



Exposing the Myths and Realities of Competitive Sourcing

By Geoffrey F. Segal with Ade Ifelayo and Chandra Pesheck

Upon entering office, President Bush embarked on an aggressive reform of the federal government. The President's Management Agenda identifies five "pillars" to bring more efficiency and effectiveness to the federal government. One pillar, competitive sourcing, has been more controversial than the others. Fearing competition for their jobs, public employee unions have launched an all-out assault on competitive sourcing. Yet, many of the attacks, critiques, and statements by opponents have not been accurate. Typically, they misinform and continually mischaracterize competitive sourcing.

In this paper we identify six of the most inaccurate myths circulating about competitive sourcing and debunk them.

Myth #1 – Competitive Sourcing is a Privatization Scheme

What they're saying:

*"You have the federal government union busting—that's what this is—and lowering people's standards of living."*¹

*"As evidenced by the debate over a legislation to establish a Department of Homeland Security, if the Bush Administration can't bust their unions, or eliminate their civil service protections, then they'll privatize their jobs."*²

*"...Privatization on the federal level is creating an environment that accelerates the drive for privatization on the state and local level threatening the reliable and cost effective delivery of goods and services."*³

*"It's just another attack on unions. An employer can use the threat of contracting out as a club in negotiations. Or since contractors are often non-union, the employer may be able to get rid of the union altogether by contracting out."*⁴

Reality – Competitive sourcing is a process to determine the most efficient and effective source for providing services.

Government employees do participate in the process and often win many of the competitions. In addition, the government maintains control and oversight of operations.

It is a clear, standardized and managed process for comparing the costs and the performance of work currently done by federal government employees against alternatives available in private and non-profit organizations. By applying this process to commercial activities (activities readily available in the market), this initiative can generate cost savings and quality improvements—while redirecting scarce taxpayer resources to the core mission areas of government.

Regardless of who wins, the competition sets a higher bar, making government root out its inefficient and ineffective practices. This "working leaner" results in service improvement and savings. Decisions to move forward with a competition are founded purely on good management principles that date back to the Eisenhower administration.

When competition occurs, the taxpayer ultimately wins every time.

Myth #2 – Competitive Sourcing Leads to Less Accountability and Transparency

What they're saying:

"It blurs accountability...they work for private companies and are answerable only to corporate headquarters."⁵

"Public accountability is diminished because citizen complaints cannot be directly addressed."⁶

"Contracting out reduces accountability. Unlike the government, contractors do not have to conduct their business in the public eye."⁷

"Federal agencies have no systems in place to check the costs and quality of services contracting. In fact some agencies don't even know which services are being provided by contractors."⁸

"[Contracting] leads to millions more taxpayer dollars being handed over to private contracts without any evidence that they can perform the work better and cheaper for the taxpayers than federal employees can."⁹

"As more public services are shifted to the private sector, we move from an open and accountable system to a closed, secretive society easily subject to manipulation."¹⁰

Reality – Competitive sourcing not only increases accountability of the private bidder, but also the government employees.

Competitive sourcing is about holding the winner of competitions accountable for delivering on cost and performance in government. Competition brings two very important tools to the table: first, increased transparency, i.e., the bids spell out what and how the work will be completed, which is common in the private sector, but virtually absent in government. There are clear and accountable guidelines for determining when and how work will be contracted out. Second, contracts provide mechanisms to define and demand performance. Whether a competition is won by federal employees or a non-governmental vendor, competitive sourcing requires federal agencies to hold employees accountable or to re-compete the activity. Without competition, government agencies have no need to review their practices in the name of greater efficiency and effectiveness—they have nothing to lose. In addition, there are always reporting requirements with contracts as well as constant performance monitoring.

Myth #3 – Competitive Sourcing Does Not Save Money

What they're saying:

"Savings are illusory. Initial savings are lost when contractors increase prices over time."¹¹

"...The Bush administration's privatization...not been shown to produce either cost savings for taxpayers or improvements in the quality of service delivery..."¹²

"Contracting out frequently costs more than providing the services in-house. The real costs are usually not considered. They include the use of public equipment and facilities...contractors often 'lowball' a bid to get the contract, then raise the price significantly."¹³

Reality – Competition has continually been shown to save money.

