

Outsourcing as Prevalent Practice-Government and Commercial Environments (U.S. and Worldwide)

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Abstract

Outsourcing is becoming a more established practice in increasing numbers. It allows the “buyer” access to needed services, supplies without major commitment and investment such as ownership would entail. Sellers are ready and willing to “answer the call”. It has become a regularized function of both government bureaucracies and commercial operations.

Keywords: Outsourcing; Prevalent practice; Government; Commercial environments; USA

Introduction

Some may say the “wave of outsourcing (come call it a tsunami) has run its course. But on observation, it has become a regularized function of both government bureaucracies and commercial operations. On the government side, we think in the U.S. of the republican congress and the various agenda’s for instance, President Clinton was forced by Newt Gingrich’s Republican Congress (first for many years of the dominant Republican party in U.S.) to engage in the National Performance Review (NPR) which was spearhead by Al Gore, Vice president. During this phase, scores of government bureaucrats were given incentives (positive and negative) to retire with most receiving a “soft landing”. The numbers of retiring federal workers was around 180,000 (reference). Incoming President George W. Bush had as one of his President’s Management Agenda Pillars (PMA policy) “competitive sourcing” which was his version of opening up government work for public private competitions. Out of this era sprung the government employee groups of “Most Effective Organization” or MEO’s hiring contractors and working to create their own proposals of former unionized government worker force to compete with companies from the private sector for what used to be their work projects/programmes. Enter a new era where government schedules contracts are let to contractors to coach the government workers on efficiencies and other areas to improve their proposals to win back their work areas and retain jobs/sphere of influence.

Let’s not forget the commercial world where this practice originated. The institute of supply management has been an active reporter and investigator of the outsourcing practices of business/manufacturing and other enterprises for some time. They reported in the 90’s that “governments are “bullish about outsourcing” [1].

Why? Cost savings are just one component of the equation, other factors include access to latest know how, technologies, stream lining and a host of related important and influential factors to help promote the bottom line in business. Moreover, it assisted companies’ focus to emphasize their “core function” and leave other business matters to outsourcing matters. Not only effective cost –wise but business management justifications as well. Even smaller businesses found advantages in outsourcing things such as payroll, accounting, legal, and other functions. It became more effective than housing these staff in house.

It wasn’t long before government caught whiff of this new change in business structure and saw the advantages enjoyed and through

cracks and crevices found niches to employ contractors in the formerly “Inherently governmental” arena. Before long, it became wide scale although not without hiccups and problems.

Mechanisms/Policies Government Used to Employ Outsourcing Partners

Things got shook up quite a bit when the Republican Congress came into DC in mid-90. Before long, a lot of things were going on. Including the “Contract with America”, the “National Performance Review” headed up by Al Gore. Things such as big posters on the wall of government agency headquarters with words like “Faster, Better, Cheaper” in big print and the signatures of many division directors, office branch chiefs, etc. To his credit, President Bill Clinton cooperated and many cost savings were generated to boost the budget surplus that had been projected (of course still deficits in American treasury with Japan and China holding most of the Treasury Bills). With the National Performance Review came reductions in number of employees by more than 180,000 within a few years (of which yours truly is one). Most had a separation by way of a “Soft landing” [2]. With either an enticement of \$25k separation check and the pension for those who qualified, or “disability retirement” if it could be justified or others means. One of the consequences was a loss of a lot of “institutional knowledge” that bureaucrats had accumulated over years of service. So then there was a push for training and mentoring by professional associations such as the National Contract Management Association that works with the contracting specialists.

The policy that really got things rolling towards use of outsourcing partners was the Federal Activities and Inventory Reform Act (FAIR Act). This was passed by Congress in 1994 and required all federal government agencies to list all their activities and categorize these as “commercial in nature” or “inherently governmental” in nature. The things that were commercial in nature list would be either outsourced or put up for employee – contractor competition under the “Most Effective Organization” scheme. The MEO programs allowed

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government employees to rally and organize and prepare a proposal for reclaiming the work and jobs they once held as government employees as newly formed organization formed with new efficiencies, etc. to offer an alternative to the status quo and show a superior organization in comparison to the contractor organization. This is a form of MEO versus contractor(s) competition. Historically, some have won and some have lost. The ones who lose may often get offered employment under the new winning contractor organization but usually with reduced benefits in one form or another. It seems to depend on how well the employees organize the contractor they hire to help them make their proposal and the predetermined disposition of the federal official in charge of making the award decision. Historically, the Military Base at Guam was targeted for outsourcing by high ranking military at great dismay to the federal employee union there. However, it was justified by cost savings of a dramatic amount which were ate up by "contract creep" or increases in price with change orders, unanticipated events/situations and such. By contrast, the Navy Pensacola Florida shop was able to keep their work in house under federal government employees, by hiring an effective contractor to help them win with their proposal [3]. It is interesting to note that the federal government, in their "schedules" of contractors section actually has a category of contractors who can be hired w/ federal dollars to help federal agency employees prepare proposals under MEO competitions.

