

Statement of Record by
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For the Commercial Activities Panel
October 10, 2001

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Mr. Chairman and members of the *Commercial Activities Panel*, thank you for the opportunity to submit the following statement for the record. I am submitting this statement to inform the Panel of service outsourcing and workforce augmentation practices that are strategic to some of America's most successful commercial organizations, yet are clearly omitted from the Federal Government's mode of operation.

Key elements of this discussion include:

1. The American economy has evolved into a predominantly services-based economy. Understanding the workers of this economy is critical to building effective procurement and management practices.
2. The Federal Government's workforce practices lag severely behind those of the commercial sector. According to *The President's Management Agenda*, federal agencies currently operate with non-competitive personnel policies that have changed little since World War II. These policies contribute to service procurement difficulties that place agencies at a huge disadvantage in terms of matching the Government's current workforce requirements with the appropriate human talent at the lowest possible cost.
3. Current federal practices generally limit service delivery either to a competitively bid "contracted service organization" or an "employee-based service organization." These two processes are limiting and inflexible.
4. The commercial sector has discovered and refined successful new ways of managing human capital, including the process of supplementing core employees with an extended, project-based temporary workforce. These proven commercial methods support a flexible system of producing efficiencies that are greater than the Federal Government can achieve today.
5. These commercial practices are consistent with the expectations for workforce management improvements as set forth in the President's *Agenda*.
6. The Federal Government's service delivery options can be expanded to include a contingent augmented workforce solution similar to those used in the commercial sector. This practice will enable the Government's to more easily match talented individuals to service requirements at a lower overall cost.

Conclusion:

American taxpayers are paying far more for the fulfillment of many Government functions than shareholders of today's commercial organizations would ever tolerate. If we allow our federal agencies to establish workforce management policies that are more in line with contemporary corporate practices, we will streamline the process of service delivery, enable agencies to execute on their mission with more speed and efficiency, and reduce costs significantly.

Submission Background:

When President George W. Bush announced that a major initiative of his new administration is to improve some of the ingrained inefficiencies of the federal workforce—including transferring many functions and services to the private sector—I saw an opportunity to present effective alternatives from today’s business practices. I have since been fortunate enough to have met with financial executives from the Office of Management and Budget (OMB), The Department of Energy, The U.S. Army, The Department of the Treasury, The USAID, The General Services Administration, and the Office of Personnel Management.

In all cases, we discussed the state of service fulfillment within the Government and the merits of processes through which agencies could more efficiently engage America’s vast pool of non-permanent workers¹. We also discussed my company, Contractors Resources, Inc., and its concept of enabling large organizations, including the Federal Government, to initiate such processes. Contractors Resources, which provides cost- and time- saving business solutions for professional independent consultants and the organizations that use them, offers organizations the ability to access contingent workers directly, thus eliminating costs and administration overhead commonly associated with the supply chain of such individuals. Contractors Resources has helped some of America’s largest and most successful companies improve their service procurement processes, saving them an average of 25% on their service procurements. (Please see Appendix A for more information about Contractors Resources and Appendix B for my bio and credentials.)

The results of our meetings led to the submission of this document as a sincere effort to inform the Government of proven commercial workforce augmentation processes and propose solutions that will produce significant savings to taxpayers and help rebuild the value of the federal workforce. In addition, the ideas presented in this submission can help reduce the negative impact of the “brain drain” that has already affected our federal services and is expected to worsen over the next five to eight years.

An expanded explanation of each of the key discussion points follows.

1. The American economy has evolved into a predominantly services-based economy. Understanding the workers of this economy is critical to building effective procurement and management practices.

The Workers of the Services-Driven Economy

The American economy is now predominantly a services-driven economy, with a significant component of American workers either delivering or supporting the delivery of some form of service—from banking to entertainment to technology implementation to software development to transportation to telecommunications to insurance. Services-driven companies demand knowledge-workers such as technicians, computer programmers, network engineers, creative writers, accountants, business managers, engineers, project managers, systems analysts, etc.

As a result, during the last two to three decades the American workforce has to a large degree moved away from “one-company” career expectations (where company seniority was the primary motivator) to expectations of a “skills-based” career (where the goal is to build individual value through experience for work performed). Technology—in particular the Internet—has enabled individuals to more easily find positions that can advance their careers while allowing businesses to more easily find and attract capable candidates for available positions. As a result of these changes, jobs are no longer a career commitment by either the worker or the company. Businesses cut jobs quickly to maintain the financial goals of business, while workers change jobs more frequently to build their resumes and to advance their financial and professional goals.

