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Federal 'In-sourcing' Plan Draws Mixed Reviews

By Marjorie Censer
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As contracting advocates ready for a fight over the government's policies to move more work in-house, at least one local company is taking an enterprising approach.

Adecco Government Solutions of Alexandria is talking with the federal government about ways it can assist agencies staff positions without drawing from contractors, said Gary McDonough, vice president for strategic account acquisitions.

Adecco's push reflects the complexities around the government's recent embrace of the "in-sourcing movement," as it is called. While contractor industry groups are crying foul, some companies say the effect has been minimal and others even report they could benefit.

In 2009, President Obama said the federal government needs to ensure it has the capacity to manage and oversee its contracts, and Defense Secretary Robert M. Gates said the Pentagon alone would seek to hire as many as 30,000 new civil servants -- in place of contractors -- to oversee work within five years.

According to the Defense Department, in-sourcing should occur when a task is "inherently governmental," or a function that should be done by government employees. But, in areas not considered inherently governmental, in-sourcing shouldn't happen if civilian performance is shown to be more cost-effective, the Pentagon says.

But industry organizations contend the government is in-sourcing without conducting thorough analyses as to whether a particular switch will actually save money and improve efficiency.

Robert A. Burton, a partner at Washington law firm Venable and a former official at the Office of Federal Procurement Policy, is overseeing the launch of the Small Business Coalition for Fair Contracting, a group set up at the request of several small-business clients whose employees have been hired away by the government.

"They just don't feel like they have that much of a voice," he said of the group's small-business members. The coalition is working to educate Congress and federal agencies about the consequences of in-sourcing.

Jim Sheaffer, president of CSC's North American public sector, said industry has generally backed efforts to ensure government employees perform mission-critical roles. But he said agencies looking to in-source work should make sure they're using "apples to apples" comparisons.

"We don't just provide bodies," Sheaffer said of contractors. "We provide solutions, we provide deliverables, we operate against a set of contractual requirements that we're delivering back to the government."

Stan Z. Soloway, president and chief executive of government contracting trade group the Professional Services Council, said the new regulation is being used to push some contractors to offer lower rates lest the work simply be moved in-house.

Some, though, are skeptical that in-sourcing is damaging the contracting industry.

"In-sourcing has not made a material difference at all for any of the Beltway bandits. The rhetoric far outstrips the reality on in-sourcing," said Erik Olbeter, a Wall Street analyst who follows government services firms. "That's not to say it's not happening, but it is not happening at a pace or a level that people expect it."

Sheaffer acknowledged that in-sourcing is unlikely to seriously harm CSC.

"I don't view it as something that threatens my organization's ability to do business," he said. "The overall volume is just not of that magnitude that I see it as a threat to our existence."

However, he and others -- including Burton and Soloway -- said the policy has been more problematic for small businesses.

"I believe small businesses have some legitimate concerns, existential concerns about whether the in-sourcing policy could put them out of business," Sheaffer said.

Olbeter contended smaller firms are facing more problems not simply because they're small, but because they tend to perform tasks that are more likely to be in-sourced. Larger contractors -- recognizing the push to move in-house certain functions -- have moved away from those areas.

In the meantime, Burton said Venable plans to continue recruiting members to its coalition and eventually form a steering committee. Soloway has sent a letter to Gates expressing PSC's concern that in-sourcing has become "quota-driven."