

**Testimony of Mr. Robert Gordon, Senior Management Analyst/Program Manager  
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I urge the Panel not to discontinue A-76 cost comparisons either entirely or until the process can be “fixed”. The cost comparison process is not perfect, in fact far from it; however, on balance it works and is fair (or equally unfair) to all parties. Stopping cost comparisons until the process can be made perfect is not the answer. In this case, perfect would be the enemy of good. To stop performing cost comparisons in favor of some other alternative(s), such as process reengineering/improvement or strategic sourcing, without involving competition will not produce savings. The same mandates of competition that drive businesses in the private sector to focus on costs must be applied to the public sector as much as possible.

I urge the Panel to consider immediate implementation of the following suggestions for improving the A-76 process. (Note: My experience is within the DoD. While the organizational terms and references of my comments relate specifically to that agency, the same arguments can apply to all Federal agencies.)

**Centralize execution, starting with packaging.**

By “execution” I mean the actions, procedures, and processes associated with carrying out cost comparisons. Centralized execution includes control over all aspects of study execution, including deploying teams of experienced A-76 practitioners to conduct cost comparisons. These teams would report to each major command/claimant. Better yet, they would report to each military department. Best – they would report to OSD. The higher the level of centralization, the less variability there will be in the conduct of studies, the quicker they can be conducted, the higher the quality of analysis will be, and the greater the savings will be. Ideally these teams would have the authority to make decisions that impact the study, including functions that are competed, how requirements documents are built, what performance standards will be used, and how performance will be inspected. This is not to say that local (installation) level organizations being competed will be excluded. On the contrary, their input is vital, especially in developing the in-house business plan. Centrally managed, non-local teams will remove control from those who have the least motivation to support competitive sourcing.

Control over study execution by those with the most at stake is a fatal flaw in the program. We must realize that the interests of people whose jobs are at stake do not coincide with broad program goals envisioned at higher headquarters levels. It’s simply asking too much of those people to be objective, to be willing to put aside all self interest in favor of the common good, and to be willing to impartially interpret all laws, policies, and rules governing the conduct of studies. Moreover, they are asked to do this as quickly as possible. There is no incentive for the general workforce to even want these studies finished, let alone finished in 2 or 4 years. The private sector regularly outsources

support functions, but the process is managed outside the function(s) by a separate and more objective part of the corporation.

If centralizing execution is too much to do in the near term, I strongly urge the Panel to consider that centralized packaging be done immediately. By packaging, I mean the putting together of related services that will be competed. Just as we build manpower positions by accumulating related tasks that require similar skills, a truly competeable package is comprised of services that share commonality of purpose in terms of mission and the nature of the work performed. The selected services should also be severable, meaning the nature of the services performed should be distinct, and they should be competed in their entirety. When building packages for an A-76 cost comparison, however, these principles are often discarded as bits and pieces of organizations are included in order, it seems, to meet quotas (commonly called “cherry picking”). This has significant negative impacts on the DOD’s Competitive Sourcing Program and on continuing operations once the competition has concluded. What it creates are cost comparisons that include unrelated and disjointed groupings of services for which there are often no business models that can be contrived to perform the work profitably. Sometimes, this is done intentionally to minimize, or eliminate, competition. Poor packaging lessens savings that could otherwise be realized through economies of scale, consolidation of like services, etc. By competing only a few positions that perform the same services as positions that are not being competed, we introduced barriers to efficient operations because separate organizational elements (MEO or contractor) with different processes and methodologies complicate and hinder a smooth flow of work. Poor packages are a disincentive for industry to participate because they have difficulty putting together profitable business models. Poor packaging also wastes time and energy after a study begins because of seemingly unending delays related to discussions of what should or shouldn’t be competed. It shifts focus of the work force away from doing a quality study because they get wrapped up in efforts to avoid competition. To the extent that these debates rage, morale is worsened because the emotional nature of the discussions throws fuel on an already volatile fire. The Army is unique among the Services in that it has centralized decisions about how positions are coded (commercial activities or inherently Governmental) in its annual CA inventory, but even the Army needs to go further by taking control over packaging. There is too much leeway allowed to “justify” excluding positions performing commercial functions. OSD and the Services are finding out what consultants have known for a while, namely that it’s not unusual for more than 50% of positions announced to Congress for competition to be removed from competition after announcement. Cost comparisons seldom match up well with their announced numbers. This is a fundamental reason that DoD is having difficulty meeting its savings targets. Better packaging up front would stop this and help reverse the negative impacts discussed above.

**Provide intensive training to “allied” activities and grade their performance.**

Allied activities include contracting, human resources, auditing, and public affairs. In their defense, additional resources didn’t accompany the increased taskings that came with competitive sourcing. It has been difficult for these activities to incorporate the

demands of competitive sourcing into an already busy schedule, but they simply must do better. In my experience, contracting personnel are generally uninformed about the process and not engaged on a day-to-day basis. Considering that A-76 is fundamentally an acquisition action, it's especially harmful when contracting experts aren't involved in the process. The same goes for the other activities listed.