The Trend Toward Independence

The natural evolution of the shrinking career life-cycle is career independence. The Internet has fostered an increased bias toward a “Free Agent” mentality among today’s workers. It has enabled a true talent market

¹ The Bureau of Labor Statistics estimates that about 12 million U.S. workers—or nearly 10 percent of the working population—hold non-permanent positions. (Other sources report that this number is as high as 30 million.) A significant number of these workers are knowledge-workers who may be appropriate for the fulfillment of Government services.

with an increasingly higher level of liquidity, as more than 50 million resumes fill thousands of career Web sites. Posting job requirements or resumes on the Internet is clearly becoming the most convenient and cost-effective form of recruiting and job hunting.

Findings from some recent studies support the trend toward an increasing popularity of resume-based career development:

- Respected management consulting firm, McKinsey & Company, reports that:
 - The average 32-year-old worker has already had nine jobs and is expected to have twenty by the end of his/her career.
 - The supply of prime workers of the age of 35 to 44 will drop 15% over the next 10 years, creating more demand.
 - The Internet has created an efficient means of connecting high-quality people with open positions and has started a revolutionary change in the human capital landscape. Internet recruiting is better, faster, and cheaper.
- Market research firm, Gartner Group, predicts by 2004, 60% of large organizations will use contract workers to fulfill more than half of their Information Technology activities.

Accommodating Today's Workforce

As technology improves, these trends accelerate. Today, large businesses have changed their workforce management and services procurement practices in order to take advantage of the current landscape of the American workforce. Companies have recognized the strategic value of managing human and intellectual capital and they better understand how to efficiently acquire, compensate, capture, and reuse the work product of these knowledge-workers.

As a result, American commercial enterprises have leapfrogged federal agencies in understanding how to effectively tap this talent, leaving these agencies at a severe recruiting disadvantage. In order to re-attain a competitive balance with the private sector, the Federal Government must recognize the trends of today's American workforce and learn how to better attract and manage its knowledge and talent base.

2. The Federal Government's workforce practices lag severely behind those of the commercial sector.

Current federal workforce management policies have not responded to the changing American workforce and are therefore encumbering the Government from using its resources most effectively. According to *The President's Management Agenda*, "the managerial revolution that has transformed the culture of almost every other large institution in American life seems to have bypassed the federal workforce."

Antiquated characteristics of federal agencies include:

- pay scales that are based on longevity rather than performance;
- managers who have limited hiring and firing authority; and
- hiring decisions that result in long-term or permanent cost commitments.

Largely as a result of these practices, the Government does not have the flexibility to attract today's most talented professionals—and it now finds itself in the precarious position of being unable to compete with American business for key personnel.

Conversely, American companies have made significant adjustments to their human capital management structures and processes over recent decades. Their hiring decisions are based on current need and the cost burden is only as permanent as the value that is being created by the employee. Their compensation packages are more creative and lucrative, and they are based on performance and success. The attractiveness of these practices commonly leaves the federal agencies at a disadvantage in the eyes of today's talented knowledge-workers.

The Government's inability to attract new talent is also largely responsible for a broader problem: employee aging. According to the *Agenda*, "the average age of the federal workforce has risen to 46, compared to 42 in 1990." As a result, 71 percent of the government's current permanent employees will be eligible for either regular or early retirement by 2010, and 40 percent of those employees are expected to retire.

The potential loss of intellectual capital from these retirees represents a crisis that is now being recognized among multiple federal agencies. In February 2001, the Government Accounting Office added human capital management to the government-wide "high-risk list" of federal activities. Inspectors General at nine major agencies have now listed workforce problems among the top 10 most serious management challenges they face.

Ensuing sections of this document suggest reasons why the Government's workforce practices are inappropriate for today's workforce and methods by which federal agencies can quickly re-establish a competitive foothold with commercial entities.

3. Current federal practices generally limit service delivery either to a competitively bid "contracted service organization" or an "employee-based service organization."

The primary factor affecting the Government's outdated workforce model revolves around the procedures by which it must fulfill its required services. Currently, the Federal Government almost exclusively performs its service functions through one of two outlets: "contracted service organizations" or "employee-based service organizations." These processes have changed little in recent decades and have inefficiencies that are costing taxpayers billions of dollars.

Contracted Service Organizations

The tendency to engage a contracted service organization to fulfill a service is a direct reflection of the personnel issues discussed in the previous section. With a limited ability to attract and retain top knowledge-workers, the Government's motivation has traditionally been to outsource as much as possible—essentially moving service delivery to commercial organizations which can better obtain sought-after people.

