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**THE DEFENSE INDUSTRIAL BASE: THE
ROLE OF THE DEPARTMENT OF DEFENSE**

HEARING

BEFORE THE

PANEL ON BUSINESS CHALLENGES
WITHIN THE DEFENSE INDUSTRY

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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PANEL ON BUSINESS CHALLENGES WITHIN THE DEFENSE INDUSTRY

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**THE DEFENSE INDUSTRIAL BASE: THE ROLE OF THE
DEPARTMENT OF DEFENSE**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
PANEL ON BUSINESS CHALLENGES WITHIN THE DEFENSE
INDUSTRY,

Washington, DC, Tuesday, November 1, 2011.

The panel met, pursuant to call, at 3:00 p.m. in room 2212, Rayburn House Office Building, Hon. Bill Shuster (chairman of the panel) presiding.

Mr. SHUSTER. Good afternoon. The hearing will come to order.

I want to thank everybody for being here today.

I think we are live on C-SPAN. Are we live on C-SPAN? We will be broadcast later, so we can watch it tonight. It will put us to sleep.

Again, I thank everybody for being here today.

OPENING STATEMENT OF HON. BILL SHUSTER, A REPRESENTATIVE FROM PENNSYLVANIA, CHAIRMAN, PANEL ON BUSINESS CHALLENGES IN THE DEFENSE INDUSTRY

Mr. SHUSTER. The House Armed Services Committee Panel on Business Challenges in the Defense Industry meets today to continue our dialogue regarding the health and future of our Nation's defense industrial base by receiving testimony from witnesses from the Department of Defense.

While the Weapons System Acquisition Reform Act did much to increase transparency and foster competition, there is still a great deal of room for improvement in the Department of Defense business practices.

Last Monday, the panel heard from policy experts and from various think tanks that have studied the structure, effectiveness, and efficiency of the defense industrial base. Our witnesses last week pointed out that our Nation lacks a coherent and complete strategy for our Nation's defense. Without such a strategy, the defense industrial base is left without the guidance and transparency necessary to ensure viability and efficiency.

This panel is facing some complex issues, and nothing illuminates that more than the RAND study on military research and development policies, which I think I am going to carry around with me from here on out. I think it does a very good job of laying out the complexity of the issues as it offers some findings and recommendations of the policy of providing the military with new weapons and capabilities. The only problem with this RAND study is it is from 1958, so we are still talking about the same problems 50 years later. So that is what this panel wants to take a look at

and change the way we are for the betterment of our Nation and our Department of Defense and for the warfighter, especially.

As a panel, we traveled to Akron, Ohio, on Friday where we met with small and mid-sized businesses working on highly technical solutions to deliver capabilities to our warfighter. We met with companies making advanced coatings to prevent corrosion, composite armor, advanced aerodynamic control systems, and technologies to enable remote detection and identification of pathogens.

Just like in 1958, our defense industry today is having a hard time getting clear requirements from the DOD [Department of Defense], bridging the gap between development and fielding and surviving overly burdensome, unresponsive program management policies and regulations. Navigating these issues is difficult for large defense contractors and near impossible for small businesses. Today's hearing is an opportunity for us to hear from these critical issues from witnesses from the Department of Defense.

I would like to introduce, first, the Deputy Assistant Secretary of Defense for Manufacturing and Industrial Base Policy, Mr. Brett Lambert—thank you for being here, Mr. Lambert—and Mr. Anthony Gudger, the Director of the Office of Small Business Programs in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics.

Again, welcome. I look forward to hearing your testimony and frank discussion.

But before we receive testimony, I would also like to take a minute to thank Congresswoman Betty Sutton and her dedicated staff for hosting the panel in Akron. It was an extremely informative visit.

In addition to the roundtable with industry, we also had a remarkable discussion on the impact of corrosion on DOD's equipment facilities and got a briefing on the University of Akron's unique program in corrosion research and engineering. On the trip, I learned that the Department of Defense spends nearly \$23 billion a year dealing with corrosion. That is \$23 billion out of a defense budget that we are not spending on our troops, and it is something that I think all members of the panel and the Armed Services Committee need to be aware of. So I want to thank Betty for bringing this important issue to our attention.

Our next field roundtable will be happening on Friday, December 9th, in Congressman Jon Runyan's district, the 3rd District of New Jersey. These sessions are invaluable to this panel's work, and I hope all our panel members have an opportunity to join us on that trip.

At this time, I turn it over to our ranking member, Mr. Larsen, if he has any comments.

[The prepared statement of Mr. Shuster can be found in the Appendix on page 39.]

STATEMENT OF HON. RICK LARSEN, A REPRESENTATIVE FROM WASHINGTON, RANKING MEMBER, PANEL ON BUSINESS CHALLENGES IN THE DEFENSE INDUSTRY

Mr. LARSEN. Thank you, Mr. Chairman, and I am pleased to be joining you and the other panel members here today.

As we have discussed, this panel aims to discover the challenges facing the current defense industry partnership and the capabilities they produce and, based on that RAND report, perhaps solving them at some point as well.

Small businesses are essential to a robust and agile industrial base as well as for a strong economy. The U.S. defense base has a long history of producing the best military systems in the world, and we have to ensure that this continues both for our warfighter as well because it does create jobs here in the U.S.

Key aspects of a strong defense industrial base include assuredness of supply, American jobs, and ensuring the best technology for the warfighter. The mission of the manufacturing and industrial base policy is to monitor, preserve, and enhance the national security industrial base of the United States. As we know, small businesses play a critical role in the strength of our economy by creating technologies for many folks, including our warfighter. We need to ensure that our small businesses are given every opportunity to compete on a level playing field with larger businesses.

Over the past few months, we have heard that small businesses face challenges regarding security clearances, lead times from DOD contract solicitation to submission due dates, ITAR [International Traffic in Arms Regulations] regulations, defense auditing, and other regulatory and procedural issues.

I am pleased with what we have learned so far from our first panel hearing that looked at challenges our small and medium-sized businesses are having creating and maintaining opportunities within the Department of Defense. Testimony from that hearing was echoed during our district visits and roundtable discussions. In addition, comments from local leaders have been extremely helpful.

So far, this panel has met with business readers in my congressional district in August. We visited Rock Island Arsenal in early October in Mr. Schilling's district. And last week I and other panel members met with industry leaders in and around Ms. Sutton's district in Akron, Ohio.

Connecting today's hearing with our hearing on October 24th where we discussed the role and the future of the defense industrial base with witnesses from think tanks, we will hear today what DOD is doing to improve the defense business environment with a particular focus on small business. I look forward today to hearing today's testimony and thank you all for being here.

Thank you again, Mr. Chairman.

[The prepared statement of Mr. Larsen can be found in the Appendix on page 41.]

Mr. SHUSTER. Thank you, Mr. Larsen.

With that, we will start with Mr. Lambert, if you would proceed.

STATEMENT OF BRETT B. LAMBERT, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MANUFACTURING AND INDUSTRIAL BASE POLICY, U.S. DEPARTMENT OF DEFENSE

Secretary LAMBERT. Chairman Shuster, Congressman Larsen, and members of the panel and staff, thank you for the opportunity to submit our written testimony on behalf of the Department regarding maintaining a healthy and productive defense industrial base.

I am Brett Lambert, the Deputy Assistant for Defense for Manufacturing and Industrial Base Policy.

Let me begin by defining what we mean by the term “defense industrial base,” because I think the definition is important. The defense industrial base is comprised of an extremely diverse set of companies that both provide products and services directly and indirectly to the national security agencies, including the military.

References to “the” defense industrial base that imply some monolithic entity are not analytically useful. The defense industrial base includes companies of all shapes and sizes resourced from around the globe, from some of the world’s largest public companies to sole proprietorships to garage start-ups. Some companies deal directly with the Federal government, while the vast majority act as suppliers, subcontractors, and service providers in a value chain that leads to those prime contractors.

Companies at any tier, and at any size, may offer critical or hard-to-produce products that ultimately lead to the systems used by our warfighters. Some products and services sold by companies in the defense industrial base are unique to defense applications alone, while most have substantial levels of non-defense demand or are even sold exclusively on commercial terms such that the supplier may not even know that the products is used in our military systems. And, likewise, the military may not know it depends upon a primarily commercial component. Finally, while the pace of innovation is extremely rapid in some segments across our base, other segments are based on mature technologies where dynamic innovation is less important to the Department.

In short, there is not a single defense industrial base. There is a defense market served by a diverse selection of companies which span and often reflect the greater global economy for goods and services.

The U.S. military’s superior operational capabilities are enabled by this diverse base, and for decades the U.S. has commanded a decisive lead in the quality of the defense-related research and engineering conducted globally and in the military capabilities and products that flow from this work. However, these advantages that have enabled American preeminence in the defense technology are not a birthright, and the key elements of that base are necessary to ensure U.S. dominance on future battlefields must be sustained and nurtured. The U.S. defense industrial base is critical to equipping our military with superior capabilities, and a strong, technically vibrant, financially successful industry is therefore in the national interest.

As the era of sustained growth in defense budgets comes to an end, the Pentagon stewardship responsibility to ensure access to a robust industrial base becomes more challenging. The Department needs to adapt its industrial base considerations and actions to emerging fiscal realities.

In the past 2 years, we have made significant increases in efforts to address the implications of the changes in both budgets and the nature of the industry. We understand that America relies on a defense industry that is healthy, robust, and innovative, and the Department appreciates that businesses must be motivated by the opportunity to make reasonable profit. Indeed, leveraging the inher-

ent motivations to allow companies that perform well to increase profit levels above a mean is in the Department's interest. Likewise, individual companies that do not provide the government with quality products that meet our requirements on time at a reasonable cost should expect to make reduced profits. In the high-budget environments of the past, many companies have grown to expect high margins independent of quality. As budgets shrink, this practice must end.

As the budget environment changes, we do expect some niche firms to face difficulty due to decreased demand. In such cases, we attempt to identify early warning signs through a variety of means to isolate and, if necessary, mitigate these issues, particularly if a firm offers truly critical, unique, and necessary capabilities. While to date these cases have been isolated, we must nonetheless be prepared for the occasion to tailor our investment policies to preserve essential capabilities, and we need sufficient insight to make these choices.

Toward that end, we have undertaken an aggressive effort to map and assess the industry sector by sector and tier by tier. I can go into more detail during the question and answer on this particular effort.

Finally, the Department relies on a variety of investment tools to directly sustain and improve discrete, critical industrial capabilities. Program offices routinely manage industrial-based issues as part of their programs to keep them on track.

One key mechanism we also have at Office of the Secretary of Defense is the manufacturing technology, or ManTech, applied research programs. The Department also preserves critical capabilities through Research and Development investments, life-type purchases of materials and components, and acquisition strategy choices that sometimes give roles to multiple companies rather than rely on single suppliers.

Another example of the industrial base investment the Department is working on is in partnership with 18 civil acquisition departments and agencies on initiatives to preserve and create essential domestic capabilities through forums such as the Defense Production Act Committee.

Our commitment to working with industry, however, does not mean the Department should underwrite sunset industries or prop up poor business models. It does mean the Department will create an environment in which our vital industrial capabilities, a foundation of our strength, can thrive and continue to provide our warfighters with the best systems available at a reasonable cost.

Congress has been actively involved in shaping and supporting many of these initiatives on this front, and the support has been both welcomed and appreciated.

Congress has also supported the Department's engagement with industry, affording the Department the flexibility necessary to maintain a healthy industrial base; and on behalf of the Department we appreciate this support and look forward to our continued partnership to best serve the warfighters and our taxpayers while maintaining a financially healthy and technologically superior industrial base.

Thank you.

[The prepared statement of Mr. Lambert can be found in the Appendix on page 42.]

Mr. SHUSTER. Thank you, Mr. Lambert.
With that, Mr. Gudger.

**STATEMENT OF ANDRE J. GUDGER, DIRECTOR, OFFICE OF
SMALL BUSINESS PROGRAMS, U.S. DEPARTMENT OF DEFENSE**

Mr. GUDGER. Thank you, Chairman Shuster, Ranking Member Larsen, and members of the panel. Thank you for the opportunity to speak to you today about the defense industrial base and the role that small business plays within the Department of Defense.

My name is Andre Gudger, and I am the Director in the Department of Defense for Office Small Business Programs, and I report to the Under Secretary for Acquisition, Technology, and Logistics. The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics is the principal staff element of the Secretary of Defense for all matters to DOD acquisition. Today, I will discuss the role of small business programs and some of our initiatives and tracking of small business goals.

The primary role of the Office of Small Business Programs is to advise the Secretary of Defense on all things small business. This includes policy, oversight, and meeting statutory and regulatory requirements. The Office of Small Business Programs works hard to advocate for small businesses for inclusion in the acquisition process, the creation of awareness, and the dynamic role that small businesses play in our Nation's economy.

