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# GETTING THE RIGHT PEOPLE FOR THE RIGHT JOB: SOLVING HUMAN CAPITAL CHALLENGES WITH COMPETITIVE SOURCING

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## Policy Summary

The federal government faces a crisis of human resource management. The federal workforce is aging: the baby boomers, with their skills and experience, are drawing nearer to retirement and new employees joining the workforce today have different employment options and different career expectations from the generation that preceded them, making government work less attractive.

Today, the average federal employee is 46 years old, as compared to 42 in 1990, and more than half the workforce is between 45 and 69 years old. By 2004, nearly one-third of the federal workforce will be eligible to retire and another 21 percent will be eligible for early retirement. That means more than 900,000 employees, or over 50 percent of the workforce, will be eligible to leave federal service. By 2010, approximately 71 percent of the current federal workforce will be eligible for either regular or early retirement and 40 percent of those employees are expected to retire. Furthermore, census bureau projections show that between 2010 and 2030 the workforce will shrink by 10 percent, making staffing the federal government even more difficult, with fewer choices yet more spots to fill.

Additionally, the work of the federal government has dramatically changed, creating new challenges to human capital resources. As more complex and technical agencies and programs were created over the last 50 years, a majority of federal workers are in higher pay scales where skills and expertise are in higher demand. Add inflexible rules and regulations that lead to a stifling work environment limiting creativity and personal development, and the government is left with difficult recruitment issues.

To address these issues, two pillars of the President's Management Agenda (PMA) include the strategic management of human capital and competitive sourcing. They exemplify some of the most dramatic changes in management priorities and tools, and illustrate how the individual parts of the PMA are mutually reinforcing. The PMA is all about performance, and the changes include basing many aspects of human

resource management on performance criteria. To date, those in federal agencies and in Congress who focus on human capital or on sourcing management and policy rarely seem to see that human capital is much more easily managed if an agency's sourcing efforts are performance-based, and that sourcing efforts are more effective if human capital management is performance-based.



Following the PMA will lead agencies to determine their core competencies and decide whether to build internal capacity or contract for services from the private sector. Competitive sourcing has proven itself an important tool that produces dramatic, measurable results. Recognizing these successes, on May 29, 2003 the OMB released new A-76 guidelines to facilitate competitive sourcing. Sourcing more jobs and positions will help agencies tackle their human capital crunch, providing them with maximum flexibility in getting the job done effectively and efficiently. In turn, agencies will become more focused on the core missions of the agency while utilizing the highest performing mix of in-house assets and contractors. Essentially the

focus becomes one where the agency has the internal capacity to manage service planning rather than actually participating in service delivery. Furthermore, the agencies will gain valuable access to expertise and a tremendous amount of flexibility in performing their missions. Thinking strategically about how an agency sources its assets allows it to have the right people, in the right place, at the right time.

Decentralization is another tool available to federal managers in coping with their human capital management plans. There are vast resources, in terms of talent and skills, outside of the beltway that can help human capital managers solve agency shortcomings. Defense Secretary Donald Rumsfeld, speaking about moving defense resources away from the Pentagon, said that "it's a big country we've got, and everything does not have to be located in the Washington, D.C., area...I think that just the health of the country would be better if everything weren't here." Different labor markets around the country give human capital managers access to expertise and specializations that may not be available in sufficient quantity or quality inside the beltway.

It also would assist with national security and the continuity of the federal government in the event of a catastrophic event in the Washington, D.C. area. Again, Secretary Rumsfeld said it best when he opined, "concentration of Defense Department activities in a single area is probably not a smart idea."

## Tying it Together

Agencies should start with something that is familiar: their FAIR inventory. For years agencies have gone through the exercise of identifying and classifying activities as either commercial in nature or inherently governmental. The link becomes explicit when we realize that outsourcing and competition are means to directly address human capital challenges. This is especially true in the case where agencies are having recruitment or retention problems in activities that are considered commercial. Those activities should be the first ones competitively sourced.

## How-to

There are several components of an integrated human capital and competitive sourcing plan. To begin with, the agency goals and mission must be built into the plan. The activities and functions should be directly tied to the outcome goals. The most central component to integration is communications—managers on both sides (i.e., human capital and competitive sourcing) need to share needs, challenges, and plans. Without this element, both plans will remain within their respective silos and not be fully integrated.

### *1. Human Capital Manager*

The planning required of human capital managers can be broken up into two categories. The first deals with understanding the structure of the current workforce, and identifying how it will change and how competitive sourcing can assist with human capital management.

- Agency activities need to be identified as either core or non-core.
- Once managers identify core competencies, they should build up in-house capacity and talent.
- Managers also have to know the current status of the workforce.
- The next logical step is to understand what the workforce will need to look like in the future.
- Managers also need to understand where talent is located geographically.

The second category of planning revolves around changes within the agency in terms of the management of the workforce and human resources infrastructure.

- To increase the amount of competitions and the use of additional contractors, managers need to build flexibility into the human capital management plan.
- Human resources infrastructure has to change to support flexibilities.
- Agencies need to ensure CTAP and ICTAP plans are kept current and are effective to counter transition effects of displaced individuals.

### *2. Competitive Sourcing Plan*

Competitive sourcing managers need similar information to human capital managers. For starters, they need to identify which functions are core and where priorities and skill gaps exist to structure a competitive sourcing program around these.

- Managers should structure competition programs around the ability to properly manage and monitor competitions.
- Competitions should be designed to fill human capital needs and demands, so that one of the solutions includes solving functional human capital problems.
- Decentralization or relocation from the Washington D.C. area or other central/regional office needs to be permitted.
- Managers need to build employee transition planning into the competition timeline for the in-house or private bidder.

Agencies will have to continually measure and refine their processes to assure the delivery of high quality results. Feedback is essential and needs to be built back into the decision-making process.

President Bush has called for a civil service system that measures and rewards performance, holds people accountable, and promotes a culture of achievement. Outsourcing enables agencies to redefine every aspect of their operations—how work gets done, how much it costs, how capital dollars are spent, and how the agency relates to its customers.

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## Part 1

# The Federal Human Capital Crisis

President Bush included strategic management of human capital as one of the five pillars of his President's Management Agenda (PMA).<sup>1</sup> The PMA is a set of initiatives designed to improve the management of federal agencies by adopting performance-based criteria for decision-making and action, and ultimately tying performance to budget appropriations. The other four initiatives are:

- Competitive Sourcing;
- Budget and Performance Integration;
- Improved Financial Performance; and,
- Expanded Electronic Government

Through the Office of Management and Budget (OMB), the Administration has established standards for success in these areas:

- *Strategic Management of Human Capital*—Change civil service and personnel policies to make them more flexible and performance-based;
- *Competitive Sourcing*—Conduct public-private competitions of at least 5 percent of full-time positions in 2002, and be up to 10 percent by the end of 2003;
- *Improved Financial Management*—Make an agency's ability to manage its finances a key performance criteria;
- *Expanded Electronic Government*—Move services online if they can be done more effectively and efficiently there; and
- *Budget and Performance Integration*—Change law and policy to start tying agency appropriations to agency performance.

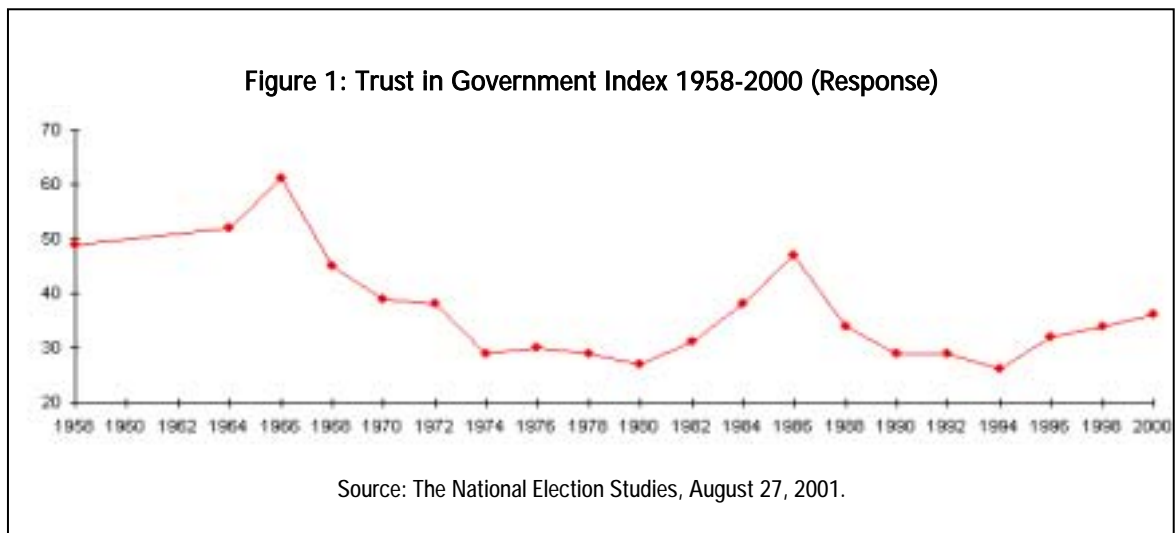
The PMA requires agencies for the first time to manage their human capital based on performance, which is grounded in the agencies' goals under the Government Performance and Results Act of 1993 (GPRA), and to be integrated into the budget process. That means shifting to managing human capital to support the accomplishment of agency goals.

It is easy to focus on individual parts of the President's Management Agenda and to forget that all five pillars are mutually reinforcing. The strategic management of human capital and competitive sourcing pillars get a lot of attention for exemplifying some of the most dramatic changes in management priorities and tools. These changes include basing many aspects of human resource management on performance criteria. And yet those in federal agencies and in Congress who focus on human capital or on sourcing management and policy rarely seem to see that human capital is



much more easily managed if an agency's sourcing efforts are performance-based, and that sourcing efforts are more effective if human capital management is performance-based.