This process carries significant expense. Briefly, agencies commonly need to tap the commercial talent pool to bring on ad hoc assistance (including former agency employees, skilled individuals, or simply more personnel) that is necessary to accomplish a given function. To effect these engagements, agencies have no choice but to "work the system"² by producing a Statement of Work that can be assigned to an existing contract vehicle—particularly, one that either has change orders available or has contract language that is ambiguous enough to enable the agency to acquire the service needed.

Because the contract vehicles being used are loaded with large overhead costs, these ad hoc services cost the Government far more than they would in the commercial market. The overhead factors translate to 200% to 300% of the salary or pay rate that the individuals performing the service have agreed to receive. In cases such as these, the vendor is serving exclusively as a contract vehicle—little more than a way to get certain individuals engaged.

The problems with this process are evident in the actual examples below:

- Former federal employees are being brought back into agencies through sub-contractors at rates as high as 250% of their agreed-to consulting rate.
- My conversations with federal agencies indicated that at least one administrative assistant is being supplied to agencies by vendors for annual costs to the Government of over \$225,000. *This is nearly \$40,000 more than the salary of the Vice President of the United States.*

² Current federal service procurement policy assumes that all non-employee delivered services, tasks, and functions fit neatly into a competitive Statement of Work. This is rarely the case, as Contract Procurement Officers commonly have to contort these documents to adhere to the Government's requirement that they procure "things," not "people."

- Information technology consultants are being brought in to fix projects that were previously competitively sourced and failed. These consultants generally cost two to three times the salary that they are being paid by the vendor.

Employee-Based Service Organizations

Currently, the Government's sole alternative is to assign the function to an employee-based service organization. Although this process would appear to be inherently more cost-effective, this is not necessarily the case. According to federal policy, agencies are instructed to staff such initiatives to accommodate peak demand. This results in massive inefficiency, as personnel costs remain constantly high even when fewer personnel would be appropriate for a given function.

The next section discusses how American businesses have been able to take optimal advantage of today's workforce by introducing and refining new managerial and project fulfillment practices.

4. The commercial sector has discovered and refined successful new ways of managing human capital, including the process of supplementing core employees with an extended, project-based temporary workforce.

While there is commercial precedent³ for processes similar to those discussed in Section 3, American business learned long ago the problems associated with trying to fit every function, service, and task into one of the two options. Instead, a third alternative for service delivery has evolved and matured: *Workforce Augmentation*. Workforce augmentation is the reliance on temporary/contingent personnel to extend a company's workforce by supplying labor to complete specific projects. (For a brief history of the evolution of the contingent workforce, please see Appendix C.)

This service delivery method has dramatically improved the flexibility of commercial entities and has enabled them to significantly reduce labor costs without sacrificing the quality of the deliverables. As a result, most American corporations today supplement 15% to 25% of their workforce with contingent workers.

Based on my conversations with financial executives with several agencies, the Federal Government appears to recognize the need to incorporate a more flexible workforce. Every agency with whom we met asserts that enabling easier access to contingent talent is a necessary requirement for them to fulfill their mission.

There is, however, no supported vehicle at this time to accommodate this need within the Federal Government.

Contingent Workforce Management Methods

The methods of implementing an external workforce have varied greatly over the last 20 years and are continuing to evolve. One common and efficient method is to engage a consulting or temporary staffing company. Within a few hours, they can supply the needed candidates for interview and then selection by the hiring organization. The cost for this service is bundled in to an hourly bill rate that is generally 150% to 200% of the pay rate of the individual performing the service. The bundled hourly rate includes the fee for identifying (or recruiting) the individual as well as "payrolling" the individual and handling the financial transactions. Although expensive, this method is still very successful and popular.

Recently, even more efficient methods of leveraging a supplemental workforce have emerged. More progressive companies are building their own extended network of workers, often embracing many new Internet-based tools and contingent workforce management technologies. These tools enable more efficient

³ In the 1970s, American companies underwent major worker lay-offs to re-adjust their organizations to the changing marketplace. Rather than hire back workers (thus increasing long-term fixed costs), companies began outsourcing many functions to firms that promised to deliver levels of service more efficiently. Some were successful, some were unsuccessful, and many succeeded only after adjustments. Also, Japanese companies have recently had to face major lay-offs for the first time. They are recognizing that their tradition of lifetime employee commitments is crippling their commercial enterprise in global competition and they are adjusting their human capital management processes accordingly.

online search, selection, and qualification of individuals. They also enable organizations to build databases of individual capabilities and experience sets. Important component functions, such as background checks, skills testing, interviews, and performance management programs, are successfully accommodated by tools that are commercially available today. Tools such as these allow organizations to build a very powerful network of auxiliary talent.

