COMMERCIAL/INDUSTRIAL ACTIVITIES PROGRAM: 
THE EFFECT OF PROGRAM IMPLEMENTATION 
AT THE COMMAND LEVEL

by

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December 1986

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Commercial/Industry Activities Program:  
The Effect of Program Implementation 
at the Command Level

by

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ABSTRACT

Concerns exist among field level commercial activities (CA) program managers. This poses a threat to proper implementation of the CA program. The concerns are manifested in a poorly managed command CA program. This study examines the allegations of bias in CA program policy structure towards the elimination of federal employees from Department of Defense commercial activities. The feasibility of a federal incentive system to improve overall program efficiency and management is discussed. Other areas of interest addressed are individual role perceptions and responsibilities; OPNAV relationships; and the mechanics of program operations. The study concludes that the Navy's CA policy needs to provide a greater degree of equity in its treatment of both the federal managers and the affected civilian employees in CA activities.
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I. INTRODUCTION

A. GENERAL COMMENTS

The Chief of Naval Operations (CPNAV-443B) acts as the primary point of contact for commercial/industrial activity (CA) matters of interest to the Navy Secretariat, Office of Secretary of Defense, Office of Management and Budget (OMB) and Congress. Policy regarding the performance of the United States Government's CA program has been established through the implementation of OMB Circular A-76 and is delineated to United States Navy Policy via OPNAV Instruction 4860.7B.

This basic policy states "the federal government should not start or carry on any commercial activities to provide services or product for its own use if such products or services can be obtained from private enterprises through ordinary channels." [Ref. 1:pp. 1-2] Budgetary constraints in the federal government have reemphasized the apparent need for increased competition in the treatment and award of commercial activities performed for the government. The effect of cost savings through competition of this nature is well documented and substantial, but the effective application of current commercial activity policies has been questioned.
B. AREA OF RESEARCH

The thesis will examine the expressed concerns of field/command level CA program managers and their staffs when implementing the U.S. Navy's CA program. Research will study field level perceptions of CA program goals and the policy guidelines established for CA managers to meet those goals.

Areas to be explored are allegations of bias in CA program policy structure towards the elimination of federal employee performance of non-inherently governmental commercial activities. Accusations of inequity in the performance of CA reviews and alternative methods of conducting CA reviews will be presented.

Disruptive forces confront a command when it is required to perform a CA study. Federal and Navy instructions do not consider the inability of individual commands to implement the CA program without outside resource assistance. The current lack of resource support for commands which are required to establish a commercial activities organization could lead to the delay of the final contract award determination or reduce the effectiveness of the activity to perform its original mission.

Because of the emphasis on cost savings in government, the CA program is a timely issue; and it is an issue (commercial activities) that has saved millions of tax dollars to date. It must continue to be explored and improved.
C. SCOPE OF THE THESIS

The thesis will focus on problems associated with U.S. Navy policy within a federally mandated commercial/industrial activities program. The thesis search for information was limited to Naval commands in the Monterey Peninsula and San Francisco Bay areas. A limited number of completed commercial activity studies were screened to review the impact of long-term commercial activity projects on an organization. Personnel from six commands were interviewed for determinations, findings and problems associated with commercial activities program implementation.

The approach to the topic was limited to the impact or effect of the CA program, as designed through navy and federal policy, on the host command.

D. RESEARCH QUESTIONS

PRIMARY RESEARCH QUESTION: What problems develop within field level CA program staffs when implementing the Navy CA program?

SUBSIDIARY QUESTIONS:

a. What is the role of the field level CA program manager in implementing the Navy CA program?

b. Is the goal of the Navy CA program to maximize efficiency in activity performance or to enhance the opportunity of private industry to gain government CA contracts?

c. Have adequate lines of communication been established between the formulators of program policy and field level personnel responsible for program implementation?
d. Are accusations of inequity in the treatment of federal employees within the government's CA program justified?

E. DISCUSSION

The people within an organization affect its structure. The abilities and attitudes of managers, their need to work with each other must be taken into account when implementing a program with the scope of the Navy's CA program.

The primary measure of success for any large scale program of this nature is the cost savings the program generates. Concurrent to this success is the confidence and stability the program projects to the personnel who implement it.

The role of the government in the performance of commercial activities is presented clearly by the Chief of Naval Operations:

In the process of governing, the government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength. In recognition of this principle, it has been and continues to be the general policy of the government to rely on commercial sources to supply the products and services the government needs. [Ref. 2:p. 1-1]

But in reviewing the Navy's instructional definition of a commercial/industrial activity, it is also presented clearly that performance is not limited to private industry:

A commercial activity is a function either contracted or operated by a Navy field or headquarter's activity that provides a product or service obtainable from a commercial source. A CA can be identified with an organization or as a type of work, but must be:
(a) separable from other functions so as to be suitable for performance either in-house or by contract.