Yet this is not altogether new. The GPRA requires agencies to set goals, measure performance, and report on their accomplishments as a means of achieving results. Effective implementation of performance-based management, as envisioned in GPRA, hinges on agencies' ability to strategically manage all of their resources. Yet, according to the U.S. General Accounting Office, "agencies' discussions on how they plan to strategically manage their most important asset—their people or 'human capital'—to achieve results has been notably absent from many federal agencies' annual performance plans."<sup>2</sup>



Americans often have little or no faith in government. Even after a post-9/11 surge, the public's confidence in government fell rapidly.<sup>3</sup> Government service now "draws an indifferent response from today's young people and repels many of the country's leading private citizens."<sup>4</sup> Inflexible rules and regulations lead to a stifling work environment that limits creativity and personal development, while overpaying the worst performers and underpaying the best.<sup>5</sup> In these conditions it's no wonder that the best and the brightest leave public service too early, while the others stick around.

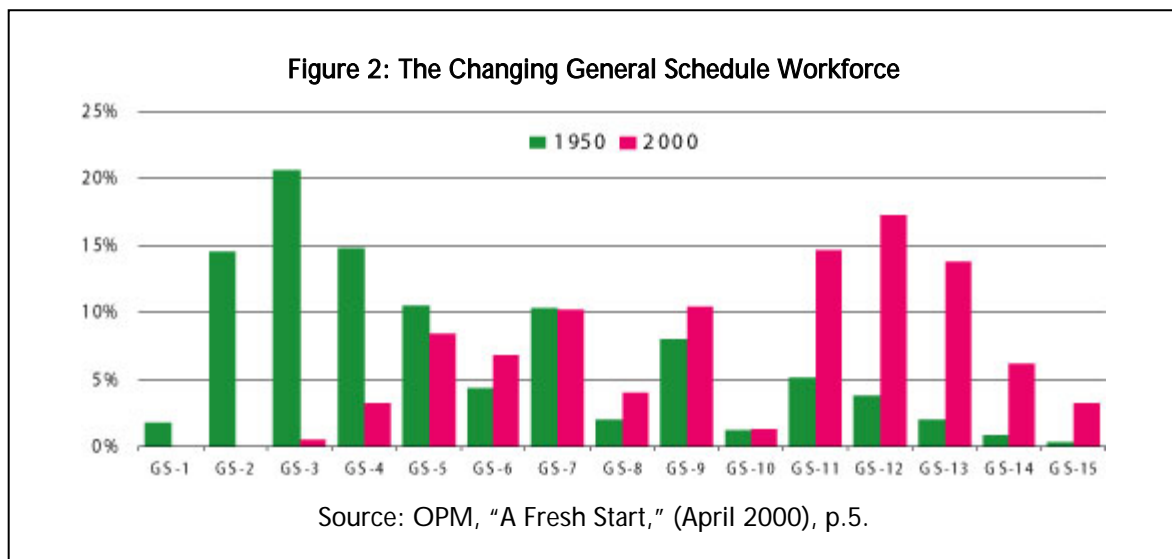
Without government reorganization it will be increasingly difficult to revitalize public service. The federal government continues to be unorganized and ill-prepared to meet the human capital challenges and demands of the 21<sup>st</sup> century. Before the creation of the Homeland Security Department, there hadn't been a serious effort to reorganize the federal government in over 50 years. The conflict over how personnel would be managed in the Department of Homeland Security has raised important issues about the changes needed to address federal human capital.

## A. Causes and Concerns

The work of the federal government has dramatically changed, creating additional challenges to human capital resources. In 1950, most employees worked in the lower pay scales in routine, process-oriented work. However, as more complex and technical agencies and programs were created over the last 50 years, a majority of federal workers now are in the higher pay scales where

skills and expertise are in higher demand (See Figure 2).<sup>6</sup> This is alarming when you consider that these are the positions that employees are abandoning in favor of higher paying and more flexible private sector jobs.

At the same time, the federal workforce is the largest portion of the federal government's operating costs. Indeed, a fundamental building block to achieving an organization's mission and goals is proper attention to human capital. Yet, according to the General Accounting Office (GAO), "[M]any agencies have not sufficiently indicated how they will identify their human capital needs, nor how they will acquire, develop, and deploy their human capital to improve the economy, efficiency, and effectiveness with which they serve the American people."<sup>7</sup>



And the GAO points out that the federal government can't waste any time. The demographics of the federal workforce are drastically changing in the skills and education required of federal workers, and in basic employment structures and arrangements.<sup>8</sup> Furthermore, the federal workforce is aging: the baby boomers, with their skills and experience, are drawing nearer to retirement and new employees joining the workforce today have different employment options and different career expectations from the generation that preceded them, making government work less attractive.

The downsizing of the federal workforce over the last decade, between fiscal year (FY) 1990 and FY 1999, saw the departure of nearly 400,000 non-postal federal positions.<sup>9</sup> Nearly 325,000 full-time employees (FTE's) have departed since 1993 alone.<sup>10</sup> Almost 42,000 employees retired last year alone.<sup>11</sup> Most of those departures have occurred in the Department of Defense, however the cuts were chiefly across-the-board staff reductions and hiring freezes, rather than targeted reductions.<sup>12</sup>

In the last two years, actual retirement rates have fallen short of OPM projections. In fiscal 2002, more than 20 percent of the 51,000 federal employees the government had projected would retire did not.<sup>13</sup> Most would agree that the economy is primarily to blame as the stock market and investment plans have kept some workers working longer.<sup>14</sup> The Thrift Savings Plan, a 401(k)-type plan for federal employees, incurred big losses in 2002.<sup>15</sup> However, despite the original warnings, many agencies have not invested in recruitment or strategic thinking about their staffing and sourcing needs. Ultimately, the sour economy only delays the inevitable, and come the recovery an

even larger number of employees are likely to quickly take advantage of retirement. Kevin Simpson, executive vice-president for the Partnership for Public Service, argues that the economic slowdown only “delays the date you have to pay the piper.”<sup>16</sup>

Meanwhile, new permanent hires, which peaked at 118,000 in FY 1990, fell dramatically to a low of about 48,000 in FY 1994, before beginning a slow rise to about 71,500 in FY 1998.<sup>17</sup> Cutting back on the hiring of new staff has reduced the balance of employees moving up to fill positions as older workers retire.<sup>18</sup> Last year however, hiring spiked to 135,978 new full-time permanent workers (up from 94,161 in 2001).<sup>19</sup> The growth was mostly fueled by the creation and staffing of the Transportation Security Administration and the nearly 44,000 security screeners that were hired.<sup>20</sup>

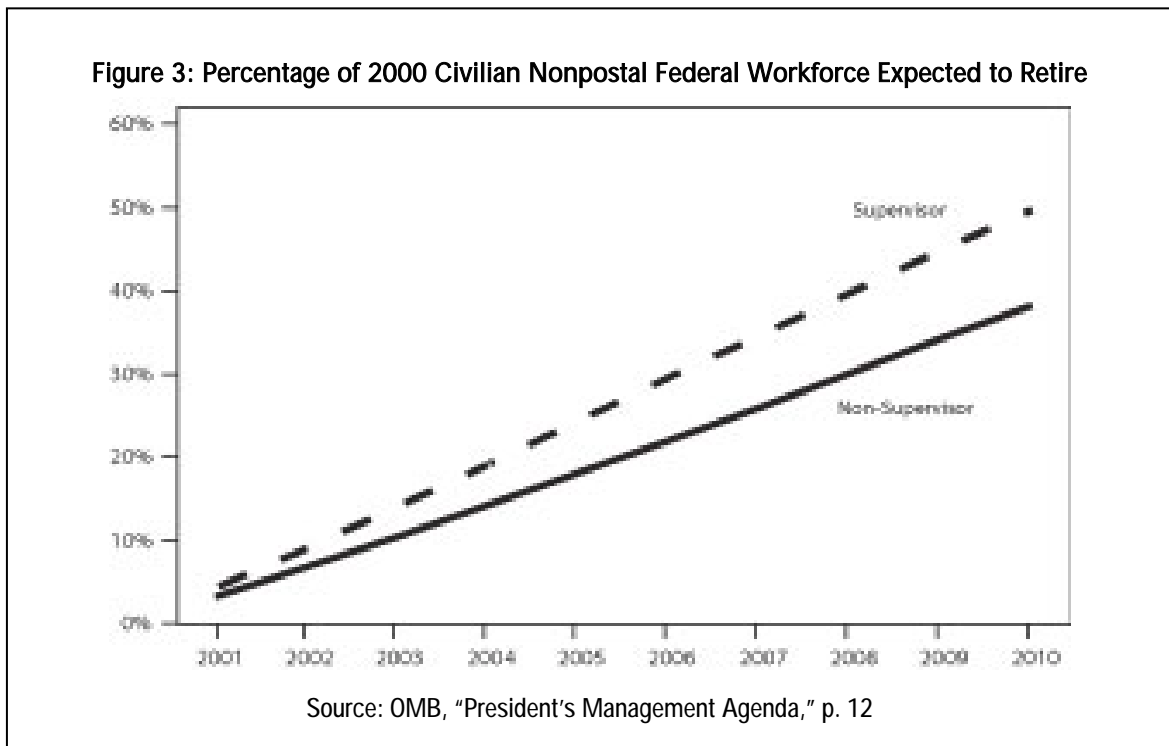
#### Most Urgent Job Talents Needed in the Federal Government

- Financial management, i.e., budget analysts, financial analysts, and accountants
- Security, i.e., law enforcement personnel and fire management
- Information technology
- Hard sciences, e.g., chemistry, biology, etc.
- Engineering
- Medical, e.g., doctors, pharmacists, nurses etc.