Recently the Office of Management and Budget (OMB) reported that competitive sourcing efforts in 2003 resulted in an average 15 percent reduction in cost, and projected net savings of \$1.1 billion over five years. In addition, between 1995 and 2000, the Department of Defense completed over 550 competitions, which resulted in an average 34 percent reduction in cost. DOD expects to achieve \$11.7 billion in savings as a result of competitions between 1997 and 2005. In 1996, the Center for Naval Analysis studied 2,138 A-76 competitions at the Defense Department between 1978 and 1994. The average cost savings was projected to be 31 percent.

For example in 2002, President Bush and the OMB decided to use competition in response to poor performance by the Government Printing Office (GPO) and offered the job of printing the fiscal 2004 federal budget to competitive sourcing. Simply indicating that the agency would be required to compete, the GPO reevaluated its original bid and resubmitted its proposal at almost 24 percent lower than its price from the previous year. That was \$100,000 a year the GPO could have saved taxpayers any time it chose, but it never chose to do so until it was forced to compete.

Myth #4 – Competitive Sourcing Adds to the Human Capital Crunch

What they're saying:

*"The Bush administration's attempt to eliminate more than half of the remaining workforce will only exacerbate the human capital crisis. Indeed, the extraordinarily aggressive nature of the Administration's privatization effort will surely make it more difficult for agencies to recruit and retain the best federal employees."*¹⁴

Reality – Often government agencies' efforts to move personnel and tap outside experts to realize huge efficiency and effectiveness gains are hamstrung by their own regulatory environment.

Incorporating competitive sourcing into the broader context of human capital challenges creates links and improves flexibility, helping solve human capital needs. Agencies could move existing staff between agencies or within the agency to activities considered core or mission-critical as needed. Agencies already do have tools that have assisted them with human capital issues in the past, and remain promising tools for the future, especially with moving resources and personnel around.

By building the human capital management program around agency outcomes and performance—in other words, creating the incentives for excellence that make American businesses succeed—agencies could build their internal capabilities around core functions and mission-critical activities. This concentration of effort would allow them to focus their resources on what they do best while shifting resources and activities to contractors to further achieve their goals and objectives. In addition, agencies can focus their competitive sourcing plans around functions where they have difficulty recruiting, or where specialized skills are needed.

Essentially the focus becomes one where the agency has the internal capacity to manage service planning rather than actually participating in service delivery. Agencies will have to invest additional resources into contract management and acquisition management personnel to ensure the in-house capabilities exist to be managed.

The Department of Education's "OneED" plan has outlined several objectives for improving the strategic management of human capital. Among those objectives is to identify new opportunities for competitive sourcing in order to augment the organization's capabilities. At its core, the plan will get the right people in the right job.

Myth #5 – Competitive Sourcing Leads to Less Flexibility

What they're saying:

*"Public administrations lose the ability to respond to situations not explicitly spelled out in the contract."*¹⁵

*"Flexibility and control are diminished by the terms and conditions of the contract."*¹⁶

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Performance-based contracts get both sides working toward a common goal—improving goods and services. In addition, these contracts do not focus on process, but rather on outcomes, enabling contractors and employees to offer new alternatives to standard delivery to bring more flexibility and innovation. Contracts can be more easily turned on and off than public employees.

The competitive bid process also gives managers more flexibility and options. Competitors submit different bids using various techniques and processes to provide the service, giving managers more flexibility.

Myth #6 – Competitive Sourcing Leads to Layoffs and is Unfair to Employees

What they're saying:

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*"Working families lose good jobs. Communities lose tax revenue. Public services get cut as local budgets get even tighter."*²⁰

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Reality – Quite frankly, government employees have been winning competitions at a tremendous rate.