In September, 2011, Secretary Leon Panetta issued a memo to the acquisition workforce emphasizing the importance to the entire Department of Defense on meeting its small business goals and showing the commitment of DOD's leadership in supporting small business. This was unprecedented. There has never been a Secretary of Defense to sign out a memo for small business in the Department's history, and the Secretary of Defense took it that serious where he signed it while he was on vacation.

So when I look at the activities that the Department of Defense has outlined for the Small Business Program Office, we maintain three essential programs that is our base for creating opportunities for small business.

The first one is the Mentor/Protégé Program, where small businesses can receive a one-time developmental assistance from a larger company on developing their future capability. The other program that we manage is the Small Business Innovation Research and Technology Transfer Program, which is one of the most successful small business programs in the country, where this creates an opportunity for companies where we fund them to develop technologies, solutions, and services to meet the urgent needs of the Department. And, lastly, our Indian Incentive Program where we provide opportunity to Indian-based companies.

When I think about the outreach that we have provided around the country, I personally have hosted several roundtables throughout the country looking for new ideas on increasing small business participation in our contracting process and making it for companies easier to do business with the Department.

We have hosted two large-scale outreach events with our Deputy Secretary—at the time, he was the Under Secretary for Acquisition, Technology, and Logistics—Dr. Ashton Carter, where we offered matchmaking opportunities in the Department. And we plan on continuing this engagement because it was successful for us, and we will continue in future years.

In addition to the outreach with the community, we also have opened the door in the Department where we have been engaging other stakeholders in the Department of Defense in a more coordinated effort on the opportunities and the value that small business brings and looking at including them in the overall center programs in the future of the Department and the direction that we are going.

As I previously mentioned, Secretary Panetta issued a memo to the acquisition workforce. The military secretaries also issued a memo to their workforces about the importance of small business, meeting the goals and inclusion of small businesses in our direction as we continue to build capability.

When I look at the next thing, our regulatory changes, one part of the OSBP [Office of Small Business Programs] initiatives was to create an opportunity where we recognized access to capital was a challenge for most small businesses, so we made a change in the DFARS [Defense Federal Acquisition Regulation Supplement] to allow for accelerated payments to small business, which was tremendous. We, with this change, were able to pay small business one-third earlier, faster than they normally would get paid, on average. We are looking to continue this in fiscal year '12. This puts billions of dollars in small business's pockets, and this was used to hire workers, expand their capabilities, and look for ways to participate in new contracting opportunities more rapidly.

Next, we commissioned studies. One of the first studies I commissioned was a reduction of barriers for service disabled and veteran businesses so that we could reduce barriers to allow them to participate at a much higher level as they continued to develop their capability set within the Department of Defense.

One of the next things we also did was the accountability. We have included small business evaluation criteria in senior execs who influence acquisition outcomes in the Department of Defense, particularly in acquisition, technology, and logistics. And, furthermore, we are looking at additional ways to include assessing ways of determining subcontracting achievement for the Department as well.

Finally, I would like to talk about the impact in our current environment. The continuing resolution has a significant impact on us because our programs are impacted by the defense budget, and with the amount of uncertainty small businesses tend to not invest and make key hires for the future.

In conclusion, I would like to thank the 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 process. 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.

[The prepared statement of Mr. Gudger can be found in the Appendix on page 52.]

Mr. SHUSTER. Thank you very much.

From your testimony, you are making strides or trying to make strides in the right direction, but I think you are going to find out after today what we have heard around the country that those strides are very, very small and they need to be bigger and we need to figure out a way to break through the DOD, especially for these small and medium-sized businesses, to do more business, to make it easier for them to get their great ideas, products, and services to the warfighter and to the Department of Defense.

I guess the first question I have is your view of doing business with DOD. Is it a market system? Is it a traditional market system that we use? Is that the way we should view it? Or is it something different from that, in your view?

Secretary LAMBERT. I say that I read through the previous and I know most of the previous folks who have been before you, and I tend to agree with most of them. It is wrong, and I think it is a mischaracterization of the Department's position that we have this *laissez-faire*, let the market work, where, when possible, we prefer to allow the traditional market elements of competition to work. That is not—given the nature of some defense elements, nuclear submarines, where there aren't other products, there are elements of the defense industry where that is not appropriate. In those certain sectors, in those specific tiers, there is intervention that is necessary and nurturing that is necessary. So, where possible and where commercially products are available, we would prefer to allow the market to work.

Mr. SHUSTER. All right, which makes some sense. But it seems to me when you are selling to DOD, you have one got customer, they regulate, they buy they tell you which end is up, which end is down, so it becomes very difficult.

Could you go into some detail? You mentioned about you tailor some programs to preserve certain segments. And I agree with you. There are certain industries that are sunseted. We don't necessarily need them anymore. Or there are people out there, organizations, that are doing a poor job, and we can't save them and shouldn't. Can you talk about some of those programs that you tailor to preserve, some of the segments?

Secretary LAMBERT. There are a few examples, and I think it goes to the heart of what I understand the task force is trying to get at. And I think the business panel in particular has a unique opportunity to address an area that I think has seen short shrift over at least the last decade, which Andre mentioned, which is the small and medium-sized businesses.

At the prime levels, access to capital is not a significant barrier to continuing market performance. The lower you go down the tiers, it becomes more constrained. Then you have things like the CR [Continuing Resolution], the credit crisis, and different ratios that are required of these small businesses. So when we look at a program, you tend to stop—and I think you had Center for Strategic and Budgetary Assessment [CSBA] here, and they talked about their look at the prime level. But there is a lot of the analytic stops at the prime level.

The real fragility we are seeing occurring is at those lower tiers where you have a provider or a technology. I will give one example.

Recently, in the solid rocket motor industry, we have two providers. They do various things. We have two prime providers. But both of those primes at a lower level, much lower than just their next tier, rely on a single sub-supplier. So propping up the two primes, while it might be easier because we have more visibility into it, would do little to alleviate the concerns we have at that sub-supplier level.

So when we need to intervene in those areas, we try to adjust programs so that we can create sustainable rates of production that are in the best interests of the primes but also in the best interests of the taxpayer over time.

Mr. SHUSTER. Don't we need to do that? I think you suggested you need to do it earlier on—not wait until you get into a situation or it is critical. And that begs the question of having a defense industrial based policy to determine strategically are there six, are there eight, are there ten different segments? That we need to make sure we have the core competency there to build those products, the weapons systems that we need.

Secretary LAMBERT. You are absolutely right.

I was charged when I came into the office, in essence, to get the Department out of the role of firefighter, you know, waiting for a building to be on fire before we responded. And there are a number of mechanisms, it is not just one, that we use. Program managers tend to have a good visibility, but it is a soda straw visibility.

We do need greater insight, and I think what this administration has been pursuing through various initiatives like the S2T2, the sector by sector, tier by tier review, is to gain insight before we dictate oversight.

But you are absolutely right. We need better data at that second and third tier level before we can make these decisions.

Mr. SHUSTER. The program managers, it seems to me—I think you said a soda straw—they have got to be able to look out wider, and they are pushing to get their program, their project out. I don't if they have much concern about the broader implications. If you are looking down a soda straw, they can't see. So how do we change that?

Secretary LAMBERT. I think it begins with, again, the collection and the sharing of data. I know you received testimony about the great policy we have for Army berets, and that is correct, but I am not sure the Air Force or the Navy ever got that industrial base report.

So some of it starts with the simple sharing of data, which my office is charged with doing, the collecting of what those soda straws are looking into at the lower tiers down to the elements, if you will, of some of these programs, and then try to take those tiers and string that thread across the defense enterprise so we have a better understanding, where we are beginning to see fragility at that lower base that has cascading implications not just across the program but across the services as well.

Mr. SHUSTER. Does that sharing of information include talking to—having the project or program managers talk to the manufacturer? There is a lot of fear out there that if you are talking to the

producer, if you are a program manager, there is going to be some kind of implication. It just seems to me you can't produce something for a customer unless you are talking to them and trying to figure out exactly what they need.

Secretary LAMBERT. Absolutely, and I will let Andre jump in, because I know for small businesses that is particularly difficult. Having spent 20 years in industry, it has always been a surprise to me that the defense sector is the only one where as you get closer to negotiating the deal, the less you talk to the person you are negotiating with. But that is how the system is set up.

But we have redoubled our efforts to do outreach to industry. I have had 300 and some meetings in two years that are both larger meetings but one-on-one meetings. So we have an active dialogue from the Secretary on down with industry to listen to those concerns at the CEO [Chief Executive Officer] level. But those, again, are at the medium and larger companies.

I think your shop has really done a tremendous job in these local centers, going out locally to reach out to the small businesses.

Mr. SHUSTER. Mr. Gudger.

Mr. GUDGER. Correct. We have taken an industrious approach to solving the small business industrial based challenges we have. Just this morning, our office met, down at Defense Acquisition University, met with the program managers so that we can better identify what the program manager is seeing, kind of get in front of the requirements that are being developed throughout the Department because they have visibility at the level where things begin.

And something else that we did shortly after I took post in March was to really invest in a study, a forecasting study, for the small business industrial base looking at where we were in the Department and aligning ourself with the efficiency initiatives that were going on, and in particular Dr. Carter's Better Buying Power, saying how can we build a capabilities set with the current small business industrial base and have them make the right investments today for the future of our defense capability so that we would have the greatest military in the year 2020?

So one of the leading things that we wanted to do was to say we can forecast better. So we can define the requirements, talking to the program managers, the program executive offices, kind of centralize those requirements based on standards and make them available to the industrial base via the Web or another outreach event. Then we can kind of hone in where they are making the key investments so that we can get better products in the future.

Because we know if there is competition, then we are going to buy better, we are going to do better for the taxpayers, and then, ultimately, we will continue to create capabilities at a much higher tier. So we kind of rise up the tide to where we are creating things and technologies at a level at which we haven't created them before.

So we see this as an opportunity to take a quantum leap in the right direction for not just fiscal year '11 and '12 but in future years.

Mr. SHUSTER. It sounds like a start.

How many people are in your department?

Mr. GUDGER. In our office? We have roughly about 30 or so.

Mr. SHUSTER. How many in yours?

Secretary LAMBERT. If you include the ManTech program and the Title III offices, which we also manage, and some of the Committee on Foreign Investment in the United States activities, it is around 35—38 now, I believe.

Mr. SHUSTER. Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman.

Mr. Gudger, with regards to the Office of Small Business Programs, one of the concerns that we have been exploring with regards to that particular—not you, but just the particular office—is that the office has been more about counting numbers to be sure goals are met. And I think the concern that we have about that is there is just so much more you can do, and I think your testimony reflects that you are doing so much more than that. So I want to explore a little bit about that.

First off, do have you a report or a wrap-up of the roundtables you have done? We are doing our own roundtables. I think it would be very valuable to get the reports of the roundtables you have done so we can compare notes and make sure that whatever we produce is reflecting some of the things that you have discovered as well through your roundtables.

[The information referred to can be found in the Appendix on page 79.]

Mr. GUDGER. Absolutely. And when I took post, one of the things I wanted to do was develop a best practice guide from OSD's [Office of the Secretary of Defense] perspective and make it available to all of the components and services and agencies in the Department. So I would be more than happy to share our final product of our best practices guide, which is an inclusion of all our outreach events, all of the roundtables, and saying, hey, we now have a platform where we can share the best ideas and change where we are.

I agree that if you look backward, a backward view of the office, we probably were very centric to socioeconomic and disadvantaged programs, more counting the number. Since March, we have taken a programmatic approach where we have aligned ourselves with the urgent needs of the Department. We have looked at those urgent needs in a way we haven't before and begun to develop programs to support that.

For example, we worked very closely since I have been here with space, intel, operational energy, rapid equipped force, which is the brigade commanders out in the field. Mr. Lambert brought me into that meeting, so our offices are working together in a way we have never traditionally worked in the past.

We now are looking at this as an opportunity that if we can align the small business industrial base, or the industrial base in general, with the direction the Department is going in, then the numbers will improve for themselves. And I think we are seeing that. Because, in fiscal year 2011 alone, we doubled our small business innovation research programs that have gone on to phase three. So doubling that in a very short period of time shows a commitment from the Department into the small business community on creating the central product and services that we need for the future.

Mr. LARSEN. Frankly, I don't mind that one of the purposes of the office is to count those numbers, be sure the goals are being met. I don't have a problem with that. The issue we are looking into is, again, there is so much more capability in the office. Whether you can do that with 30 people or not will be up to you to determine, but there is so much more you can do in addition to that.

In your testimony, you said that you made a change earlier this year to the regulations and DFARS of implementing accelerated payments to nearly a third faster. When was that and what standard are you using that gets you to a third faster on the payments?

Mr. GUDGER. That is a phenomenal question.

Mr. LARSEN. I have been here 10 years. No one has ever called my questions phenomenal. Thank you very much.

Mr. GUDGER. We published the final rule on April 27th of this year. It was an area to reduce the barriers and move the bureaucracy.