Source: Performance Institute, “Strategic Recruitment for Government,”  
[www.govworkforce.org/govworkforce/recruitment/index.htm](http://www.govworkforce.org/govworkforce/recruitment/index.htm)

Comptroller General of the United States, David Walker, suggests “the lack of adequate strategic and workforce planning during the initial rounds of downsizing by some agencies may have affected the ability to achieve organizational missions.”<sup>21</sup> Across government, agencies reduced or froze their hiring efforts for extended periods of time—reducing their number of employees but also reducing the influx of new people with new ideas, new knowledge, and new energy—the future leaders and managers of the agencies.<sup>22</sup> During the downsizing years, NASA lost nearly 25 percent of its workforce, and because no planning was involved in deciding what skills could or should be let go, the agency has since found itself largely ill-equipped for some of its high-tech work.<sup>23</sup>

Today, the average federal employee is 46 years old, as compared to 42 in 1990, and more than half the workforce is between 45 and 69 years old.<sup>24</sup> By 2004, nearly one-third of the federal workforce will be eligible to retire and another 21 percent will be eligible for early retirement. This means that more than 900,000 employees, or over 50 percent of the workforce, will be eligible to leave federal service.<sup>25</sup> By 2010, approximately 71 percent of the current federal workforce will be eligible for either regular or early retirement, and 40 percent of those employees are expected to retire.<sup>26</sup> Furthermore, census bureau projections show that between 2010 and 2030 the workforce will shrink by 10 percent<sup>27</sup>, making staffing the federal government even more difficult, with fewer choices yet more spots to fill.



A closer look at the State Department reveals that nearly 22 percent of the 7,000 civil service employees will reach age 60 in the next five years, and another 20 percent will turn 60 a decade from now. And recent audits revealed that NASA has three times more engineers over age 60 than it has under 30; what's worse is that the audits predict 25 percent of NASA's workforce will soon be retiring.<sup>28</sup> *Government Executive* writes, "[D]uring the Clinton administration, government reinvention plans occurred haphazardly, without consideration of whether remaining staff would have the needed expertise. Agencies saw some of their best talent, especially in technical fields, accept buyouts and flock to higher-paying private sector jobs."<sup>29</sup>

Government-wide by 2005, fully 71 percent of workers in the Senior Executive Service (SES) will be eligible to retire.<sup>30</sup> What's worse is that more than half of the agencies do not have a formal SES succession-planning program.<sup>31</sup>

Additionally, fierce competition from the private sector is putting a severe constraint on the ability to attract technology workers, lawyers, scientists, and other specialists to government employment.<sup>32</sup> Even though the economy is currently down, nearly half of U.S. employers say it is difficult to find qualified workers.

Couple that with the attitude of new college graduates who no longer see public service as a noble calling and are passing up federal employment in droves for high-paying jobs in the marketplace, and it is clear why the federal government can't refresh its human capital fast enough. During the 1970s, for every employee lost, one was gained. By 2007 one employee will be replaced for every three that are lost, shrinking to one for four in 2012 and one for six by 2017.<sup>33</sup> As the skill level of each new hire becomes critically important, competition from the private sector will challenge government efforts to properly staff its agencies.

Even more troubling, in trying to save on workforce-related costs, agencies have cut back on training investments. GAO Comptroller Walker notes that, “federal employees have often been viewed as costs to be cut rather than as assets to be valued...people are assets whose value can be enhanced through investment.”<sup>34</sup> These investments are desperately needed if smaller workforces are to make up for institutional losses in skills and experience. And with fewer staff, agencies have had an increased reliance on the use of information technology—an area where government agencies have a competitive disadvantage in hiring staff.

### Recruitment Strategy

The State Department implemented a recruitment strategy for IT workers using existing pay flexibilities. It pays retention allowances ranging from 5 to 15 percent to employees who obtain job-related degrees or certificates. After one year of operation, the program has helped reduce turnover and increase the skills base.

See: The President's Management Agenda, p. 14

According to the OMB's latest Executive Branch Management Scorecard, half of federal agencies received “yellow lights” for strategic management of human capital, and the other half got “red lights,” but many are showing some progress toward improvement.<sup>35</sup> The traditional federal government “one-size-fits-all” approach won't work anymore and federal HR managers have a long way to go to make federal hiring and sourcing practices reflect current labor market realities.<sup>36</sup> Human capital strategies need to be “linked to organizational mission, vision, core values and goals, and objectives.”<sup>37</sup> Strategic workforce planning with flexible tools will give agencies the power to meet challenges in recruiting, training, rewarding, and retaining a high-performing workforce.

## B. Laying the Groundwork for Strategic Management of Human Capital

One of the areas where the federal government first faced major human capital challenges is the acquisition workforce. Changes in the demand for acquisition personnel as the federal government has increased its competitive sourcing, especially in Defense, over the last two decades has combined with sweeping changes in the flexibility and performance demanded of the acquisition workforce. With an emphasis on competitive sourcing and contracting, human capital structure within agencies needed to reflect these changes and strategies. Congress recognized that a shift was needed in the human resource function, one that moved away from a support role to a role that was integral to accomplishing an agency's mission.<sup>38</sup> To ensure that agencies had adequate capability to oversee and manage contracts, Congress enacted a series of reforms geared toward providing that training and education in the 1990s.<sup>39</sup> Even with considerable lead-time on this human capital challenge, federal agencies have moved very, very slowly. A recent GAO report examined six civilian agencies that account for about 72 percent of civilian agency competitive sourcing dollars and found very little progress in addressing human capital needs in the acquisition workforce.<sup>40</sup> Given the finite resources that are available to them, agencies need flexibility to re-deploy human capital and realign structures and work processes to maximize economy, efficiency, and effectiveness.<sup>41</sup> The GAO has noted that the agency that “relies on acquisition to accomplish its mission stands to benefit greatly by developing strategic human capital plans that define the capabilities that will be needed by the workforce in the future, as well as strategies that can help the workforce meet these capabilities.”<sup>42</sup>

However, the increased reliance on acquisition and sourcing raises new challenges and has led to concerns of a hollow government, i.e., a government without in-house expertise to drive policy and provide services, as well as one that lacks expertise to properly manage contractors. Strategic planning and the linking of service acquisition (i.e., competitive sourcing) and human capital functions would avoid these pitfalls. By building the human capital management program around agency outcomes and performance, 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. 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 manage. Systems based on performance should ensure that contracts provide more direct oversight, accountability, and performance guarantees than the government now maintains with in-house service delivery.

Incorporating competitive sourcing into the broader context of human capital challenges creates linkages and improves flexibility. 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. OPM mandates that agencies prepare both a Career Transition Assistance Plan (CTAP) and Interagency Career Transition Assistance Plan (ICTAP) when a reduction in force (RIF) is expected or when an activity is being competitively sourced. These programs give managers an additional tool to fill needs and strategically focus on service delivery.

Agencies are laying the groundwork for more strategic linkage of human capital and competitive sourcing planning. A recent project by the Performance Institute dug deep into what federal agencies are doing to improve their recruitment and management of human capital and found innovations and opportunities to expand and adapt those innovations as part of meeting the human capital challenge.<sup>43</sup> While the survey found many solid innovations that are starting to show results, it also revealed that many agencies have a long way to go in order to produce reliable and meaningful human capital plans. Agencies have traditionally engaged in a “spray and pray” approach to recruiting staff, wherein the age-old practice of filling empty seats has been the focus of recruitment and hiring initiatives. With a proper human capital plan, a strategic human capital management plan, agencies can reevaluate their entire staffing approach from a performance-based standpoint, rethinking where existing human capital is allocated and determining what mission-critical “gaps” exist in the workforce.

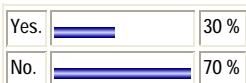
### C. The Biggest Obstacle: The Culture of Federal Employment

One of the biggest challenges agencies face is the lack of a performance culture in the federal workforce. Competition and competitive sourcing, by definition, are performance-driven. If competition is going to be introduced, performance has to be institutionalized into the agency. Incentives will have to change allowing “most efficient organization” (MEOs) to compete on an effective and efficient level. Performance-based pay, bonus pay, and share-in-savings arrangements are all methods to change the incentives and introduce performance into human

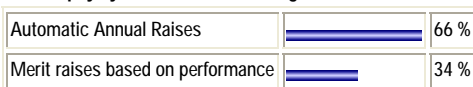
### Opposition Abounds for Performance Pay

Performance pay programs are promising recruitment and retention tools that provides flexibility and opportunities to managers. The heralded bi-partisan Commission on the Public Service noted that the federal government was “overpaying the worst and underpaying the best employees” and that it was no wonder why the best and brightest were leaving the federal workforce. Unfortunately, attempts to incorporate performance pay programs into the federal government have been met with adamant opposition by labor unions and federal employees, despite its common practice in the private sector.

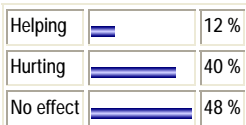
Would you like to see your agency move to a pay-for-performance plan?



Which pay system is more fair for government workers?



How is the administration's emphasis on performance targets and goals affecting your performance?



Do you think President Bush's proposal for a \$500 million performance fund -- to reward top-performing employees with raises above an across-the-board 2 percent raise -- is a good idea?



Source: *Federal Times*, <http://federaltimes.com/index.php?C=pollview.php> and “Urgent Business for America: Revitalizing the Federal Government for the 21<sup>st</sup> Century,” The National Commission on the Public Service (The Brookings Institution: Washington D.C., January 2003).

resource management decisions. However, as evidenced by recent polls conducted by *Federal Times* (largely read by federal employees) an overwhelming majority of respondents are opposed to introducing performance-based pay. Unions representing employees are equally against any measure to introduce performance metrics into human resource management.

Another challenge is Title 5 of the United States Code. Currently, competitions that result in a “most efficient organization,” (MEO) retaining the work in house are prohibited from fully implementing the efficiencies identified by the MEO. So the performance promises that won the competition are often not realized. The agency cannot simply cut the fat, as they are prevented from displacing employees. However, as previously mentioned, the federal government has programs in place to deal with RIF. CTAP and ICTAP programs exist to transition employees into other areas of federal employment. Incorporating these programs into the management of both the human capital and competitive sourcing programs will better enable agencies to solve problems because these programs address the Title 5 issues of RIF or displacements before they take place.

