



President's Perspective

In-Sourcing Efforts Require Careful, Balanced Approach

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The Defense Department is now putting the final touches on its sweeping "in-sourcing" initiative that the Obama administration launched in early 2009.

The plan is to bring in-house 33,000 contractor jobs between 2011 and 2015. Of these, 10,000 will be acquisition workers. In addition, the Pentagon intends to create 10,000 new acquisition positions. Bottom line: the defense procurement work force will grow by 43,000 and the acquisition sector will expand by 20,000.

Some growth in personnel seems necessary and prudent. Everyone agrees that shortfalls in the government acquisition work force — in both skills and numbers — must be fixed. Of particular concern is having sufficient expertise in key areas such as systems engineering, contracting and program management.

It is important, however, to make sure that in-sourcing does not have detrimental effects on the industrial base. The government should ensure that the justifications for in-sourcing are fair and do not unreasonably punish the private sector.

Stan Soloway of the Professional Services Council points out that the administration is assuming a 30 to 40 percent savings from non-competitive in-sourcing, and that these savings don't reflect the government's true costs. He also concludes that some in-sourcing decisions are made arbitrarily, without careful study of what actual skills are required. One needs to keep in mind that the ultimate goal here is to increase efficiency in federal programs and to make the government a smarter buyer.

Loren Thompson of the Lexington Institute cites distrust of contractors as one justification for in-sourcing. This is not a valid reason. Thompson also lists several downsides to in-sourcing: Public-sector workers are almost impossible to displace once hired, so the government loses flexibility in adjusting the work force to the demand. It also drives up its long-term costs. Other negative consequences are the loss of industry expertise and a likely decline in private-sector investment.

Along with all of this have been scattered industry complaints about the government "poaching" industry employees. Although defense officials deny the accusations, it must be acknowledged that the only place where government can recruit qualified acquisition workers is industry. So some of this is, in fact, occurring.

Unconnected to the in-sourcing program, but also worrisome, is the movement of government depots to bring in-house the workload that currently is performed by industry. The depots argue that under the rule that calls for a 50-50 split of the workload, they need more work to keep their percentage up. As the services begin to retire equipment — especially aircraft — faster than it is being replaced, the result is less depot work. But industry is squeezed as well, since fewer platforms are being procured and industry volume begins to recede at the same time that depot work begins to dry up. Both sides want the workload, but what is the right balance?

In a recent report, "The Vanishing Arsenal of Airpower," analyst Rebecca Grant concludes that industry's best opportunities for increased business in the future are in maintenance, repair and overhaul work. This may give industry a chance to keep skills and expertise alive. As things stand now, she says, the United States may be down to only one producer of fighters and only one producer of fighter engines in just a few short years.

Clearly something must be done to manage this process. The Defense Department makes it a policy to rely on market forces to manage the industrial base. This is unacceptable. Interestingly, however, the department is somewhat managing the industrial base by beginning to pull workload.

It should be noted that industry has a successful track record in supply chain management. Military logistics typically operates with a "just in case" mentality, while industry excels in "just in time." Also industry is a source of first-rate engineering, production and innovation. The government doesn't always compete in these arenas.

Properly viewed, the defense industrial base has only one customer: the government. If the government doesn't buy, the base will vanish. Most companies in the industrial base depend on these sales to survive. Only a few have commercial work, and much of that commercial work is not transferrable to defense products.

One concludes that the government does need more expertise in acquisition in order to be a better buyer. But the push to improve capability and skills must be focused and not arbitrary. Also, budget estimates need to be realistic with respect to costs and savings, or else the war fighter ends up bearing the brunt. In-sourcing should not be viewed strictly as savings.

Finally, the process requires active management to ensure that industry capability does not suffer a critical failure as the in-sourcing process and depot workload reallocation proceed. A way must be found to preserve both competition and industry capability as all this unfolds. A balance is needed, and smart management is required. Leaving it to market forces won't work.