(b) a regularly needed activity of an operational nature, not a one-time activity of short duration associated with support of a particular project.

It is this distinction of CA performance by either government (in-house) or private industry contract that raises questions about current CA policy relative to the federal workforce who must implement the program.

Failure to address these questions will lead to continued communication barriers within the program. As a result of these barriers, gamesmanship develops among program participants, program credibility is diminished, employee involvement is reduced and program resource costs are increased. The research examines these questions raised by federal employees. This type of examination may produce a more equitable and coordinated CA program.

F. RESEARCH METHODOLOGY

Preliminary research included a review of the history of commercial/industrial activity (CA) programs, and a review of the policies surrounding the generation of program guidelines. Reviews of Congressional Hearings were performed to provide further background and to better substantiate the intent of the program requirements. Existing regulations, instructions, policy guidance letters and current periodicals were researched.
Initial discussions were held with the Office of the Chief of Naval Operations (443-B). Subsequent fact finding sessions were held at field level activities to gather information on CA post award management. CA program managers were interviewed to determine problem areas associated with program implementation and resource utilization.

G. DEFINITIONS

1. **Commercial Activity**: An activity which is either contracted or operated and managed by federal executive agency and which provides a product or service that could be obtained from private sources. It must be separable from other functions so as to be suitable for performance either in-house or by contract; and a regularly needed activity of an operational nature, not a one time activity of short duration. [Ref. 1:p. 2]

2. **Governmental Function**: A function that must be performed in-house due to the intrinsic relationship in executing governmental responsibilities. Examples include:
   a. Discretionary exercise of government authority such as judicial functions, management of government programs requiring value judgment, conduct of foreign relations, management and direction of the armed services, etc. [Ref. 1:p. 2]
   b. Monetary transaction and entitlements such as tax collection and revenue disbursements. [Ref. 1:p. 3]

3. **Management Study**: An internal management review performance by the government to determine the most efficient organization (MEO).

4. **Most Efficient Organization (MEO)**: The result of a management study for determining an organization's most efficient and effective personnel structure. The study utilizes descriptions of functions being performed and the staff involved. Specific suggestions on ways to improve efficiency and effectiveness
are obtained from managers, supervisors and employees associated with the function under study.

5. **Performance Work Statement (PWS):** Specification or description that describes output requirements of the government. It should also describe personnel responsibilities, facility/equipment requirements, performance standards and quality assurance plans to insure performance by either the government or the commercial vendor. [Ref. 3:p. III-1]

6. **Private, Commercial Source:** A private business, university, or other non-federal activity located in the United States, its territories and possessions, or the Commonwealth of Puerto Rico that provides a commercial product or service required by government agencies. [Ref. 2:p. I-3]

7. **Cost Comparison (Or Cost Comparison Analysis):** An accurate determination of whether it is more economical to acquire the needed products or services from a private, commercial source or from existing or proposed government managed CA. The term "CA study" is often used interchangeably with the term "cost comparison analysis." [Ref. 2:p. I-3]

8. **Saved Pay:** An entitlement preventing civil service employees from incurring a reduction in their current pay levels for a 2 year period.

**H. THESIS ORGANIZATION**

The organization of this thesis is formatted such that the reader can logically follow the development of lessons learned from the experience of field level personnel managing the Navy's CA program. The thesis begins with the historical background of the CA program and leads to definitive field level problems associated with program implementation guidelines. Determinations of program accuracy and problem diagnosis are followed by recommendations for resolution, if applicable. Conclusions address some arguments for program improvements.
Chapter II presents an historical overview of the development of the CA program and synopsizes the scope of the Navy's CA program. The current status of the program is described, mechanics of program operations and the field level policies found within field CA program staffs are discussed.

Chapter III presents the various problems found within field level CA program offices relative to current CA policy. Areas of interest are individual role responsibilities, OPNAV relationships and private industry bias.

Chapter IV examines the specifics of equity in the treatment of the federal employee and discusses the feasibility of a federal incentive system to improve overall program efficiency and management.

Chapter V summarizes the key issues, problems and trends in implementing the Navy's CA program. Recommendations for instruction and program improvements are given as well as an overview of thesis research techniques, points of contact and areas of future research.
II. FRAMEWORK AND BACKGROUND

A. GENERAL

President Reagan campaigned on a promise to cut the size of government and has utilized OMB Circular A-76 and associated agency CA programs to assist in this effort. The goal of the Navy's CA program is to find the most economical and efficient method of providing government services. Whenever it seems feasible that government services could be provided by the private sector, the Navy's CA program instructions set out guidelines and procedures to allow a cost comparison between the government and private industry contractors. The CA program, therefore, starts with the assumption that the competitive marketplace is usually the best way to achieve efficiency. Yet, serious reservations about the wisdom of CA program policy exists within the workforce which is required to carry out those policies. What may add up to adequate cost savings at policy-making levels can appear far less economical when considered at the local working level.