## Part 2

# Tackling Human Capital Challenges in a Strategic Context

The federal government cannot continue to inch its way toward coping with the crisis by changing human resource management at the margins. As part of his Management Agenda, President Bush has fought to significantly overhaul the federal civil service system.<sup>44</sup> He has called for a civil service system that measures and rewards performance, holds people accountable, and promotes a culture of achievement.<sup>45</sup> The fight was sharpest during the creation of the Department of Homeland Security.<sup>46</sup> However, a little-known act tucked into the Homeland Security Bill, the 2002 Chief Human Capital Officers Act, reflects the President's and Congress' focus on reform and human capital management. The Act creates a new position within each agency—"chief human capital officer." Appointees will oversee human resources policies in the same way federal CIOs have overseen technology issues since the creation of CIO positions in 1996.<sup>47</sup> Ultimately the chief human capital officers will participate in government-wide councils to share lessons and push for government-wide changes.<sup>48</sup>

The President wants to make federal human resources management more flexible to cope with today's challenges, while defenders of the traditional civil service system argue that changing the system will lead to political hiring and firing and other abuses. Using practices similar to those outlined in the PMA, Florida, Georgia, and Texas have virtually eliminated their civil service systems in the last two decades and the results have been big improvements in human resources management.<sup>49</sup> The three states found their new flexibility made it quicker to hire while also increasing satisfaction with personnel administration, and they attracted better-qualified applicants. And there has been no increase in political hiring and firing.

## President's Management Agenda on Human Capital Management

Human capital strategies will be linked to organizational mission, vision, core values, goals, and objectives. Agencies will use strategic workforce planning and flexible tools to recruit, retrain, and reward employees and develop a high-performing workforce.

Agencies will determine their 'core competencies' and decide whether to build internal capacity or contract for services from the private sector. This will maximize agencies' flexibility in getting the job done effectively and efficiently.



## A. Paving the Way for Strategic Management of Human Capital

To promote flexibility, in June 2003 the OPM issued new hiring and training regulations to give federal managers more discretion in hiring decisions.<sup>50</sup> Other changes allow managers to directly hire candidates as well as to select from more than the top three designated applicants. Agencies will be able to use the new regulations where there is a severe shortage of candidates or a critical need to fill positions quickly. Also, the new guidelines make it easier for agencies to pay for academic training.

The OMB's role is setting government-wide management priorities and defining resource allocations. These allocations will be central to the adoption of human capital considerations across government in the years to come. In the FY 03 budget, OMB and the President added human capital management to the list of Priority Management Objectives.<sup>51</sup> This designation makes human capital management a mission-critical problem, forcing agencies to work with the OMB to identify solutions. The OMB will help agencies develop specific measures and execute detailed action plans to ensure that they make progress toward meeting these commitments. Agency managers have the primary responsibility to achieve these performance goals; they must actively and effectively carry out both inter-agency and agency-specific initiatives.

All five pillars of the PMA are connected—but no two are more connected than human capital and competitive sourcing. Following the PMA will lead agencies to determine “their core competencies and decide whether to build internal capacity, or contract for services from the private sector.”<sup>52</sup> Sourcing more jobs and positions will help agencies tackle their human capital crunch, providing them with maximum flexibility in “getting the job done effectively and efficiently.”<sup>53</sup> In turn, agencies will become more focused on the core missions of the agency while utilizing the highest performing mix of in-house assets and contractors. Furthermore, the agencies will gain valuable access to expertise and a tremendous amount of flexibility in performing their missions. Thinking strategically about how an agency sources its assets allows it to have the right people, in the right place, at the right time.

## B. The Role of Competitive Sourcing

Competitive sourcing by the federal government has been growing at a rate of nearly 16 percent in recent years, even faster than at the state and local level.<sup>54</sup> Traditionally that has been fueled by tighter budgets, but the introduction of the PMA has added fuel to the fire. The competitive sourcing initiative of the PMA creates a system whereby over time all of the roughly 850,000 federal employees who perform commercial activities face competition from the private sector.<sup>55</sup> The PMA makes it explicit that competitive sourcing, like strategic management of human capital, is a management tool to help agencies achieve the core objective of meeting their performance goals and better serving customers.

Innovation, efficiency, and performance flow from competitive dynamics. Competitive sourcing is a means of tapping new sources of human capital to meet current service needs. Indeed, competitive sourcing is fundamentally about accessing new pools of talent. In the private sector the second most important strategic reason for outsourcing is to gain access to new skills and capabilities.<sup>56</sup> The motives are similar with government. More than 32 percent of state agencies reported to the Council of State Governments lack of state personnel and expertise as important

reasons for competitive sourcing.<sup>57</sup> The Wisconsin Legislative Audit Bureau study attributed much competitive sourcing to a need for special skills, and a study for the State of Texas found that one of the key reasons given for competitive sourcing was lack of in-house expertise.<sup>58</sup>

#### What's the Difference Between Competitive Sourcing, Outsourcing, and Privatization?

Governments around the world answer these questions differently. Traditionally in the rest of the world, privatization has been reserved for the instance when government-owned assets are divested or sold. The United Kingdom's divestiture of British Airways is a prime example.

However, in the United States, **privatization** has been used (correctly or incorrectly) as an umbrella term to explain the process of adding competition to government services and possibly outsourcing them.

**Outsourcing** is where a private firm does something government once did. Essentially private firms are service providers that replace government operations of a task or service. They work in place of government employees, however assets and responsibilities for provision still remain with the government. Some governments do make a distinction between outsourcing and contracting-out. They argue that contracting-out is a short-term arrangement for specific outputs.

**Competitive sourcing** is a mechanism used to determine what should be outsourced or contracted-out and what services should remain in-house.

A 1985 Rand study into the federal contracting experience found that contractors who won competitions won because of their ability to design a solution tailored to the task as described in the Statement of Work (SOW), rather than being influenced by traditional work practices.<sup>59</sup> For example, at two military bases that competed maintenance work the government employees' bid was based on the way they had always done it, whereas the contractors focused their bid on the task as it was described in the SOW. The study also found that government managers found it difficult to rethink staffing patterns that would have resulted in job loss for highly valued employees. In addition to a more efficient level of staffing, contractors tend to get more out of each worker.

Another driver behind competitive sourcing is increased flexibility. Contractors can be turned off and on when needed, and they also can more quickly and easily ramp up resources if needed. Contractors have greater flexibility in the scheduling of labor and services as they are free from restrictive civil service laws. This enables them to optimize the use of resources in the delivery of services.

In other areas, legislators or managers have constrained the flexibility of government agencies by introducing policies without reference to their efficiency implications. In the early 1980s, GSA contract cleaners were found to be considerably more productive than GSA in-house custodians. This was in part because GSA in-house cleaners were mostly required to clean during the day, while contract cleaners largely worked at night. The GSA had converted to day cleaning in 1973 as part of the energy conservation measures introduced following the first oil crisis. No work had ever been done to determine whether these efficiency losses had been compensated by the energy savings.<sup>60</sup>

Essentially competitive sourcing is a tool that redeploys human capital. A common misconception about competitive sourcing is that it leads to layoffs and to loss of pay and benefits for workers. But a long line of research shows that in fact the majority of employees are hired by contractors or shift

### DoD Experience in Competitive Sourcing

The Department of Defense (DoD) has the most experience in the federal government with competitive sourcing. Between 1978 and 1994 over 3,500 competitions were initiated by DoD involving 145,000 personnel. The competitions resulted in estimated annual savings of \$1.46 billion (FY 1996 dollars). Had the DoD competed the entire inventory of commercial functions, over 13,000 functions employing over 380,000 personnel, competitions would have generated \$7.58 billion in annual savings.\*

The data show an average savings of 31 percent of the baseline cost, and that a majority of competitions remained in-house. However, it also shows that DoD strategically used resources in the most effective and productive manner by subjecting positions to competition. DoD was able to focus more on core functions after resources were freed up due to outsourcing.\*\*

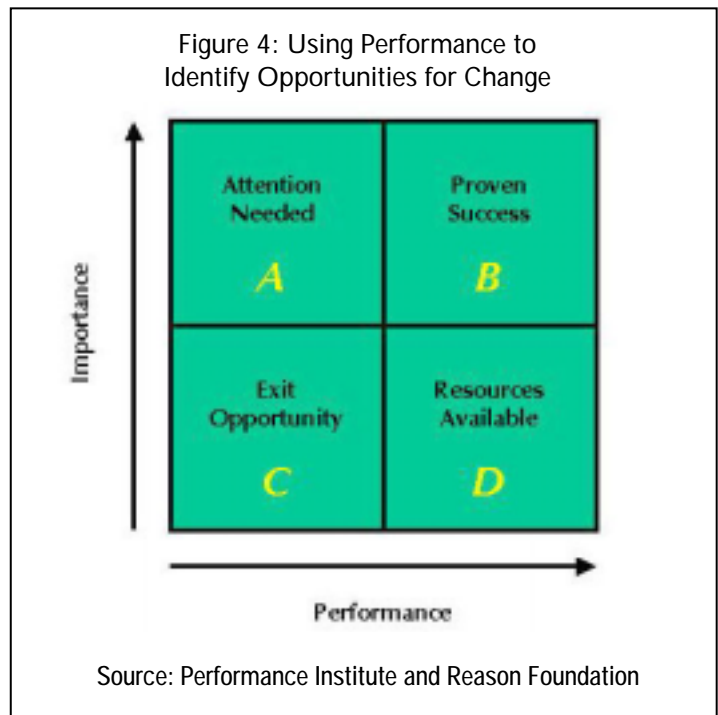
\* Christopher M. Snyder, Robert P. Trost, and R. Derek Trunkey, "Reducing Government Spending with Privatization Competitions: A Study of the Department of Defense Experience," George Washington University Working Paper, 2000.

\*\* General Accounting Office, *DOD Competitive Sourcing: Savings Are Occurring, but Actions Are Needed to Improve Accuracy of Savings Estimates*, Washington, D.C.: GAO/NSIAD-00-107, Aug. 8, 2000.

to other jobs in government while only 5-7 percent are laid off.<sup>61</sup> In fact, competition leads one portion of existing human capital to join with the new human capital the contractor brings to the table, and either or both may be utilized in new ways to meet the goals of the government agency. Private contractors are more able to crosstrain and develop workers to meet human capital needs.<sup>62</sup> At the same time, the government agency can redeploy many workers who did not switch employment to the private contractor and can retrain and reposition them to meet other human capital challenges.

