

Government Business Council

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Inside Federal Outsourcing

A Candid Survey of Federal Managers

May 2015

Purpose

The U.S. government finds itself in a bit of a paradox. Federal agencies' mission scope is evolving and expanding on a daily basis, while their budgets remain stagnant, regulations keep them perennially understaffed, and new technologies necessitate unique and in-demand skill sets. As a result, agencies are increasingly turning to three forms of outsourcing—contract personnel, shared services, and business process outsourcing (BPO)—to help close this widening capabilities gap. While most government employees are likely familiar with contract personnel, professionals employed by private firms who perform services for the public sector, other forms of outsourcing like shared services and BPO are perhaps less understood. Shared services, as practiced in the federal government, are applications or business processes that are centralized and provided, either across a single department or agency, or by one federal agency to other departments and agencies. In both cases, shared services are oftentimes supported by a commercial provider. BPO, on the other hand, refers to the process of handing over the execution of a specific function or business process to a third-party commercial provider, which is often located off-site.

However, questions remain about whether agencies are pursuing outsourcing on an ad hoc basis, or whether they are adopting a more strategic approach that takes into account the unique strengths and limitations of contract personnel, shared services, and BPO.

Methodology

To assess the perceptions, attitudes, and experiences of federal managers regarding the ways their agencies use different forms of outsourcing, Government Business Council (GBC) and Accenture deployed a survey to a sample of *Government Executive*, *Nextgov*, and *Defense One* online and print subscribers in September 2014. The pool of 385 respondents includes employees at the GS/GM 11-15 grade levels and members of the Senior Executive Service (SES). At least 34 federal and defense agencies are represented. The findings included here are weighted by department/agency to more fully reflect the composition of the overall federal workforce.

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Executive Summary

Executive Summary

All agencies use outsourcing, though federal managers' awareness of the different types varies

Nearly all respondents indicate that their agency outsources services. Contract labor is the most common form of outsourcing according to respondents, even though it can cost as much as 80% more for a contractor to perform comparable functions to an agency employee. Eighty-six percent of respondents say that their agency relies on contract personnel for mission-focused or mission support work, while 65 percent say their agency outsources services to third-party vendors (BPO). Information technology, performance management, and logistics are among the most commonly outsourced services. Despite the fact that all agencies use shared services, respondents are the least familiar with this type of outsourcing. Just 12 percent of respondents indicate that their agency uses services provided by another department/agency.

Agencies use outsourcing primarily to acquire outside knowledge and technology

Whether it is contract personnel, shared services, or BPO, respondents say the top reasons their agency turns to outsourcing are to leverage external knowledge and expertise, and to gain access to external technologies and business processes. In addition, respondents say they believe shared services can help standardize processes across agencies, and that both contract personnel and BPO can help agencies bypass headcount restrictions on full-time employees. Respondents' greatest concerns are that BPO (62%) and shared services (56%) will cause their agency to overpay for services. Senior-level managers are less likely to be concerned about job losses than their mid-level counterparts, worrying instead about losing institutional memory and operational control.

Federal managers rate their experience with outsourcing between satisfactory and good

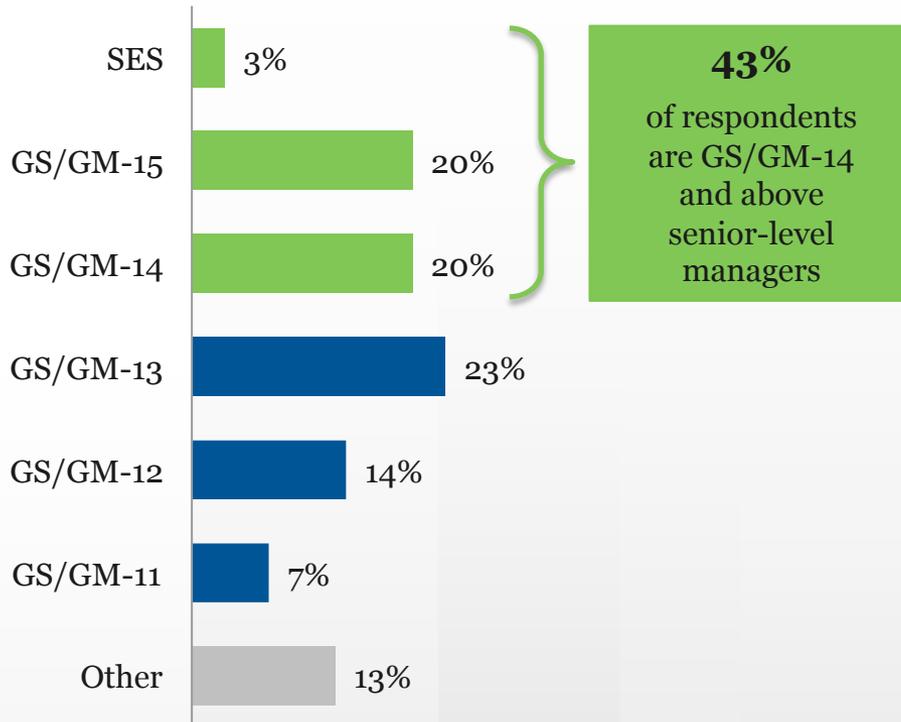
When asked to grade their experiences with outsourcing on an A – F scale, on average respondents give contract personnel a “B-,” shared services a “B-,” and BPO a “C+/C.” Outsourcing is also graded more favorably by senior-level managers (GS/GM-14 and above) than their mid-level counterparts (GS/GM-13 and below). More specifically, senior-level managers graded their experiences with contract personnel (“B/B-”) and BPO (“C+”) roughly half a letter grade higher than mid-level managers (“B-/C+” and “C+/C”, respectively).

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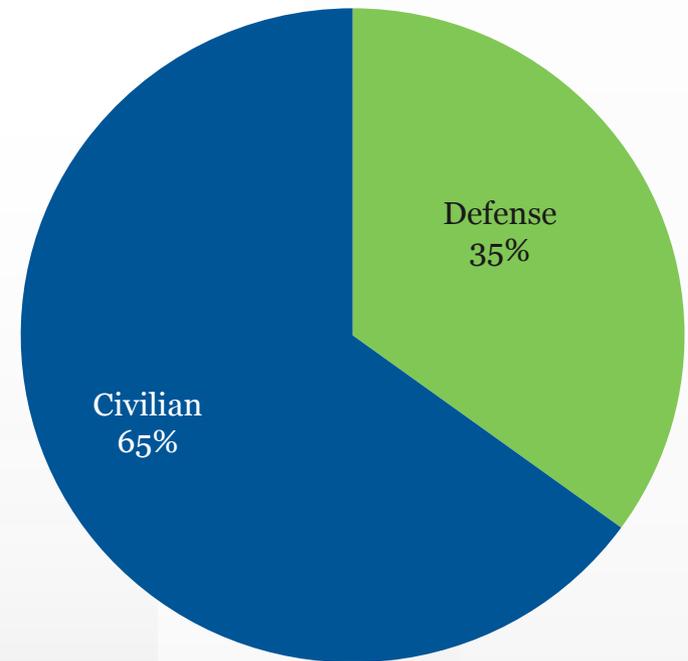
Respondent Profile

Almost half of survey respondents are senior-level managers, mostly from civilian agencies

Job Grade

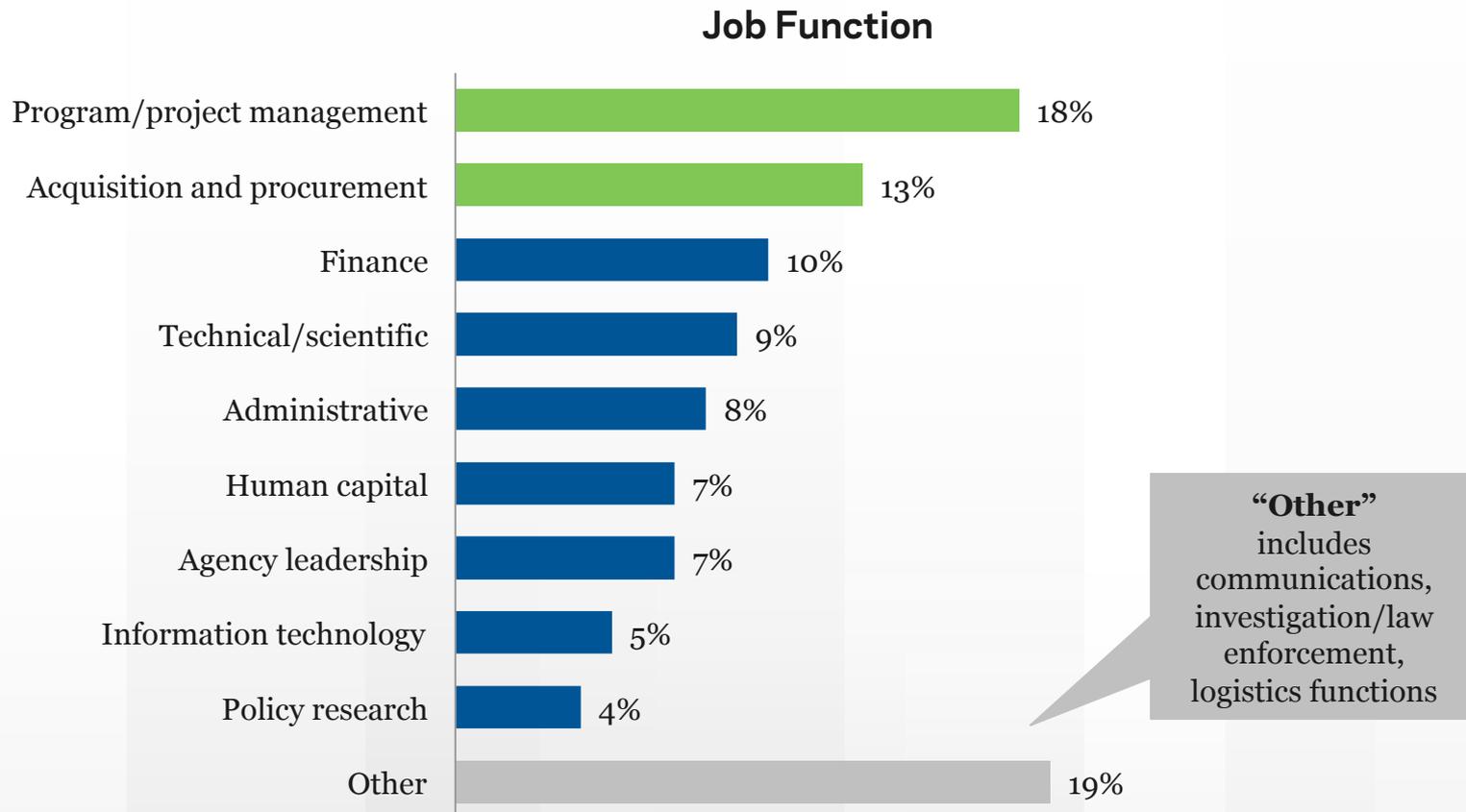


Department/Agency



All respondents
Job Grade n=381, Department/Agency n=385

Respondents represent a wide variety of job functions



All respondents, n=381

Most frequently represented agencies

Department of the Army
Department of the Air Force
General Services Administration
Department of Homeland Security
Department of Defense
Department of Health and Human Services
Department of Veterans Affairs
Department of the Interior
Department of Transportation
Department of the Navy
Department of Agriculture
Department of Energy
Department of the Treasury
National Aeronautics and Space Administration