Original Stem-A-71

The original policy source of outsourcing was the A-71 White House directive of 1955 that laid the ground work that "commercial work that government does should be done by private sector entities" generally paraphrased. That leaves out the areas of "Inherently governmental activities" such as making decisions and signing contracts – an area designated for government employees only. Entire papers have been written on the scope of what is inherently governmental, and with recent waves of increasing pushes for outsourcing government activities, some division directors have resorted to declaring their entire departments as "inherently governmental" as a protective shield from requiring categorization as a commercial activity. It should be noted that even inherently governmental functions can use analysts, and support personnel from the contractor (private side) to support their work in functional work of price analysis, market research, general office detail etc, as long as it is reviewed by appropriate government designated employees. A recent area of interest has been the procurement function and letting of contracts when government has fairly recently allowed contractor support in the areas of contract specialist functions to support the contracting officers when short of staff or lacking resources to hire their own personnel. Of course, there is the inevitable "deadline" and wrongful contract award by contractor staff to "get the job done". Later, these are investigated and researched for further action.

George Bush policy-Competitive Sourcing under the President's Management Agenda (PMA)

When president George W Bush came to power in 2002, he had a five pillar PMA. One had to do with budgeting/financial matters of the nation, another had to do with "Human Capital" (which some oppose to the term because it refers to people as objects rather than human) and "Competitive Sourcing". Some claim this is slightly different version of the traditional sourcing. It generally laid the ground work for the competitions between government workers (in house) and private companies wishing to do the work of that office by allowing a competition between the proposals of the two organizations, i.e.,

the government worker department would have to make a cost and technical proposal to retain the work within their organization by competitively pricing the job categories and planned tasks/coverage. It would have to compare positively to what the private sector could offer in terms of pricing and technical competencies, and task coverage. Thereby, the government Most Effective Organization (MEO) is born and must encourage government workers to streamline their operations, improve their organization and offer technical improvements compared to the skill set and prices offered by private companies. This corresponds to the incremental change of the policies of the FAIR Act referenced in previous sections of this paper and the National Performance Review under Vice President Al Gore whereby some 180,000 workers were let go in the federal government through "soft landing" such as early retirement, incentives, retraining etc. [4]. (under President Bill Clinton, and the Republican Congress headed by Newt Gingrich at that time, having recently come to power as speaker of the house of representatives in Congress). To this day, the practice in its latest version still exists. (Note 1: It should be noted that the efficiencies gained during this era, well, cost savings, and consequent budget surplus that resulted made for a positive gains in the national budget and reduction of debt. And it was accomplished through the hard work of a lot of people, adjustments and sacrifices. These gains were rapidly and fully spend under the George W Bush era for the war in Iraq, that some wonder if it was well spent and tremendous sacrifices of soldiers' lives) (Note 2: there is an iconic photo of president Clinton and president Geo W Bush walking side by side in the Haiti earthquake recovery environment with president Geo Bush looking cocky as usual and Bill Clinton, looking astounded that the funds his administration sacrificed to save could be so readily spent). (Note 3: A budget deficit or surplus terminology does not mean that the national debt is not there. It is a huge debt and regardless if there is a national budget surplus, the reserve debt still sits at looming balances).

Obama Strives to Retain Government Workers Rights "Insourcing"

Under the rubric of the outsourcing versions in the president's management tool kit, the President created a policy of "Insourcing". This is keeping with his tradition of favoring the public and worker's rights over corporate profits. Under this policy scenario, a department head in government may declare his or her office/department as "inherently governmental" activity and thereby allowed to hire and retain staff as government employees. Numerous papers have been written on the policy of defining inherently governmental categories. In the world of procurement it has been extended to allow for government contracting officers to employ contractor "specialist" help for close out first of all, then expanded to all kinds of "contract specialist support" such as market research, price analysis, technical review and correspondence with the contractors. Some references to the evolution of these practices in noted in Johnson article [5].

