are making many critical business decisions every day. These decisions can have drastic effects on the DoD and poor decision-making can hamper success at any level. A need exists to train acquisition professionals on the fundamentals of business management early in their careers and refresh the knowledge throughout their careers. While the services have identified this as a problem, they are slow to implement sweeping changes that will overcome this paradigm.

Recommendations

> It's time to challenge everything we do and put in place systems that respond to the warfighters' needs. (Druyun: 2001, 11)

The goal of this research was to evaluate the current A-76 procedures and to investigate alternatives to achieving the common goal of reducing operating and support

costs. Through investigation of the cases included in this research and other sources, several recommendations become evident. It is interesting to note that each service takes a slightly different approach to improving their competitive sourcing programs. The key is to gather these strengths and build a common program used throughout the DoD.

Large Scale Implementation of MEOs

The most obvious recommendation is that every function in government should operate as an MEO. A timely occurrence of this action could possibly eliminate the need for further competitions altogether. Obviously, this is a monumental undertaking; however, this research has uncovered findings that make is appear as though a great deal of benefit can be gained by adopting this recommendation. Assuming the primary goal of the Competitive Sourcing program is to free up money, it is possible that the rapid streamlining of government activities could achieve that goal. Each activity would have to weigh the costs of creating each MEO against the potential savings before deciding to proceed. However, once all the appropriate activities are operating as MEO's, senior leaders can make business decisions pertaining to which ones to compete against the private sector. This competition will ensure each activity actually re-organizes itself as an MEO by forcing them to compete with the structure they have previously developed. The Navy has addressed this issue in their Functionality Assessment program that takes an entire organization and makes it operate as an MEO before deciding which activities to compete under A-76 guidelines (SSO Web: 2002).

Streamline Competitions

The second step to take after each activity is operating as an MEO is to streamline the subsequent A-76 competitions. The case studies contained in this thesis demonstrate numerous innovations that can help reduce the time and cost involved in completing competitive sourcing competitions. By implementing the common practices described above, the services can make each study more efficient and timely. This will reduce study costs and reduce the difficulty inherent in the traditional A-76 process.

Capitalize on Experience

A critical factor involved in achieving the goal of streamlining the process is to capitalize on experience. The DoD has completed hundreds of competitions, yet it still lacks an efficient process for dealing with knowledge management. Teams full of people with little or no competitive sourcing experience conduct many A-76 studies. Each major command or service attempts to deal with these issues on a case-by-case basis. What is lacking is a comprehensive and overarching training and support program sponsored by the DoD that is similar to the ACC Program Management Squadron.

The development of a single entity to oversee, train, and equip the professionals involved in competitive sourcing studies will significantly promote the fourth recommendation of improving training. While some are more advanced than others, each service has individual programs that promote training and knowledge. The training that would be required should not be limited to procedural A-76 topics and not to just the people working on the competitive sourcing teams. The entire decision chain from the senior executives down to the contracting specialists must receive recurring and extensive

business management training. The information gained by conducting this research makes it appear as though the DoD can exploit lessons learned from previous O&P studies. They can accomplish this by implementing a structured and efficient training and education program that encompasses all the information gained from past studies and includes all functions involved in competitive sourcing activities.

Finally, the department needs to take a new approach to the issue of competitive sourcing. As the DoD consumes all the "low hanging fruit" of simple, single function activities, large, multi-function activities of enormous complexity are the only ones left to study. The best way to study these complex organizations is not through the A-76 process but through a newer, more flexible and innovative approach process of Strategic Sourcing.

Strategic Sourcing

Strategic Sourcing steps outside the parameters of traditional A-76 studies. Strategic Sourcing is an approach that looks at all the functions within an organization to determine the most efficient and effective manner to accomplish them. It incorporates BPR and acquisition reform initiatives in an effort to drive smarter decision-making. Managers accomplish this smarter decision-making by first analyzing processes, then by deciding the most efficient way to perform those processes.

By implementing the recommendations of this thesis, the DoD can realize greater monetary savings and make the process less painful for both the public employees and private industry.