Mr. LARSEN. We have heard this issue from small businesses.

Mr. GUDGER. Right. So we solved it with technology, through our financial system. We essentially didn't need the intervention of people. We took our financial system, and any small business who had a prime contract in a particular financial system, which was the first we updated—we have 14 we are updating over an 18-month period. But we targeted the largest one, MOCAS [Mechanization of Contract Administration Services], which is where 50 percent roughly of our spend comes from for small business. And on July 1, we implemented—actually mobilized the move where the financial system was updated, and it automatically sent payments out to small businesses. It didn't have to do anything.

On average, most companies have a net 30 payment day, and we were paying them on the average of net 20. So essentially for one-third of the year they will have money in their pocket that normally they wouldn't have.

Mr. LARSEN. And so these are small businesses that are primes.

Mr. GUDGER. Small business prime contractors.

Mr. LARSEN. So it doesn't yet apply to small businesses who are subs for a prime contractor, a larger contractor, is that right?

Mr. GUDGER. That is correct. The primes are in charge of paying their subcontractors.

But I meet with large businesses as much as I meet with small companies, and I have encouraged them to look at DOD's lead. We are leading something, so look at our lead in this area, and encouraging them to be very prudent as they pay small businesses and look to doing that faster and better as well, where appropriate.

Mr. LARSEN. I notice there are issues that we have heard from small businesses that has to do with auditing, not that they don't want to be audited. But a business in my district, five people, being audited for work they did a couple of years ago, being audited as if they are a company of 30,000 for a contract that is obviously big for even them but unique for the Department in terms of work they are doing.

So this issue of auditing as if you are a large prime, instead of auditing as if you are just a small business, you are going to hire people or take people off the job in order to fulfill the auditing re-

quirements, is that something you have heard throughout your roundtables?

Mr. GUDGER. Oh, absolutely. Certainly we have heard that. And we look at this in two ways.

First, Charlie Williams, who is the Director for the Defense Contract Management Agency who oversees a lot of audits now, we are working with his office in a way we haven't before; and we brought this issue up to him. And we are looking at reducing the number of small business audits as it currently stands.

Most of it is driven by contract type. So if it is a cost-reimbursable contract, it requires an audit. I have worked with the Defense Procurement and Acquisition Policy Office, and we are encouraging contracting officers in the acquisition workforce to be very cognizant of the type of contracts that they award. Award costs, reimbursable contracts, fixed-price contracts, level-of-effort contracts where appropriate, and that alone will begin an internal view of reducing the number of audits.

Then the ones that require audits, we are going to look at the ones that are what we consider high risk and move them into priority and see if we can reduce the others.

So we are looking into it. We are working those issues. So we are aware. We are making progress.

Mr. LARSEN. We want to continue to understand the progress being made.

You mentioned DCMA, the Defense Contract Management Agency. What about the Defense Contract Audit Agency, DCAA?

Mr. GUDGER. We are working closely with DCAA. Pat, I know him well, and we brought this issue to him as well. They are overloaded. We have a high workload with the number of audits. So Defense Contract Management Agency is helping pick up some of the load. So we are working with both of them in the reduction, yes.

Mr. LARSEN. All right. I may want to look further into that.

A few more minutes?

Mr. SHUSTER. Yes.

Mr. LARSEN. Mr. Lambert, in your testimony, you talked about the sector by sector, tier by tier. But it intrigued me, so I looked at your written testimony. You have actually given it a name, S2T2, which means I guess in defense language you have given it a program name, so you are actually focused on it, and it is not just some name you are giving it.

So talk to us about what specifically—how you are approaching this sector by sector, tier by tier, what it means to you all and what kind of outcomes are you looking at from looking at the industry from a sector-by-sector, tier-by-tier approach and the implications for the issues at hand that we have?

Secretary LAMBERT. Absolutely. We realized again a couple of years ago when we came in that we had a pretty good understanding at the prime level. So the sectors are the things that you would hear about—aircraft, missiles, ships—the classic sectors that we do the comptroller's budget analysis under. We have added to that under sectors emerging capabilities, such as unmanned systems and cybersecurity. Then the tiers are actually down to the component level. So you would have gyros, actuators, all the way

down to, really, elements, if you will. And then—so that is the sectors and the tiers is to go down.

We are pursuing it along four paths. My office is running it. But the first was a study or a survey that we commissioned through the Department of Commerce, which has the authority to have industry respond.

We looked at about 25—I saw this was in a previous testimony as well—about 25. We picked five programs from each of those sectors that were representative, three programs of record, one R&D [Research and Development] program, and one rapid fielding program. We looked at all the contractors and all the subs that were involved in those programs. That ended up with about 25,000 contractors. That is how vast that base is. So we are only talking about a small number of programs, representative programs.

We crafted a survey. That survey went out to about 5,000 companies. I have a list of each one in your district, and I can say your district is performing and responding quite well. But they are companies you may not even have heard of. Because sometimes we hear that they didn't know they were producing products for the Department of Defense. And we are getting those surveys back.

Mr. LARSEN. If I may, I won't speak for the rest of the members, but I would love the list in my district.

Secretary LAMBERT. Absolutely. You have seven.

And we then go along and we looked at all of the previous studies that had been done in the Department and tried to collect those. We came up with about 105 industrial-based studies that have been done in the last 24 months alone, some larger than others, some repetitive. We tried to get the best information from the soda straws that we could find.

We then went out to independent experts and asked them in their specific sector, space and so forth, to identify what they always hear, the problems with certain components or elements of that particular industrial base.

Then we had each service give us a detailee for 6 months—that was at the direction of Deputy Secretary Lynn—to work with the services to make sure we are reaching out to those program office.

We are putting all of that information together in a data set that will then become the repository for the Department and a basis for which to allow not just individual assessments of the health of the industrial base, the gross anatomy of the industrial base, but also help us as we go through this next chapter of mergers and acquisitions and consolidation so that we understand what it is we are actually approving or having problems with from that very specific elements of the lower tiers.

Mr. LARSEN. Okay. That is it. A great start to the answer.

I will yield back to the chairman.

Mr. SHUSTER. And we will probably go back for round two.

Mr. West.

Mr. WEST. Thank you, Mr. Chairman, ranking member, and also thanks to the panel for being here today.

A couple of questions to start off with.

I get very concerned when you look and see a lot of these weapons systems—F-22 [Raptor stealth fighter aircraft], AAV [Advanced Amphibious Assault Vehicle], Crusader [self-propelled how-

itzer artillery system], FCS [Future Combat Systems]—that all of a sudden we get going down the pipeline and then the next thing you know we cancel these programs. And, of course, when we are talking about budget cuts, we can't afford to have that too much longer.

So when I look at the national military strategy—and I would like to get your take on this—do we have a national military strategy that really does articulate the requirements of the Department of Defense to the defense industrial base so that they can develop the right type of capabilities and capacities for our military to be effective?

Secretary LAMBERT. Well, I know that again in previous testimony people have talked about other countries and what they do in the defense industrial base. We follow those issues pretty closely just to actually take what we consider the best from that. I think there is no doubt over the last decade in the programs, some of which you mentioned but many more that you didn't, where we spent billions and billions of dollars and never produced something.

At the end of the day, our manufacturing base requirements production. So unless we get into production at a lot of the lower tiers, it is not going to help them to continue to spend money on the research and development. We need to get into production.

In the past, in a permissive budget environment, that covers a lot of sins on both industry side I think and the Department side as we were trying to field systems as rapidly as possible. And I think adequate attention probably was not paid, out of necessity in some cases, to the implications that that had on the industrial bases, making what I call "our plans based on an EKG [electrocardiogram] chart."

You mentioned acronyms. The one that doesn't come up very often in the Pentagon is P&L [Profit and Loss]. So we ask these companies to build up rapidly and then draw down rapidly, and it is very hard to get a steady state of industrial capabilities there.

As we have drawn down the last 2 years, my office for the first time is engaged in program reviews. As we go through this budget cycle now, our office is very engaged with CAPE [Cost Assessment and Program Evaluation] and with the Deputy Secretary now on looking at industrial base implications as we make some of these hard decisions. So I would say it is better than it has been but not good enough.

Mr. WEST. When you look at the procurement cycle or system, what type of recommendations or what type of strategies and initiatives is the DOD looking at so we can close some of these long procurement cycles?

Secretary LAMBERT. Well, it is not in my department. Again, within AT&L [Acquisition, Technology and Logistics] and the individual services, I know that they are struggling with the fact that we build systems that last for 20 or 30 years. And I know Secretary Lynn was fond of saying, from concept to the first delivery, the iPad® took 18 months, and it took him 24 months to get a budget to think about developing the iPad.® So there are those inherent difficulties.

Again, it varies by sectors. With some sectors that are more mature, such as shipbuilding, it is not as large of an issue as it is with

the IT [Information Technology] world where we need that refresh. And I think the Department continues to work and struggle with how we field everything that we need and be flexible enough to get the systems to the warfighter as quickly as possible.

Part of that, we saw some capabilities like the MRAP [Mine Resistant Ambush Protected vehicle]. I think is a good example of where when the Department—when there is an urgent requirement, and in this case I think when the Secretary became the program manager, we did move much more aggressively and quickly to field those systems. And I think we are still learning the lessons from the last five years, at least on how to do that better across the Department.

Mr. WEST. What are we doing—I know about the rapid equipping force. But are there other strategies and things that we are using so that we can go in and pull off those commercial off-the-shelf technologies so that we can get a lot of this out to our soldiers, sailors, airmen, marines, and Coast Guardsmen a lot quicker?

Mr. GUDGER. Absolutely. We are working very closely with the Assistant Secretary of Defense for Research and Engineering, and one of the key programs under that portfolio is the rapid fielding portfolio, where we are looking at development things that will take somewhere between 6 months and 2 years, which is a more rapid acquisition process in the Department.

Our office has engaged them in a way, and we are working on some particular programs there where we are looking at—where they polled the entire defense internal stakeholder base on where they are going, where they see the future, what capabilities do they want to have in a 6-month or 24-month period. We are making that available to small business, and, where appropriate, if we see that they are one of our, let's say, sub-awardees, we are looking at how do we then award them the opportunity in a much more streamlined way. And we have had some early success there where they had a need, they had a capability.

We had a company who had received one of our phase two awards, and it was more of a making the company available to them where they could bend it slightly and then rapidly acquire for it. So we are seeing some successes there.

Mr. WEST. Thank you, Mr. Chairman. I yield back.

Thank you, gentleman.

Mr. SHUSTER. Thank you.

And, with that, Ms. Hanabusa.

Ms. HANABUSA. Thank you, Mr. Chairman.

Mr. Gudger, you said something earlier. You said you want to be able to forecast better for the military for 2020. This has always been the major question, which is what is the military for 2020? So when you say you are going to forecast better for the military for 2020, what is your vision of the military for 2020?

Mr. GUDGER. Well, I am not at liberty to have a vision. I definitely support Secretary Panetta's vision, and it is broad. It is a broad stroke. And Deputy Secretary Carter. It is to have the most powerful military on the face of the Earth in that year. And my remark was if we forecast better now and give our industrial base a chance to create the capabilities that to date don't exist for tomor-

row, then in that year we will have a much more powerful military and national security posture.

The study that we commissioned was to look at forecasting better. How can we take what the program managers and the program executive offices throughout the Department, all these requirements, what they see their needs would be in the future and bring them together in a way that not just small businesses but all businesses can understand them, it is clear where we may be going, it is made available to them sooner.

So the study was to look at best practices, look at ways of sharing information and data so that if, for lack of a better term, if the Navy had a requirement that the Army was also developing, maybe we could look at working together, closer, in a streamlined way to produce the desired outcome.

Ms. HANABUSA. Mr. Gudger, that is part of the problem. You want to work together, and you want to come up with a better program, and we are talking like now maybe 9 more years into the future. And unless there is somebody that has that vision, a clear vision, what is the time for a small business person, from the time you have an understanding of what it is that we are going to need to the point where you put that out or you help them get an understanding of that, and what exactly do you do for small business so they can then meet that demand in 2020?

We have heard testimony that some of our big projects take 15 years to get there. In a prior hearing, I think the organization—CSIS [Center for Strategic and International Studies] had a gentleman come before us who I thought said it really well. He said, policy is really set by acquisition. How we acquire determines our policy versus our policy determining how we acquire. Because if we continue to buy certain kinds of fighter jets or certain kinds of equipment or continue to build a certain way with a 15-year lead time, that is going to determine that military in the year 2020 or into the future.

So how do you intend to help small business when that has really been, for lack of a better description, that has been the way our *modus operandi* has been?

Mr. GUDGER. I agree that 10- or 15-year programs are unacceptable, and I know Dr. Carter has a big focus on that not being acceptable. What we are doing for small business in this area we are doing a host of things, but one in particular thing I can mention is like our rapid innovation fund, where we have taken Department urgent needs and made them available to small businesses and looking to rapidly acquire for them. I think that this is a great example, illustration, of the level of attention that the leadership in the Department is paying to small business, understanding and recognizing the dynamic role they play and working with our office in a way and engaging—

Ms. HANABUSA. Mr. Gudger, I don't want to interrupt you, but let me tell you something.

