

Presentation by Mr. Frank Sowa
Navy Strategic and Competitive Sourcing Program
to the
Commercial Activities Panel
Public Hearing
San Antonio, Texas
August 15, 2001

Mr. Chairman and members of the Panel I'd like to thank you for this opportunity to discuss the Navy's Strategic Sourcing program and its components.

The Department of the Navy's FY 2002/2003 budget fully supports the goal of the Secretary of Defense to maximize the use of commercial business practices to improve operational effectiveness and efficiency and realize savings for modernization and re-capitalization. The Navy Competitive Sourcing program commenced in April 1996 with a study conducted by the Center for Naval Analysis (CNA) that identified the potential for significant savings from competition with private industry for commercial functions. These savings would be directed toward the re-capitalization and modernization of the fleet. Initially, the effort was focused solely upon the use of the OMB Circular A-76 process to realize savings by competing commercial activities with the private industry. As the effort continued to evolve there was a realization that the use of OMB Circular A-76 would yield sub-optimal results since many of our business units were integrated into the base support infrastructure and where not easily segregated into discrete business units. Additionally, we faced issues associated with our military manpower component specifically sea-shore rotation and career progression.

The Navy determined that a broader, systems engineering approach would be pursued to achieve maximum benefit and prevent sub-optimization. This initiative should not be interpreted as avoidance or replacement of A-76 and its focus upon fair competition to achieve both cost efficiency and the infusion of best business practices. The Strategic Sourcing approach incorporates existing DoD manpower management processes that provide for a complete functional or organizational assessment of functions and activities that are both commercial and inherently governmental to achieve program objectives with the optimum balance between performance and costs. The goal is to determine whether processes can be eliminated, improved or streamlined. The value of this approach is that an assessment of every function or organization is made regardless of whether the function or activity is commercial or inherently governmental. This approach cuts across all functions and organizations, permitting the Navy to take a complete look at how it does business and to proactively achieve savings in all its functions and activities rather than to focus only on commercial efforts. While OMB Circular A-76 private/public competitions remain a primary Strategic Sourcing initiative for commercial functions, DoN will consider elimination, consolidation, restructuring and re-engineering options before making a sourcing decision.

The efficiency tools that comprise Strategic Sourcing are the OMB Circular A-76 process and Functionality Assessments, which is based on the private industry Business Process Re-engineering approach. Current Navy projections show that Strategic Sourcing will generate an annual steady state savings of \$ 1.5 Billion and a total net savings, FY 1997 – 2005, of \$ 5.1 Billion. The Navy program for Strategic Sourcing will study a total of 90,771 billets, civilian and military. Of this total the Navy's A-76 program will study 43,483 billets for study. To put this

into context the total Navy civilian population is approximately 180,000. The Strategic Sourcing program will impact almost 50% of the Navy civilian workforce. The A-76 program will impact almost 25% of the civilian workforce. The Navy's plan is ambitious and aggressive. When the program was initially developed in 1997 we planned to study 80,500 positions. As the program was executed we found the interrelation of functions and close working relationship of military and civilian positions severely impacted our ability to execute the plan. Since the focus of A-76 is on the competition of commercial functions we needed a process to filter out critical functions before using A-76.

To date the Navy has completed 126 cost comparisons and 32 direct conversions. Over 13,000 positions have been studied. Currently there are 154 studies in progress impacting 18,000 billets. Our dollar savings are significant. We've identified over \$1.3 Billion in cost avoidance using the A-76 effort. This savings value is computed based on an average five-year period of performance for each competition. As part of the cost of executing the program the Navy programmed \$ 169 million from FY 97-03 to augment the in-house efforts of teams conducting various Strategic Sourcing initiatives. While the Navy relies primarily upon in-house personnel to conduct studies, the use of contactor personnel to augment the study team has proven to be very beneficial to the execution of the program.

Of the cost comparisons completed to date, 79 percent of the studies have resulted in the work being retained in-house. In terms of results the cost comparisons have produced a 63 percent reduction in personnel and a 68 percent reduction in operating costs. The savings associated with the A-76 program have been questioned in a number of forums. The fact that there are savings should not be in question. The issue is the precise or exact magnitude and long-term viability of the savings. The Navy reviews our Most Efficient Organizations in accordance with the A-76 Supplemental Handbook. The review focuses on the degree to which the MEO is fulfilling the "terms" of the Performance Work Statement it won when it was selected. We've found that the MEOs have consistently been within target of their bids. Another concern is the viability of long term savings from contractor wins. The Navy relies upon the local base commander and contracting authority to monitor and take the necessary actions to correct shortfalls. To date we have not had a single instance of a contractor defaulting based on an A-76 award. However, the A-76 program has a limited data set since the competitions announced in 1997 were awarded, on the average, in 2000. Therefore, the amount of data available to make final determinations on the long-term savings is not yet available.