One way for agencies to identify where to begin applying competitive sourcing and human resource management is shown in Figure 4. If an agency has done a good job of analyzing how important an activity is to meeting the agency's performance goals and has also analyzed how well the activity is performing, it can plot the activity in the graph. The more important the activity is to the agency's overall performance, the higher on the graph it is. The better the activity is performing, the farther to the right on the graph it is.

Based on which box the activity falls into, an agency can determine what opportunities for change may exist.



- *Attention Needed*—Activities plotted here are important to the agency’s overall performance, but are not performing very well. These activities are prime candidates for competition designed to improve activity performance.
- *Proven Success*—Activities plotted here are important to the agency’s overall performance and are performing very well. Enough said.
- *Exit Opportunity*—Activities plotted here are not important to the agency’s overall performance and are not performing very well. The agency may choose to shift resources to more important areas after ceasing these activities and allowing the private sector to meet any demand for them.
- *Resources Available*—Activities plotted here are not important to the agency’s overall performance but are performing very well. The agency may have resources and staff here that can deliver similar high performance in more important activities and again may choose to shift resources to more important areas after ceasing these activities and allowing the private sector to meet any demand for them.

Competitive sourcing also changes work practices in ways that better utilize human capital to meet specific challenges. A fundamental change that competition brings is higher labor productivity—each employee doing more work.<sup>63</sup>

## Part 3

# Tying it Together: Integrating Competitive Sourcing and Human Capital

To facilitate the use of competitive sourcing, Congress created the Commercial Activities Panel (CAP) “to improve the current sourcing framework and process to reflect a balance among taxpayer interests, government needs, employee rights, and contractor concerns.”<sup>64</sup> With the backdrop that government’s goal should always be to obtain the highest quality of services at reasonable costs, in April 2002, CAP released its final report recommending a radical overhaul of the federal contracting process to make it easier for agencies to conduct competitions.

It recommended scrapping the OMB Circular A-76 process, which focuses primarily on low cost, for competitions and replacing it with best-value—concentrating on the overall quality of bids—competition process based on Federal Acquisition Regulations Part 15. The competition approach recommended by the panel allows performance-based, best-value competitions in a way the old A-76 process does not, giving federal agencies and the OMB a basis for using performance criteria to drive competition. Such a flexible competition process, mixing low cost and improved quality under a best-value outcomes structure, is exactly the way best practices in competition are going in the private sector and among state and local governments. On May 29, 2003 the OMB released the new A-76 guidelines, reorganizing and streamlining the competitive sourcing process, incorporating many of the CAP suggestions.

Best value is rooted in the simple concept of value—selecting firms to provide complex services or projects based on qualifications and technical merits—as long as the price is a value for what is promised. Governments are beginning to recognize what every consumer already knows—sometimes if you pay more, you get more; that is, the cheapest is not always the most desirable. Requiring the government to always buy the cheapest assumes all other things are equal—which they rarely are.

The more complex the activity is, the more important issues other than lowest absolute cost will be. Best-value procurements allow all factors to be weighed appropriately when the goal is a mix of cost savings and other objectives. Performance-based contracts have emerged as a state-of-the-art contracting tool to give government managers better control over contractors and greater assurances of accountability.

Typical contracts tend to emphasize inputs: procedures, processes, the wages to be paid, amount or type of equipment, or time and labor used. But forcing contractors to emulate in-house procedures eliminates many of the reasons to privatize. Such micromanaging removes the ability of the contractor to innovate, be flexible, or offer enhanced or different types of service. More and more, governments are using performance-based contracts—an output- and outcome-based approach to contracting.<sup>65</sup>

*A performance contract is one that focuses on the outputs, quality and outcomes of service provision and may tie at least a portion of a contractor's payment as well as any contract extension or renewal to their achievement.*<sup>66</sup>

Performance contracts clearly spell out the desired result expected of the contractor, but the manner in which the work is to be performed is left to the contractor's discretion. Contractors are given as much freedom as possible in finding ways to best meet the government's performance objective.

What this means is that performance-based contracts are a key way to capture the broad range of sourcing goals that go beyond simple cost savings. They allow governments to purchase results, not just process, rewarding the private firm only if specified quality and performance goals are met. This makes sourcing even more dramatically a case of purchasing something fundamentally different from in-house services.

To realize the performance benefits of integrating strategic management of human capital and competitive sourcing, agencies should start with something familiar: their FAIR inventory. For several years agencies have gone through the exercise of identifying and classifying activities as either commercial in nature or inherently governmental. These inventories are the baseline for competition of the identified commercial activities. At the same time, they highlight where competition can bring in new human capital and allow existing human capital to be redeployed.<sup>67</sup>

In fact the link between human capital management and competitive sourcing becomes abundantly clear in the case where agencies are having recruitment or retention problems in activities that are considered commercial. Those activities should be the first ones competitively sourced—directly addressing human capital challenges. Doing so has the added benefit of freeing up resources that can be shifted to inherently governmental activities addressing those challenges as well.

Indeed, competitive sourcing creates three opportunities for meeting human capital challenges: a) it is a means of bringing in private sector human capital to meet government service needs, b) if competitive sourcing displaces some government workers, they can be redeployed and retrained to meet yet other human capital challenges, and c) it changes the way existing human capital is utilized.

CTAP and ICTAP programs help affected employees move to other jobs in the federal government. By identifying mission-critical and core activities that need additional resources and human capital, these programs can shift much-needed resources to these areas while other functions are competitively sourced and/or outsourced to a private vendor. Some employees can also be transitioned into contract monitors and performance evaluators—an absolute must for a successful competitive sourcing program.

## A. Strategic Planning with Integrated Human Capital Management and Competitive Sourcing

There are several components of an integrated human capital and competitive sourcing plan. To begin with, the agency goals and mission must be built into the plan. The activities and functions should be directly tied to the outcome goals. The most central component to integration is communications—managers on both sides (i.e., human capital and competitive sourcing) must share needs, challenges, and plans. Without this element, both plans will remain within their respective silos and not be fully integrated.

An initial challenge is that the human resource manager deals with people while the competitive sourcing manager deals with functions. Managers should examine functions to see where people and resources can be shifted into and out of functions. Essentially, each agency needs a mechanism to crosswalk employee needs with the existing personnel in commercial activities that can be slated for competitive sourcing to help prioritize where competition should be applied first. The crosswalk should include both human capital needs from outside sources where competition might help fill gaps, and existing human capital that can be better used elsewhere if a function is reorganized via competition.

Integration of the two plans then allows for some functions to be competitively sourced and others to have an internal workforce built up. Once individuals and functions are tied, needs can be anticipated, retraining and retooling becomes central, and each activity and function is directly tied to the agency's outcomes. In-house expertise is developed around core competencies and support functions are competitively sourced.

Beyond simple communications and tying functions to agency outcomes, there are several steps that both the human capital manager and the competitive sourcing manager have to take in order to integrate the two plans.

### *1. Human Capital Manager*

The planning required of human capital managers can be broken up into two categories. The first deals with understanding the structure of the current workforce, and identifying how it will change and how competitive sourcing can assist with human capital management.

- Agency activities need to be identified as either core or non-core. The FAIR inventory would be a good place to start, but performance analysis can also identify functions and positions not performing sufficiently to justify the resources they consume.
- Once core competencies are identified, in-house capacity and talent should be built up. Talent should be maintained in both core competencies as well as in contract management and oversight areas.
- Managers also have to know the current status of the workforce, i.e., what the make up of the workforce looks like but also who is working in commercial and in inherently governmental activities. Managers should also know the skills and age of the workforce along with what anticipated retirement will do to the workforce.
- The next logical step is to understand what the workforce will need to look like in the future. With this information, the manager can match the needed skills with what the market can offer.

- Managers must also understand where talent is located geographically, i.e., where the market has talent. By knowing where talent is, managers could identify additional decentralization opportunities. (See page 21 for a discussion of decentralization.)

The second category of planning revolves around changes within the agency in terms of the management of the workforce and human resources infrastructure.

- By increasing the amount of competitions and the use of additional contractors, human capital managers have an opportunity to build much-needed flexibility into the human capital management plan. The mix of resources and the number and type of competitions will likely change year to year. Managers need to account for such changes and flexibilities and build them into plans for transition between in-house and outsourced service delivery.
- Human resources infrastructure has to change to support flexibilities. Managers need to track both in-house and contract workforces as well as individuals going in between public and private service.
- Agencies need to ensure CTAP and ICTAP plans are kept current and are effective to counter transition effects of displaced individuals.

## 2. *Competitive Sourcing Manager*

Competitive sourcing managers need similar information to the human capital manager. For starters, they need to identify which functions are core and where priorities and skill gaps exist to structure a competitive sourcing program around them.

- Managers should structure competition programs around the ability to properly manage and monitor competitions. Until additional capacity and flexibility are built into the human capital plan, there is little that can be done. Functions should not be competed until there is talent to manage the process and outcomes. Thus, the manager must base the competitive sourcing plan on human capital resources for managing competitions.
- Managers should design competitions to fill human capital needs and demands so one aspect of the competitive sourcing program includes solving functional human capital problems.
- Decentralization or relocation from the Washington D.C. area or other central/regional office needs to be permitted (see discussion on page 21). In fact, managers should encourage bidders to locate functions where current labor markets support human capital needs. An added benefit of doing this is increased competition, as more competitors could bid on competitions if location is not restricted.
- Managers need to build employee transition planning into the competition timeline for the in-house or private bidder.

## B. First Movers: Examples of Federal Agencies Integrating Human Capital Management and Competitive Sourcing

To date, a few agencies have begun linking their human capital and competitive sourcing plans. Their efforts serve as models for the rest of the agencies. They provide useful information into the power and importance of creating such links as well as how-to tips and pitfalls to avoid.