Edward snowden-Case of Contractor "mis-behavior"

In this example, the contractor at a military installation in Hawaii, gained access to a secure government computer database and did some individual investigation. How he gained access has never been clear, but perhaps he "lifted" the password of some government employees. When he found that the U.S. government was monitoring all sorts of phone records, and other sensitive information on citizens that was not known or documented in public spheres, he chose to escape and took a circumvented route to other countries ending up in Russia where he currently resides and became a well noted "Whistleblower"

of this sensitive spying practice. Whether he is a hero or traitor, is up to personal opinion, but he sacrificed a lot to reveal this practice since many sources say he can never return to the U.S. because he would be tried by a rigged court and never receive a fair trial. According to some reports, he would be subjected to a military tribunal and it would be heavily stacked against him.

Second Case of Organizational Conflict of Interest

In this case, a government contractor worker in Hawaii was telling his office superiors that he was taking sensitive military design secrets home to work, but in reality, selling trade secrets to Chinese girlfriend. In turn she was conveying these secrets to the Chinese government.

The term “organizational conflict of interest” refers to proper delineations of responsibilities and access by two different organizations when engaged in business practices together. Most commonly, it is known to be applied to the contractor organization working with a client. In these two previous cases, the employees known to engage in wrong doing were employees of another contractor business working at a government facility site.

Many organizations this day proactively manage boundaries in organizational interactions and allowances or privacy with regards to access to proprietary information or employees (cross hiring), etc. It is often the responsibility of the contract specialist support team and perhaps with input from the legal department to draft up these policy agreements for signature by both “buyer” and “seller”. In turn, they are signed with authority to bind both parties with repercussions for violation.

Commercial Side-Use of “Outsourcing” as Business Practice Efficiency

There are different reasons for using outsourcing on the commercial side, but the two sectors are interrelated. In the case of highly sophisticated computer technology, leasing offers its advantages by allowing access to latest and greatest technology while minimizing investment, training and the consequential obsolesces and replacement. It also offers advantages on the balance sheet of holding capital equipment and is a line item monthly payment as opposed to annual depreciation, etc.

Another advantage to outsourcing is the idea of gaining capital investment into businesses that need the influx of capital. This was the case of being in California when they sold their IT shop to IBM to do the work for their business organization in that location. IBM bought the computer area of the company with an influx of capital (much needed) under pre agreed conditions to service the larger company operations in that location. Employee migration was facilitated so company employees of being could transfer as contract employees to IBM and maintain their jobs, often w/ reduced benefits, etc. (interview w/ affected employee, who had to work weekend shift to recover health benefits for family, 1995) [6].

Further rationale, is the efficiencies gained by the company streamlining its operations to focus on its “Core” purposes and outsourcing the other parts of the organization. Example: If a company is a design company, it may wish to outsource its manufacturing arm and let others with specialities in that area employ there techniques to garner efficiencies in that area and save the company lots of much needed dollar resources. In the case of Lucent Technology, the company was able to outsource its manufacturing arm to achieve massive savings in business operations-even more than 70%. This is

the advantage of focusing on core business processes and allowing outsourcing partners with greater efficiencies to perform the areas they are best at skilled practices [7]. For all of these reasons, the institute of Supply Management [1] reports that governments and businesses worldwide are “Bullish about outsourcing.”

Leasing as Form of Increased Outsourcing.

Under Article Two (2) “A” of the Uniform Commercial Code, the practice of leasing is a business practice that spun off from the sale of goods (Article Two (2)). It follows some similar practices but is a business form unique to itself. With the financing and banking operations of the late twentieth century loosening funds for these purposes, it became attractive to many businesses and was picked up by the government as a convenient and efficient business practice. It allows businesses to acquire expensive technologies and not have to worry about obsolesce. It allows government agencies to lease planes for instance and leave the repairs to the outsourcing partners. For highly complicated computer equipment the buyer (lessor in this case) is not responsible for engaging in a lot of training of employees to bring up to speed. In the case of construction, certain equipment is only leased when it is needed and the “buyer” doesn’t need to invest in maintaining equipment or storage and transportation. It’s a win-win situation all the way around.

Conclusion

Even with its problems, outsourcing is becoming a more established practice in increasing numbers. It allows the “buyer” access to needed services, supplies without major commitment and investment such as ownership would entail. Sellers are ready and willing to “answer the call”. With the financial system allowing and encouraging this type of business arrangement, it is a business practice in tune with the times.

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