Today's Tools Improve Overall Efficiency

As the workforce has continued to change over the last few years, so have the methods business are using to support it. Contractors Resources is among the innovators of a new process for enabling organizations and contingent workers to work with one another more efficiently. Companies like Contractors Resources provide the business and payroll infrastructure for independent workers so they can receive traditional employee benefits and retirement programs while working where they choose, often for several different organizations during a year.

This new wave of tools and processes for deploying a supplemental workforce is saving corporations a significant amount of money. They allow corporations direct access to this talent pool of contingent workers. "Going direct" enables organizations to engage these individuals for a total cost that is usually less than 33% above the individual's pay rate—a huge savings from the traditional staffing and consulting company channel. In addition, organizations taking advantage of this approach maintain permanent access to these individuals, rather than being forced to pay additional fees for "buying out" the individual from his or her staffing company.

The final sections of this document discuss why these commercial practices are consistent with the president's *Agenda* and how the Federal Government can improve its efficiency by leveraging modern independent workforce management practices.

5. These commercial practices are consistent with the expectations for workforce management improvements as set forth in the President's *Agenda*.

The President's current *Agenda*, issued by the OMB, indicates several areas where workforce augmentation can play a strong role:

- "Freedom to Manage" – the goal of which is to clear statutory impediments to efficient management.
 - Engaging supplemental talent is currently plagued with statutory hurdles and a negative stigma that causes agencies to work the system, costing significantly more, taking more time, and adding too much administration.
 - In July, the President directed cabinet secretaries and agency heads to designate a Chief Operating Officer (COO) to have the responsibility for day-to-day operations of departments and agencies. Workforce augmentation empowers these COOs to operate on a level playing ground along with their corporate peer COOs.
- "Strategic Management of Human Capital"
 - As discussed earlier, the aging federal workforce is about to see a major departure of talent. And the Government is facing a major loss of intellectual capital. Workforce augmentation would provide valuable tools and vehicles to allow these workers who leave federal employment to return in a consultant capacity, without costing taxpayers two to three times their required pay.
 - Agencies will need access to supplemental talent quickly. Workforce augmentation provides the needed flexibility.
- "Competitive Sourcing"
 - Based on my conversations with federal agencies, some agencies do not maintain adequate records on work performed in-house and therefore have often taken three to four years to define the jobs being considered for competition. To compare the cost of in-house performance to private sector performance, detailed estimates of the full cost of government performance to the taxpayer have to be calculated. The development of these estimates has become a contentious and rigid exercise in

- precision. Many of these tasks simply cannot neatly fit into competitive sourcing and are better fulfilled via workforce augmentation.
- The administration will seek to implement findings of the Commercial Activities Panel, a commission created by Congress to examine the policies and procedures governing public-private competition.
 - Some tasks should not be handled on a fixed bid, with significant overhead cost factors.
 - Workforce augmentation should be used, taking advantage of new tools and the Internet to gain access to the broad and talented pool of American consultants.
 - “Expanded Electronic Government” – The Federal Government can secure greater services at lower cost through electronic government (E-government).
 - By the end of 2002, all agencies will use a single e-procurement portal (www.FedBizOpps.gov) to provide access to notices of solicitations over \$25,000. This is the first step in capitalizing on electronic business processes and making e-procurement the Government-wide standard.
 - Simply posting position requirements and project assignments on the government portal will enable millions of talented American knowledge-workers to easily engage directly with the agency that needs their help.
- 6. The Federal Government’s service delivery options can be expanded to include a contingent augmented workforce solution similar to those used in the commercial sector.**

Addressing the Reasons for Today’s Federal Procurement Limitations

There are at least three potential reasons why today’s federal procurement practice may discourage any convenient method to enable efficient workforce augmentation:

- motivation to protect full-time workers for Union membership in the Civil Service;
- a desire to pacify large government contractors that would prefer that everything be outsourced; and/or
- a simple lack of updating decades-old policies.

Establishing contingent workforce procurement practices within federal agencies will better enable federal employees to justify keeping more of their functions and jobs. Specifically, if our core federal employees had access to a supplemental workforce, they may have a better chance to demonstrate financial justification for keeping their jobs. Core workers may need to be scaled down and supplemented when needed by contingent workers, but the core team of employees would be a very valuable and well-justified investment. And, compared to an outright outsource, this represents a better solution for everyone—including the American taxpayer.

The government contractors are the only group that will likely object to the implementation of such practices. They would suffer from less outsourcing and from the omission of disguised contingent workers channeled through their contract vehicle at huge mark-ups. However, the Federal Government appropriately outsources projects in sufficient number and scope for these companies to continue to prosper.