Department of Commerce
Department of Justice
Department of Housing and Urban Development
Environmental Protection Agency
United States Marine Corps
Department of Labor
Department of Education
National Science Foundation
Social Security Administration
Department of State
Agency for International Development
Office of Personnel Management
Nuclear Regulatory Commission

Agencies listed in order of frequency

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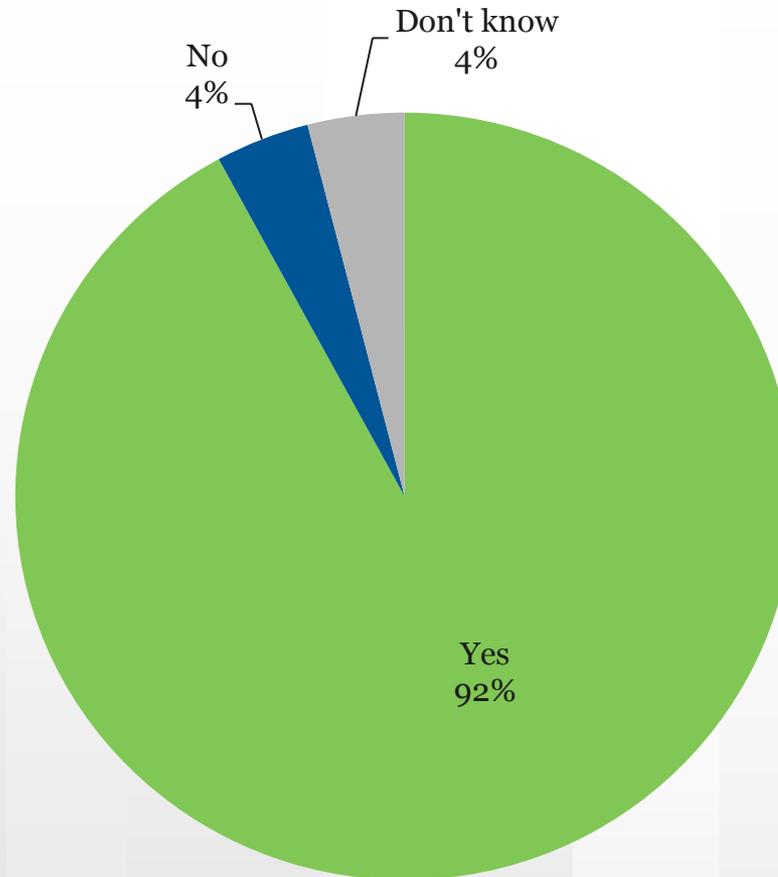
Research Findings

i.

The Federal Outsourcing Experience

Nearly all federal managers say their agency currently outsources services

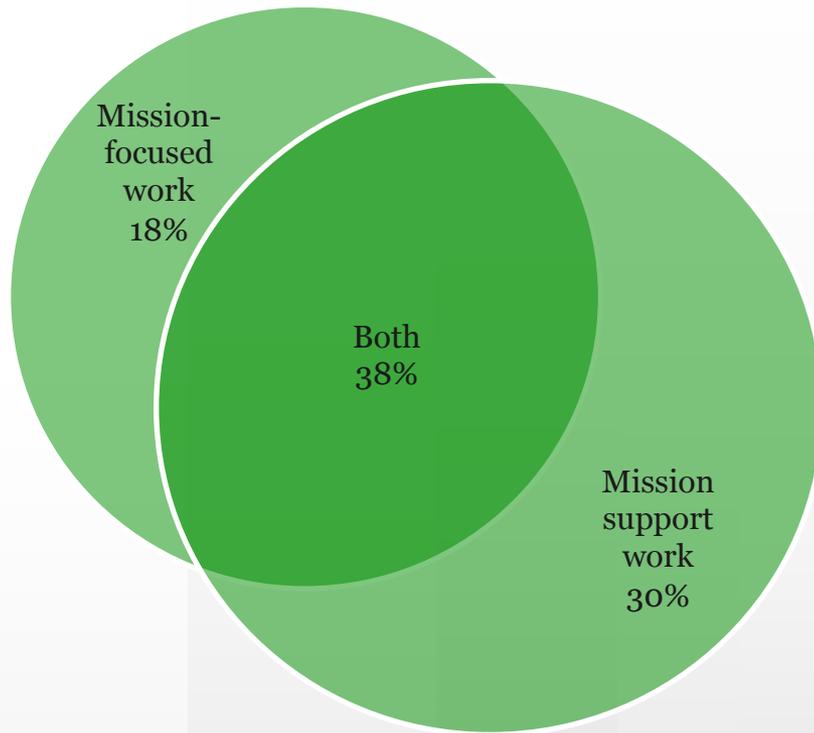
Does your department/agency currently outsource any services?



All respondents, n=385

Federal managers are aware that their agency employs contract personnel

Does your department/agency currently employ contract personnel to augment its staff of federal employees?



86%

of respondents say their agency employs contract personnel for mission-focused **or** mission support work

No
8%

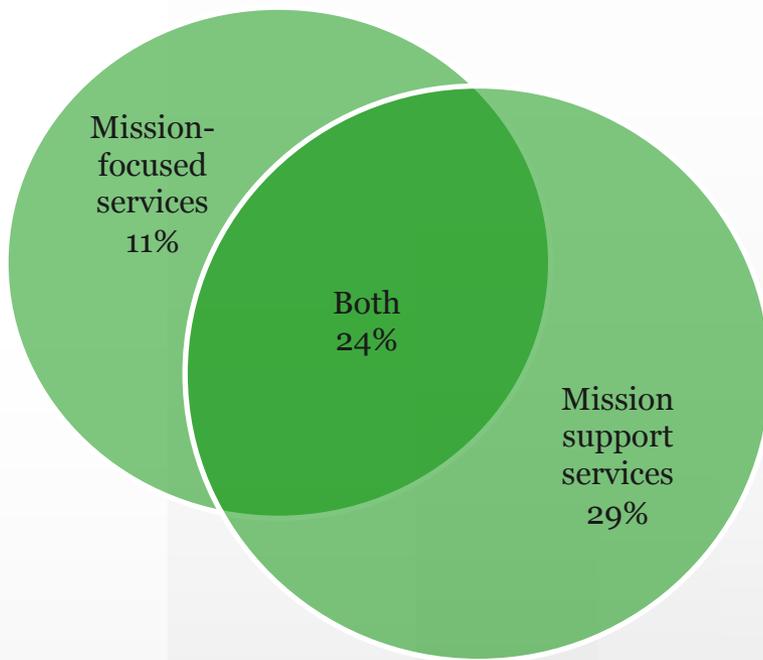
Don't know
6%

All respondents, n=385

The answer choices for "mission-focused work" and "mission support work" are not mutually exclusive

Federal managers are also aware that their agency uses business process outsourcing

Does your department/agency currently outsource services to third-party vendors (entities outside the federal government)?



65%

of respondents say their agency uses BPO for mission-focused **or** mission support services