One of the things that I hear you saying is, because we don't have a clear focus, it almost seems like—well, 15 years is about how long it takes us to build a fighter. So what you are almost relegating small business to do is a certain kind of work that you think is going to have an immediate demand and immediate work.

So you don't see small business really participating in the long term for the bigger projects. Is that what I am hearing you say?

Mr. GUDGER. No. My number one goal is to make available expeditiously any opportunity that is a maximum practical opportunity for a small business, and that is exactly what we are doing. Traditionally, small businesses have not built tankers or ships or fighter jets.

Ms. HANABUSA. But they do subcontract.

Mr. GUDGER. But they do subcontract.

Ms. HANABUSA. They are part of the process. They have challenges as a result of that, right?

Mr. GUDGER. Absolutely.

Ms. HANABUSA. So are you looking at that as part of what you are looking at?

Mr. GUDGER. Oh, absolutely.

Ms. HANABUSA. Then you have got to look at 15 years potentially in the process and how you are going to insert the small business into that?

Mr. GUDGER. Absolutely.

Ms. HANABUSA. So you are looking at that?

Mr. GUDGER. Absolutely.

Ms. HANABUSA. So when we get your roundtable report, we will see that in that report?

Mr. GUDGER. Yes. Anything that addresses any portion of the industrial base on short- or long-term programs, we are looking at ways to address those.

Ms. HANABUSA. Thank you, Mr. Chairman.

Mr. SHUSTER. We are going to have a second round if anybody has interest in it.

With that, Mr. Runyan.

Mr. RUNYAN. Thank you, Mr. Chairman; and, gentlemen, thank you for being here.

Mr. Gudger, you mentioned in your opening statement about the memo from Secretary Panetta setting some benchmarks or what have you. Are they much different from standing operating procedure from before, or is he just trying to plant that seed again in everyone's mind?

Mr. GUDGER. I think it goes a step beyond the standard operating procedure for the one simple fact that it never happened before, so there is no real benchmark against it.

But, in addition to that, at the time, Under Secretary Carter, sent out a memo with actionable items that was addressed to all of the acquisition, technology, and logistics workforce, and also he provided a copy to encourage the military secretaries to also adopt very similar things. Those actionable items are materializing. In fact, one of the actionable items was to put in small business criteria and performance evaluation of seniors that affect the outcome of acquisition, and that is happening.

So we are looking at the actual items that went out. So it went beyond just a memo. It looked at key things that we must accomplish in order to reach this end state, whether it is one year out or 15 years out. These actionable items are to address the short term and long term, and there has been significant progress there.

When we look at our tracking numbers, we look at our total percentages for small businesses and prime contracting opportunities, and we look at fiscal year '10, because '11 is still settling. But when we look at '10, we actually—dollar-wise, looking at the goals that we had, we actually met the total dollars that should have gone to small business. I think that is a testament to, one, what we are doing and, two, what the future may hold as we continue to push forward and increase our prime contracting numbers.

Mr. RUNYAN. Well, in your view of that percentage, though, can it grow drastically more?

Mr. GUDGER. I would like to say it is encouraging good behavior. Drastically more, I am uncertain of drastically more.

Mr. RUNYAN. In reaching a lot of these—I am sure the list is long, and I won't ask you to go through a lot of them, but just off the top of your head a few of them—and are there any roadblocks, regulations, that you have noticed so far that have kept you from proceeding with any of them?

Mr. GUDGER. No, I don't see any huge roadblocks. In fact, one of the actual items was a biweekly meeting with our office—or with me—with all of the acquisition executives for services and components. I invite them in, which includes the head of contracts, and we together develop strategies and we share these best practices with them on what we are doing in the Department to meet our goals.

One of the action items, as a best practice we had a threshold of small business directors and specialists sitting on peer reviews, which is their review of the acquisition process. So our best practice was that our office put out to reduce that number, and we said on all previous users of over \$500 million or more—so the large acquisitions where small business need to be included in—we look and see if a portion of it can be set aside for small business. And if it is not possible, we then have started to put in language where we are requiring the prime contractors to meet a certain sub-contract number for small businesses.

So that is inclusive of any opportunity, planned acquisition of \$500 million or more. So that is a successful story. We actively engaged with them. We have been successful in breaking pieces out for small businesses to participate in, and we certainly have been very successful in ensuring that small business has a required minimum contracting goal inside of the larger planned acquisitions.

Mr. RUNYAN. I know specifically myself I have had three different service-disabled veterans in my district reach out to me that are having issues getting DOD contracts themselves. I am sure a few of them will be part of the panel that we are having December 9th back in the district. Having that discussion with them, the DOD itself has this 3-percent mandate, and a lot of times it is not being fulfilled. That is the reason why we are here.

With that, Chairman, I yield back.

Mr. SHUSTER. Thank you.

Go ahead, if you want.

Mr. GUDGER. I would like to respond to that.

The service-disabled veteran community is—although I have to say that I care about all the programs equally, that is one that is near and dear to my heart. In fact, that was the first study I com-

missioned when I got in this position, was the study on reducing the barriers for service-disabled, veteran-owned businesses.

And there is a silver lining in our cloud at DOD. Yes, I was disappointed when I took this position that we had not met that goal. But in fiscal year 2011 we have already—since I have taken post, we have already increased our service-disabled veteran-owned contracting by \$500 million since March of this year, and we are going to continue to do better. The numbers have been going year over year, but that is the single largest jump we have had in the last three years, and we have a continued focus on that particular community.

I have performed a lot of my outreach events have been with the service-disabled veteran-owned community, and I am the co-lead on the veterans task force for employment for entrepreneurs, entrepreneurship subgroup. And, in fact, I have reached out to the service-disabled veteran-owned community. A few groups, a name like VET-Force, I brought them in and made them members of my subgroup so that we could get the best ideas and the best ideas would be heard and to show them that not only are we going to talk about doing better, we are going to do better, and it is going to be an inclusive environment inclusive of their ideas.

Mr. SHUSTER. Would you identify some of the biggest barriers? You said you did a study—

Mr. GUDGER. Well, the study is actually still ongoing.

But, yes, some of the biggest barriers is the current industrial base for where the urgent needs and the things that the Department buys actually having certified service-disabled veteran-owned businesses with a capability to perform those functions. When we look at the industrial base, it is the smallest group. And so when we look at how much money we spend and how we spend it, there is simply not enough companies there to participate across the board in all the things we do. Yes, they do certain industries well.

But we are working with them. That is the reason why we are forecasting better, making our urgent needs more available by way of our Web site, and kind of helping them set the tone and direction for the things that they need to develop, whether it is a product or service.

Mr. SHUSTER. Thank you.

Ms. Sutton.

Ms. SUTTON. Thank you, Mr. Chairman.

Mr. Lambert, on page 6 of your testimony you make a couple of statements I would just like to get clarification on. You say companies exist to make money and without the potential no one would be competing to win defense contracts.

That is understandable. Everyone gets that.

And then at the end of the next paragraph you say, in the high-budget environments of the past, many companies have grown to expect high margins independent of the quality of their performance.

When I read that sentence, it is concerning to me. How did that happen in the first instance? Could you just expand on that for me?

Secretary LAMBERT. Sure.

I think, as I said before, not just in this cycle but in the four previous cycles we have seen in defense budgets when we went and

looked at the past lessons, a permissive budget environment does cover a lot of sins. And that is a permissive budget environment, it is important to remember, because of the requirements of conducting two ongoing operations that we faced.

But I think it would be hard to argue with the fact that when we had programs in trouble or we are bleeding, we tended to cauterize that wound with money. Because we needed the program. We needed to get it fielded because it was important to the warfighter. And in that process I think a lot of—or some discipline went out of the system. That was the entire point of Dr. Carter's Better Buying Power Initiative and the Efficiencies Initiative, was to return that balance.

So when we look at the financial ratios of the leading primes and some of the other defense companies, they grew quite substantially over this period of time, understandably again, and there wasn't much differentiation. I think what we are trying to restore now is a balance of rewarding with better profitability those companies which perform well, while making it clear to those who don't that the expected profitability that they may have had in past years will not continue.

Ms. SUTTON. Okay. And if I could just get a little more information and help in quantifying what you talk about on page 7, and I know there have been questions about this. The effort that you are undertaking to map and assess the industrial base sector by sector, tier by tier. Can you quantify how much—how far along you are, given the massive amounts that you have to deal with?

Secretary LAMBERT. Yes. It is a massive amount, and that is why it is important that as we do this it is not a study, it is a continued effort to collect data that will continue to be refreshed probably with deep dives every quarter in different sectors.

But of the roughly 5,500 surveys—we will start with that—that were sent out, more than half have been returned and we are going through. There were 17 in your district, and we are going through those.

We work with the companies to fill them out. We are happy to share with anyone who cares what the survey looks like. It is quite comprehensive.

Some of the initial results are affecting some of the budget decisions or at least showing early signs of fragility. We have been tasked to get some early product up to the Secretary's office by the end of November, and so we are working toward that goal.

The independent studies we have done have all been concluded, and we are integrating those. The studies that my staff have done have all been concluded, and now we are continuing to work with the services to collect the information they have, and some of the services have been great in responding.

Ms. SUTTON. And I would like to avail myself of accessing some of that.

Secretary LAMBERT. Absolutely.

Ms. SUTTON. And could I just ask you—and, actually, I would like both of you to think about this—are issues of guarding proprietary information and intellectual property hindering the development of our industrial policy? And, if so, what are those issues and how are you dealing with them? Just a small question.

Secretary LAMBERT. Is it specifically related to data rights or intellectual—or who owns the data from the contractors of the government?

Ms. SUTTON. I think it is your choice. I think it is all of those things.

Secretary LAMBERT. It is a complicated question. And certainly we have it with some of the independent research and development that companies themselves pursue and that we reimburse, the question of who owns that data.

I think, again, over time, lines have been blurred. There is a group working on that inside of AT&L—I have been in the meetings. I am not part of the official group—about how do we better define who owns what property at what stage. And the goal of that is really pretty straightforward. If the government owns the data and the rights to a component of a major system, we then have the opportunity at a future time to compete that component, to bring in new competitors, to introduce competition.

And this is what is important the Department understand and for everyone to understand about competition. It doesn't have to be symmetrical competition. It can be asymmetrical competition at a later stage or a different component or a different product.

We have an example that we brought of a product that we funded through the Title III program that changed the way we are building ammunition, but it has also helped the medical community. That is something we are inserting into a program after the fact. So then data rights do become an issue. Because we want to make sure if the taxpayer paid for this equipment, if it paid for the production, and if we are paying for the maintenance of it, we own the data. So that if the company decides to go in a different direction down the road and decides not to service the Department or if we want to introduce competition at a later stage, we reserve that right.

Mr. GUDGER. Oh, I agree with Mr. Lambert. I am a part of the meetings, although I am not one of the owners.

The Department is certainly moving in the direction that we are building on standards, and these standards will allow us to, no matter if we want to introduce competition and buy better and look to become more efficient in the future, it will allow us to create and produce the competition.

For a small business industrial base, it is somewhat a challenge for a lot of small businesses who are very concerned with intellectual property and protecting intellectual property. And that is one of the areas in our office that we are now looking at. It is a new thing for us in our office to take on intellectual property rights and ensuring that intellectual property is protected as it relates to small business. We haven't seen any major issue or any issue since I have taken position, but we understand that it could be a potential challenge in the future.

Ms. SUTTON. Mr. Chairman, if I could just say, because we have heard this issue come up in the context of small business, so I would really love to understand more of what you are doing. You said this is new. So if you could expand on that at a later time I would appreciate it.

Mr. GUDGER. Oh, absolutely. We are meeting with industry now to understand all the issues they have and what is bothering them so we can craft a response and a way of helping assist them in this area. So I would be more than happy to come back and make the data available to you.

[The information referred to can be found in the Appendix on page 81.]

Ms. SUTTON. Thank you.

Mr. SHUSTER. Mr. Lambert, am I to understand that, being the industrial base person, you are not participating in the discussions?

Secretary LAMBERT. No, we participate. There is a group that was formed to follow up on the Better Buying Power Initiative, which is called a senior integration group, that Dr. Carter convened a year and a half ago. It was meeting weekly on Saturdays for many, many months as we went through this process, and we continue to be part of that.

There are subgroups as part of that leadership team, 15 or 20 people, and then there are subgroups who solely have different responsibilities. I am not on the subgroup that is doing the data rights or the intellectual property, but they report back to this senior integration group.

Mr. SHUSTER. So you are participating?

Secretary LAMBERT. That is right.

Mr. SHUSTER. I think, as Ms. Sutton said, that is a recurring theme we hear. Some people have even said that—I don't know if we had anybody before us—that said we are not going to do business. Because if we have to give up our intellectual property rights, we will take it elsewhere.