Perceived adequate levels of cost savings in terms of dollars may fail to reflect disruptions caused by reductions in the federal workforce. The expected cost savings are reduced when the programs are transferred to lateral
government agencies due to shifting in the federal workforce.

In summary, the author believes an analysis of current CA program practices is advantageous to the future success and development of the commercial/industrial activities program. The analysis should bring to light the practices that cause inequities among the federal workforce.

B. HISTORICAL BACKGROUND

The House of Representatives appointed a special committee in 1932 to investigate government competition with private enterprise. This committee expressed the initial concerns over the extent to which the government was engaged in activities that could be performed in the private sector.

The first and second Hoover Commissions expressed similar concerns and recommended legislation to prohibit government competition with private enterprise. Several congressional bills introducing this prohibition were forwarded, but all action was dropped upon assurance from the executive branch that the policy was being implemented administratively. Bureau of the Budget (BOB) Bulletin 55-4 issued on January 15, 1955 announced the general policy that the "federal government will not start or carry on any commercial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary business channels."

[Ref. 4:p. 127]
This was followed by BOB Bulletin 57-7 and Bulletin 60-2. The latter bulletin was the first to qualify continuation of government operations if procurement through commercial sources would involve higher costs. These costs between private industry and government were to be compared. Differences had to be substantial and disproportionate to authorize government continuation of the CA.

In March 1966, the first OMB Circular A-76 was issued. President Johnson in his memorandum to the heads of departments and agencies stated: "We must seek in every feasible way to reduce the cost of carrying out government programs."

The circular was revised in 1967 to provide additional guidance in determining cost procedures, but no substantive changes were made.

The General Accounting Office (GAO), during 1971 and 1972, concluded that implementation of this policy by executive agencies was not effective and was resulting in continuing conflict and controversy. [Ref. 4:p. 128]

The Office of Federal Procurement Policy (OFPP) was created by Public Law 93-400 in August of 1974 in response to the first recommendation of the Congressional Commission on Government Procurement. One of the major responsibilities assigned to OFPP was implementation of the A-76 policy. Agencies were required to update their implementing instructions, report on progress and justify
decisions between contract and in-house performance. The OFPP initiative was met by resistance from federal employee groups, reluctance by federal agencies and some expressions of concern by members of congress.

The continuing controversy, fueled by an increased use of the circular in the Department of Defense, forced a comprehensive review of the circular, beginning in 1977. As a result of the comments received, a complete revision of the circular was issued in March 1979. That revision reconfirmed the general policy of reliance on the private sector, while recognizing that some functions must be performed by government personnel.

For the first time, the basic concept of A-76 began to change to recognize the equity and value of having federal workers compete for the jobs they were holding. Improved productivity through competition, in effect, became the policy.

In 1981, OMB Director Stockman announced that OMB would begin a comprehensive reexamination of the cost comparison methodology to streamline it and make it as efficient as possible. Revisions were made to the A-76 circular to facilitate better understanding of the procedures, streamline the cost comparison methodology, and ensure equity. After a lengthy and thorough review period, a revised circular was issued on August 4, 1983.
In summary, the CA policy began as a protective measure for industry to control the size of government. However, it evolved into a cost saving device to measure the efficiency of government operations.

Currently, the CA process is very complex and time-consuming. As a result, few people understand the process and there is a resistance to fully implement the policy.

C. CURRENT CA PROGRAM STATUS

1. Definition of CA Policy

Some functions are inherently governmental in nature and must be performed by in-house (government) personnel. An example of this type of function are the positions covered by the Nuclear Weapon Personnel Reliability Program, which are considered Governmental in the Navy. Research, development, test and evaluation (RDT&E) functions are also exempted by law. This exemption applies to direct RDT&E effort and does not include RDT&E support. Other functions, such as automated data processing (ADP) services, may be done by commercial sources but for reasons of national interest are performed by in-house personnel. These types of unique CA's are considered on a case-by-case basis. Still other functions can be performed equally well by in-house or private enterprise, and the determining factor in these instances is the least cost in a cost comparison study and a bid process. [Ref. 2:pp. 2-1, 2-2]
In performing a cost comparison the Government competes with private enterprise. The development of a performance work statement (PWS) is critical to the cost comparison process. It ensures that Government and commercial sources bid on the same scope of work. The design of a PWS is based on a systematic analysis of the function to be put under contract or already under contract. The procedure consists of a step-by-step review of the requirement to arrive at the specific output services and associated standards. Federal guidelines require "the most qualified persons available to write the PWS." [Ref. 5:p. 5] This requirement does not differentiate as to whether those persons should be from management or activity personnel who perform the tasks. This process of PWS development enables CA managers to pull together all of the essential information needed to state accurately a function's minimum required outputs. Examples of these functions could be vehicle maintenance, food service or refuse collection. PWS's also help to build a foundation that will help the Government determine the quality of the contractors or in-house service. The starting point in looking at a service function is to see how it is organized and what kind of service or outputs it provides. This is not to say that the PWS will require that a contractor adopt the Government style of organization. Rather, "PWS's will provide a framework for determining what is done by the organization."
These PWS's become the basis for development of standards, defining performance indicators, and identifying acceptable quality levels of performance.