Limitations

As previously stated, this research contains some clear limitations. As a case study, the specific findings are limited to the individual cases under study. This does not mean the conclusions are not generalizable to other situations. The intent of this research was to investigate successful innovations that can help meet the goals of the A-76 process. It is hoped that these findings can help encourage innovative thinking in future competitive sourcing studies throughout the DoD in an effort to make the process more efficient and effective.

Recommendation for Future Research

Through my experience with this thesis, I have realized some clear opportunities for future research. The first area that begs further investigation is in the mass implementation of MEO's. This research would require a study of actual study costs as well as the actual costs involved in creating MEO's. This is necessary to accurately determine the return on investment of implementing MEO's across the board.

Another area for future research is in studying innovation in outsourcing. This research covers a small sampling of complex outsourcing cases; however, many other cases exist that could offer greater insight into the innovations that can help improve the outsourcing program in general.

Finally, an opportunity exists to study the best way to develop and field an overarching DoD Strategic Sourcing program office. The deployment of this program would be a monumental undertaking that requires significant corroboration at every level. However, once developed, this single source of knowledge, assistance, and direction would pay huge dividends to every agency in the DoD.

Appendix A: List of Acronyms

ACC – Air Combat Command
AW – Airlift Wing
BPR – Business Process Reengineering
CA – Commercial Activity
CAIV – Cost As an Independent Variable
CBD – Commerce Business Daily
CCSS – Commodity Command Standard System
COTS – Commercial Off The Shelf
DC – Direct Conversion
DFAS – Defense Finance and Accounting Service
DISA – Defense Information Systems Agency
DLA – Defense Logistics Agency
DoD – Department of Defense
FAIR – Federal Activities Inventory Report
FAR – Federal Acquisition Regulation
FFP – Firm Fixed Price
FY – Fiscal Year
GAO – Government Accounting Office
MAJCOM – Major Command
MEO – Most Efficient Organization
NAS – Naval Air Station
O&P – Outsourcing and Privatization
OMB – Office of Management and Budget
PAR – Proposal Analysis Report
POM – Program Objectives Memorandum
PRS – Performance Requirements Summary
PWS – Performance Work Statement
QASP – Quality Assurance Surveillance Plan
RFI – Request for Information
RFP – Request for Proposal
SAF/AQ – Secretary of the Air Force/Acquisitions
SCM – Supply Chain Management
SDS – Standard Depot System
SOR – Statement of Requirements
SOW – Statement of Work
SSA – Source Selection Authority
SSET – Source Selection Evaluation Team
SSP – Source Selection Plan
WLMP – Wholesale Logistics Modernization Plan

Bibliography

ACC Program Management Squadron Briefing, 13 January 2001
https://wwwmil.acc.af.mil/pms/mission.htm

ACQNET Website. Commercial Activities Lessons Learned, 2001
http://acqnet.saalt.army.mil/acqinfo/lsnlrn/LESLRN/articles/Outcome.htm

Acquisition Plan (AP), Revised, No. 99FAP01, Acquisition Reform Pilot Program, Business Analysis, Aircraft Maintenance and Base Supply Functions, Andrews AFB MD

Acquisition Strategy (AS), Appendix B, LOGMOD Program, Army Competitive Sourcing Office, Washington DC

AFMIA, "Glossary of Acronyms and Terms" Table from unpublished article.
https://www.afmia.randolph.af.mil/xpms/General_Information/glossary.htm

Agresta, Robert "Arbitrary Outsourcing", GovExec.com 1 September 2001

Appendix D, "Background Research: Benefits From Supply Chain Management", LOGMOD Program, Army Competitive Sourcing Office, Washington DC

Boockholdt, Kathy. Installation & Logistics Support Team, SAF/AQCK, Telephone Interview, 10 October 2001

Brower, J. Michael. "DoD Outsourcing and Privatization" September 1998
http://www-cgsc.army.mil/milrev/English/SepNov98/Brower.htm

Deavel, Col Phillip R., USAF. "The Political Economy of Privatization for the American Military." Air Force Journal of Logistics Aug 2000