Regardless, there is every reason to enable our agencies to get direct access to some of America’s most talented people.

Government Implementation of New Workforce Augmentation Policies

The reality is that our federal agencies need better and more efficient access to supplemental talent. Our federal agencies must therefore explore ways of expanding its service fulfillment alternatives to include the efficient engagement of contingent workers. Workforce augmentation is a standard mode of operation for commercial enterprises because it promotes shareholder value; likewise, agency policies should be adjusted to allow our Government officials to provide a better value to taxpayers.

It is worth noting that the Federal Government’s current procurement processes do accommodate minimally for staff augmentation through contingent workers: a little-used vehicle called Personal Services Contracts (“PSCs”). The use of PSCs, however, is discouraged and requires extreme justification before

being implemented. Revisiting the processes behind leveraging PSCs, modifying their implementation process, and promoting and encouraging their use may be a productive way to get federal agencies moving forward quickly. Even if Government consulting engagements complied with specific term limitations (a practice that several commercial organizations have adopted), the benefits would be substantial.

Conclusion

As the administration tries to implement more modern practices into the federal workforce, the result will be more flexibility to bring on talent when needed, and to disengage talent when no longer needed. American companies have already taken the time to determine what works and what doesn't. Our government now has the unique opportunity to learn quickly from the business world's 30-year history of progress by implementing some of today's proven methods.

Thank you for allowing this submission. I would be pleased to discuss the concepts presented in this document at your convenience.

Appendix A: Contractors Resources, Inc.

Contractors Resources, Inc. (CR) provides cost- and time- saving business solutions for professional independent consultants and the organizations that use them. For a small fee to the individual, CR enables knowledge-workers to use CR as their employer of record while they seek project-based consulting assignments at organizations of their choosing. CR provides their payroll, employee benefits, and back-office administrative services. Today, hundreds of large companies use CR to gain direct access to talented individuals on an assignment-by-assignment basis. CR has helped some of America's largest companies improve their service procurement processes, saving them an average of 25% on their service procurements. For more information on CR, please visit www.contractorsresources.com.

Appendix B: Bio of Gene Zaino

Gene Zaino is Chairman and CEO of Contractors Resources, Inc. (CR). Mr. Zaino acquired CR in 1996 as a building block towards his vision of a business that would re-invent the way consultants and organizations work together.

Early on, he recognized the accelerated growth trends of knowledge-workers, consultants, and freelancers, as well as the increased demand by organizations to deploy a contingent, flexible workforce. Under Mr. Zaino's direction, CR brought its consultant-specific services online under the brand MyBizOffice, formed a co-branding partnership with Monster.com, and, in 2001, launched the business-to-business Consultant Service Center offering.

By spearheading the evolution of the innovative CR employment model, Mr. Zaino has become a major force in legitimizing and advocating the trend toward workplace independence. Gene Zaino is also Chairman of the Board of CR's parent company, The Netplex Group, Inc., which he founded in 1994.

Mr. Zaino began his career at KPMG Peat Marwick where he spent four years as a CPA and management consultant before he was a founding principal of Evernet Systems, a Kliener Perkins-sponsored venture that was sold in 1993.

Mr. Zaino has discussed the CR approach in several recent television and radio interviews, including CNNfn, USA Today, CNET, The Jim Bohannon Show, TechTV, Washington DC's NewsChannel 8, and WBIS Radio. He has also been quoted in several publications including the Washington Business Journal, Internet Week, and the Potomac Tech Journal. Mr. Zaino was graduated cum laude from the University of Pennsylvania's Wharton School of Business, receiving a Bachelor and Masters of Science in Economics (MSE).

Appendix C: A Brief History of Contingent Labor in American Business

In the past 20 years American business began using temporary labor in a far more prominent way than ever before. The major layoffs in the late 70s and early 80s introduced this trend, as companies did not want to add back permanent workers without knowing if they could afford to keep them for the long-term. Workers also found that temporary work was better than no work.

During the 80s and 90s, staffing and consulting companies began to flourish. American business embraced this form of "just-in-time" labor as a major financial efficiency. For the first time, consulting and staffing companies became public companies. In the early 90s, the largest employer of American workers was temporary staffing behemoth Manpower, Inc. It became clear that this industry was delivering value.

Today, American companies see augmenting their workforce with temporary or contingent workers as key to their financial success. Core teams of well-paid employees tied to the success of the business mission are empowered to dip into the contingent labor pool to augment their core team. They can add or subtract costs quickly. They can adapt to changing competition, market conditions, and implement new technology more effectively. The result is that today most American corporations supplement 15% to 25% of their workforce with contingent workers.

