

**HOLD UNTIL RELEASED BY
THE HOUSE COMMITTEE
ON ARMED SERVICES**

TESTIMONY OF

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Introduction

Chairman Shuster, Ranking member Larsen and members of the panel, thank you for the opportunity to speak with you today about the defense industrial base and the role of small businesses within the Department of Defense. My name is Andre Gudger, and I am the Director of the Department of Defense Office of Small Business Programs (DoD OSBP) and report to the Under Secretary of Defense for Acquisition, Technology and Logistics. The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD(AT&L)) is the principal staff element of the Secretary of Defense for all matters relating to DoD acquisition. Today I will discuss the role of the Office of Small Business Programs, some of our initiatives and the tracking of small business goals.

Role of the DOD Small Business Office

The role of the Office of Small Business Programs is to advise the Secretary of Defense on all matters related to small business. This includes policy, oversight, and meeting statutory and regulatory requirements. The statutory requirements primarily pertain to our negotiated small business prime contracting goal, our assigned prime contracting goals for HUBZone certified small businesses,¹ and for businesses owned by socially and economically disadvantaged people, service-disabled veterans and women under the Small Business Act. Additionally, we have assigned subcontracting goals for the same categories for which we have prime contracting goals. The Small Business Administration (SBA) negotiates or assigns all of these goals. Our role also involves ensuring that small businesses are considered at every step of the Department's acquisition process.

¹ The Historically Underutilized Business Zones (HUBZone) program helps small businesses in urban and rural communities gain preferential access to federal procurement opportunities. These preferences go to small businesses that obtain HUBZone certification in part by employing staff who live in a HUBZone. The company must also maintain a "principal office" in one of these specially designated areas.

OSBP works hard to advocate for small business inclusion within the defense acquisition process and to create awareness about the important role small businesses play in our nation's economy. Small businesses also strengthen our industrial base and protect our troops. In September 2011, Secretary of Defense Leon Panetta issued a memo to the acquisition workforce emphasizing the importance of DoD achieving its small business goals and showing the commitment of DoD's leadership to supporting small businesses. This was an unprecedented action, which had never been taken by a Secretary of Defense and was one of the first actions the Secretary took after assuming his position.

OSBP Activities and Programs

DoD OSBP's responsibility includes oversight of three Department of Defense programs. These are the Mentor/Protégé Program, the Small Business and Innovation Research Program/Small Business Technical Transfer Program, and the Indian Incentive Program. In addition, DoD OSBP provides policy and oversight over small business initiatives that include the women-owned small businesses, service-disabled veteran-owned small businesses, and HubZone businesses. Furthermore, we have various initiatives to improve subcontracting performance, such as the Comprehensive Subcontracting Plan Test initiative.

The Office of Small Business Programs has been engaged in several initiatives pertaining to outreach and policy development. All of these initiatives in some way strive to reduce barriers for small businesses. Another objective of several of our initiatives is to support streamlining of the acquisition process to make it easier for the Department to meet its urgent needs quickly and effectively. OSBP's objectives are also in line with the Department's *Better Buying Power* Initiative, which calls for increased small business participation as a means to deliver better value to the taxpayer and warfighter by improving the way the Department does business.

Outreach

OSBP has engaged in external outreach to small businesses around the country and outreach to other organizations within the Department. In terms of our external outreach, DoD small business professionals have attended many conferences across the country. I have also hosted roundtable discussions looking for new ideas on how we can increase small business participation in our contracting process and make it easier for companies to do business with the Department. We also hosted our own large-scale outreach events with Dr. Ashton Carter in his former position as Under Secretary of Defense (AT&L), which offered matchmaking opportunities allowing for the linkage of small business capabilities with the Department's needs. We plan on continuing this engagement with the small business community in the current fiscal year and beyond.

In addition to external outreach we have also been reaching out to other organizations within the Department to see how our office can work with them to create opportunities for small businesses while meeting the urgent needs of the Department. To this end we have worked with the Rapid Fielding Directorate, the Army's Rapid Equipping Force, the Office of Operational Energy Plans and Programs and with several other organizations within the Department. Through these efforts we have been able to change the environment within the Department through using an approach that engages the acquisition work force at all levels and allows OSBP to serve as a resource of information to small businesses.