No
15%

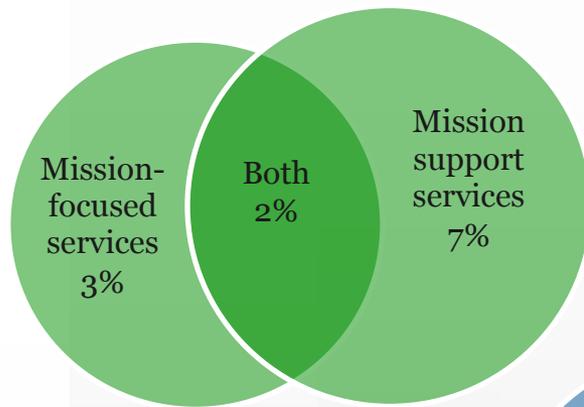
Don't know
20%

All respondents, n=385

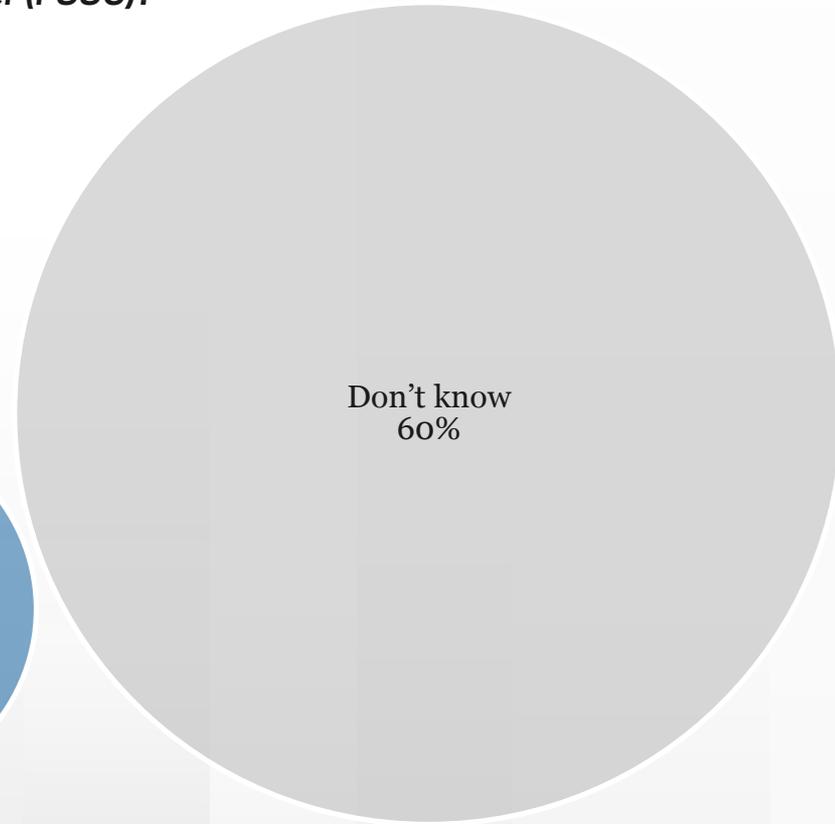
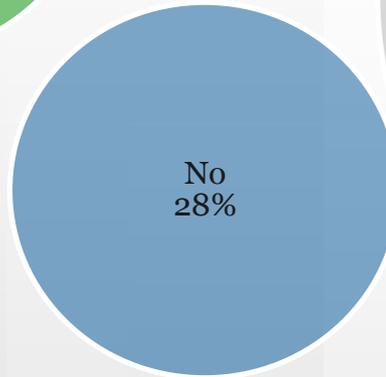
The answer choices for "mission-focused services" and "mission support services" are not mutually exclusive

Federal managers are much less aware that their agency utilizes shared services

Does your department/agency currently use services provided by a Federal Shared Service Center (FSSC)?



Only **12%** say their agency uses shared services for mission-focused **or** mission support services



All respondents, n=385

The answer choices for "mission-focused services" and "mission support services" are not mutually exclusive

However, all federal agencies use shared services in one form or another

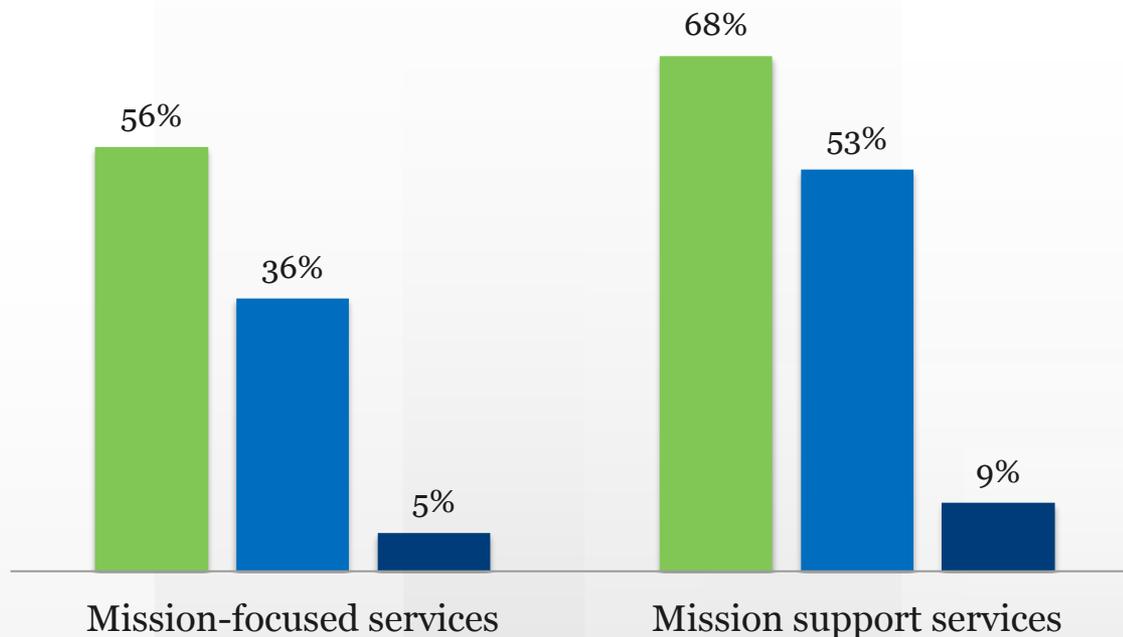
Shared Service Providers	Core Services Provided
Department of the Interior – Interior Business Center	HR & Payroll, Financial Management, Acquisition Services
Department of the Treasury – Administrative Resource Center and Shared Services Programs	HR & Payroll, Financial Management, Acquisition Services, Data Center Hosting
General Services Administration – Shared Services Center	HR & Payroll, Financial Management, Data Center Hosting
Department of Transportation – Enterprise Services Center	Financial Management, Data Center Hosting
Department of Agriculture – National Finance Center	HR & Payroll, Financial Management, Data Center Hosting
Department of Health & Human Services – Program Support Center	Financial Management, Real Estate and Logistics, Acquisition Services
Department of Defense – Defense Finance & Accounting Services	Financial Management, Payroll
Department of Defense – Defense Civilian Personnel Advisory Services	Human Resources

www.performance.gov/content/shared-services#progress-update

Contract personnel are the most common means of outsourcing, say federal managers

Types of Outsourcing Used by Federal Agencies

■ Contract personnel ■ Business process outsourcing ■ Shared services



However, contract personnel are also the most expensive:

Contract personnel can sometimes cost federal agencies as much as **80%** more than federal employees to perform comparable functions.¹ Shared services and BPO, on the other hand, are able to leverage efficiencies from scale and specialization, and are often able to deliver a lower average cost for a given service.

Respondents who say their agency uses outsourcing

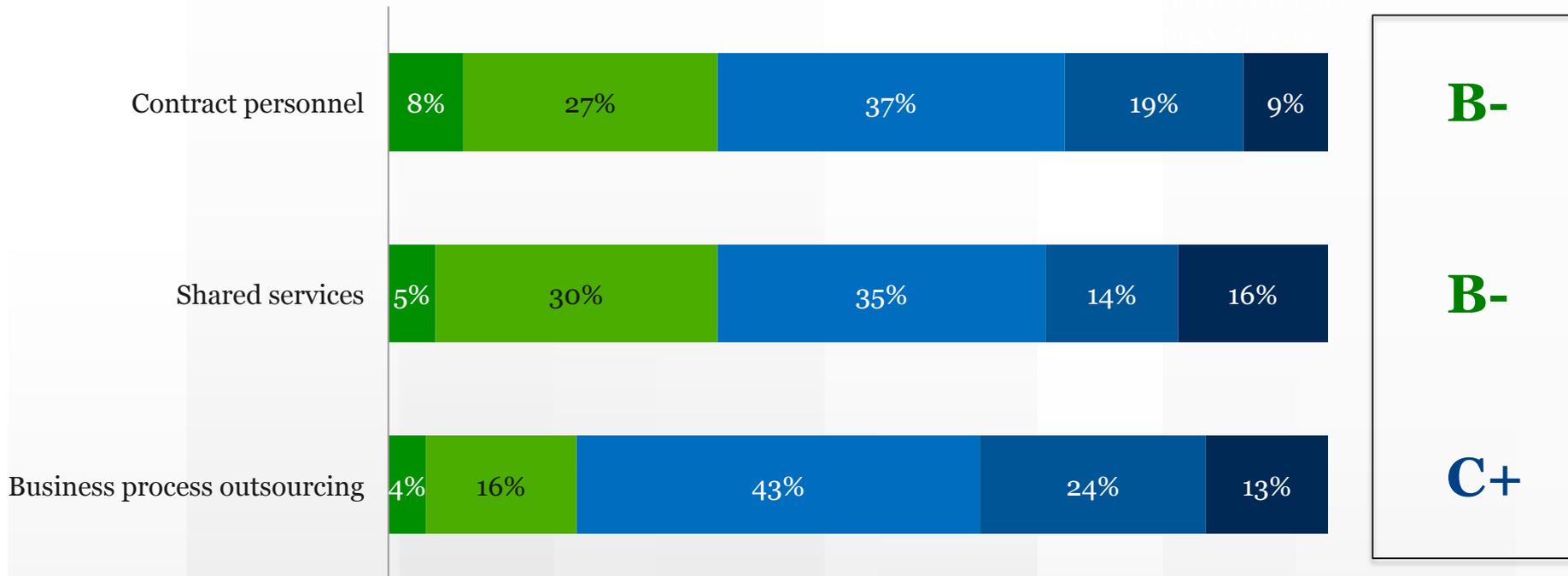
1. [Project on Government Oversight, 2013](#). For an explanation of the methodology used, [click here](#).

Federal managers rate their overall experience with outsourcing as satisfactory

How would you grade your department/agency's experience with each of the following modes of service delivery?

■ A: Excellent ■ B: Good ■ C: Satisfactory ■ D: Unsatisfactory ■ F: Poor

Average Letter Grade



Respondents who say their agency uses outsourcing ("don't know" omitted)
 Contract personnel n=295, shared services n=49, BPO n=201

However, senior-level managers are more satisfied with their outsourcing experience

How would you grade your department/agency's experience with each of the following modes of service delivery?

	GS/GM-14 and Above	GS/GM-13 and Below
Contract personnel	B/B-	B-/C+
Business process outsourcing	C+	C+/C

Average letter grade, respondents separated by GS/GM grade level
GS/GM-14 and above sample: Contract personnel n=145, BPO n=106
GS/GM-13 and below sample: Contract personnel n=150, BPO n=95
Response for shared services was too small for valid statistical inference

ii.