### *1. Department of Defense*

Faced with budget cuts, downsizing and base closures, as well as the need to modernize, the Department of Defense (DoD) was forced to think strategically about its operations and activities. In order to free up additional resources to modernize, the DoD would have to achieve efficiencies in support activities and other non-core functions. In 1996, the DoD began the process by determining “where outsourcing, privatization, and competition can improve performance.”<sup>68</sup> The DoD began a systematic review of its support and core (or war fighting) functions to see what could be competed in order to best match available resources with current needs and achieve efficiencies.<sup>69</sup>

The DoD argued that it could best improve its readiness by augmenting internal capabilities with those available in commercial markets.<sup>70</sup> With a focus on the agency’s mission, the DoD had linked its human capital management approach with a competitive sourcing plan without expressly saying so. Upon implementation of the process the DoD realized significant benefits including the following:<sup>71</sup>

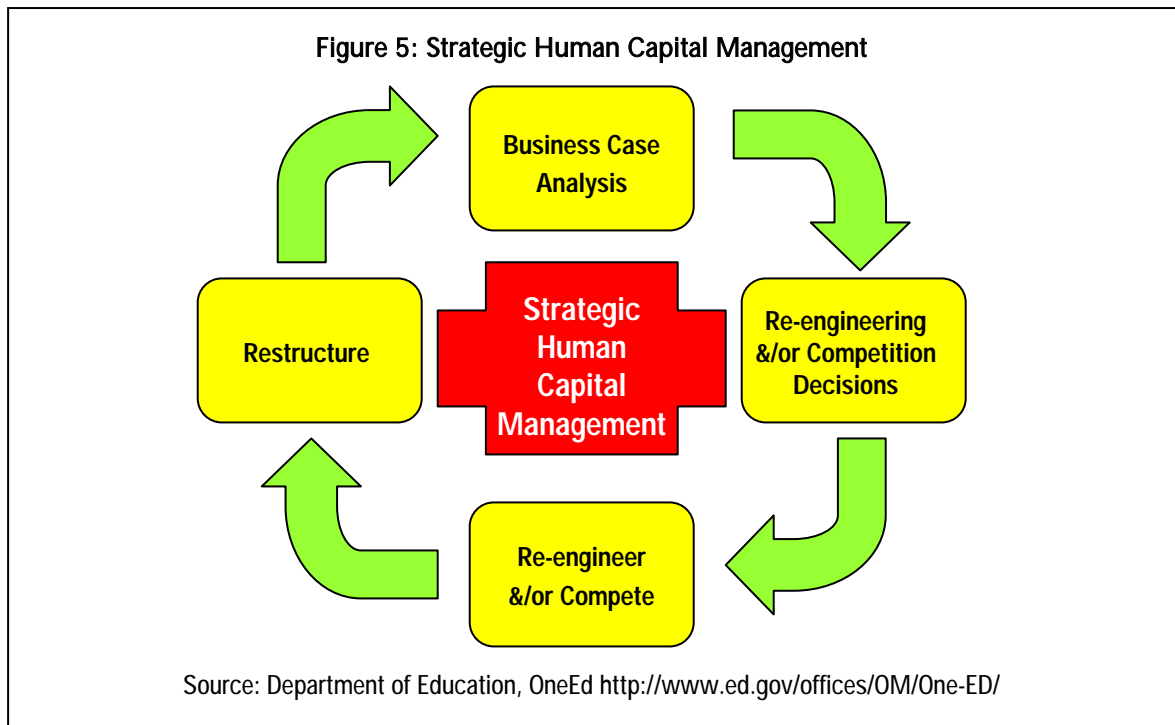
- **Competition** improved quality, increased efficiency, and reduced costs agency-wide, not just in competed functions;
- Managers were given **flexibility** to determine the appropriate size and composition of resources needed to complete tasks;
- Firms that **specialized** in some types of service delivery were used to bring state-of-the-art systems and technologies generally not economically viable to government; and,
- With a **better management focus**, competition enabled the DoD to focus on the heart of its mission and core competencies while relying on competition and outsourcing for support functions.

Despite the effort and continued focus on efficient and effective resource allocation, the DoD has failed to fully integrate its human capital management with its competitive sourcing program.<sup>72</sup> Furthermore, recent reports have highlighted the DoD’s lack of planning and strategic thinking about human capital at its shipyards and depots.<sup>73</sup> Even though the DoD has been using contractors to complete more work at its depots, it has continued to maintain and use in-house capabilities. Because of downsizing and better technology there isn’t enough work to go around and resources are being used ineffectively and inefficiently because of a lack of a formal strategy.

### *2. Department of Education*

Under its “OneED” plan, the Department of Education (DoE) has outlined several objectives to improve the strategic management of the Department’s human capital. Among those objectives is to “identify new opportunities for competitive sourcing in order to augment the organization’s capabilities.”<sup>74</sup> To date the DoE plan is the most advanced in integrating its human capital needs and competitive sourcing programs. It is DoE’s intent to use competitive sourcing within its human capital management plan to ensure that resources are “deployed appropriately.”<sup>75</sup> Managers at the DoE see retirements not as a crisis, but rather an opportunity to improve the overall workforce quality and mission accomplishments. The entire strategy will reduce the number of managers, de-layer management, increase the use of competitive sourcing, and improve decision-making using performance-based decisions.<sup>76</sup>

At OneED's core is a model linking human capital management, competitive sourcing and restructuring, and it "is designed to make sure the Department has the right people in the right place doing the right work in the right way."<sup>77</sup> Personnel systems and policies will be performance-driven, i.e., they will support agency outcomes and goals. Furthermore, the plan will help them predict future skill gaps and enable them to build strategies to address needs through internal restructuring or competitive sourcing.



At the heart of the decision-making process is a Strategic Investment Process (SIP). The SIP analyzes and reviews the functions and activities the Department performs. Ultimately, it is this analysis that will lead to a decision to continue to perform the work internally or compete it.<sup>78</sup> However, the SIP is more important than simply determining how to source the activities—“regardless, the process leads to re-engineering work processes and once completed, examining the organizational function’s structure to determine whether the people and functions are optimally aligned.”<sup>79</sup>

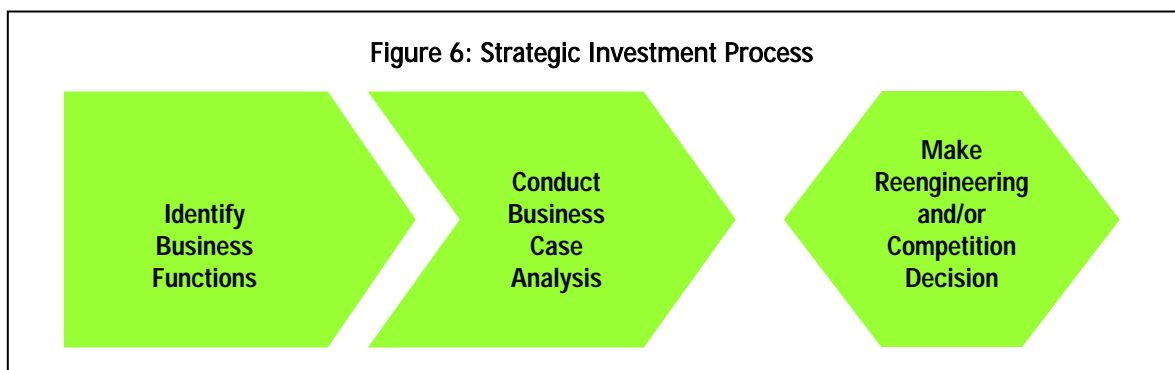
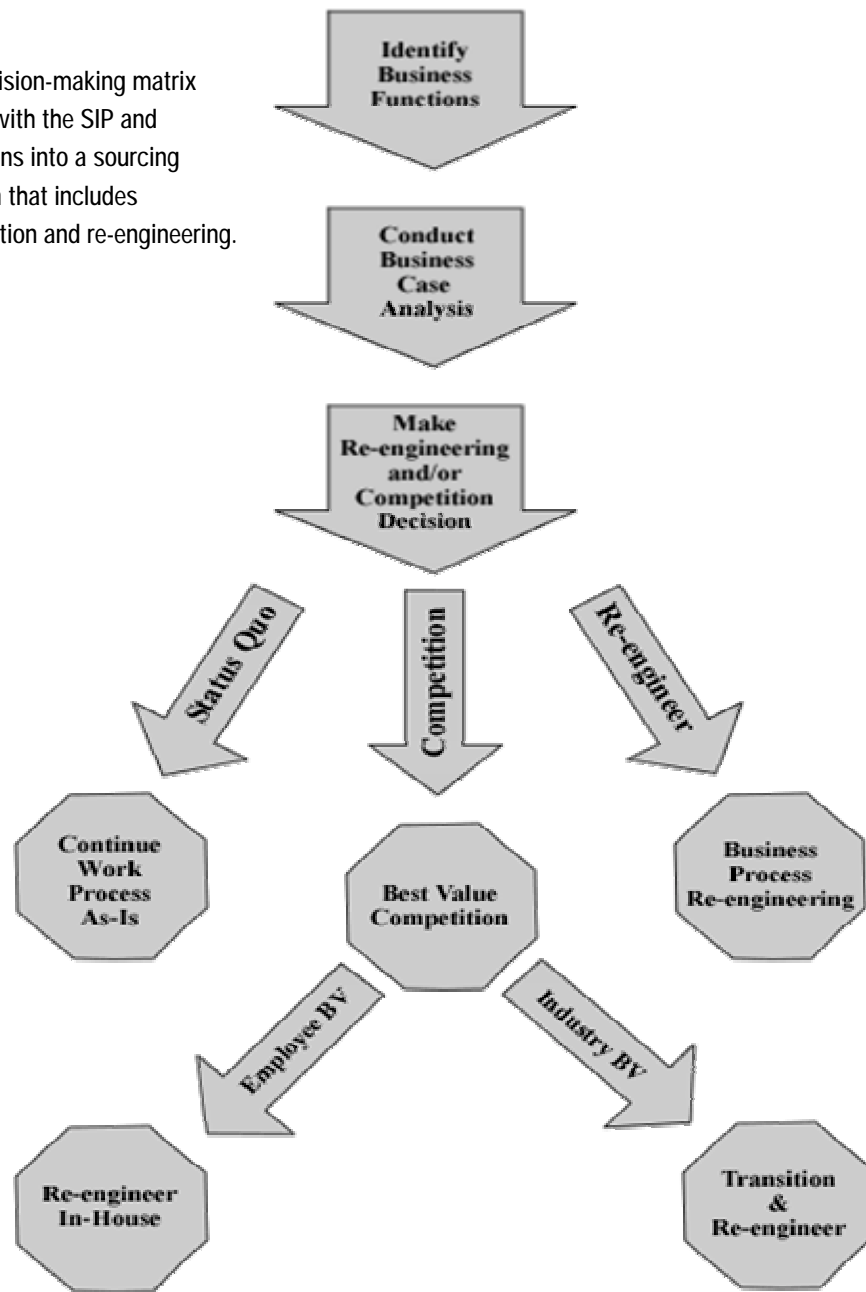


Figure 7: The OneED Decision Human Capital Management/Sourcing Model

The decision-making matrix begins with the SIP and transitions into a sourcing decision that includes competition and re-engineering.