Secretary LAMBERT. Absolutely. It is part of our issues that we deal with on commercialization.

I would also say that one of the areas where we are completely aligned with industry and we both need to do need to do a better job is in the protection of our own intellectual property from theft and from some of the cyber issues we have been seeing. We can quibble with who owns the intellectual property for a widget, but we can all agree that we don't want that intellectual property going to third parties who don't have a claim to it legally.

Mr. SHUSTER. And with that, Mr. Schilling, you are recognized for questions.

Mr. SCHILLING. Thank you, Chairman.

Thank you, gentlemen, for being here today. I am actually kind of impressed because we have got folks that are doing some studies and, rather than throwing them into a file cabinet, they are reaching around and doing some things about it.

You know, we are to the point as a Nation with the budgets going on is that—and with the threats that are out there—we have to be doing something. It is not we should. It is that we need to and we have to.

I got the opportunity to speak at the U.S. Chamber yesterday, and I took questions at the end. The first question was a veteran, and he brought up exactly what we were talking about here. And you answered most of it, and I think it is great that you are taking that head-on.

But, also, the women-owned small businesses, also.

And then one of the things is I was kind of curious as to why maybe they missed those goals. And then we know you are doing something differently about it now, which is great, but then is there anything that we can do legislatively to help you guys to push that forward?

Mr. GUDGER. One of the things that would help us tremendously—in fact, the Chamber recognized us for outstanding performance with women-owned business not too long ago, actually, about a month ago. So we are happy that we have made tremendous strides there and that they have recognized for us for those strides.

What we can do in the future is to really focus on the reauthorization of our key programs—Mentor/Protégé, SBIR [Small Business Innovation Research], and our STTR, Small Business Technology Transfer program. That is where a lot of opportunity not for just women but service-disabled, but there is a lot of opportunity there for them. And with that if we could focus on the reauthorization on programs I think that we can continue to foster an environment where we are maturing and growing, some of the micro businesses become small and the small to grow and be successful. It is a success story when they grow outside of the size standard. I think that is one of the key things that we could focus on in fiscal year 2012.

Mr. SCHILLING. Very good.

When we talk to the small businesses one of the things that they have, of course, is a problem with capital. What is the Department of Defense doing for the small guy visibility to—you know, the lower-tier folks—to help them get out there in front and highlight their business since they don't have the money to do the marketing? What might be needed? I guess either one of you might be able to answer that one.

Secretary LAMBERT. Go ahead.

Mr. GUDGER. We kind of initiated about three or four things that we are doing.

One is there is a memo that went out from the Under Secretary encouraging the contract and acquisition workforce to host outreach events in fiscal year 2012. Continue them on. We started them in fiscal year 2011, and they were successful, so to continue it on. Because that is a way of meeting businesses that we traditionally don't have or we don't have a supplier. That is a way to get to new vendors and increase our industrial base, which is key.

Some of the other things that we are doing to assist with that is to look at businesses that have been successful and making our mentor program available to the successful businesses where they can work with either new entrants or current businesses who are doing business with the Department of Defense and want to do more business with the Department. We see that as a successful way of doing a cross-transfer of capability and skills. So we are encouraging them to team together so that they can offer a unique capability in a way that they haven't done before. So that is a huge encouragement, and we are seeing that starting to happen.

In fact, one of the smaller Department of Army contracts, we kind of combined the two, and then those two companies came together, and they ended up winning a much larger effort because of

that encouragement of why don't you guys look at putting your capabilities together and do something unique for the Department, offer us a great capability at a reduced cost. So we are happy to see that kind of thing happening.

Mr. SCHILLING. Very good.

And then, Mr. Lambert, so we kind of get the competition part of this out of the way, but how many do I have in the 17th District?

Secretary LAMBERT. Oh, let me see. I think you had nine.

Mr. SCHILLING. Oh, we are going to have to get to work.

Secretary LAMBERT. Yeah. I will get your list here.

Mr. SCHILLING. Okay. But the DOD—how do they determine when there are strategic gaps and shortfalls in the defense industrial base?

Secretary LAMBERT. Well, that is an issue; and historically it has been when something has gone wrong. And that typically occurs whenever there is a break in production and subcomponents, the capability to manufacture atrophies, or the people go out of business. So it is not just the plant, but it is the physical—it is the design teams and the other elements that are so vital to our industrial base.

And, in the past, if a program office doesn't manage, and there are varying degrees of success at that level, then we end up—it costing more, sometimes delaying entire programs that can then result in the spiral of death that everyone is familiar with.

What we are trying to change with the S2T2 database is to create this repository where we can go in early and we can uphold those threads. So if you had an Army program, as the case was in the solid rockets, that was maybe changing their behavior in accordance with the direction given to them by the program manager and the service itself but it was going to have a cascading effect across the other services or the other departments, then we need, as OSD, to come in and try to align that, and that has the benefit of creating stable production.

I mean, one of the issues I think that Congressman West raised earlier, I am not sure if we are as bad at planning for our industry as some would allude to. I think we give fairly good visibility compared to other industrial sectors as to where we are going. Where we fall down is in the execution, the starts and the stops, the non-transparency and the “EKG charts” of production numbers.

If we can give industry transparency through communications and make that our desires and our plans and back it up with execution clear to industry and to the financial community, we find that the markets tend to work and companies tend to get the investments they need. It is when we don't do that that we see these instabilities, particularly at the second- and third-tier levels.

Mr. SCHILLING. Thank you, gentlemen.

Mr. SHUSTER. Thank you.

We are going to go for a second round of questions and start with Mr. Larsen.

Mr. LARSEN. Thank you.

First, I want to make a point—a broader point about the panel, at least in my view, because it wasn't clear in my opening statement. As we get into a budget-constrained environment it is extremely important that these small and medium-sized businesses

still have an opportunity to participate in contracting. Because they are still going to be there and be able to provide innovation, services, products to the warfighter through the Pentagon. So it is extremely important that we, at least in my view, we stay focused on that.

The second point I want to make is about IP [intellectual property]. We heard views from folks in my district where they actually developed proprietary information as part of a contract for one of the services, but in order to compete for that they had to hand that over to the service in order for the service to write the requirements so they can go out and compete in a broader community, thereby legally transferring this protected intellectual property to the rest of the market. So there is nothing nefarious about it except that the rules work against the company who developed the intellectual property, and that ends up, obviously, being to the detriment of the company itself.

So those two points and then there is a question.

Mr. Gudger, on SBIR and the tech transfer, can you answer the “so what” question? That is, what impacts are there when we do a 30- or 60- or 90-day reauthorization to SBIR and tech transfer versus a 1-year, a 2-year, a 3-year authorization?

Mr. GUDGER. Long-term authorization is always better for small business because it allows them to make the investment and feel more comfortable making the investment. Small companies have a much more difficult time with the start, stop and go, and then the uncertainty. So they are very reluctant to making the investment in developing technologies or—because the program may not be around to continue to fund them.

And then the second thing that bothers or hampers small business in a way that is much different than a larger base is the lack of direction when that happens. When programs are short-term reauthorized, small businesses are not quite sure if this is a sign that a program is going to go away, whether the technology will be of interest to the Department, if it is reauthorized longer term will the Department go in a different direction. These things hamper them from making the investment that we would like to see them make to create the capability we want. And many small businesses say, if the government doesn’t believe long term in the program or the product, then it is very difficult for me to. And so that is a challenge.

Mr. LARSEN. All right.

I have something for Mr. Lambert here. But just one new area for the Department, relatively new area, is the emphasis on renewable energy and the role renewable energy can play in our national security. And I know hearing from folks, again where I come from, it is a great direction to go. There maybe is not as much transparency because it is sort of still feeling out how our small businesses can help out the Department in that effort. So I will just keep that in mind—if you can just keep that in mind.

Mr. Lambert, I understand that you have an example of a small business innovation that you have brought. Can you talk about that and perhaps play a little show and tell?

Secretary LAMBERT. Sure. There are a couple. Actually, I came over yesterday to see them. They are not as small as they used to

be. But the Department invested through our Title III authorities a company down in North Carolina.

Mr. LARSEN. The Defense Production Act.

Secretary LAMBERT. The Defense Production Act, correct. We were actually looking for silicon carbide for some weapon systems, but it had the tertiary benefit of enabling commercial technology. And, in fact, the LED [light-emitting diode] lights in the Rayburn cafeteria are derived from this—were purchased from this company who are now producing them for commercial purposes. You can buy them at Home Depot.

But that was an example of where we need innovative technology that—because it was everyone's problem; therefore, it was nobody's problem. But once you could get the Department engaged and with our buying power—we did Wedge 5 at the Pentagon with these lights, and now you are using them in the cafeteria, and they are quite nice, as I found out.

Now, the other company is a small firm. I will leave these with you. I don't think I can take them out again.

Mr. LARSEN. I am surprised you got them in.

Secretary LAMBERT. It wasn't easy, apparently, just so you know.

This is a polymer. The net effect of this, this has a lot of commercial medical applications, but nobody was investing in it. A small company down in Mississippi did this polymer insert into a .50 caliber round.

The practical effect of this—and think about it—if you are a marine humping these things at 10,000 feet, they are 30 percent less weight, they have actually increased accuracy. We have injected, molded, and made them drop in so that they are now—if you think about the cascading effects that that small base has—we can load more of them on a pallet. It requires less fuel to transport them. Therefore, there are fewer convoys. Therefore, there are fewer casualties. All of this because of a simple—relatively simple, the company would say—idea that the Department of Defense funded through our Title III authorities.

That now has implications. They are doing these injected moldings with the polymers. They are looking at medical applications.

These are the kinds of things that if the Department—just like in our ManTech programs where we get a ten for one return on investment. When you talk about forward leaning and thinking about what we need to do next, not just as a Department but as a Nation in terms of manufacturing, these are the kinds of real applications that I think the Department can be proud to point to and say there is a guy somewhere over in Afghanistan that has lightened his load because of this polymer, and probably 10 years from now there is somebody going to be on an operating table that is going to survive because of these polymers.

Mr. LARSEN. Thanks. I will have to defer to the chairman, Mr. Gudger.

Mr. SHUSTER. Go ahead.

Mr. LARSEN. Oh, I am sorry. You brought in something.

Mr. SHUSTER. I want to make sure that the polymer has a medical benefit, not that round?

Secretary LAMBERT. Right. That is correct.

Mr. LARSEN. Opposite of the medical benefit.

Secretary LAMBERT. Right.

Mr. GUDGER. Just to show you how well we coordinate together, I couldn't let Brett play show-and-tell without me so I brought the body armor that a small business made to stop that .50 caliber round. In fact, this was made by a company called MQ. Then it was made and an urgent requirement in the field in Afghanistan and Iraq for the need for body armor and to sustain multiple blasts from IEDs [Improvised Explosive Devices] and other munition. A small company made this, and they are a subcontractor. They don't do this as a prime—they provide the armor that fits into other polymers that are bent and made for other pieces of the body. But this is a great and phenomenal thing that small business is doing as an example of our SBIR success story.

Mr. LARSEN. Okay.

Mr. SHUSTER. Is that ceramic?

Mr. GUDGER. No. It is made from bonding carbon and silicone.

Mr. SHUSTER. Ms. Hanabusa.

Ms. HANABUSA. Thank you, Mr. Chairman.

So, Mr. Lambert, how many do I have in my district?

Secretary LAMBERT. You have it looks like one.

Ms. HANABUSA. Oh, I have one?

Secretary LAMBERT. But that is the one we found. So if you can tell us more.

Ms. HANABUSA. I have Hawaii. That is right. They keep reminding me that.

Mr. Gudger, the question that I have asked at all of these meetings has been about SBIR and small business; and I notice that you interface with Small Business Administration. And I think that you can see like on page 9 of your report. So what I am trying to understand is, because Mr. Larsen has told me very clearly about the jurisdictions between the SBA [Small Business Administration] and DOD, so I want to understand from your perspective what and how you work together. Because you are asking for reauthorizations and so forth, and, you know, that may not be our issue. So can you tell me first what your role is with relation to the SBA and, also, in terms of SBIR, whether when the grants are being reviewed what your role is in that process, if any, and was that body armor a phase two SBIR?

Mr. GUDGER. It went phase two and went on to phase three. It became a program that was—

Ms. HANABUSA. Aren't you impressed that I would even know that?

Mr. GUDGER. Yeah.

Ms. HANABUSA. Anyway, can you answer those questions, please?

Mr. GUDGER. Yes. Our role with SBA, SBA has a statutory requirement for overall small business, and they also are the administrator of the overall small business innovation research program.

However, our program is standalone, and it is based on the reauthorization from Congress. And, typically, it takes both House and Senate to reauthorize a program from my seat. Now, when we do receive SBIR applications, we get thousands of them every year, tens of thousands of them every year, and we reward a few thousand every year, depending on the need. So, on average, 4,000 that

we reward; and, on average, we receive about 14,000 applications. We are very instrumental in that process.