The use of A-76 involves the expertise of many different disciplines. The use of competition involves the acquisition and legal communities. In order to support the funding requirements of the study team the financial community is involved. At the base level functional experts do the requirements setting and definition with input from other impacted communities. Public Affairs personnel are required to disseminate accurate and timely information and the human resources community is needed to assist in developing standards and administering any personnel actions. All these communities operate within a framework of rules and regulations that are unique to their area. The success of the Navy approach has been establishing a network of contacts that draw upon the expertise of each community to maintain an ongoing dialogue of current events. Ideally each study team will have a functional representative present as a part of the time. In reality this is often difficult given the current workload. A future that requires an increase in competitions will strain the support structure and yield sub-optimal results.

There are core lessons that continue to be critical to the conduct of an A-76 competition. The Navy has identified four basic principles to ensure that an A-76 competition is conducted in an efficient effective manner. The order of these lessons does not designate one as being more important than another one. Rather all these principles must be integrated into a process. The first lesson is that time is of the essence. The Navy recognizes the unsettling effect an A-76 study has to the workforce. A clear and consistent message that is common among all “successful” studies is initiating and completing the study in an expeditious manner to reduce the period of uncertainty for employees and provide an incentive for private industry to engage in competition. The longer a competition continues the more the workforce is disrupted and the less flexibility private industry has in using its bid and proposal funding to enter other competitions. Formation of the study team and notification to all the impacted employees as early as possible is critical to the smooth conduct of the study. A focused effort leading to the development of the required information and closure of outstanding issues is critical to private industry providing a quality bid that meets the Navy’s requirements. The Navy’s experience for multi-function cost comparisons has been an average of 27 months from initiation of the study to tentative decision. However, this net period for completion is often many months longer and this forms the basis for the second lesson.

The second lesson is the need for clear and consistent rules and policy. Many laws and policies govern the A-76 process. There are specific statutory requirements and instructions that provide direction on matters related to all steps of the process. Conflicting or ambiguous policy statements or the issuance of revised guidance impacting studies already in progress and governed by earlier guidance can significantly impact the process. Concise and consistent guidance easily understood by personnel in the field and private industry will greatly enhance efficiency in conducting studies and create greater confidence in the results. Currently we find many of our rules and policies being modified and clarified as a result of General Accounting Office and court reviews. Their opinions and rulings require additional interpretation that impact ongoing efforts.

The third lesson is that leadership is critical. The level of involvement by leadership communicates to the workforce and private industry the importance of the study. The workforce will aggressively support and focus on the study with the proper motivation and support being provided by their leaders. The focus of senior leadership is vital to convey the proper message and support to all levels of the chain of command. Consistent with this principle is the ability for business leaders to meet with government leadership and develop solutions to emergent issues regarding the A-76 process. A collaborative process will result in a balancing of interests and a continuing dialogue that will reduce the need to resort to other authorities to resolve disputes.

The fourth lesson is developing an environment for win/win competition. This is critical if the selected bid from a competition is going to fulfill the requirement. Specifically, the Performance Work Statement must address what the government needs in clear and concise language. The identification of multiple functions in a competition provides a basis for true innovation enabling the public and private competitors to examine options and mix and match approaches. Performance specifications provide a framework for success when done properly. Additionally, the free exchange of information from the government to private industry will enhance the quality of the bids and avoid future misunderstandings. The time period for performance should not be restricted to a standard period that is often five years. If the government is going to benefit from private industry investment than periods of performance

need to be longer as a rule rather than exception. No matter which party is successful in the competition they will benefit from a longer period of performance. Industry benefits by being able to recoup their investments and the MEO benefits by having a stable agreement in place that will enable the government to attract and retain a talented workforce.

As the Navy meets the challenges of the 21st century we cannot ignore the need to balance our infrastructure needs with the fleet's requirements. Significant restructuring of both the fleet and infrastructure are being undertaken and will continue. This entire effort has been painful – we have made some mistakes – and we have learned from these mistakes. The A-76 process forced us to change the way we do business. A-76 is still a valuable tool within the Strategic Sourcing plan in the shaping of a business enterprise. We have and continue to struggle with some of the cultural aspects of A-76 and it's reliance upon competition. Competition significantly impacts the team atmosphere we foster in the department. It demands elimination of the back up and redundancy in our support organizations that we demand in combat operations. It requires a focus on efficiency that is not historically rewarded. We do not have complete answers to these issues yet.

To make substantial progress toward streamlining or improving the cost comparison process is a much wider scope of change than just the OMB Circular A-76 and it's Supplemental Handbook. DoD is impacted by legislation in Title 10 and the annual DoD Appropriations Act. The Federal Acquisition system and the recent emphasis on performance-based service contracting do not easily mesh with a final decision based solely on cost. The requirements of the civil service system make it difficult to rapidly build an organizational structure that can compete on equal terms with the private sector. Efficiency for both managers and organizations must be rewarded in ways it is not done today. Continued reform in all of these areas will be required to improve the use of competition to enhance efficiency. Changes and improvements must be focused on the entire governmental process from procurement regulations to identifying those functions that are critical to the conduct of government business.

Thank you and I look forward to answering any questions you may have regarding my statement.