Firm bid or negotiated procurement procedures are utilized during the cost comparison process. Government contracting personnel closely monitor and regulate the costing procedure to ensure federal contracting guidelines are met. Upon conclusion of the cost comparison, the process is validated by the Naval Audit Service and award is made to the lowest bidder.

All functions approved for continuation in-house are to be reviewed every five years. When military billets are included in CA functions, they are either exempted by CNO for military purposes, such as mobilization or training requirements, or converted to civilian positions.

D. CURRENT FIELD LEVEL POLICIES

Research indicates that the typical individual field level commands base their current CA policy on reaching the following two (2) goals.

1. Obtain exemption from performing a formal cost comparison on all CA's, if possible.

2. If CA studies are directed, make every effort to retain the function in-house.

Individual commands are attempting to reduce command CA studies through establishment of core capabilities, mission-related responsibilities and other compelling reason code exemptions.
These efforts to resist meeting the program's primary goals of efficiency and fairness lead to misconceptions and accusations within field level commands by affected workers. A generalized listing of areas relating to these misconceptions and accusations are:

1. Inaccurate interpretations or perceptions of program goals compared with the working program guidelines provided to field level personnel.

2. Inadequate field level resources necessary for performance of a creditable CA study.

3. Failure to define the role of command CA coordinators.

4. Program inequities in the treatment of federal employees.
III. CA MANAGERS AND STAFFS

A. INTRODUCTION

The overriding precept for the outcome of all CA contract awards is that the CA function will be performed in the manner most economical to the government, regardless of source (i.e., in-house vs. contractor).

The policy of the United States Navy in establishing their commercial/industrial activities program states that "the Navy will depend on both government and commercial sources to provide necessary products and services with the objective of meeting military readiness requirements with maximum cost effectiveness" [Ref. 2:p. 1-5].

Within field level activities, all commanding officers are required to "appoint a CA program manager to monitor and coordinate the operation of the commands CA program" [Ref. 2:p. 1-9]. These managers are responsible for the implementation of the Navy policy just discussed. Managers may be either military or civilian. Dependent upon the number and scope of CA's present within commands, CA managers may be appointed fulltime or in a collateral duty capacity.

Research in this chapter has sought to determine what field level problems are associated with managing and implementing the Navy's CA program within the context of individual command CA managers.
B. ROLE OF THE PROGRAM MANAGER

Military instructions and agency circulars provide CA managers with basic policy for the performance of their responsibilities. Their knowledge of program requirements for the completion of cost studies is adequate yet they differ as to what role to assume within their respective host commands. The following three (3) roles are generally found within field CA offices.

1. In-House Manager

In-house CA program managers felt they should be firm in maintaining the in-house responsibility for CA performance. The PWS, MEO and overall management study is sometimes manipulated to allow the host command and its federal employees to retain the function in-house. In-house CA program managers believe their staffs should work within program guidelines *at all costs* to ensure the retention of CA functions in-house.

2. Objective Manager

These CA program managers perceive their role within the CA program as being one of strict objectivity. They should not have personal concern for reductions in force (RIF), personnel transfers or the downgrading of civil service positions. Believing in the adequacy of CA program and civil service methods of employee redress, this CA manager divorces himself from overt employee concerns, working strictly within the guidelines presented for PWS,
MEO and cost development. Loyalty is neither to the host command, the activity under study or contract performance by private industry.

3. Contracting Out Manager

This CA program manager interprets the mandate of performance as one of ensuring the accuracy of the in-house bid. It is this manager's responsibility to see that the PWS and MEO includes all required taskings as well as adequate levels of activity staffing in terms of workforce and quality assurance assignments. They interpret the CA program manager's role as overseer of the government to prevent the underestimation of the in-house bid. They perceive the Navy-wide CA program goal as an eventual shift of CA performance to private industry.