The Office of Small Business program has a program manager that oversees the program for the Office of Secretary of Defense and works jointly with the Research and Engineering Directorate Assistant Secretary along with the service SBIR program managers to ensure successful administration of the program and that the urgent needs of the Department are fulfilled.

Ms. HANABUSA. So when you say you award, your Department or your office awards, I think you are an office—

Mr. GUDGER. Yes.

Ms. HANABUSA. Are you awarding SBIR grants?

Mr. GUDGER. Yes. We award phase one and phase two grants out of our office.

Ms. HANABUSA. And what role does the SBA play if you are awarding the SBIR grants?

Mr. GUDGER. They play no role in our awards.

Ms. HANABUSA. So SBIR, as I understand it, about 50 something percent of their money is actually defense because it is a percentage of the budget, right? So do you get to control over the whole 50-something percent of the money that SBIR has?

Mr. GUDGER. No. The SBIR program is a percentage of the total DOD budget. And it is a small percentage, about a percent and a half now, I believe, which represents just about \$1.5 billion. And our office oversees the broad agency announcements that go out five times a year, and we collect information, and we arrange with our other component agencies on selecting successful awardees that meet the requirements outlined in the broad agency announcement.

Ms. HANABUSA. So you actually award all of the SBIR. Because my understand is SBIR's total funding is from basically all contracts, all budgets. But you do control the SBIR component that is funded through the DOD budget—percentage of the DOD budget?

Mr. GUDGER. Yes. I am responsible for the industrial base, and we work very closely with the services in successfully awarding these.

Ms. HANABUSA. So the Mentor-Protégé' program which we heard about, what is the funding source for that?

Mr. GUDGER. That is also a congressional reauthorization. And it is a relatively small amount compared to other programs in defense where it is between \$20 million and \$25 million annually. But it is a significant job creator in the Department. It is phenomenal for a small business to also gain capability in developing infrastructure for their company so they can move on to be successful suppliers to the Department.

Ms. HANABUSA. But isn't the assumption that somehow they are going to move forward with the mentor, which is usually a larger defense contractor, so they kind of get gobbled up in a way?

Mr. GUDGER. You know, the consolidation of the industrial base is a challenge everywhere. That is very true. But we look at that as a success story. We don't penalize them for growth. In fact, if they gain a capability in the Department, as long as they continue to stay in front of it, I think there is no reason why we wouldn't continue to work with them in some fashion.

Ms. HANABUSA. Thank you.

Thank you, Mr. Chair.

Mr. SHUSTER. Thank you.

Mr. Gudger, you don't do phase three, correct?

Mr. GUDGER. Correct.

Mr. SHUSTER. That has to be supported by the acquisition by one of the services, is that correct?

Mr. GUDGER. Well, phase three are not just solely the services. It could be the component agencies as well. But phase three becomes a much larger program. We look to help them develop in phase one feasibility.

Mr. SHUSTER. And do you drop off then after phase two? You have no say in the matter in phase three because—and I am sure there are some things if you talk about—I don't know how the UAVs [Unmanned Aerial Vehicles]—I know the UAVs were earmarked. If they had gone through the SBIR process I am pretty sure the Air Force would have said, no, we are not going to do it; there are no pilots on that thing.

So are you involved in phase three at all? Do they consult with you? Do you have the ability to say, this is pretty good stuff; we have got to figure out some way how to move this. Or are you done after phase two?

Mr. GUDGER. That is somewhat of a complicated answer, because it depends on the technology and the need of the Department. But we certainly kind of go through the entire portfolio of OSD and look at successful phase two and match them up with program managers who may want to buy that technology or services who may have that need. They pick up and award the contract directly to them. But we make information available to them through our database, and we continue to track them and track the success in future years, yes, we do.

Mr. SHUSTER. Because there may be products that cost up front is big and you get one of the services to say no. But if you guys are looking at it and saying, look, but over the next 20 years we could save millions or billions of dollars, it would make some sense to keep pushing that.

So, with that, Ms. Sutton.

Ms. SUTTON. No more questions.

Mr. SHUSTER. Okay.

And the final questions I have, we get a sense out there when we are talking in our field hearings with these smaller businesses, and even I think with the big, the tier one primes, there is a sense of hostility between DOD and contractors. And some of it comes about because the media picks up on a \$500 hammer or a couple-thousand-dollar toilet seat, which I think those are both space shuttle problems. But, you know, still, the media pounds on it.

And, as I recall, the space shuttle toilet seat, if you go back there, is they only made like five of them, and they were out of a very specific—so it cost a lot of money to make them. You couldn't just go down to the Home Depot and get one.

So the media does some of that. But I think the Department of Defense has some culpability in creating this tension when we have got to figure out a way to get more together, whether we are talking about the communications that we talked a little bit about here

earlier, the audits and the communications, you know, not being able to talk. As you mentioned, the closer you get to the contract you got to stop talking to your customer, which is crazy.

Can you solve this hostility problem? I think it is a huge hurdle that we have to overcome. I don't know if we can legislate to stop it, if we have got to break the culture somewhere at DOD to stop it.

Secretary LAMBERT. It is very much a culture, and I was surprised, frankly, when I came in. I think what we have tried to do over the last few years is, within the leadership, explain very clearly that, despite spending about a billion and a half dollars a day, we don't make anything, and without our industry partners we can't field an army.

And Dr. Carter started by having an open door policy, Secretary Lynn did, and Secretary Gates. I conducted over, as I said, 300 meetings either individually or with groups and associations like NDIA [National Defense Industrial Association] for the second and third tiers, AIA [Aerospace Industries Association] for the larger ones, and then with individual companies.

It really is trying to get that message out there that we need to better communicate, to be more transparent. And we send memos out to that effect, but the practical—pushing that down is a real challenge within the Department and one that I have to give a lot of credit to both Dr. Carter and Frank Kendall.

It doesn't get any press. But they spend as much time going internally to the buying commands preaching that message of cooperation and working with industry to get best value for the taxpayer and warfighter than they do going to the companies themselves. I have seen a tremendous change in just the last 18 months as you work down that process. But it is very much an internal process we are working through.

Mr. SHUSTER. Mr. Gudger, do you have any?

Mr. GUDGER. Oh, absolutely. Being a former business owner I walked in with a certain bias to the Department and understanding the challenges that we faced. I thought I would do something that would help alleviate that challenge for small business. I understood that how you engage a culture and modernize a culture without baking small business industrial base into the process early. So we are making tremendous strides there.

In fact, I look at doing that through training. So our office created a small business training course that program managers must take now in order to receive their program management certification so they understand the small business base, they understand how to look for innovative technologies, they look at bringing them in the process during certain milestone reviews.

We created a tool called MaxPrac, which is the other part. It is the cornerstone to alleviating small business issues that say, hey, I just want a fair chance. So MaxPrac is the maximum practical opportunity tool that we developed and we share with other agencies throughout the government. I think we shared it with about 17 other agencies where it is a market-research-driven tool where we can find opportunities where we are currently engaged in a small company.

Let's say it is in the Army, for example, and the Navy is not engaged in that company and may be paying more for that resource or it is going to a large company. We now have a tool where we can identify and compare to other services or agencies in a Department or against other agencies in the government so that, one, we can buy better and reduce costs and, two, promote competition or promote the ability for opportunities to be competed in the future amongst small businesses. We are taking an analytical approach to this.

And then on the other side—that is the prime contracting side. On the subcontracting side, looking at long-term, we have looked at in the acquisition process influencing what we call weighted factors, which is, all things being equal in a plan acquisition, that the prime contractor for that, whether large or small, if they have met small business criteria that they outlined in previous contracts, all things being equal, small business has consideration for who will get that award in the source selection. Once you are awarded, then your fee—we affect a fee construct if you don't continue to meet those goals.

So it is to provide an incentive, one, on providing market research from a prime contracting opportunity; and then, two, looking at it from a subcontracting opportunity over the long term ensuring that we give consideration of small business for subcontract opportunities where primes have done well; and then, if they don't do well, we can have some accountability through fee construct.

Mr. SHUSTER. And MaxPrac, how is that initiated? Who initiates that?

Mr. GUDGER. It is administered by our office. All of our small business directors and specialists throughout the Department of Defense have a copy. We have trained all of our head of contracts, and we are working downstream to all of our contracting officers. We have 27,000 in our acquisition workforce. And we started this initiative—this analytical approach this year, probably in May of this year, where I launched it at our annual conference in New Orleans. And it is starting to help us produce significant, strides in accomplishing our goals.

Mr. SHUSTER. So your contracting officers initiate that? That is not—a private-sector company doesn't come in and say, hey, I can provide the same product to the different service?

Mr. GUDGER. It is a two-pronged approach. We meet with businesses all the time where we can buy better. And then when it is time to conduct market research, which is part of our acquisition process, that is when we use the tools. So, one, we can get it from industry in outreach events; and, two, we have a tool that helps us look at a mountain of data and make sense out of it pretty quickly.

Mr. SHUSTER. Mr. Lambert, you also said that you are rewarding companies for better quality. That is contrary to everything I hear. It is—you know, my goodness, it is heresy by giving somebody a bonus for doing a great job in the government.

Secretary LAMBERT. Well, again, it goes to trying to place incentives in a direction that truly incentivizes instead of punishing. And it is true that in the world that we are coming from I think quite often it was—the question was how to reduce profitability,

not how to increase it as a motivating tool. I think Dr. Carter and Mr. Kendall have been clear upon that.

To your point, Congressman, it is not so much the profitability of the primes. The worse thing that would happen is, if we hurt the profitability at the prime level, that surely is going to cascade down to the subs, just as it did in the auto industry, and that is the last thing we want to be encouraging. So it is a very short-term solution to a long-term problem, and we just can't allow program offices and departments to run programs and operations that way. We won't have a base if we do that approach.

Mr. SHUSTER. And my final question is, how many companies in my district on your list?

Mr. GUDGER. In your district—your district is strange.

Mr. SHUSTER. I have been told that before.

Secretary LAMBERT. Because you have a lot of different things. But there is one that was on the survey. But I know of several others that are close by that have a lot of people that live in the district.

Mr. SHUSTER. Well, you know, they say that a Member of Congress is a reflection of his district, so I have been said I have been strange before, too.

Secretary LAMBERT. Well, it is an important one, if that is helpful.

Mr. SHUSTER. Thank you. I really appreciate you being here today.

You know, you have said a lot of positive things, and I don't doubt that you are making strides. And, Mr. Gudger, you have been there for several months. But what we are hearing out there when we go out in the business community is a different story. So, hopefully, with your efforts and what we are trying to do here we can push that out.

Because I think the defense industrial base is so critical. I don't believe that it is a traditional market system like we have in other things, and we have got to make sure we are making the right strategic decisions so that, down the road, the next enemy, the next war we fight, we have all the right stuff on the shelf to be able to provide for our warfighters.

So, again, I really appreciate you coming in today; and we look forward to continue talking with you as we move down the road.

And you are going to provide us with, as Mr. Larsen requested, your roundtable feedback so we can see if it matches up. So we would appreciate that greatly.

[The information referred to can be found in the Appendix on page 79.]

So, again, thank you all very much for being here. Thank the members for being here and the audience for being here.

The hearing is adjourned.

[Whereupon, at 4:40 p.m., the panel was adjourned.]

A P P E N D I X

NOVEMBER 1, 2011

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

NOVEMBER 1, 2011

Statement of Hon. Bill Shuster
Chairman, House Panel on Business Challenges within the
Defense Industry
Hearing on
The Defense Industrial Base:
The Role of the Department of Defense
November 1, 2011

The House Armed Services Committee Panel on Business Challenges in the Defense Industry meets today to continue our dialogue regarding the health and future of our Nation's Defense Industrial Base by receiving testimony from witnesses from the Department of Defense. While the Weapons Systems Acquisition Reform Act did much to increase transparency and foster competition, there is still a great deal of room for improvement in the Department of Defense's business practices.

Last Monday, the panel heard from policy experts and from various think tanks that have studied the structure, effectiveness, and efficiency of the Defense Industrial Base. Our witnesses last week pointed out our Nation lacks a coherent and complete strategy for our Nation's defense. Without such a strategy, the Defense Industrial Base is left without the guidance and transparency necessary to ensure viability and efficiency.

This panel is facing some complex issues and nothing illuminates this more than this RAND Report on Military Research and Development Policy. I think it does a very good job at laying out the complexity of the issues as it offers some findings and recommendations on policy for providing the military with new weapons and capabilities. The only problem is that it was written in 1958 and not much has changed.

As a panel, we traveled to Akron, Ohio, on Friday where we met with small and mid-size businesses working on highly technical solutions to deliver capabilities to our warfighter. We met with companies making advanced coatings to prevent corrosion, composite armor, advanced aerodynamic control systems, and technologies to enable remote detection and identification of pathogens.