DAG, Defense Acquisition Acronyms and Terms Glossary, January 2001

Dooley, David. Social Research Methods: Fourth Edition. Upper Saddle River, New Jersey: Prentice-Hall, Inc., 2001

DRI, Defense Reform Initiative, Chapter 3 "Streamlining Through Competition"

Druyun, Darleen, SAF/AQ. "Agile Acquisition: Results, Not Process" Fall Corona Briefing, 2 November 2001

Economic Analysis (EA), Appendix A, LOGMOD Program, Army Competitive Sourcing Office, Washington DC

Gansler, Jacques, "DoD looks beyond A-76 for cost savings" GovExec.Com 4 May, 2000 www.govexec.com/dailyfed/0500/050400k1.htm

Hammer, Michael & Champy, James, "Reengineering the Corporation", New York, NY, HarperCollins Publishing

Headquarters Air Force Strategic Planning Directorate "Global Engagement: A Vision for the 21st Century Air Force" 20 November 2000 http://www.af.mil/current/global/global.pdf

Lemoore NAS Website. http://www.lemore.navy.mil/trans/caresults.htm 2001

McFadden, Randall J. Complex Business Management for Competitive Sourcing, Industrial College of the Armed Forces, National Defense University, Washington DC, 2001

McLain, Ken. A-76 Program Coordinator, Defense Logistics Agency, Telephone Interview, 10 October 2001

Navy Direct Conversion website. http://help.n4.hq.navy.mil/dircon/special.html

Navy Strategic Sourcing Office website. http://help.n4.hq.navy.mil/index.ctm

O'Guin, Michael C., The Complete Guide To Activity Based Costing. Englewood Cliffs, New Jersy: Prentice-Hall, 1991

OMB Circular A-76, "Performance of Commercial Activities", Aug 4, 1983 (Revised 1999)

OMB Circular A-76, "Performance of Commercial Activities" Revised Supplemental Handbook, March 1996 (Revised 1999)

OMB Web Site, FAIR Act Information http://www.whitehouse.gov/omb/fedreg/fair_first_inv_group2001.html

OSD Website, Emissary – Share A-76! Process Overview http://emissary.acq.osd.mil/INST/share.nsf/CONTDEFLOOK/

Parsons, Col Jeff. SAF/AQCK, Contracting Squadron Commanders Briefing: 26 Jun 2001

Peckenpaugh, Jason "Air Force Cancels A-76 Competition, Decides To Start Over," GovExec.com, (August 29, 2001)

Proposal Analysis Report (PAR), Results of Business Analysis SAF/AQ Acquisition Reform Pilot Program, December 11, 2000

RAND, "DFAS's Recent Experiences with the A-76 Cost Comparison Process" MR-1066-DFAS, 1999

Ross, Col Mitchell S., USA, "Wholesale Logistics Management Program", AMCLG-1 Point Paper, 14 March 2001

Ryan, Gen Micheal E., USAF, "Getting the Word Out on Outsourcing and Privatization (O&P), 1998

Source Selection Decision (SSD), Andrews AFB Aircraft Maintenance and Base Supply Cost Analysis, 25 August 2000

Source Selection Plan (SSP), Andrews AFB Aircraft Maintenance and Base Supply Cost Analysis, 3 December 1999

Spaulding, James A., Depot Maintenance: Barriers to Privatization. MS Thesis, AFIT/GMO/LAL/97Y-11. School of Logistics and Acquisition Management, Air Force Institute of Technology (AU), Wright-Patterson AFB OH, 1997 ADA326713

Stockman, Lt Col William, USAF, "Options for Andrews AFB Aircraft Maintenance and Supply Cost Comparison", 26 July 2001

US General Accounting Office (GAO). DOD COMPETITIVE SOURCING: A-76 Program Has Been Augmented by Broader Reinvention Options. Washington: U.S. July 2001. GAO-01-907T

US General Accounting Office (GAO). DOD COMPETITIVE SOURCING: Some Progress, but Continuing Challenges Remain in Meeting Program Goals. Washington: U.S. August 2000. GAO/NSIAD-00-106