Why Agencies Outsource

The literature on outsourcing reveals that each has its own strengths and limitations

	Contract Personnel	Business Process Outsourcing	Shared Services
Labor cost per output	HIGH	LOW	MODERATE
Access to specialized expertise/infrastructure	MODERATE	HIGH	HIGH
Standardization across business units	LOW	HIGH	HIGH
Short-term flexibility	HIGH	MODERATE	LOW
Retention of in-house skills	HIGH	LOW	LOW
Retention of in-house operational control	HIGH	LOW	MODERATE
Relative information security risk	MODERATE	HIGH	LOW

Attributes considered relative strengths are highlighted in green, while potential limitations are in red

See [Federal IT Shared Services Strategy, 2012](#),

[GAO, "Leading Commercial Practices Can Help Federal Agencies Increase Savings When Acquiring Services," 2013](#),

[Sako, "Outsourcing vs. Shared Services," 2010](#), [Marciniak, "Choice Between Outsourcing & Shared Services," 2013](#)

Contract personnel help agencies gain useful expertise and bypass headcount restrictions

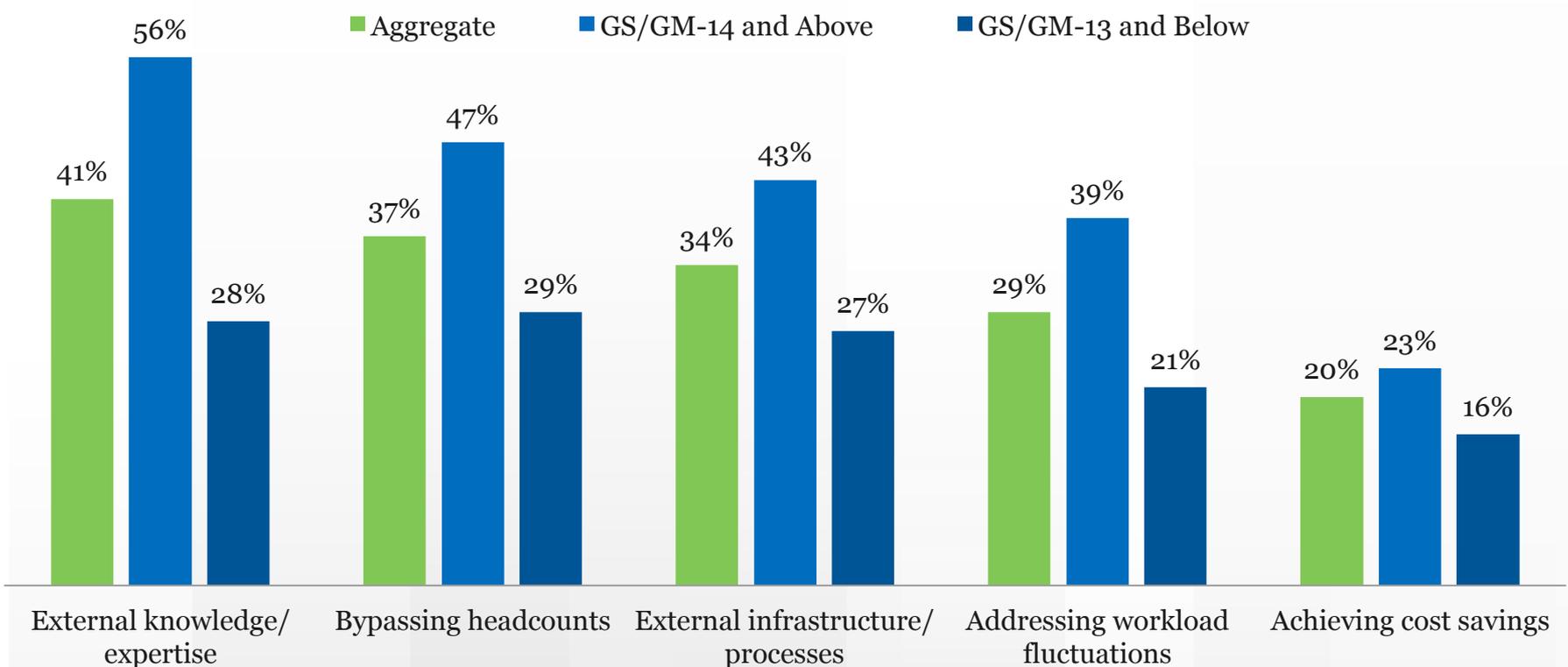
Top Reasons Agencies Employ Contract Personnel



Respondents who say their agency employs contract personnel, n=334
Respondents were asked to select all that apply

Senior-level managers perceive greater benefits of using contract personnel

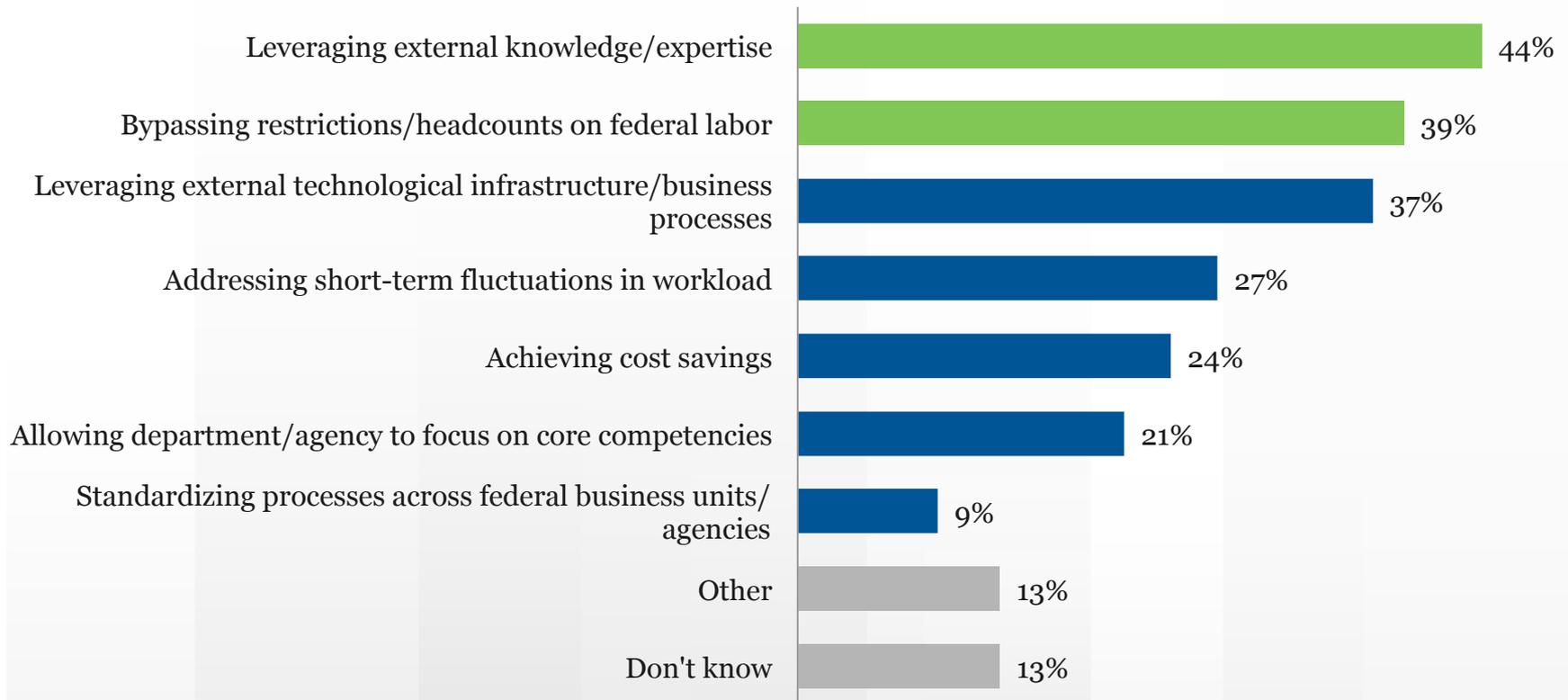
Top Reasons for Employing Contract Personnel, by Job Grade



Respondents who say their agency employs contract personnel
Respondents were asked to select all that apply
Aggregate n=334, GS/GM-14 and above n=160, GS/GM-13 and below n=174