Source: U.S. Department of Education, "OneED" <http://www.ed.gov/offices/OM/One-ED/>

The DoE will apply the SIP to all work functions over a three-year process. The analysis will identify core vs. non-core and value-added vs. non-value-added activities, underutilized assets, unstable workload, and specialized skills. From there the DoE will identify a business function, and make a business case to determine whether the function will be re-engineered and/or competitively sourced.

The DoE recognizes that strategic human capital management is not static and needs to continue beyond one round of analysis. OneED requires quarterly monitoring and an annual review along with an update of the overall direction of the Department.

Unfortunately, the Departments of Defense and Education are anomalies. Outside of these two examples, there do not appear to be others far along in the process of integrating strategic human capital management and competitive sourcing.

### C. Thinking Outside the Beltway Box: Decentralizing Federal Agencies

The vast majority of federal jobs are located within 100 miles of Washington, D.C. This build-up has two consequences: first, locating jobs in one region necessarily limits the job market, restricting access to human capital assets located in other regions. Second, it raises serious continuity concerns in the event of a terrorist attack or natural disaster in the Washington, D.C. region.

There are vast resources, in terms of talent and skills, outside of the beltway that can help human capital managers solve agency needs or shortcomings. Defense Secretary Donald Rumsfeld, speaking about moving defense resources away from the Pentagon, said that “it’s a big country we’ve got, and everything does not have to be located in the Washington, D.C. area...I think that just the health of the country would be better if everything weren’t here.”<sup>80</sup> Different labor markets around the country give human capital managers access to expertise and specializations that may not be available in sufficient quantity or quality inside the beltway. Managers must, therefore, be open to relocating an activity or decentralizing an activity away from home base.

At the same time, the Federal Emergency Management Agency (FEMA) has issued several Federal Preparedness Circulars requiring that agencies develop continuity of operations (COOP) plans to ensure the continuous performance of an agency’s essential functions and operations during an emergency.<sup>81</sup> Again, Secretary Rumsfeld said it best when he opined, “concentration of Defense Department activities in a single area is probably not a smart idea.”<sup>82</sup> The FEMA circulars even require agencies to identify alternate locations and facilities as part of their COOP plans, so there is an inherent push to source activities outside of the beltway. Following Rumsfeld’s lead, agencies should build decentralization opportunities into their COOP plans to further prevent disruption while simultaneously getting access to new labor markets and skills.

In addition to gaining access to new markets and helping agencies prepare COOP plans, decentralization also has potential economic benefits to local regions and the economy as a whole. A companion study to this one, *Decentralizing Federal Employment*, examined the potential economic and human resource benefits of relocating federal agencies, divisions, and jobs to urban areas outside of Washington, D.C.<sup>83</sup> The authors developed an approach to assessing the feasibility of relocating jobs based on the characteristics of the agency, the importance of policy-level decision-making, and the ability of the receiving regions to accommodate the new jobs, using Ohio as a case study.

That study shows that a more balanced geographic dispersion of federal employment is feasible and could provide substantial benefits to local regions, thereby strengthening the economy as a whole.

At the same time such a policy could reduce congestion in Washington, reducing security requirements and enhancing the political culture.

Only a few agencies were considered and in almost all cases employment decentralization was feasible. And that is understated, because the level of analysis was the agency as a whole. Within agencies there are numerous functions that could be decentralized. While it is easy to recognize these possibilities with particular functions, such as data entry or telephone center functions, even high-level, technical work could be decentralized.

The development of a metropolis with an economic base dependent upon government employment and functionaries dependent upon government was never a conscious goal. It evolved through a “tyranny” of small decisions. When an agency added a new division, function, or activity, the first choice location tended to be Washington. Perhaps each individual decision made sense; perhaps a Washington location was chosen to further the political influence of an individual; perhaps the location was selected without a great deal of consideration. But if planners could start anew, with a clean slate, the bureaucracy would likely be more geographically dispersed.<sup>84</sup> Several reasons exist for why a carefully designed program of decentralization should be considered.

- **Efficiency.** Diseconomies of scale refer to inefficiencies that occur as organizations increase in size. A similar phenomenon applies to urban areas as a whole. Often size brings diseconomies of scale when new residents add more to costs of running the region than the average resident.<sup>85</sup> Diseconomies are frequently experienced in the form of longer commute time, other congestion costs, high living costs—often driven by rents—and pollution. Given the function of Washington D.C. is as a seat of the national government and its high visibility as a target of terrorists, the size may be too large now.
- **Homeland Security.** By limiting the growth of capital employment, it will be easier to maintain security by relying on smaller clusters of employment activity (thus creating a smaller terrorist target). The lines at checkpoints will be shorter and fewer demands will be made on security resources. Furthermore, the anthrax scare following the attacks on the Pentagon and World Trade Center, and the sniper attacks in October of 2002 indicated how work could be slowed in an entire city by such events. A dispersal of Washington D.C.-based federal employment would protect some parts of government from such disruptions and make it easier to provide security for the remaining activities.
- **Political Culture.** Many observers believe that the capital has become an insulated echo chamber, separated from the concerns of the bulk of the country and focused on a narrow set of issues on the Washington policy agenda. The gap between the perspective of individuals in Washington and people in other parts of the country is suggested by phrases such as “inside-the-beltway perspective” or a “Washington mentality”. Geographic decentralization could reduce the gap between elected officials and government employees as well as government workers and the rest of the nation. Consider the old saw, “a recession is when your neighbor is unemployed and a depression is when you are unemployed.” Decentralizing federal employment is not a panacea for political culture. Government employees will still have similar perspectives even after decentralization. But, to the extent that geographic decentralization is feasible, the concern that government is dominated by the political ethos of one city could be mitigated.
- **Partisan Politics.** A principal reason for the creation of the civil service system was to shield government workers from political pressures. Geographic decentralization may help toward

that end. If more non-political work were undertaken outside of the most political metropolis in America, the intended buffer would be reinforced. This may be particularly important as technical and scientific issues take on partisan importance.

- **Bureaucracy.** Officials at various agencies were asked why their organizations needed to locate in Washington. Many of the answers related to the need for communications between the persons in one office in Washington, D.C. and persons in related offices. However, personal contact was seldom seen as necessary to convey information. A problem with expanding bureaucracies is that as the number of agencies increases, the size of liaison functions increases rapidly, sometimes with no additions to productivity. If the number of liaison functions is a constant fraction of the total number of agencies, then the coordination activities will increase exponentially as the size of the bureaucracy increases. While not true in all cases, geographic proximity may result in excessive liaison activities. Face-to-face meetings are seen a necessary courtesy or a means of extending personal influence. Geographic dispersal may promote more efficient uses of time.

#### Obstacles to Decentralization

Several barriers to decentralizing the federal workforce exist, regardless of the potential economic and fiscal benefits, including:

- **Inertia.** Inertia is the most powerful locational factor. Consequently some of the impediments to decentralization warrant consideration.
- **Relocation Costs.** First, the cost of relocation will be borne immediately and will be very easy to calculate. The benefits will occur in out-years and are far less tangible. To the extent that there is a tendency to postpone long-run benefits in favor of short run cost savings, the task of decentralizing employment will be made more difficult.
- **Hidden Assumptions.** Another factor that may hinder decentralization is the tendency of many people throughout the country to believe that most high-level federal employment belongs in Washington because that is the seat of government. Often the link between the functions of Washington and the site of employment is assumed to be so obvious it is not critically considered.
- **Evolution of Linkages.** A third factor contributing to inertia is that agencies have established ways of doing things that tie them to Washington. For example, a government worker might think that the monthly lunch or meeting attended with other officials is an important reason to locate in Washington. While such a meeting may be important, it is critical to have an open mind about both the necessity for face-to-face meetings and the benefits that may be gained from relocation.
- **Employee Resistance.** Finally, relocation could be costly to individual government workers who have established homes in the D.C. area. Transfers for them would be difficult.

These impediments raise significant implementation issues, some of which are addressed in the conclusion of this study. But before jumping to implementation, the feasibility of geographic redistribution of employment should be considered.

- **Private Business.** Jane Jacobs, in *The Death and Life of Great American Cities* and in *The Economy of Cities*, gave a timeless analysis that highlights the importance of contacts and synergies that can develop between loosely related enterprises.<sup>86</sup> Linkages can result in new products and processes can create additional, productive work. Geographic dispersal of federal

employment will create a better atmosphere for developing linkages between private-sector organizations and public-sector agencies, which will be likely to replace government-to-government linkages. Businesses throughout the country will have opportunities to learn from nearby federal agencies. At least equally as important, government agencies may improve their management and technical operations from greater proximity to businesses and improve other operations accordingly. Part of the “inside-the-beltway” perspective may be attributable to the fact that most linkages tend to be with other government agencies. Linkages tend to develop as individuals in different organizations see commonalities in the work they do. If federal jobs were located in more diversified economies, federal agencies would form more linkages with more diverse organizations. For instance, an agency seeking a better way to communicate with individuals affected by its actions might be more likely to consult a private company about how to resolve the concern rather than contacting another government agency. The emergence of such linkages can be a great enhancement to productivity.