I previously mentioned the memo Secretary Panetta issued to the acquisition workforce. In addition to this, other leaders including Military Department Secretaries, Directors of Defense Agencies, and Service and Component Acquisition Executives issued similar guidance to their respective workforces. This effort stemmed from an initiative in which OSBP met on a bi-

weekly basis with procurement leaders and small business directors from selected services and components to work together and find the best ways to achieve their small business goals and to report progress to the Under Secretary of Defense (AT&L). These exemplify the types of changes in the Department we have been able to effect.

Regulatory Changes

Outreach is only one part of several OSBP initiatives. Earlier this year, DoD made a change to the Defense Federal Acquisition Regulation Supplement (DFARS)², which allowed us to implement accelerated payments to small businesses. With this change, DoD is able to pay small businesses nearly one-third faster than they would normally get paid. In FY2011 and FY2012, this initiative will put billions of dollars into the hands of small businesses more quickly and will allow them to hire workers, expand their capabilities, and look for ways to participate in new contracting opportunities more rapidly.

Studies

Our office has also commissioned several studies that we believe will help the ability of small businesses, including new entrants, to do business with the Department. One of the first studies I commissioned as the OSBP Director was a study to investigate barriers to entry for Service Disabled Veteran Owned Small Businesses (SDVOSBs). This study will outline progress towards meeting SDVOSB prime contracting goals for DOD, and incidentally for other federal agencies and the federal government as a whole. It will also identify any barriers SDVOSBs face in forming small businesses and winning prime contract awards and recommend

² The DFARS is the DoD agency supplement to the Federal Acquisition Regulation (FAR). The term “disadvantaged” was removed from DFARS sections 232.903 and 232.906, which allowed all small businesses to be paid promptly.

ways to reduce these barriers. Earlier this year, we also commissioned a study with Mr. Lambert's office, Manufacturing and Industrial Based Policy, to identify how the Department can bring non-traditional suppliers into its industrial base. With this study we hope to find the means to acquire the best technology, products and services from companies in the commercial world that do not traditionally do business with DoD or the Federal Government. Finally, we recently commissioned a study to identify best practices in market research so that we can identify the most capable businesses and create more competition within the procurement process.

Accountability

The Department is also increasing accountability on small business performance within the acquisition workforce. We have done this in two important ways. In FY2011, DoD established emphasis on small business utilization in all procurement actions through such initiatives as the use of evaluation factors or sub-factors. These factors look at the utilization of small businesses in the performance of a proposed acquisition, past utilization of small businesses on previous contracts and ways to include small business performance in the fee construction. Thus, if all things are equal between competitors, small business performance could be a deciding factor in the award. Poor small business subcontracting performance could impact prime contractor incentive fees. Also, beginning in FY2012, DoD will include small business performance goals in the evaluations of all senior executive staff members who oversee the acquisition workforce. Furthermore, OSBP is assessing ways of determining subcontracting achievement for DoD components based on the contracts they award.

Market Research

DoD is also leading the way within the Federal Government on new market research techniques. DoD's Small Business Maximum Practicable Opportunity (MaxPrac) Analysis identifies potential small business opportunities for specific supplies and services compared to other DoD organizations; it identifies specific contracts being awarded to large businesses that could potentially be satisfied by small businesses. For example, if the Army has a small business performance of 10% in a certain NAICS code, Army can easily compare its performance to the achievements of other DoD organizations and find specific areas for improvement for small business participation. We also assisted other Federal agencies on use of this analysis within their own organizations, and are working to enhance this tool within DoD so that it can be used to perform a deeper analysis. This initiative ties in with a memo issued by OSBP in coordination with the Director of Defense Procurement Acquisition Policy (DPAP), that encourages contracting officers to utilize market research to identify opportunities for small businesses. DoD has also encouraged the set-aside of tasks from multiple award contracts that are suitable for small businesses. We also urge services and components to seek opportunities in planned acquisitions to compete Multiple Award/Indefinite Delivery/Indefinite Quantity (IDIQ) contracts among small businesses.

DoD OSBP is also working to ensure the consideration of small businesses at the very early stages of the acquisition process. Our office sits on peer reviews for all planned acquisitions above \$1 billion with the objective of ensuring that small business opportunities have been considered. As a part of the peer review initiative, Military Department and Defense Agency small business directors similarly review all planned acquisitions above \$500 million. In addition, Military Department and Defense Agency small business directors have been

authorized by their component heads to review all planned strategic sourcing actions for small business opportunities, and small business past performance has been added to source selection criteria for planned acquisitions.