These three varieties of outlooks towards the CA program distorts the collective effort of the personnel in program offices assigned to implement the program at the field level. CA program managers want to have their roles more specifically defined. The individuals and staffs responsible for PWS/MEO development and the entire management study package should not have to make grossly subjective interpretations of program goals to carry out their responsibilities.
C. RESOURCE CONFLICTS

1. Small Command CA Manager

Small commands and field level installations are rarely provided direct resource assistance in their management study efforts. CA responsibilities within these commands are assigned to military and civilian employees generally as collateral duties. Predisposed to primary duties, these individuals are often unfamiliar with the CA program, lack work experience in CA operations, and must rely on the employees currently performing the activity for assistance.

This lack of experience, coupled with reliance on fellow command employees, bias the role of the CA manager. Degradation of the in-house management study results from these associations. Time consumption, primary duties, employee hostility, lack of cooperation and the vast scope of PWS/MEO development contribute to a low quality output from the CA program manager who is assigned the position as a collateral duty.

2. Large Command CA Manager

Larger commands (public works, supply centers, etc.) maintain a large federal/military workforce and multi-million dollar CA contracts. As a result, CA managers are assigned on a full time basis, rather than as a collateral duty. However, these managers can have a problem interpreting their role. They can decide that they are any
one of the three types of CA managers addressed in Section B of this chapter.

Specificity in the role of the fulltime CA manager is crucial. Program direction must be defined as either working for in-house retention, objectivity, or eventual civilian sector performance. This definition is essential for efficiency and program cohesiveness. Role definition decisions should not be made by individual commands. The formulators of CA policy must evaluate, determine and publish the overall program direction. Forthrightness in program policy and role assignments at all levels of the command CA organization will alleviate the following historical areas of field concerns:

1. Eliminate the perceptions of in-house vs. contractor bias or vice versa in the development of in-house management studies.

2. Provide clear expectations as to what federal employees and CA program staffs can achieve through efficient management study efforts.

3. Provide continuity in management study performance between commands with CA's of similar nature (i.e., refuse collection).

4. Reduce performance time and management study costs.

5. Increase the quality and efficiency in management studies.

D. OPNAV

The majority of field level CA program managers interviewed held negative perceptions of the program policy makers within the OPNAV organization. The CA managers felt
there was a lack of receptiveness from policy makers in their efforts to retain CA's in-house by increasing efficiency. Any effort to re-establish in-house responsibilities for a CA, once it has been awarded to private industry, would ultimately always be denied. Associated with this belief is, again, the failure to define the role responsibility of CA program offices.

Confusion in the responsibilities of CA program managers at individual commands degrades the cooperative efforts of these managers. CA managers can improve the CA program through their interaction to standardize the methods of developing PWS's and MEO's.

The CA manager working to gain efficiency for in-house performance see the efforts as futile if the perception of the CA program goal is to lose CA's to private industry.

Program offices that have an unbiased attitude towards either government or private CA performance do not provide an adequate competitive foundation for cost comparisons. Competition exists when the goals of each party is incompatible. Within the CA program, competition is based on two parties (government and private industry) competing for performance of a single CA. Federal program offices which maintain an unbiased attitude as to which party succeeds in gaining performance is not providing a competitive environment.
E. A CONTRACTING OUT PROGRAM

The majority of field level CA program managers believe that the intent of the A-76/CA program is to assure private industry performance of all non-inherently governmental CA's. This belief is based primarily on two fundamental weaknesses of the program.

1. Five Year Review Requirement

Chief of Naval Operations Instruction 4860.7B requires a complete review of all Navy CA's by 30 September 1987 [Ref. 2:p. 3-1]. Functions approved for continuation via in-house (government performance) are required to be reviewed and recompeted with private industry every five years after an initial 30 September 1987 review. No such requirement exists for contracted out CA's. Due to this requirement CA program managers believe the program is biased in favor of private industry and will lead to the eventual loss of all CA's to the civilian sector. It is the contention that regardless of the efficiency in performance that in-house functions gain from their initial reviews and successes in previous cost comparisons, re-competition with private industry is mandated every five years. This policy allows inequitable treatment of in-house capabilities. CA contracts awarded to private industry which experience unsatisfactory performance or unacceptable costs require only an "informal review" of in-house capabilities to perform the CA. This informal review of the in-house
ability to perform previously awarded CA's occurs after remedial action fails to improve contractor performance. Re-solicitation with private industry is initiated if the remedial action failed to solve the poor performance of the initial contractor. The informal review of in-house capabilities to perform the CA then occurs if re-solicitation does not produce the cost efficiency desired in contractor performance of the CA.

Because of the lack of remedial measures and self-help alternatives in terms of review procedures, government employees and CA managers believe that the overall program is predisposed to favor contracting out to private industry.