There are vast resources available to human capital managers outside of the beltway. Decentralization can help with agency continuity plans and provide them access to new labor markets. To do this, human capital managers need to think strategically about what functions and activities the agency needs and propose shifting them to locations where the labor market is located. Additionally, private bidders should have the flexibility and opportunity to offer alternate locations in sourcing competitions.

## Part 4

# Conclusion and Recommendations

More and more federal employees, arguably the government's most valuable asset, are becoming eligible for retirement, or worse yet, leaving government all together. The Bush administration has identified strategic human resource management as one of five major management reforms. Another reform tool that can assist federal agencies in managing their human resources is competitive sourcing. Competitive sourcing gives government new access to expertise, allows current resources to be retrained and retooled, and encourages a systematic review of current structure.

Another tool available to policymakers is decentralization. Moving federal functions out of Washington, D.C. not only can help vitalize those functions in many ways, but allows access to new labor pools that may help alleviate human capital shortages.

In order to put all of this together, agencies must begin with their performance goals and what resources, including labor, are needed to achieve those missions and goals. Doing so will better define their needs and give them a better understanding of what makes best sense. Other concrete steps agencies should take include:

- Linking the department's workforce planning database with its competitive sourcing database and conducting analysis of the current and future workforce.
- Studying where current and future skill gaps are located within the agency, projecting what types of skills/people will be leaving/retiring from the agency, then determining what gaps can be filled via additional training and recruitment and what is best left to outsourcing.
- Looking at what's happening to the current workforce and how it is expected to change in years to come, including areas that are ripe for competitive sourcing.
- Analyzing the agency's FAIR inventory, examining positions that are defined as inherently governmental. Looking at actual tasks can help identify how changing the complexion of activities can possibly leverage competition to manage performance and projected human capital needs. To some extent this involves identifying how the activities can be more appropriately mixed to make fewer jobs inherently governmental so that more human capital options are available via competitive sourcing.
- Focusing in-house resources and capabilities on core recruiting and training for inherently governmental positions.

Agencies will have to continually measure and refine their processes to assure the delivery of high quality results. Feedback is essential and needs to be built back into the decision-making process. For



example, accurate labor market data could be used to attract quality employees and to increase competition, or conversely, to support the idea that some functions should be outsourced.<sup>87</sup>

Competitive sourcing enables agencies to redefine every aspect of their operations—“not only how the work gets done, but how much it costs, how capital dollars are spent, and how the company relates to its suppliers and customers.”<sup>88</sup> Through competitive sourcing, governments have achieved lower, more flexible costs, a better understanding of their missions, a renewed focus on core competencies, better quality, faster speed, better use of capital, and increased innovation.<sup>89</sup>

But effective use of competition also means that federal agencies need more flexible personnel management systems. Flexible systems will enable agencies to meet special needs and goals, and to fit human resource management with competitive sourcing and decentralization into their overall management strategies. In mutual reinforcement, competitive sourcing is a mechanism that can speed up the delivery and implementation of flexible personnel management systems.

At the same time, continuing to focus on clear missions and keep performance as a central tenet remains crucial. Agencies should be focused on core competencies in human resources as in all strategic decision areas, including continuous improvement in recruitment and retention of employees.

## Appendix 1

# The PART Scores: Connecting the Dots to Improve Scores<sup>90</sup>

The Office of Management and Budget (OMB) initiated the first installment of the Program Assessment Rating Tool (PART) in the FY04 budget. It is a systematic and evidence-based tool for assessing program management and performance results. Twenty percent of all federal programs—234 programs in all—were scored on program effectiveness. The Administration plans on evaluating the entire federal bureaucracy in stages of 20 percent per year. Thus by the time the FY2008 budget is released, all programs will have undergone a PART analysis.

The OMB created a common set of standards that could be used to ascertain whether federal programs were actually fulfilling the missions under which they were created—providing a tool that would place the government's focus squarely on results. The standards were designed to complement the goals and objectives outlined in the President's Management Agenda. The PART analysis is most consistent with the goal for budget-performance integration, but it addresses the other four goals as well.

The PART is essentially a questionnaire—an evaluation form consisting of four sections that each measures a specific management aspect of federal programs. It focuses agency attention on strategic planning and program results. Those four sections are merely categories of questions that, when added up, reflect a program's strengths and weaknesses in these four basic areas:

1. Program Purpose and Design
2. Strategic Planning
3. Program Management
4. Program Results and Accountability

The Bush administration used the PART as a means to assess program performance and budget allocations in the FY04 budget. Of the 234 programs examined, 50 were rated as "Results Not Demonstrated" and 5 deemed "Ineffective." On the other hand, 15 were rated "Adequate" and 24 rated "Moderately Effective." Only 6 of the 234 got the highest designation as "Effective."

*The PART assessments released by the President provide hard numbers and clear evidence to confirm what many taxpayers have long suspected about the lack of a results focus in the federal government. Half of the federal programs evaluated in this budget cannot show*

*results. Yet, there are some bright spots where programs did rise to the occasion and demonstrate solid performance. Federal agencies should take this first round of assessments as a learning opportunity and start building clear and compelling performance cases for their programs.<sup>91</sup> However, PART is not the sole method for evaluating the performance of the federal government and it is not a method for determining the relevance of a program.<sup>92</sup> Rather, PART helps ensure that agencies are using their funding in the most efficient and effective manner to achieve their goals.*

Despite the promise of PART, it has yet to play a significant role in congressional budgetary decisions.<sup>93</sup> One explanation is that PART will be like many other presidential management initiatives that have come and gone in the past. That is, it will “go away” as administrations change or focus is diverted. However, even though PART has yet to affect funding decisions, the scores are still instrumental in identifying and improving poor performing programs within agencies. Some have suggested that PART be incorporated into legislation, making it a statute-driven tool specifically linked to GPRA.<sup>94</sup> Doing so would have the benefit of forcing agencies to use the scores as they were intended.

## Appendix 2

# Does Human Resource Outsourcing Have a Role to Play?

Private companies have been rapidly increasing their use of human resource outsourcing. Between 2000 and 2001 spending on HR outsourcing grew 65 percent, and the outsourcing of individual processes such as payroll, health benefits administration, and pension/retirement benefits administration increased over 10 percent in the same time period.<sup>95</sup> A survey of the largest American and European businesses reveals that many find that outsourcing is becoming an integral and permanent part of their human resources strategy.<sup>96</sup> To date, between 40 and 60 percent of companies outsource certain HR functions—typically payroll, health benefits, and administration of pension and retirement benefits.<sup>97</sup> HR outsourcing is expected to increase by 50 percent between 2001 and 2005.<sup>98</sup>

Beyond cost savings, outsourcing can also improve the flow of information across areas of HR management, for example recruitment, staffing, education and training. Rebecca Scholl, a senior analyst for Gartner Dataquest, argues that the outsourcing of HR functions enables managers to focus on more strategic goals as well as provide the tools for performance reviews and accountability. “[O]nce HR [is outsourced], it [i.e., managers] can track services and hold the supplier accountable through penalties in the contract.”<sup>99</sup>

There are a couple of examples of HR outsourcing within the federal government already. The newly formed Transportation Security Agency (TSA) provides federal managers the best example of outsourcing HR functions. Faced with the daunting task of hiring screeners for every airport in a short period of time, the TSA quickly realized that it couldn’t go it alone.

After an initial contract to staff the agency, TSA recently awarded a five-year contract to CPS Human Resource Services, a California government agency to handle recruitment and hiring processes for security screeners and other personnel. A second five-year contract was awarded to Accenture, which will handle TSA’s day-to-day human resources administration, such as personnel record-keeping and processing.<sup>100</sup>

The Office of Personnel Management (OPM) has also outsourced an HR function. A 10-year contract was awarded to operate the federal career Web site, “USAJobs.” TMP Worldwide Government Services, the same company that operates the most popular online job search site,

Monster.com, will take over the government's central jobs Web site, which averages 17,000 job announcements a day.<sup>101</sup>

By far the largest HR outsourcing in government is at the state level. Florida recently signed a deal with Convergy to manage its HR systems. To provide some context, the initiative covered seven different personnel systems within the state, each with its own rules and regulations, collective bargaining agreements, and wage and benefit packages—with over 135,000 employees serviced in the 30 agencies.<sup>102</sup> The state's existing personnel information system, the Cooperative Personnel Employment Subsystem (COPES), is approximately 20 years old and involves significant paper-driven processes and interface challenges, and operates in a proprietary mainframe/limited technology environment (not Web-accessible, limited employee access to data and limited management tools). Moreover, because of its age, COPES must be replaced at a cost of over \$80 million.<sup>103</sup> Given the pressing needs of the state, it could not justify or afford that purchase.

Outsourcing was seen as a way out. Close examination determined that it would save the state approximately \$173.1 million (annual savings of \$24.7 million) but also would avoid \$80 million in upgrading costs.<sup>104</sup> Ultimately the deal frees up significant funds for other state priorities.

The contract is expected to achieve efficiencies and process improvements in the following areas:<sup>105</sup>

- Cost per payroll transactions
- Error rate per payroll preparation transactions
- Cost per hiring action
- Cost per employee for benefits administration and retirement enrollment
- Time required to advertise and fill vacancies
- Receipt, screening, and qualification of applications
- Time required to perform employee appraisals/evaluations, tabulation, and obtain peer input review
- Work process improvements and routing of information for approval and review
- Overall cost per employee for human resource services

Outsourcing of HR management is yet another tool the federal government has available to help manage human capital more effectively.

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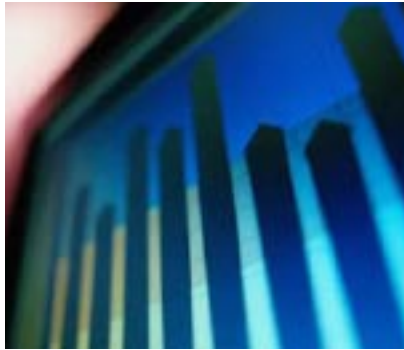


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