**Basic principle of what constitutes “performance-based” isn't well understood or well executed.**

In my experience, the concept of performance-based is poorly understood, and without adequate centralized oversight, suffers from widely varying interpretations and priorities. As mentioned above, centralized execution will improve this problem area, but short of that we must start studies by spending time coming to a common understanding of what performance based really means. It's easy to say the it means to focus on outputs (or outcomes) versus process, but front line workers view their part of a process as an output. I like to use the example of the end product of a “tight nut” that's produced by an assembly line of 5 workers each turning the nut one turn. The output is a tight nut, but each worker sees their part of the process as an output in itself. This can be argued from the point of view that the nut wouldn't be tight after the 5<sup>th</sup> worker if worker #3 didn't turn it the 3<sup>rd</sup> time. Most often, it's simply argued from the point of view that people expect to see what they do in a PWS, or they feel they've been discounted. It's important to also remember that workers perform tasks and don't always see end products or services. In an effort to maintain morale and to ensure no service is missed, installation leadership often forces PWS developers to include what are really process steps as outputs. PWSs wind up including many more “services” than necessary. To get around this, it's necessary to look at reasons activities exist – the missions they support – in deciding how schedules of outputs should be structured. A true performance based approach looks at the top level mission on an installation and then tunnels down through the missions of all subordinate activities. This ensures that the missions of subordinate activities in fact do support higher level missions and raises the discussion to levels that are sufficiently macro so as not to lose sight of the forest for the trees. I would contend that most installation level activities aren't even looking at the trees...they're looking at the leaves and branches.

**Develop Component-wide performance measures by functional area that must be used.**

This will help improve how performance based PWSs ultimately are. We need high-level performance measures that are applicable regardless of specific situations. My general experience is that installation level workers want to measure service delivery using measures that relate to specific tasks rather than to outcomes. This is understandable because these workers perform tasks and feel those tasks are important and should be measured. Unfortunately, this approach not only means that our PWSs are focused on tasks (rather than outcomes), but also that quality assurance efforts can be very laborious and expensive. It also means that we're measuring in ways that stifle innovation, and we're measuring aspects of performance that are only indirectly “mappable” to missions.

In fact, it's very difficult to tie performance standards to mission requirements when they're at task level. I contend that all performance measures and standards should be tied to mission requirements, and that if you can't do that for a given service delivery item, then you are probably at too low a level. Because installation level workers are so close to current processes, it's difficult for them to step back, so that to solve this issue requires top-down direction about measures that must be used. That's not to say that they're the only ones to be used, but that they must be included in any PWS.

**Emphasize the stewardship responsibility of managers and supervisors to save resources, and their responsibility to the “corporation”, not just to the workforce.**

This cannot be solved in the near term, but it can be addressed at the beginning of studies in order to set the stage for what will be expected of managers and supervisors during the study. As a taxpayer, I find it very troublesome and am often astounded at how unexpected many installation mid- and even senior-level managers and supervisors find my questions about cost, and at how little they understand about cost. They're focused on what's in their budgets, and they don't think about ways to save resources as they provide services. We have to train our managers better so that they understand that they're stewards of how taxpayer dollars are spent. Unfortunately, the personnel system doesn't reward saving resources. It rewards increasing one's share of the budgetary pie, not decreasing it. We have to fix that by grading our managers AND COMMANDERS on their stewardship of resources, including rewarding good performance and holding people accountable for poor performance.

The 2<sup>nd</sup> part of this issue relates to how managers see their roles and where they fit in the hierarchy. In my experience, most installation level managers, especially in the GS-11/12/13 range see themselves as part of the general workforce rather than as part of management, even though they aren't part of the collective bargaining agreement. In the private sector, managers and supervisors are expected to protect the interests of the company. I'm not promoting taking sides, or even that we have sides, BUT managers need to be more cognizant of the business and cost sides of day-to-day operations and realize that part of being a manager means balancing the needs of workers with those of the “corporation”. They must be willing to make decisions that hold down costs rather than always promoting worker interests without due consideration for the business side of things.

**Institute data systems to capture cost by service/product and train personnel to capture the data.**

This means establishing accounting systems that relate resource usage to the services and products that consume those resources. Any service or product consumes 5 kinds of resources – equipment, facilities, materials, utilities, and labor. Knowing the amounts of resources that go into the services and products that are performed and delivered, helps managers know the cost of performing the services and delivering the products that are required to support missions. Without that knowledge, costs are impossible to know. Many people will recognize this proposition as an Activity Based Costing construct. The

fact is that cost comparisons collect large amounts of data related to labor that align with services and products. In other words, we are in fact doing an ABC-based analysis of the labor resource. Because of the rules governing cost comparisons, most other resources are Government-furnished and thus become “wash costs” in terms of comparing in-house versus private sector performance. Nonetheless, I think it’s important for managers to know the cost of the services and products that they perform so they can make informed decisions about where to target efforts to find efficiencies and savings. Please note that ABC doesn’t immediately address the issue at hand in a cost comparison, meaning it doesn’t contribute to conducting the cost comparison itself, but it does help managers do a better job in the long term. If we had good service-related resource data now, we could do better and faster cost comparisons, so in that sense this is a long term improvement solution for conducting future cost comparisons. Please note also that any solution to this issue will require a culture change that trains and inculcates the work force in collecting data. The solution needs to be as transparent and unobtrusive as possible so that collecting data doesn’t impede workflow.

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