2. Command Structure

Contracts performed by the civilian sector that are terminated for default due to performance or cost are offered to the next lowest responsible and responsive bidder, after validation of contract wage rates. If the government is the next lowest bidder, the function may be returned to in-house performance "if still feasible" [Ref. 3:p. I-3]. Navy policy in offering this option fails to address the loss of command structure that occurs upon conversion of a CA to private industry performance. Right of displaced federal employees to a first refusal of contractor positions and government placement programs for affected employees, eliminates the federal structure to allow for a return to in-house performance of the function.
The time required for rehiring and restructuring the in-house capability as well as loss of "corporate knowledge" precludes the fair competition with private industry that the program tries to dictate.

F. COMPELLING REASON CODES

CA managers abuse the application of Compelling Reason Codes while they are simultaneously criticizing the CA program for lack of definition and bias. Compelling reason codes are designed to streamline the inventory recognition of all CA's performed in service to the government. The codes are utilized to break down CA's into identifiable categories for purposes of assigning exemptions and for determining the cost comparison status of specific CA's.

Within field level commands and activities, Compelling Reason Codes are regarded as a primary tool to avoid the requirement to perform a CA. Managers view the ability to gain favorable Compelling Reason Code assignments from OPNAV as an important defensive tactic. Considerable time, effort and resources are utilized by CA managers and staffs in this effort of cost study avoidance.
IV. LABOR RELATIONS

A. INTRODUCTION

The cost comparison process requires CA program managers to work intimately with key personnel involved in the CA to be studied. Familiarity with the mission and functional requirements of the activity that is to undergo a cost comparison is required in order to adequately develop performance work statements and the associated management study used in producing the most efficient organization.

The ability to derive the measures of an activity's outputs keys on the cooperation of the federal employees who are actually performing the activity. Lack of cooperation by the employees and the failure to recognize their concerns in implementing the CA program results in inefficiencies. These inefficiencies can occur in construction of the PWS, the MEO and even the cost analysis. They are manifested as poor motivation, dissent within the host command. They degrade the fairness of the overall CA program.

This chapter centers on the concerns found among the CA program managers, staffs and federal employees relating to labor issues.
B. INCENTIVES

The overall personnel policies of an organization, and its methods for rewarding individual employees translates into actions that influence and motivate workers.

The CA program stresses efficiency as the criterion for contract award but the CA program fails to provide adequate mechanisms for encouraging in-house performance efficiency. Program managers perceive this lack of encouragement as a further step in the effort to contract out CA's to private industry. This failure also affects actual CA performance and the in-house bid development. Superior performance must be recognized as essential to the maintenance and sustenance of efficient in-house performance.

The CA functional departments management and the CA program staffs at field level activities dedicate time and resources to the establishment of an effective in-house organization. The benefits received from this effort are perceived as non-existent. The federal worker views occupational stability and recognition of service as civil service's primary benefits. Current CA program guidelines leaves the federal employee, who participates in PWS/MEO development and achieves efficiency, with only a tentative hold on his current position. That tentative hold is only maintained if the competition results in continued government performance. Efforts at efficiency that do not result in the government maintaining CA performance places
the federal employee in a position of having to choose from the following options:

a. Leave government service for private sector employment.

b. Transfer to other available governmental positions.

c. Retire, if eligible.

These options are not rewards to the federal employee for superior effort and efficient performance but penalties. Shifting to private industry may lead to a reduction in pay and benefits. Transfers within government billets are disruptive, costly and can result in the employee having to accept civil service grade reductions to remain in the same geographic area. Early employee retirements based on CA study results provide no benefit to the government, reduces an individual's effective work-life and should not be encouraged.

The reward system of any program can have a great impact on performance, morale and efficiency. The reward or compensation must justify the extra effort required for improved performance. The reward must be directly associated with that improved performance so that it is clear why the reward has been given. Within the Navy CA program, an incentive system to encourage federal worker's cooperation is absolutely necessary. However, the CA program, as it operates now, offers only negative incentive or reward.
1. **In-House Review Requirement**

Review requirements for CA's currently being performed in-house are limited to a one time, one year review [Ref. 2:pp. 1-10]. The review is conducted after completion of the first year of CA performance. It is performed for determining the adequacy of in-house capabilities to meet its award winning bid and performance criteria. Although mandated through Navy instructions, it is strictly for in-house consumption, never leaving the host command. Higher authority does not recognize and monitor in-house performance with the same scrutiny given to contractual performance. CA program managers view this position as an indicator of the overall program goal to transfer performance of all non-inherently governmental CA's to private industry. An annual statement of certification (Figure 4.1), submitted to OPNAV, could be instituted to insure adequate monitoring for sustained levels of in-house cost and performance, at or below bid levels.