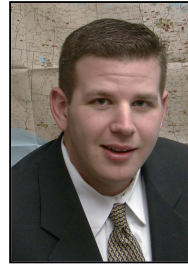
Some have argued that the process bias is actually slanted toward government employees, not against them. Of the 662 competitions completed in FY 2003, in-house teams won 89 percent of competitions. Even when employees are winning a lower percentage of competitions, they still fare fairly well. In a 2001 GAO study (GAO-01-388) of Defense competitions, only 8 percent of the 1,000 employees were laid off as a result of job cuts. Twenty-six percent were transferred to other positions and 65 percent voluntarily retired or took buyouts. Of the people who left voluntarily, 26 percent took jobs with the winning contractors. In a 1997 study by the Center for Naval Analysis, competitions at large depot maintenance facilities had promised reductions of 40 percent of the employees. But after retirements, transfers and voluntary separations of employees who went to work with the winning contractors, just 3.4 percent of the workers were laid off. In addition, a long line of research shows that in fact the majority of employees are hired by contractors or shift to other jobs in government while only 5 to 7 percent are laid off.²²

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Public employees are given a full and fair chance to compete and when they can demonstrate savings, or that they are best equipped to provide a service, they continue to do so. Reductions in force (RIF) or layoffs are very uncommon. The Department of Interior has completed dozens of competitions without a single RIF. In addition, the agencies have developed Career Transition Assistance Plans

(CTAP) and Interagency Career Transition Assistance Plans (ICTAP) for any adversely affected employees. Furthermore, agencies should be combining their competitive sourcing plans with their human capital management plans; resources freed up in one area can be deployed in other areas. ■

About the Authors



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Mr. Segal has authored numerous studies and articles on privatization, government performance, accountability, and efficiency, and has edited Reason's monthly newsletter *Privatization Watch* and the *Annual Privatization Report*. Also, he wrote a quarterly privatization column for *Intellectual Ammunition* and is a contributing editor for *Budget & Tax News*. His articles have appeared in publications as diverse as *Investor's Business Daily*, *New York Sun*, *L.A. Daily News*, *Atlanta-Journal Constitution*, and *Orange County Register*.

Mr. Segal has presented his research at conferences around the world. He has appeared in front of numerous city and county councils as well as testified to the states of California, New York, Florida, Oregon, and Virginia as well as the United States Senate. Additionally, he has advised government officials on privatization, competition, performance management, efficiency, transparency, and accountability.

Mr. Segal holds a Master's in Public Policy from Pepperdine University with specializations in Economics and Regional/Local Government. While at Pepperdine, Segal was named a Hansen Scholar. He graduated cum laude from Arizona State University with a Bachelor of Arts in Political Science.

Ade Ifelayo is a research assistant at Reason Foundation. Ade received a BS in Economics from Baylor University, where he was active in student government, serving as vice president of his class, and then president of the student body. He currently is completing his Masters in Public Policy at Pepperdine University.

Chandra Pesheck is a research assistant at Reason Foundation. Chandra has a Masters in Public Policy from Pepperdine University.

Endnotes

- ¹ Robert Bonner, President of Local 2028 of American Federation of Government Employees, as quoted in Jim McKay, “Bush Clears The Way for Privatizing Federal Jobs,” *Pittsburgh Post-Gazette*, May 30th 2003.
- ² American Federation of Government Employees (AFGE), “Privatization of Federal Services,” <http://www.afge.org/Index.cfm?Page=Privatization&file=privatizationtalkingpoints2.htm>
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- ¹² AFL-CIO, “Stop Wasting America’s Money on Privatization,” <http://www.aflcio.org/aboutaflcio/ecouncil/ec08052003b.cfm?RenderForPrint=1>

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- ²¹ Ruch, “Ten Reasons Outsourcing is Bad Business,” *Federal Times Online*, September 15, 2003.
- ²² Robin Johnson, *Privatization and Layoffs: The Real Story*, E-brief 112, (Los Angeles: Reason Foundation, 2001), <http://www.rppi.org/ebrief112.html>. Moreover, research by the GAO shows that as many employees saw increases in pay and benefits as saw cuts in pay and benefits after going to work for contractors General Accounting Office, *DoD Competitive Sourcing: Effects of A-76 Studies on Federal Employees’ Employment, Pay, and Benefits Vary*, GAO 01-388 (Washington, D.C.: GAO, 2001).
- ²³ Robin Johnson, *Privatization and Layoffs: The Real Story*, E-brief 112, (Los Angeles: Reason Foundation, 2001), <http://www.rppi.org/ebrief112.html>.
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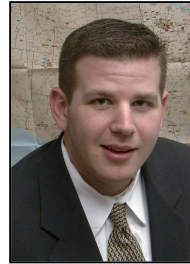
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