WLMP Road-show Brochure, October 2000 http://wlmpportalprod.wlmp.com/pls/portal30/docs/folder/wlmp_public/information/media/WLMP_10_2000.pdf

Yin, Robert K. Case Study Research: Design and Methods. Thousand Oaks, California: SAGE Publications, 1994

Vita

Captain Kurt A. Chelf graduated from East High School in Duluth, Minnesota. He joined the U. S. Air Force in 1988 and served his first assignment at Lowry AFB, Colorado. He completed his Bachelor of Science degree in Education in 1994 while assigned to Sheppard AFB, Texas. In 1995, he completed Officer Training School at Maxwell AFB, Alabama where he was recognized as Distinguished Graduate.

He was then transferred to Holloman AFB, New Mexico as a Command Post Officer, where he applied for the contracting career field. Upon acceptance into contracting, he was assigned to McChord AFB, Washington where he received his Acquisitions Professional Development Program (APDP) Level II certification. In August 2000, he entered the Graduate School of Engineering and Management, Air Force Institute of Technology. Upon graduation, he will be assigned to the Aeronautical Systems Command, Wright-Patterson AFB Ohio.

REPORT DOCUMENTATION PAGE

Form Approved
OMB No. 074-0188

The public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of the collection of information, including suggestions for reducing this burden to Department of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports (0704-0188), 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to an penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.
PLEASE DO NOT RETURN YOUR FORM TO THE ABOVE ADDRESS.

1. REPORT DATE *(DD-MM-YYYY)*	2. REPORT TYPE	3. DATES COVERED *(From – To)*
26-03-2002	Master's Thesis	Aug 2000 – Mar 2002

4. TITLE AND SUBTITLE

BEYOND A-76: HOW TO ACHIEVE THE GOALS WITHOUT THE PAIN

5a. CONTRACT NUMBER

5b. GRANT NUMBER

5c. PROGRAM ELEMENT NUMBER

6. AUTHOR(S)

Chelf, Kurt A., Captain, USAF

5d. PROJECT NUMBER

5e. TASK NUMBER

5f. WORK UNIT NUMBER

7. PERFORMING ORGANIZATION NAMES(S) AND ADDRESS(S)

Air Force Institute of Technology
Graduate School of Engineering and Management (AFIT/EN)
2950 P Street, Building 640
WPAFB OH 45433-7765

8. PERFORMING ORGANIZATION REPORT NUMBER

AFIT/GAQ/ENV/02M-02

9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)

N/A

10. SPONSOR/MONITOR'S ACRONYM(S)

11. SPONSOR/MONITOR'S REPORT NUMBER(S)

12. DISTRIBUTION/AVAILABILITY STATEMENT

APPROVED FOR PUBLIC RELEASE; DISTRIBUTION UNLIMITED.

13. SUPPLEMENTARY NOTES

14. ABSTRACT

The Department of Defense has determined that Outsourcing and Privatization is key to reducing operating costs and subsequently providing the fiscal dollars necessary to modernize the U.S. Armed Forces. In an effort to achieve this goal, the DoD has mandated that the Air Force study at least 5% of its manning positions for possible conversion to contract. This mandate effects over 200,000 positions throughout the department. Office of Management and Budget (OMB) Circular, Number A-76, Performance Of Commercial Activities dictates the process used to study the appropriateness of these conversions.

This thesis explores the usefulness and applicability of this process, commonly referred to as "A-76". More specifically, this researcher's goal is to determine if the current process is the most effective and efficient way to accomplish the goals of reducing the Department of Defense operating costs. This thesis explores recent A-76 studies and other strategic and competitive sourcing issues to determine how to drive down cost most effectively.

15. SUBJECT TERMS

Privatization, Outsourcing, Business Process Reengineering, Case Studies

16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT	b. ABSTRACT	c. THIS PAGE			Timothy S. Reed, Major, USAF (ENV)
U	U	U	UU	98	19b. TELEPHONE NUMBER *(Include area code)* (937) 255-3636, ext 4799; e-mail: timothy.reed@afit.edu

Standard Form 298 (Rev. 8-98)
Prescribed by ANSI Std. Z39-18