Just like in 1958, our defense industry today is having a hard time getting clear requirements from the DOD, bridging the gap between development and fielding, and surviving overly burdensome, unresponsive program management policies and regulations. Navigating these issues is difficult for large defense contractors and near impossible for small businesses.

Today's hearing gives us an opportunity to hear about these critical issues from witnesses from the Department of Defense.

I'd like to introduce:

- Deputy Assistant Secretary of Defense for Manufacturing and Industrial Base Policy, Mr. Brett Lambert, and
- Mr. Andre J. Gudger, Director of the Office of Small Business Programs in the Office of the Under Secretary of Defense for Acquisition, Technology & Logistics.

Welcome gentlemen, I look forward to a frank and informative discussion.

Before we receive testimony, I would also like to take a minute to thank Congresswoman Betty Sutton and her dedicated staff for hosting the panel in Akron. It was an extremely informative visit. In addition to the roundtable with industry, we also had a remarkable discussion on the impact of corrosion on DOD's equipment and facilities and got a briefing on the University of Akron's unique program in corrosion research and engineering.

On the trip, I learned that DOD spends nearly \$23 billion per year dealing with corrosion. That's \$23 billion out of our defense budget that we're not spending on our troops and it's something that I think all the members of this panel, and the Armed Services Committee, need to be aware of.

Betty, thank you for bringing this important issue to our attention.

Our next field roundtable will be happening on Friday, December 9th to Congressman Runyan's district—the 3rd district of New Jersey. These sessions are invaluable to this panel's work and I hope all of our panel members can join us on the trip.

Statement of Hon. Rick Larsen
Ranking Member, House Panel on Business Challenges
within the Defense Industry

Hearing on

The Defense Industrial Base:
The Role of the Department of Defense

November 1, 2011

Mr. Chairman, I'm pleased to be joining you and the other panel members here today.

As we have discussed, this Panel aims to discover the challenges facing the current government-defense industry partnership and the capabilities they produce.

Small businesses are essential to a robust and agile industrial base as well as for a strong economy. The U.S. defense base has a long history of producing the best military systems in the world. We must ensure that this continues—both for our warfighter and because it creates jobs here in America.

Key aspects of a strong defense-industrial base include assuredness of supply, American jobs, and ensuring the best technology for the warfighter. The mission of the Manufacturing and Industrial Base Policy is to monitor, preserve, and enhance the national security industrial base of the United States. (Note: Mr. Lambert, one of the witnesses, heads this office.) As we know small businesses play a critical role in the strength of our economy by creating technologies for our warfighter. We need to ensure they are given every opportunity to compete on a level playing field with large business.

Over the last few months, we have heard that small businesses face challenges regarding security clearances, lead times from DOD contract solicitation to submission due dates, ITAR, defense auditing and other regulatory and procedural issues.

I am pleased with what we've learned so far from our first Panel hearing that looked at challenges our small and medium-sized businesses are having creating and maintaining opportunities with the Department of Defense. Testimony from the hearing was echoed during our district visits and roundtable discussions. In addition, comments from local leaders have been extremely helpful.

So far, this panel has met with business leaders in my congressional district in August. We visited Rock Island Arsenal in early October in Mr. Schilling's district. And last week I and other panel members met with industry leaders in and around Ms. Sutton's district in Akron, Ohio.

Connecting today's hearing with our hearing on October 24th where we discussed the role and future of the defense industrial base with witnesses from think tanks, we will hear what DOD is doing to improve the defense business environment with a particular focus on small business. I look forward to hearing today's testimony and thank you all for being here.

Thank you again, Mr. Chairman.

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HOUSE COMMITTEE
ON ARMED SERVICES**

TESTIMONY OF

BRETT B. LAMBERT

**DEPUTY ASSISTANT SECRETARY OF DEFENSE
MANUFACTURING AND INDUSTRIAL BASE POLICY**

**BEFORE THE UNITED STATES HOUSE
COMMITTEE ON ARMED SERVICES
DEFENSE BUSINESS PANEL**

November 1, 2011

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

The Defense Industrial Base: The Role of the Department of Defense

**Mr. Brett Lambert
Deputy Assistant Secretary of Defense
Manufacturing and Industrial Base Policy**

Chairman Shuster, Congressman Larsen and Members of the Panel:

Thank you for the opportunity to submit this written testimony on the U.S. Department of Defense's (DoD) commitment to maintain the health and productivity of the defense industrial base.

I am Brett Lambert, the Deputy Assistant Secretary of Defense for Manufacturing and Industrial Base Policy (MIBP), and my office reports to the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD(AT&L)). Today, I will discuss some of the Department's activities to sustain the health, vibrancy, and efficiency of the U.S. defense industrial base as well as briefly describe the role the office plays within the Department.

Let me begin by defining what we mean by the term Defense Industrial Base. The defense industrial base is comprised of an extremely diverse set of companies that both provide products and services, directly and indirectly, to national security agencies, including the military. References to "the" defense industrial base that imply a monolithic entity are not analytically useful. The defense industrial base includes companies of all shapes and sizes resourced from around the globe, from some of the world's largest public companies to sole proprietorships to garage start-ups. Some companies deal directly with the federal government, while the vast majority act as

suppliers, subcontractors, and service-providers in a value chain that leads to those prime contractors. Companies at any tier, and of any size, may offer critical or hard-to-make products that ultimately lead to the systems used by our warfighters. Likewise, companies at various tiers have the ability to offer highly competitive products or services that could be substituted if the specific production art used by a legacy contractor or company were lost, thus offering the Department vital technology and process refreshment over time. Some products and services sold by companies in the defense industrial base are unique to defense applications, while most have substantial levels of non-defense demand or are even sold exclusively on commercial terms such that the supplier may not even know that the product is used in military systems; and likewise, the military may not know it depends upon a primarily commercial component. Finally, while the pace of innovation is extremely rapid in some segments across the defense industrial base, others segments are based on very mature technologies where dynamic innovation is less important to the Department. In short, there is not a single defense industrial base. There is a defense market serviced by a diverse selection of companies which span, and often reflect, the greater global economy for goods and services.

The U.S. military's superior operational capabilities are enabled by this diverse base. For decades, the U.S. has commanded a decisive lead in the quality of defense-related research and engineering conducted globally, and in the military capabilities of the products that flow from this work. However, the advantages that have enabled American preeminence in defense technology are not a birthright, and the key elements of that base are necessary to ensure U.S. dominance on future battlefields must be

sustained and nurtured. The U.S. defense industrial base is critical to equipping our military with superior capabilities; and a strong technologically vibrant and financially successful defense industry is therefore in the national interest.

The Industrial Base in a New Era

The United States depends on a robust and capable defense industry to develop, field, and maintain high-quality equipment and services that provide our warfighters with unsurpassed technological advantage. Whenever possible and appropriate, the Department allows market forces to create, shape, and sustain industrial and technological capabilities, but we must recognize that the Government's programming and budget decisions have a major influence on key portions of the defense industrial base. Consequently, we must consider the effects of our decisions on competition, innovation, and essential capabilities in the industrial base.

For too long the defense industry has been viewed as a monolithic sector of the economy whose key players are made up of only a few companies. In reality, our base today is increasingly global, commercial, and financially complex. Although some unique items are produced solely for the Department by well known defense firms, these items themselves often rely on a vast, integrated supply chain of product providers that, if constrained at the lower tiers, would jeopardize the ability of the seemingly pure military industrial providers in their support of our forces.

Challenges to sustain a vibrant and robust base vary significantly across defense sectors. The business environment for companies that offer relatively mature platforms, like ships and tanks, differs substantially from the situation for companies in emerging

sectors like unmanned vehicles and cyber defense. The business environment differs at various tiers as well: at some levels, a key supplier may make a truly defense-unique product, while other suppliers at other tiers are primarily driven by their sales to commercial markets, offering innovative products to the defense supply chain as a sideline – a sideline for them, in terms of revenue, that may be vitally important for us, in terms of military capability or cost control. Adapting to this new complexity in the industrial base, the Department must increasingly turn away from one-size-fits-all approaches to tailor its relationships and policies.

The Department must emphasize several factors when considering actions that affect the industrial base. First, certain defense industrial activities rely on highly specific labor skills – high-skill jobs that depend on experience learning a craft, where new workers cannot readily be hired in the future to replace workers laid off today. Second, the Department has greater responsibility for maintaining defense-unique capabilities; the Department does not need to be as concerned to ensure the long-term health of capabilities that draw readily on the commercial marketplace. Third, the Department is most concerned with industrial capabilities that are most likely needed in the future, that are least likely to be superseded by innovation or changes in the strategic environment, and that are the most expensive to reconstitute if a capability had to be rebuilt later to replace one lost today for lack of demand.

A Healthy Industrial Base

As the era of sustained growth in the defense budget comes to an end, the Pentagon's stewardship responsibility to ensure access to a robust industrial base

becomes more challenging. The Department needs to adapt its industrial base considerations and actions to the emerging fiscal realities. In the past two years, the Department has significantly increased its efforts to address the implications of the changes in both budgets and the nature of our defense industry. We understand that America relies on a defense industry that is healthy, robust, and innovative. A healthy industry is one that on the whole makes a competitive profit. Companies exist to make money, and without that potential no one would be competing to win defense contracts. As a whole, most corporations in our base fare well, particularly in comparison with other relatively mature industrial sectors. In addition, our primes typically have the advantage of strong backlogs and visibility into plans and programs in the markets they serve.

The Department of Defense also appreciates that businesses must be motivated by the opportunity to make a reasonable profit. Indeed, leveraging the inherent motivations to allow companies that perform well to increase profit levels above a mean is in the Department's interest. Likewise, individual companies that do not provide the government with quality products that meet the Department's requirements on time and at reasonable cost, should expect to make reduced or no profits. In the high budget environments of the past, many companies have grown to expect high margins independent of the quality of their performance. As budgets shrink, this practice must end.

A healthy industrial base is not just profitable. Being healthy also includes being fit, or if you will, lean. Competition, disciplined cost negotiations, and well structured contract incentives are the key motivators the government can employ to ensure that our

industrial base is lean. Competition is one of the key drivers of productivity and value in all sectors of the economy, including defense. Sometimes, competition is provided by having two or more providers of the same thing go head-to-head, but where this is not possible, we can still harness this power through a wide variety of other strategies that create a competitive environment where companies are not complacent about the work they will receive.

As the budget environment changes, we do expect some niche firms to face difficulty due to decreased demand. In such cases, we attempt to identify early warning signs through a variety of means, to isolate and if necessary mitigate these issues, particularly if a firm offers truly critical, unique, and necessary capabilities. While to date these cases have been isolated, we must nonetheless be prepared on occasion to tailor our investment policies to preserve essential capabilities. We need sufficient insight to make these strategic investment choices.

Toward that end, we have undertaken an aggressive effort to map and assess the industrial base sector-by-sector, tier-by-tier. The goal is to understand the gross anatomy of the industrial base. Just as doctors do not seek to understand the functioning of every individual neuron in the central nervous systems, the Department does not seek to know the exact details and reasoning behind every supplier relationship. But we do need to better understand the industrial base's nervous system, circulatory system, and bone structure.

The new Sector-by-Sector, Tier-by-Tier repository of industrial base data, known as S2T2, will also serve as a jumping off point for future assessments by all Defense Components, ensuring that data collection and analysis cumulates, thereby increasing the value of all industrial base assessment efforts. Having one office in the Department leading this effort will prevent duplication that wastes the Department's resources and harasses overworked program offices and contractors with multiple, redundant requests. Sustaining and strengthening the data over time will also contribute required insight to the Department's merger, acquisition, and divestiture reviews and other industrial base policies. This information will also be used to manage our investments more effectively to ensure a healthy industrial base for those key sectors critical to future capabilities.

Finally, the Department relies on a variety of investment tools to directly sustain and improve discrete, critical industrial capabilities. Program offices routinely manage industrial base issues as part of keeping their programs on track, and OSD coordinates those efforts when their relevance extends across multiple programs. One key mechanism is Manufacturing Technology (ManTech) applied research that the Department manages to direct investments for enhancing manufacturing productivity in concert with program offices. The Department also preserves critical capabilities through R&D investments, life-of-type purchases of materials and components, and acquisition strategy choices that sometimes give roles to multiple companies rather than relying on a single supplier. Another example of industrial base investment is the Department's partnership with eighteen civil acquisition Departments and agencies on initiatives to

preserve and create essential domestic capabilities through forums such as the Defense Production Act Committee (DPAC).

Our commitment to working with industry, however, does not mean the Department of Defense should underwrite sunset industries or prop up poor business models. It does mean that the Department will create an environment in which our vital industrial capabilities, a foundation of our nation's strength, can thrive and continue to provide our warfighters with the best systems available at a reasonable cost to the taxpayer.