BPO also helps agencies gain useful expertise and bypass headcount restrictions

Top Reasons Agencies Use Business Process Outsourcing

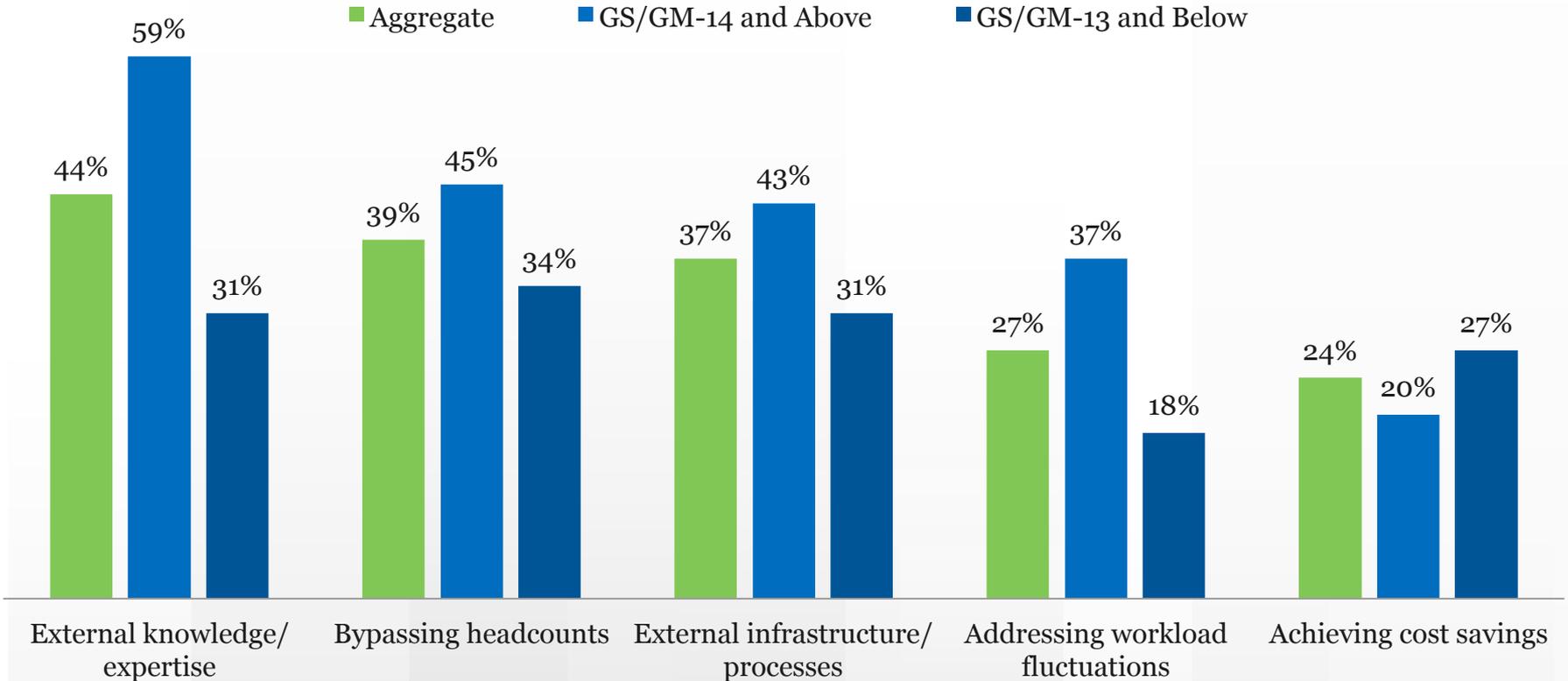


Respondents who say their agency uses BPO, n=250
Respondents were asked to select all that apply

Senior-level managers perceive greater benefits of using BPO

Top Reasons for Using BPO, by Job Grade

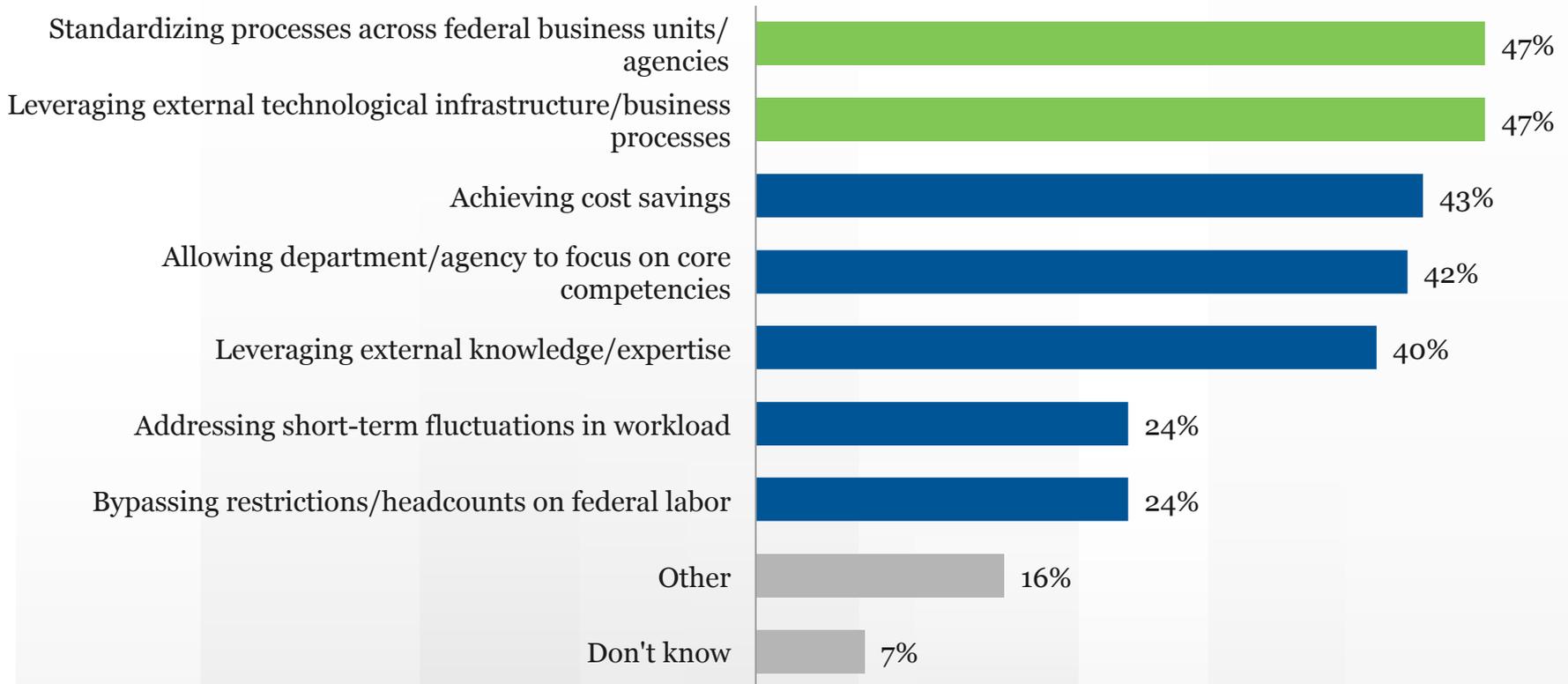
■ Aggregate ■ GS/GM-14 and Above ■ GS/GM-13 and Below



Respondents who say their agency uses BPO
 Respondents were asked to select all that apply
 Aggregate n=249, GS/GM-14 and above n=123, GS/GM-13 and below n=126

Shared services helps agencies gain useful expertise and standardize processes

Top Reasons Agencies Use Shared Services

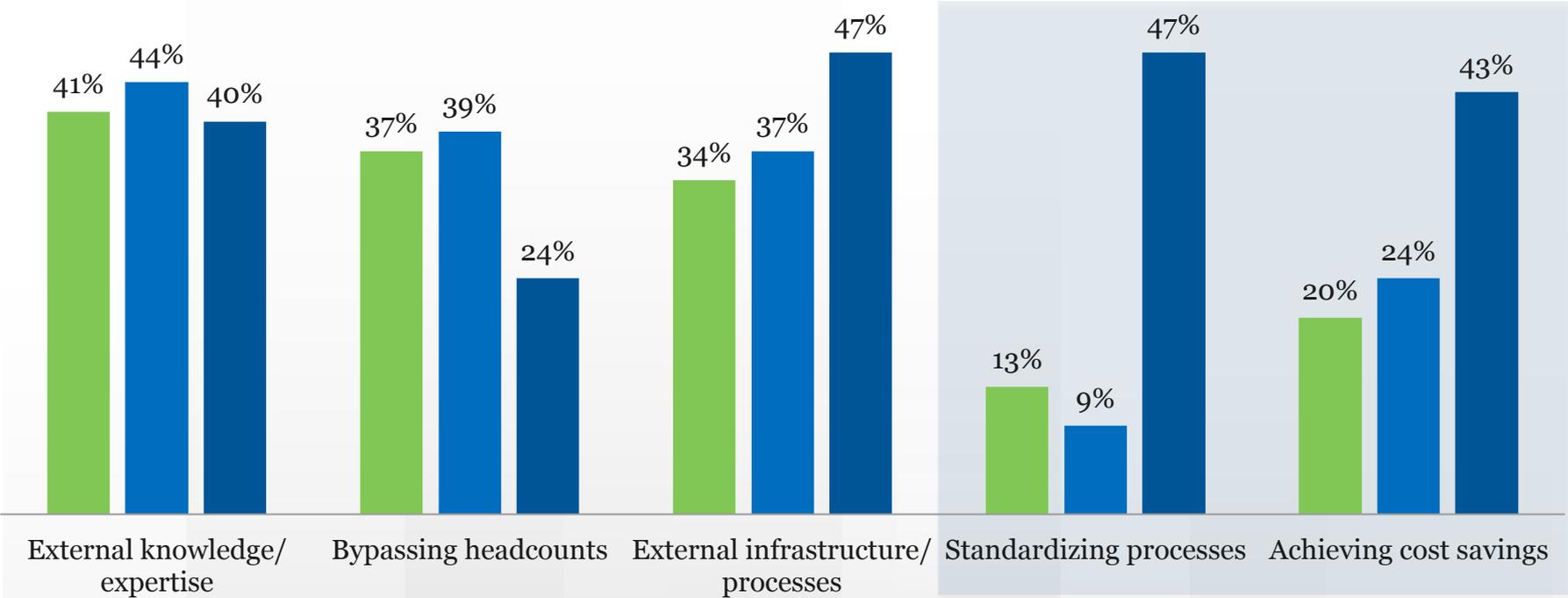


Respondents who say their agency uses shared services, n=53
Respondents were asked to select all that apply

Standardization and cost savings are associated more with shared services than contract personnel or BPO