Workforce Development

One of our most important long-term initiatives is the development and training of the acquisition workforce. The primary focus of our workforce development initiative is the creation of a small business professional career field. Working with the Office of Personnel Management, OSBP conducted a study on how we could effectively create this so that small business specialists would have a long-term career trajectory. This would expand the small business information and training available to the acquisition workforce with the goal of ensuring that it would also equip the workforce with the tools necessary to maximize opportunities for small businesses and ensure small businesses are used when appropriate.

OSBP also developed a small business training course for DoD contracting officers, which will be required for their re-certification. We are also developing additional small business training requirements for program managers that they will be required to take in order to receive their certification. We anticipate that the continuing learning module will be available this fiscal year.

Interagency Collaboration

OSBP is also collaborating with other agencies where appropriate. I mentioned before that our office has assisted in the training of other Federal agencies on the use of our market research analysis tool so that they can use it within their own agencies to identify small business opportunities. We also collaborate with other agencies on task force initiatives. DoD, through OSBP, is currently represented on the Inter-Agency Task Force on Veterans Small Business

Development and is co-leading the Entrepreneurship Sub-Working Group on the Interagency Task Force on Veteran's Employment.

Tracking Small Business Goals and Encouraging Desired Behavior:

DoD's small business prime contracting goal negotiated with SBA for FY2011 was 22.28%, and the sub-contracting goal was 31.7%. The established goals for the socio-economic categories are: 5% for small disadvantaged business (SDB), 5% for women-owned small business (WOSB), 3% for service-disabled veteran-owned small business (SDVOSB), and 3% for HubZone small businesses. OSBP tracks performance on all of these goals on a weekly basis through the Federal Procurement Data System-Next Generation and reports numbers regularly to the Under Secretary of Defense (AT&L), the White House, and SBA.

For FY2011, the Department's actual prime contracting performance is not yet finalized but will likely be between 20% and 21%. We do not currently have the subcontracting performance number, but in FY2010 the Department surpassed its subcontracting goal with a performance of 37.4%. Although the Department likely has not achieved its prime contracting goal, the OSBP and the other DoD leadership, from the Secretary of Defense down, take the accomplishment of this goal very seriously as illustrated by the above initiatives.

It is my opinion that goals on their own will not drive desired behavior. However, support from our leadership in achieving small business goals has helped tremendously. I believe that had we not taken the measures we did in FY2011, and if we did not have the support of leadership within DoD, we would have fallen even further from our prime small business contracting goal. The support of our leadership, including Secretary Panetta, has made a positive impact.

Impact of the Current Fiscal Environment on the Defense Industry

The current fiscal environment poses several challenges to the Department's ability to provide opportunities to small businesses. First, the continuing resolution has a potential impact on the overall defense industrial base, but has potentially more profound consequences for small businesses whose viability is more sensitive to variations and gaps in cash flow. New contracts that may have been planned for award to a small business may be placed on hold pending a fully approved budget, and existing contracts may be forced to slow down their planned level of effort due to reduced funding availability. Though large businesses can often continue to operate through these barriers without impacting their workforce, small businesses may be forced to delay hiring or reduce staffing. For programs, such as the Small Business Innovation Research (SBIR) Program, budget calculations and allocations are more difficult under a continuing resolution, creating greater execution challenges for the SBIR workforce.

Second, the lapse in authority for the DoD Mentor Protégé (MP) Program the Department experienced in FY2011, and again in FY2012 is impacting our ability to initiate mentoring agreements with small businesses. The DoD MP Program is unique to the Department, and has a proven record of increasing revenues and net new jobs for the small disadvantaged businesses, women-owned small businesses, HUBZone small businesses, and service-disabled veteran-owned small businesses that participate in the program. Without a reauthorization, the Department does not have the basis to award new agreements to these small businesses.

Lastly, incremental reauthorization of the Small Business Innovation Research Program, Small Business Technology Transfer Program, and DoD Commercialization Pilot Program (CPP) is having a negative impact on the small businesses that provide innovative technologies to the warfighter. The instability caused by incremental reauthorization poses a challenge to

program adoption and technology transfer because of the perception of increased risk. Program managers are hesitant to initiate a technology development effort that may be delayed due to a lack of funding caused by a lapse in legislative authority.

Conclusion

I would like to thank this panel for allowing me to speak today. As you can see, our programs and initiatives have focused on increasing small business utilization through reducing barriers and streamlining the acquisition processes. These initiatives address several of the issues this committee is seeking to identify based on its work plan. I look forward to answering any questions you may have.