It is difficult to measure the performance of individual employees accurately, especially when their outputs not directly quantifiable, as is true for many CA functions. OPNAV should require the host command to annually monitor and submit in-house MEO costs and performance data and compare it against their award winning bid. Through this submission OPNAV would be able to maintain a measure of efficiency of in-house performance.
(Activity) CA bid/actual analysis

MEO tracking start date: (Date)

Performance year: Period: From to

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<tr>
<th></th>
<th>Current Mo &amp; Yr</th>
<th>Bid Year YTD</th>
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<tr>
<td>Actual labor hours</td>
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<tr>
<td>CA bid labor hours</td>
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<td>(overtime)</td>
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<tr>
<td>Variance (hours)</td>
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<tr>
<td>(standard)</td>
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<tr>
<td>(overtime)</td>
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</tbody>
</table>

Actual material

CA bid material

Variance

Actual contract

CA bid contract

Authorized change

Actual other

CA bid other

Var

Remarks:

( ) exceeds bid

Figure 4.1 Annual Statement of Certification
Program managers want to motivate employees to higher levels of performance, loyalty, commitment and stability. Job security acts as an incentive measure for efficient performance. One way to motivate efficiency through job security is to allow an in-house functional group that has won a competition over private industry a ten year vice a five year review cycle before a recompetition with private industry.

Performance work statement (PWS) and most efficient organization (MEO) development would be greatly enhanced by incentivizing affected employees to provide more efficient, well standardized PWS's. Requirements for conducting an ambitious five (5) year review cycle could be removed, thus generating savings in terms of command resources. Reductions in host command time, manpower and funding would be a benefit to the overall cost savings of the program with the removal of this review requirement. OPNAV would be provided a more efficient timeframe to conduct audit and review services of management study submissions, which would standardize the Navy-wide CA policy for conducting these studies.

Instituting a non-monetary incentive system would alleviate the CA program from current allegations of unfairness to the federal employee. True competition with private industry would be initiated with both sides actively involved, at all levels, in providing the greatest efficiency
in performance of the commercial activity. Definitive roles would be established within CA program offices Navy-wide and result in greater cooperation in sharing improved PWS and MEO development techniques.

An incentive system would not constitute a policy shift away from the fair privatization of non-inherently governmental CA's. In-house failures to meet PWS, MEO and bid parameters would constitute grounds for civilian sector performance based on the next lowest bid. Private contractors remain in a superior position compared to the government to maintain, develop and deploy a CA organization. Significant changes in the scope of a CA function would also allow for the competitive contracting cycle to begin. The in-house CA program office would act as a catalyst and partner in fair, efficient competition with private industry.

In summary, an incentive system would generate increased savings in dollars to the government. These savings would result from intensified competition, reductions in resource usage, reduced administrative burdens, greater accuracy in PWS generation, standardization in both MEO developments and intercommand CA program structures for synonymous CA functions.
C. POSITIONS AND PAY

A continuing concern of the federal employees who perform CA studies is the effect the program has on civil service positions and pay.

As previously discussed, the cooperation of the functional manager and the federal employees who actually perform the service under study is vital to the efficiency, success and competitive level of the cost comparison effort. Lack of employee cooperation in this effort can result in loss of civil service grade positions and stagnation of individual pay scales. Employees who identify areas where reduced costs and greater efficiency may be achieved must face the fact that these efforts may negatively affect their current positions and future monetary compensation. In-house efforts at MEO developments normally result in a reduction of the activity's staff as tasks are more well-defined and combined. CA program managers rely on foremen and supervisory personnel to assist in the developments of these more efficient organizations. The paradox for supervisory personnel is that their decisions and findings can result in a reduction of their own positions and a capping of their near-term income. Foremen and supervisors who effectively reduce costs through activities consolidation realize that their own grade position will also be reduced because of the reduction in overall activity size. Concurrently, this reduction in position will not reduce his
or her base pay level because of "saved pay" entitlements. However, the employee will not be eligible for cost of living or annual federal pay increases during the two year saved pay time period. At the end of the two year period, the employee must assume a reduced grade position with a lower pay level.

Clearly, CA program managers are skeptical about the efforts made by functional managers and employees in their assistance to develop a truly competitive MEO structure. The career civil servant is strained to provide maximum cooperation. The CA program is saddled with accusations of inequity in the treatment of federal employees. The program itself is not meeting its stated goals of efficiency in CA performance. PWS's and MEO's are not as streamlined or as cost efficient in structure as competitively possible.

D. QUALITY OF WORK

Supervisory personnel in government performed CA's fear that MEO development and implementation will cause a reduction in the quality of CA performance. They contend that there is a potential for loss of experienced personnel through grade reductions. These losses will occur in order to meet efficient and competitive bid levels. The reductions in grade level positions would allow less experienced individuals to perform the task. A less experienced workforce will evolve regardless of whether the CA was awarded to private contractors or retained in-house.
These movements and changes within the workforce as a result of CA studies create the following concerns:

a. Loss of corporate knowledge
b. Reduced vested interest in performance
c. Increased managerial and administrative burdens.