Reasons for Outsourcing, by Type

■ Contract personnel ■ Business process outsourcing ■ Shared services



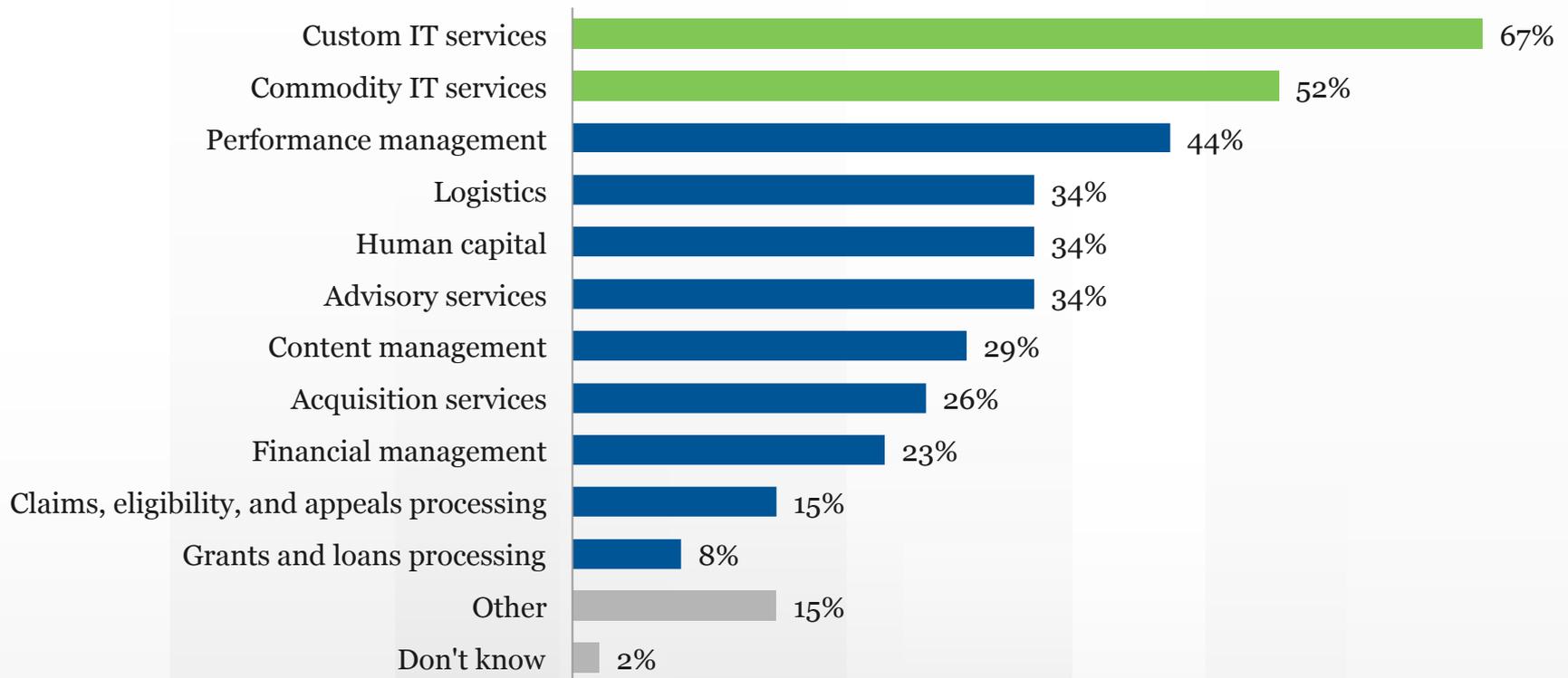
Respondents who say their agency uses outsourcing
 Respondents were asked to select all that apply
 Contract personnel n=336, BPO n=250, and shared services n=53

iii.

What Agencies Outsource

Federal managers report that BPO is used for a range of services, including IT

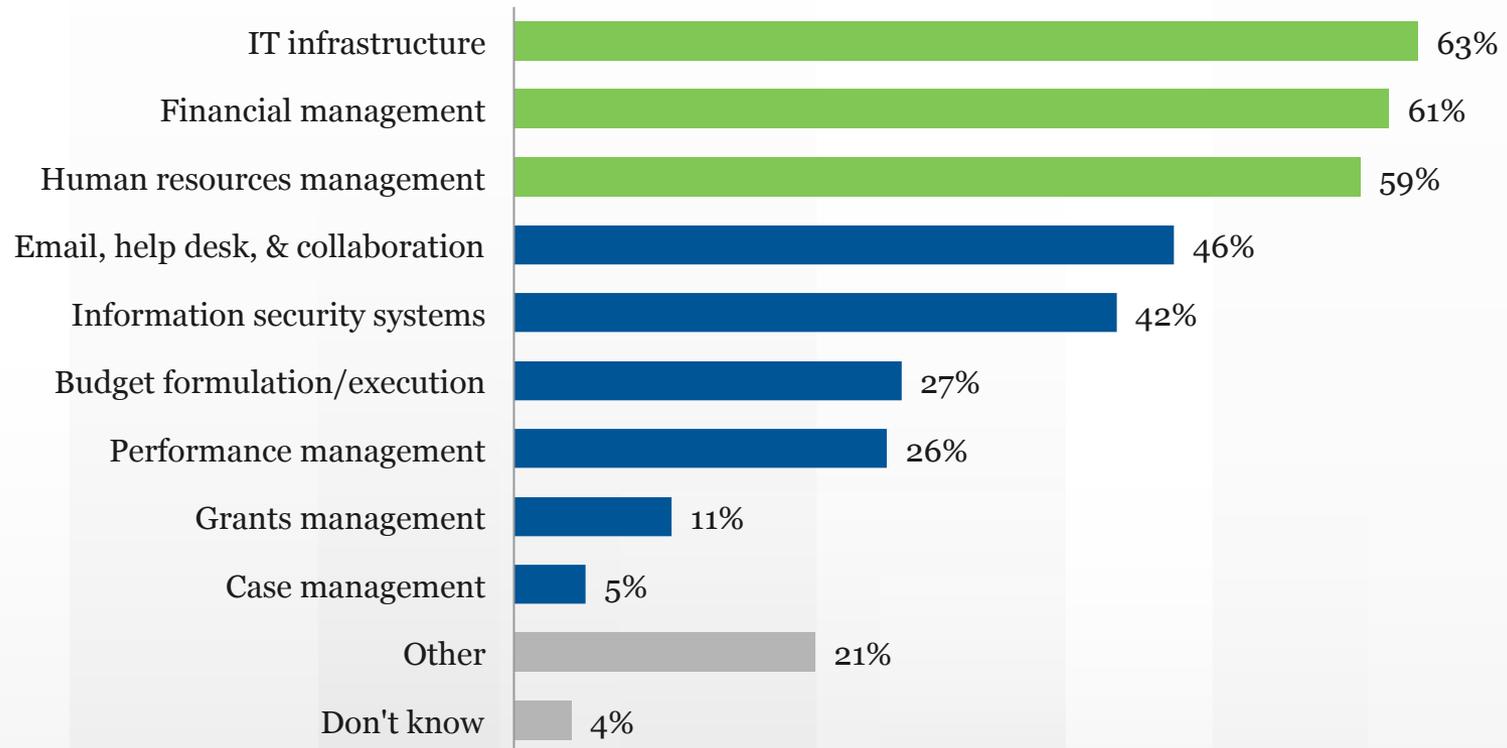
Top Services Outsourced to Third-Party Vendors (BPO)



Respondents who say their agency uses BPO, n=251
Respondents were asked to select all that apply

Federal managers report that shared services are also used for a wide range of functions

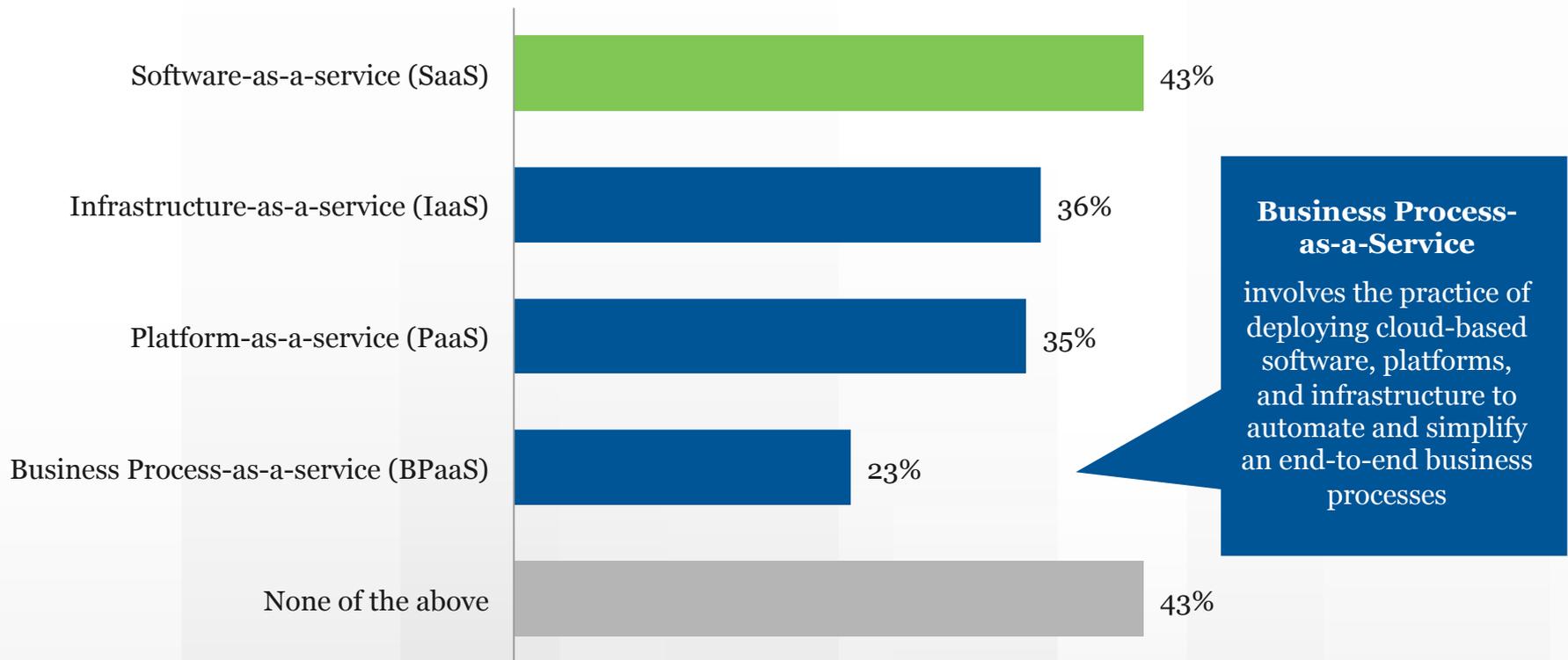
Top Federal Shared Services by Line of Business (LOB)



Respondents who say their agency uses shared services, n=54
Respondents were asked to select all that apply

Agencies are turning to outsourcing for cloud services as well

For which, if any, of the following cloud computing services does your department/ agency contract with third-party vendors?



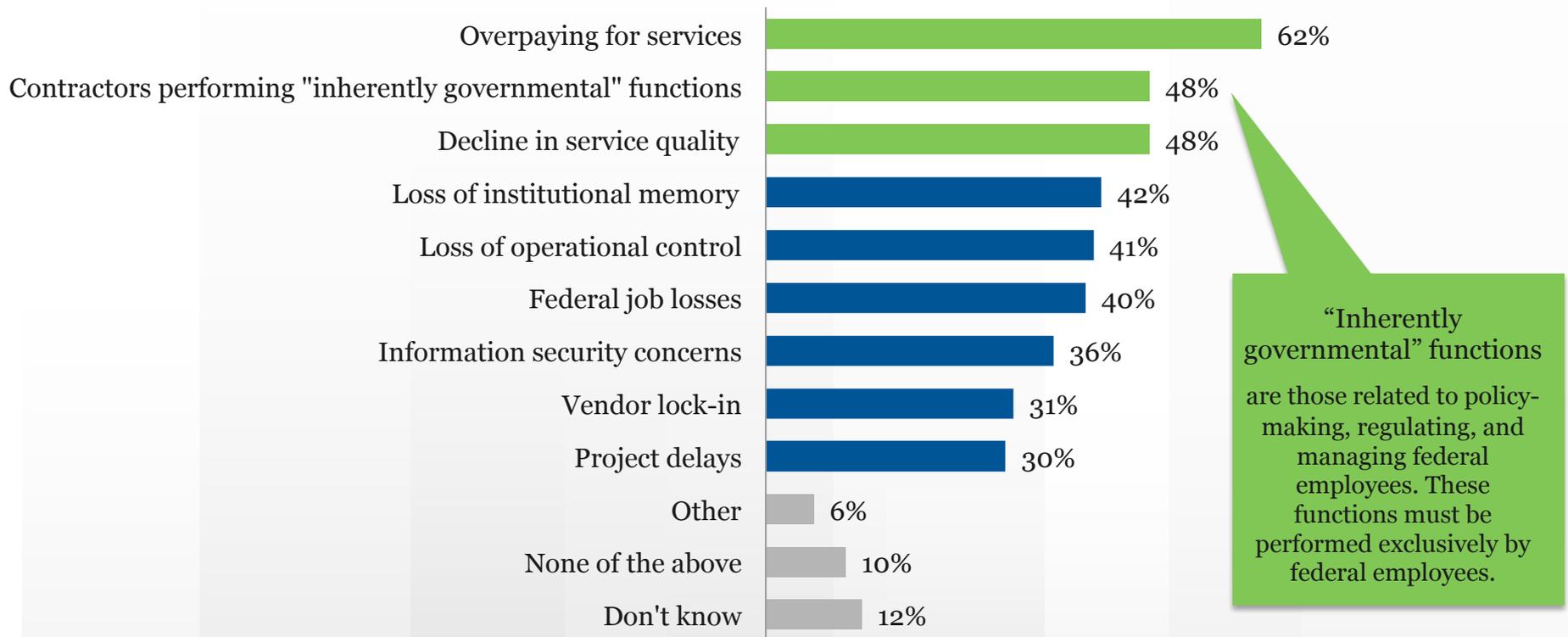
All respondents ("don't know" omitted), n=172
Respondents were asked to select all that apply

iv.

Concerns with Outsourcing

High costs, poor quality, ceding governmental functions top the list of concerns with BPO

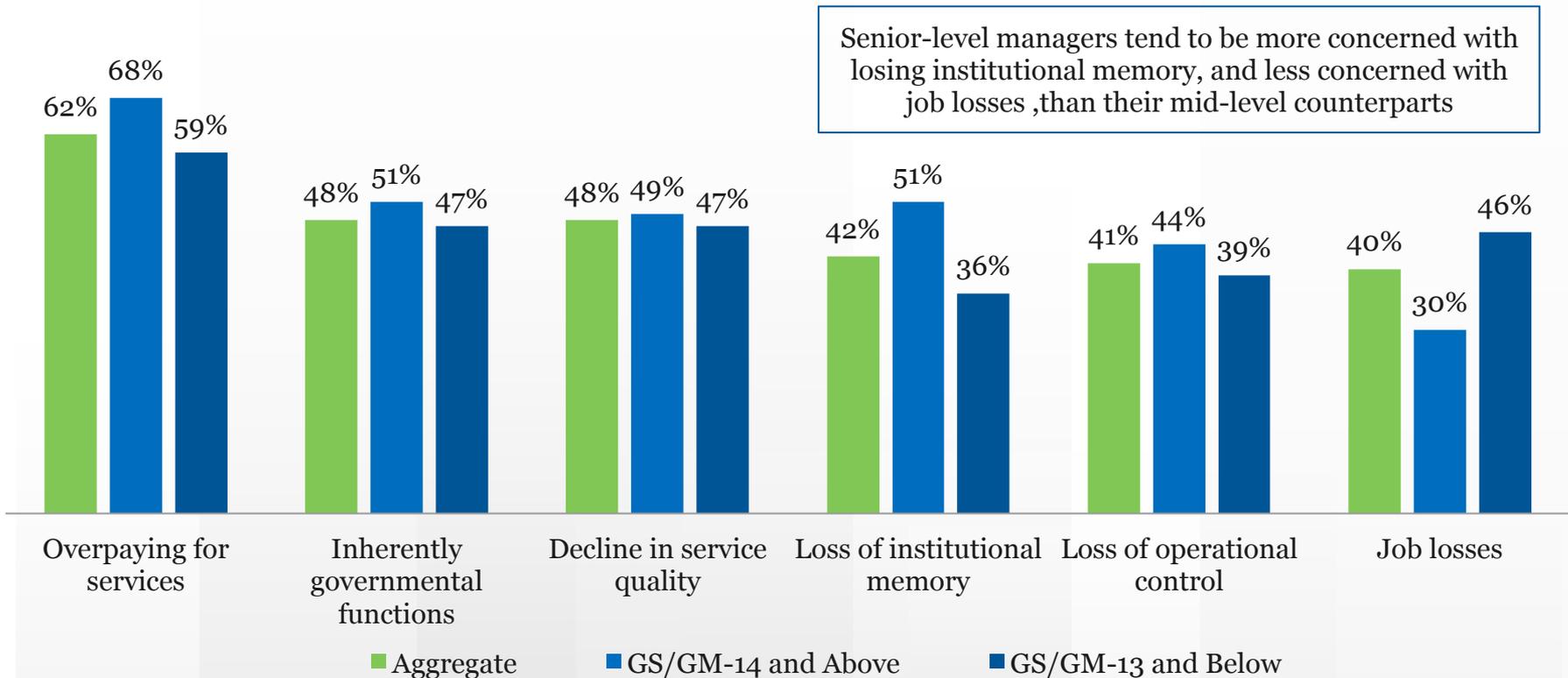
Concerns with Outsourcing Business Services to Third-Party Vendors (BPO)



All respondents, n=379
Respondents were asked to select all that apply

Respondents' leading concerns with BPO vary based on their level of seniority

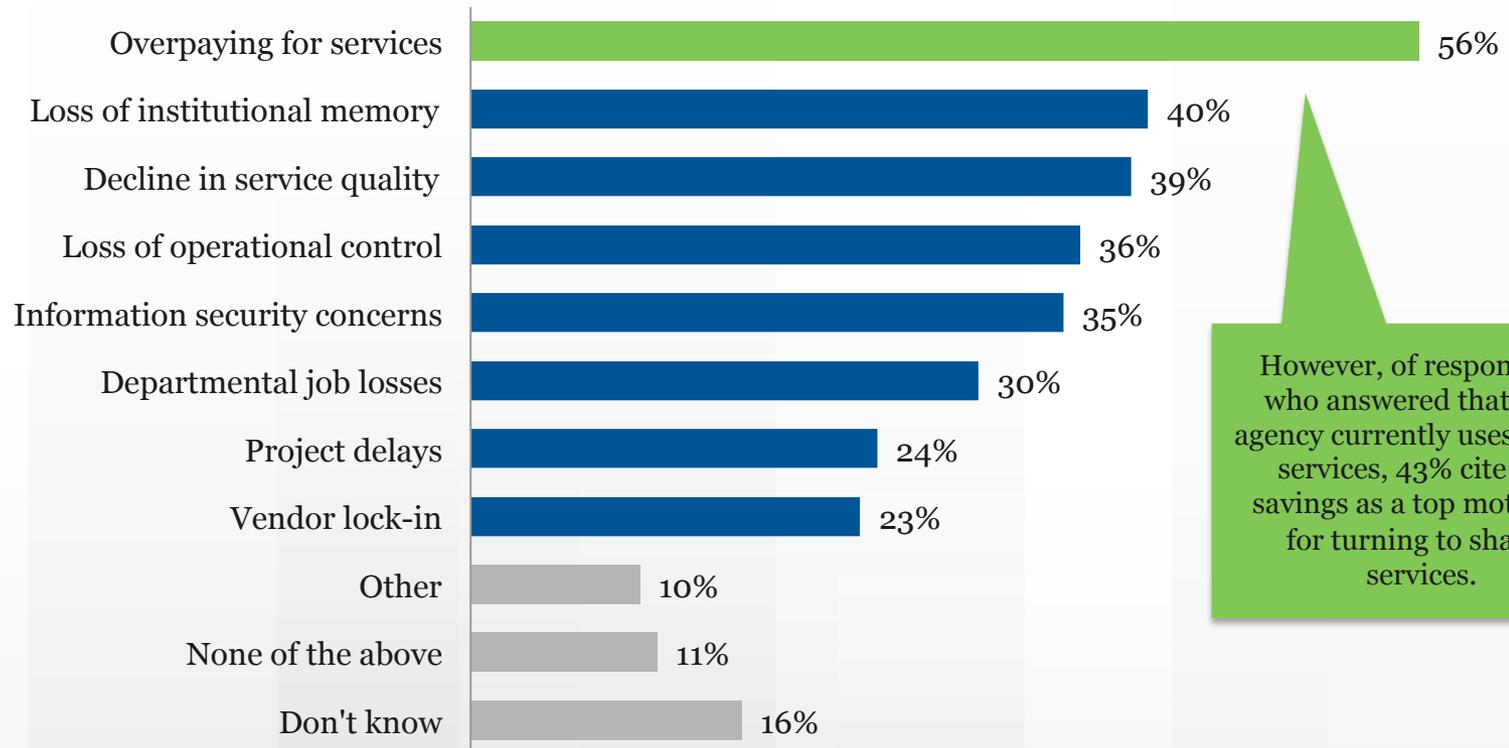
Top Concerns with BPO, by Job Grade



All respondents
 Respondents were asked to select all that apply
 Aggregate n=377, GS/GM-14 and above n=163, GS/GM-13 and below n=214