E. RETIREMENT ANOMALY

Most federal employees are concerned about the negative impact of CA program studies on their continued employment. However, some employees use the CA program to gain an occupational advantage. Occurring on a limited scale, employees eligible for early or regular retirement will ascertain where and what positions will come under a CA cost comparison study. If these CA studies are not occurring within their host commands, they will attempt to transfer to commands whose CA's, compatible with their skills, are up for study. This effort allows the employee to gain federal retirement benefits while maintaining an advantageous position for receiving employment with a CA award-winning private contractor.

In taking advantage of the right of first refusal CA policy, these employees add to the workforce perceptions of unfair and poorly-structured CA program guidelines. This type of manipulation is detrimental to the development of the Navy-wide CA program and a loyal productive workforce.
V. CONCLUSIONS AND RECOMMENDATIONS

A. RESULTS

The primary purpose of this thesis was to investigate the allegations raised by field level offices toward CA program policies. This was done through personal interviews and discussions with CA program offices in the Monterey and San Francisco Bay areas. The conclusion is that field level CA program managers hold a low regard for the stated program goals. The majority of CA managers in the field, who are relied upon to assure efficient performance of the CA program, believe current policies to be biased towards private industry. Areas of policy that led to this perception were the lack of individual role definitions, five year review requirements, lack of resource support, breakdown of in-house command structures and the failure to provide an incentive system for performance.

Managers the author spoke with view current CA policy documents (i.e., OMB Circular A-76 and OPNAVINST 4860.7B) as the first attempt for establishing permanent methods and procedures for contracting out non-inherently governmental commercial activities. They believe it creates a situation allowing enormous potential for abuse, whereby managers and subordinates are encouraged not to strive for cost efficiency.
Federal and Navy officials must reaffirm the unbiased policy of the CA program. Actions must be directed towards ensuring that federal employees compete based upon their most efficient organization. Contractors develop MEO's and compete based on the incentive of expected profits. In-house organizations competition is not based on a sense of personal or organizational gain. Allowed to continue the CA program becomes, and is perceived as, a policy of in-house attrition vice fair competition.

B. RECOMMENDATIONS

1. Managerial Roles

Navy policy for conducting CA cost comparisons is based on cost efficiency and competition. Therefore, CA field managers working to provide an environment for economy and efficiency in cost comparisons, require strict role definitions. The following change to Reference 2, p. 1-9, Section 140.E.1 is recommended:

Appoint a CA program manager to monitor, coordinate and implement the operation of the command's CA program. This manager will be responsible for the efficient development of the in-house bid.

This change effectively assigns the role of the CA manager to working for in-house efficiency. Managerial guidance should ensure in-house competitiveness and foster team efforts at all levels of the affected CA towards increasing cost and labor efficiency.
2. **Incentive System/Review Requirements**

It is recommended that an incentive system and a change to review requirements as discussed in Chapter IV, Section B be provided. Through these changes potentially affected federal employees would still be allowed to assist in the development of the in-house bid. But, their involvement would be more highly motivated due to the incentive of greater stability. CA program managers working in their new roles with foremen and senior activity supervisors will act as final authority for recommended wage and manpower levels. Allegations regarding changes to position and pay, as well as quality of work, would now be inapplicable. Program decisions on grade positions and pay levels would truly be an in-house function, subject to determination at the activity level. Quality of work allegations would subsequently be removed as activity personnel themselves become involved in final MEO and PWS determinations.

The Navy's CA policy needs to provide equity in its treatment of both the federal and civilian parties participating in the program. Without equity in the conduct of the program towards the two generalized groups of players, the level of competition is degraded and the potential savings to the Government is decreased. Current CA policy and guidelines do not provide this equity, especially in its treatment of the federal employees.
C. AREAS OF FUTURE RESEARCH

Further research in the following areas is recommended:

1. Causes of poor contractor performance and cost overruns leading to terminations for default.


3. CA incentive system implementation to support the federal employee.

4. Developing strategies and practices to enhance the Government chances of winning A-76 competitions.
APPENDIX A

LIST OF INTERVIEWS


2. Lorenzo, M., LCDR, Controller, Fleet Numerical Oceanographic Center, Monterey, California, August 1986 (personal).


5. Yant, G., Commercial Activities Program (Manager), Public Words Center, San Francisco, California, September 1986 (personal).

6. Redcher, R., Commercial Activities Program (Manager), Naval Supply Center, Oakland, California, September 1986 (personal).


8. Sheperd, A.M., Contracts Office, Naval Supply Center, Oakland, California, September 1986 (personal).


10. Watts, J., Contracts Office, Shipyard Mare Island, Vallejo, California, September 1986 (telephone).

11. Wegener, G., LCDR, Contracting Officer, Naval Air Station, Alameda, California, September 1986 (telephone).
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Program Manager
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