Federal managers' concerns with shared services are largely the same

Concerns with Using Shared Services

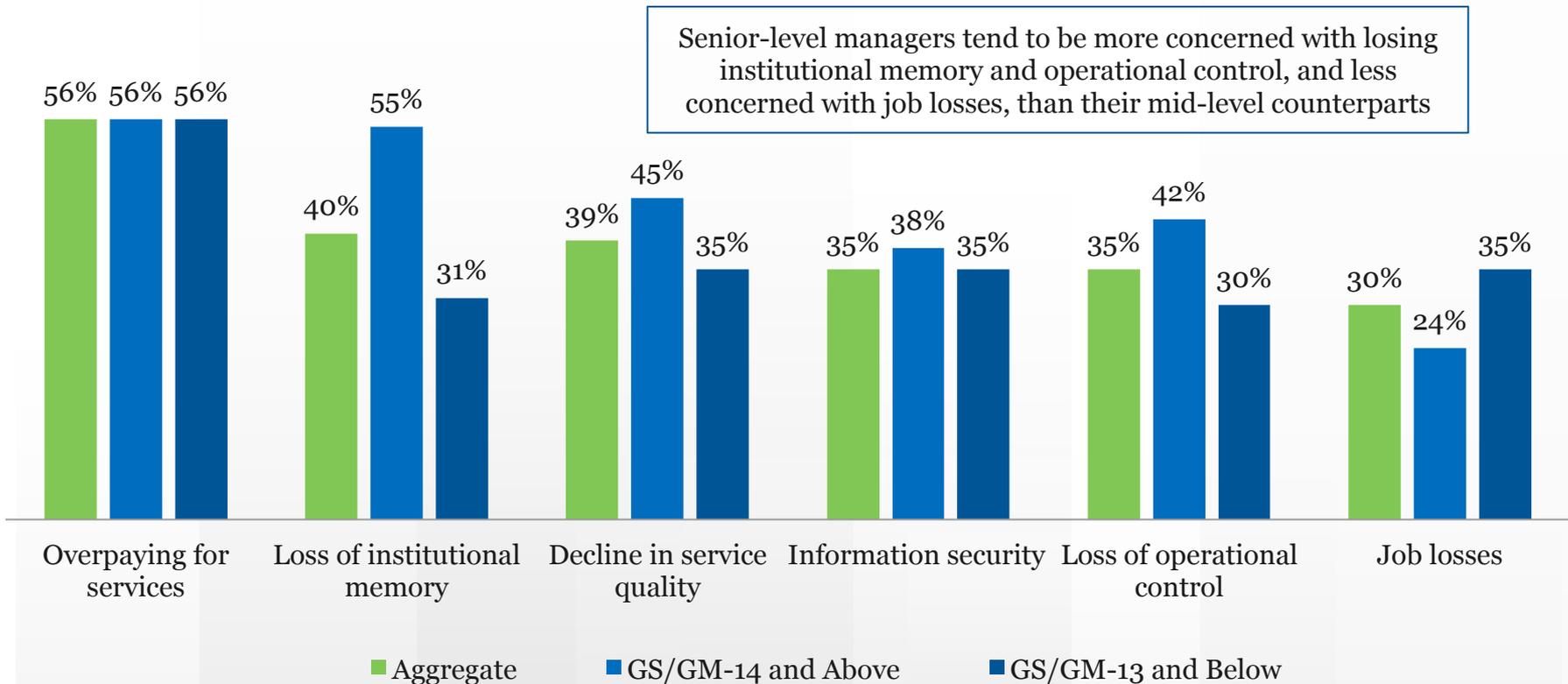


However, of respondents who answered that their agency currently uses shared services, 43% cite cost savings as a top motivator for turning to shared services.

All respondents, n=384
Respondents were asked to select all that apply

Respondents' level of seniority also affects their biggest concerns with shared services

Top Concerns with Shared Services, by Job Grade



All respondents

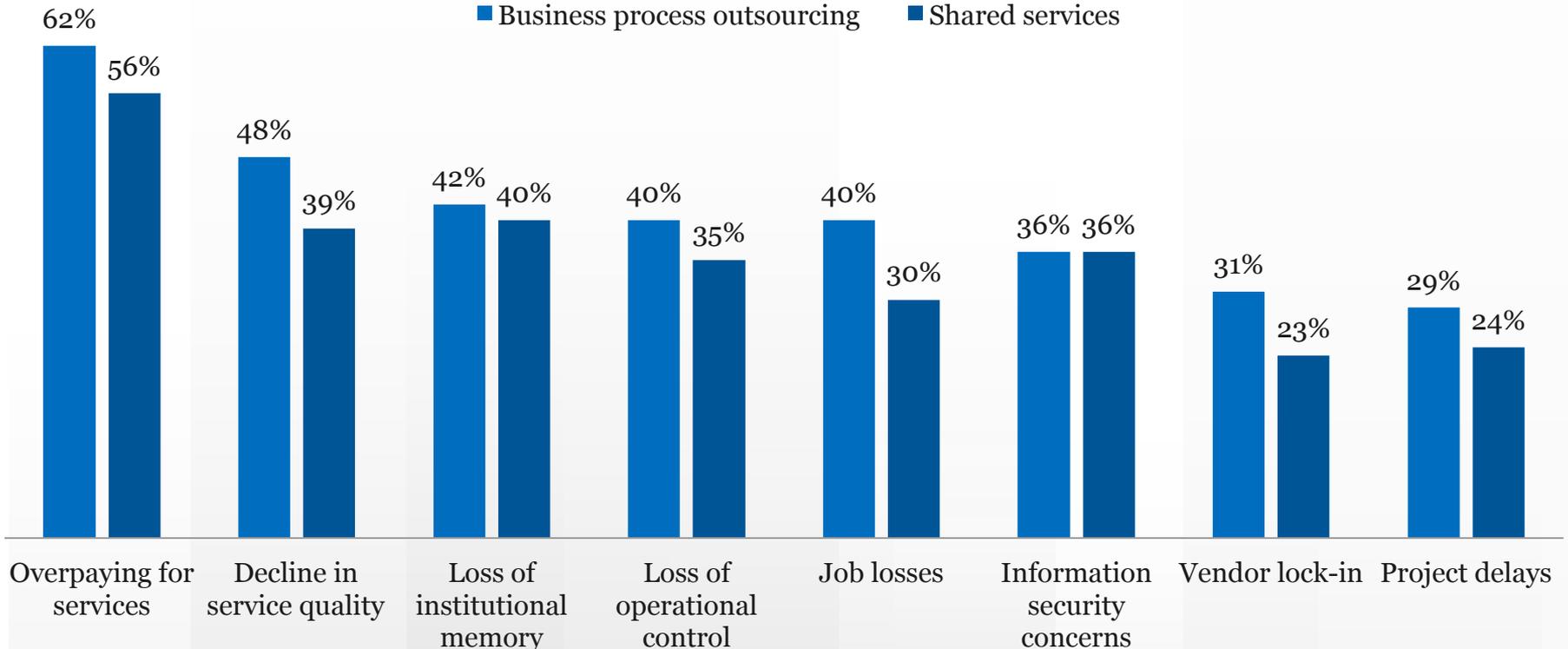
Respondents were asked to select all that apply

Aggregate n=381, GS/GM-14 and above n=166, GS/GM-13 and below n=215

However, federal managers tend to have greater concerns with BPO across the board

Top Concerns with BPO and Shared Services

■ Business process outsourcing ■ Shared services



All respondents

Respondents were asked to select all that apply

BPO n=379, shared services n=384

4

Final Considerations

Making outsourcing work for federal agencies:

Consolidate and scale existing functions using shared services and BPO to generate real cost savings

The survey data shows that federal labor restrictions and headcount quotas are major reasons why federal agencies turn to contract personnel. While staff augmentation can allow agencies to procure needed outside expertise on a temporary basis, using contract personnel to circumvent federal labor regulations is not an appropriate reason for outsourcing. Federal agencies would be better served by assessing their needs more holistically and identifying the appropriate mix of internal and external capabilities to address them. In many cases, it may prove to be more cost-effective to consolidate contractor functions and move them to a shared service center – particularly when there is value in standardizing processes across agencies. In others, it may be more efficient to move operations outside the walls of the federal government to a commercial provider that can provide unique expertise, technologies, or business processes quickly and affordably.

Articulate the costs and benefits associated with leveraging shared services and BPO

Every federal agency outsources. However, sixty percent of federal managers are not aware that their agency already uses services provided by a federal shared services center (FSSC). Both FSSCs and commercial services providers can and should clearly articulate the costs and benefits of shared services and BPO. Further, if the chief concern with outsourcing is fear of overpayment, then providers must do a better job of demonstrating evidence to the contrary.

Involve federal employees as stakeholders in a more efficient government

When deciding to outsource, agencies should ensure that the action and reasons for doing so are effectively communicated to employees. The lack of awareness regarding certain types of outsourcing – shared services and BPO – could be improved by making open channels of communication between senior-level leadership and mid-level managers a priority. Utilize case studies and objective performance data to show – not just tell – employees how outsourcing can have a positive impact on agency effectiveness.

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