Conclusion

The Department has a responsibility to invest taxpayers' money wisely, creating an environment that promotes financially sound and technologically superior supplies. Leaders in both the DoD and the defense industry widely recognize our collective long-term interest in supporting the warfighter and protecting American national security, and are therefore working aggressively to identify and mitigate activities or decisions that could unintentionally destabilize the base upon which we depend.

Congress has been actively involved in shaping and supporting many of the Department's initiatives on this front, and that support has been both welcomed and appreciated. Congress has also supported the Department's engagement with industry, affording the Department the flexibility necessary to maintain a healthy industrial base. On behalf of the Department of Defense, we appreciate this support and look forward to continued partnership to best serve our warfighters and our taxpayers while maintaining a financially healthy and technologically superior industrial base.

OFFICE OF THE

Assistant Secretary of Defense for Acquisition**Brett B. Lambert****Deputy Assistant Secretary of Defense,
Manufacturing and Industrial Base Policy**

Since 2009, Mr. Lambert has been the principle advisor to the Under Secretary of Defense for Acquisition, Technology and Logistics on all matters relating to the defense industrial base, including industrial capabilities and assessments; defense industry mergers, acquisitions and consolidation; preservation of essential industries and technologies; and other related matters.

Prior to joining the DoD, Mr. Lambert was a managing director for the Civitas Group. In this role he provided strategic advisory services for companies operating in the intelligence, homeland defense, and national security sectors.

From 1989 until 2007, Mr. Lambert held positions of increasing responsibility at DFI International, a national security consultancy he built with the founder. Mr. Lambert assisted in the sale of DFI 2007.

At the conclusion of his tenure with DFI, Mr. Lambert held the titles of Executive Vice President of DFI International and Managing Director of DFI Investment Partners. He was also the company's ethics officer and served as a member of the Board of Directors. Mr. Lambert specialized in technology assessments, strategic planning, and market analyses for defense, intelligence, and space companies. His engagements assisted client's identification and quantification of new or evolving markets, described the political and business environments in which they operated and provided execution guidance to ensure the implementation of successful ventures. Mr. Lambert also worked closely with a number of leading venture funds, merchant banks and private equity firms in support of their national security portfolio companies.

While with DFI, Mr. Lambert also led the company's work with first-tier defense firms, financial institutions, and private equity organizations in merger and acquisition market advisory services. Throughout his time with DFI, Mr. Lambert was engaged in scores of acquisitions, international joint ventures, offset arrangements and foreign equity investments representing a wide variety of both buyers and sellers in the national security space.

Before joining DFI, Mr. Lambert worked for the US Department of State (USAID) at the American Embassy in New Delhi. Prior to this, he attended graduate school at Jawaharlal Nehru University on a Rotary Graduate Scholarship he received during his senior year at Kansas State University. He also worked as an independent journalist in India, Pakistan and Burma. Before his time in Asia, Mr. Lambert served in the Political-Military Group at the Center for Strategic and International Studies.



If you would like to provide comments or suggestions, or if you would like more information:

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

TESTIMONY OF

ANDRE J. GUDGER

DIRECTOR

DEPARTMENT OF DEFENSE

OFFICE OF SMALL BUSINESS PROGRAMS

BEFORE THE UNITED STATES HOUSE

COMMITTEE ON ARMED SERVICES

NOVEMBER 1, 2011

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

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.



ANDRE J. GUDGER
 Director
 Office of Small Business Programs
 Office of the Undersecretary of Defense
 Acquisition, Technology & Logistics

Mr. Andre J. Gudger was appointed as the Director of the Office of Small Business Programs in March 2011. Mr. Gudger serves as the principal advisor to the Secretary of Defense on small business matters.



Mr. Gudger's career spans more than 15 years in the defense, intelligence, and investment banking industries. Previously, Mr. Gudger worked on key technical and financial initiatives with the Federal Deposit Insurance Corporation, Union Bank of Switzerland, and AT&T.

From 2003-2009, Mr. Gudger served as Chairman and Chief Executive Officer of Solvern Innovations, a corporate entity which provided acquisition support and cyber solutions through training, research, and innovation. During this period, Solvern Innovations provided software development and commercialization through technology transfer to the Human Computer Interaction Lab at the University of Maryland College Park. In 2009, Solvern Innovations was acquired by TeleCommunication Systems where Mr. Gudger served as the Senior Vice President of the Cyber Intelligence division.

Mr. Gudger currently serves on several boards throughout the region, including the University of Maryland Baltimore County, the Maryland BRAC Small & Minority Business Advisory Board, and the Cyber Advisory Council.

Mr. Gudger received his Bachelor of Science degree from the University of Maryland at Baltimore County. He received his Master in Business Administration from the University of North Carolina at Chapel Hill, where he had the opportunity to study at the Chinese University of Hong Kong, Erasmus University in Rotterdam, Tec de Monterrey in Mexico, Fundacao Vargus University in Brazil, and Gdansk University in Poland.

DOCUMENTS SUBMITTED FOR THE RECORD

NOVEMBER 1, 2011



DoD Best Practices and FY12 Strategy

FY11 Best Practices

- **Accelerated Payments:**
 - ◊ DoD is accelerating payments for all small business concerns. Small Businesses are eligible to receive payments 1/3 faster, which could total more than \$40 billion in FY11.
- **Accountability:**
 - ◊ DoD Established emphasis on small business utilization in all competitive and non-competitive procurement actions through weighting factors in past performance and fee construct.
- **Analysis and studies:**
 - ◊ DoD OSBP commissioned a study to investigate barriers to entry for Service Disabled Veteran Owned Small Businesses (SDVOSB).
 - ◊ DoD OSBP commissioned a market research study to identify innovative market research techniques and best practices.
- **Inter-agency collaboration (task force initiatives)**
 - ◊ DoD is represented on the Inter-Agency Task Force on Veterans Small Business Development through OSBP.
 - ◊ DoD OSBP is co-leading the Entrepreneurship Sub-Working Group on the Inter-Agency Task Force on Veteran's Employment.
- **Memos:**
 - ◊ SECDEF, USD(AT&L), Service Secretaries and Directors of Defense agencies issued guidance to their workforce on the importance of achieving their assigned small business contracting goals.
 - ◊ DoD OSBP and DPAP issued a memo directing contracting officers to utilize market research (MAX PRAC) to identify opportunities for small businesses.
- **New Market Research Techniques:**
 - ◊ DoD's Small Business Maximum Practicable Opportunity (MaxPrac) Analysis shows potential small business opportunities for specific supplies/services as compared to other organizations and potential specific contracts being awarded to large businesses that may be satisfied by small businesses.
 - ◊ DoD OSBP has also trained over 13 different agencies to this methodology.
- **Outreach:**
 - ◊ DoD has reached out to businesses through conferences, roundtables, studies on barriers to entry and inter-agency collaboration.
 - ◊ Large outreach events hosted by senior leaders.
 - ◊ Increased institutional outreach within DoD.
- **Peer Reviews:**
 - ◊ DoD OSBP reviews all planned acquisitions above \$1 billion.
 - ◊ Each Service and Agency small business director shall review all planned acquisitions above \$500 million.



DoD Best Practices and FY12 Strategy

FY11 Best Practices

- **Planning:**
 - ◊ Small business directors were authorized to review all planned strategic sourcing actions for small business opportunities.
 - ◊ Small business past performance has been added to source selection criteria for planned acquisitions.
- **Reporting to AT&L Leadership:**
 - ◊ Heads of Contracting Activities and small business directors analyzed a plan to achieve their assigned goals and reported their progress back to USD(AT&L) on a bi-monthly basis.
- **Streamlining the Acquisition Process:**
 - ◊ Rapid Innovation Fund allowed DoD streamline purchases to support the urgent needs of the Warfighter.
- **Use of Existing Vehicles:**
 - ◊ Contracting Officers shall to the fullest extent of the law were encouraged to utilize existing small business Multiple Award Contracts (MAC), Indefinite Delivery/Indefinite Quantity (IDIQ) contracts, and small business set asides to satisfy near term procurement opportunities.
- **Workforce Development:**
 - ◊ Created a small business course requiring government PMs to be trained in small business before receiving their PMP certification.
 - ◊ OSBP is developing a small business training plans for contracting officers during re-certification stages.
 - ◊ Working to Develop a Small Business career field in coordination with OPM.

DoD FY12 Plan

- **SB in Budgeting Process:** Include small business goals in budget guidance and tie small business performance to budget execution.
- **Accountability:** AT&L is including DoD small business contracting goals into performance evaluations of SES staff members that oversee the acquisition workforce in FY12 Performance Plans.
- **Strategic Planning:** Work to include small business performance goals in future DoD strategic guidance.
- **Improve Tools:** Enhance existing tools to allow for deeper market research capability.
- **Spend Planning:** Support Defense Agencies in producing and analyzing a plan to achieve their assigned goals.
- **Dialogue with SBA:** NAICS code size standard revisions and exclusions in NAICS codes where small businesses do not have a maximum practicable opportunity to provide goods and services.
- **Build:** Amplify and build upon the momentum gained from FY11 initiatives.



DoD Best Practices and FY12 Strategy

Inclusion of SB Goals into Performance Evaluations

- **Action:** DoD is inserting small business contracting goals into performance evaluations of SES staff members that oversee the acquisition workforce.
- **Draft language:** Beginning in FY 2012, the DoD will meet or exceed 100 percent of its contract obligation goals for the following five Small Business categories: Overall Small Business (23%), Disadvantaged (5%), Women-owned (5%), Service-Disabled Veteran-Owned (3%), and Historically Under-Utilized (3%).
- **Frequent Reporting:** DoD is currently developing benchmarks for quarterly reporting on small business performance in FY12.

DoD Outreach Follow Up

- **Database Development:** DoD OSBP created a central database of its small business contacts through which it communicates with small businesses on new initiatives, programs and policies.
- **Using Technology:** DoD OSBP is planning on conducting a virtual town hall meeting with businesses in our database and others in coordination with the White House Business Council.
- **Innovative Small Business Support:** Through the use of technology, its results driven approach and positive attitude DoD OSBP has helped small business navigate the acquisition process, lower barriers to entry and change the perceptions of small business within DoD.
 - OSBP has helped small businesses demonstrate their capabilities to acquisition leaders within AT&L and Defense Agencies.
 - DoD has implemented ideas from small businesses on how to reduce barriers and streamline the acquisition process.
 - OSBP has worked to ensure that small businesses have somebody to talk and will help them to get an answer when they have an issue.



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

AUG 12 2011

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE FOR RESEARCH AND
ENGINEERING
SERVICE ACQUISITION EXECUTIVES
U.S. SPECIAL OPERATIONS COMMAND ACQUISITION
EXECUTIVE
DIRECTOR, DEFENSE ADVANCED RESEARCH PROJECTS
AGENCY
DIRECTOR, DEFENSE THREAT REDUCTION AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY
DIRECTOR, MISSILE DEFENSE AGENCY
DIRECTOR, OFFICE OF SMALL BUSINESS PROGRAMS
DIRECTOR, JOINT SCIENCE AND TECHNOLOGY OFFICE FOR
CHEMICAL AND BIOLOGICAL DEFENSE
DIRECTOR, DEFENSE MICROELECTRONICS ACTIVITY

SUBJECT: Defense Research and Development Rapid Innovation Fund (RIF) Goals and
Implementation Guidelines

Section 1073 of the National Defense Authorization Act for FY 2011,
Public Law 111-383, and the 2011 Defense Appropriation Act provide the Department of
Defense with authorities and funds to facilitate the rapid insertion of innovative technologies into
military systems or programs that meet critical national security needs such as those supporting
the resolution of operational challenges characterized by Joint Urgent Operational Needs.

The attached document details the Department's goals for use of the RIF authority and
appropriation and provides guidance for RIF implementation and reporting. The goals reflect the
Department's emphasis on rapid, responsive acquisition and engagement of small, innovative
businesses in solving defense problems.

My point of contact is Mr. Ron Kurjanowicz, OASD(R&E), at 703-697-5776 or
ronald.kurjanowicz@osd.mil.

Ashton B. Carter

Attachment:
As stated

cc:
USD(C)

ATTACHMENT

SUBJECT: Defense Research and Development Rapid Innovation Fund (RIF) Goals and Implementation Guidelines

- **RIF Goals:**
 - **The Department's goals for the RIF are to transition:**
 - Innovative technology, primarily from small businesses (including Small Business Innovation Research [SBIR] Phase II projects), that resolve operational challenges characterized by Joint Urgent Operational Needs (JUONs) or other critical national security needs.
 - Innovative technology, primarily from small businesses (including SBIR Phase II projects), into existing Acquisition Category (ACAT) I–IA, II, III, IV programs, or into other defense acquisition programs.
 - DoD-reimbursed Independent Research and Development (IR&D) technology developed by defense industrial base tier 2 and 3 suppliers that resolve operational challenges characterized by JUONs or other critical national security needs.
 - DoD-reimbursed IR&D projects developed by defense industrial base tier 2 and 3 suppliers into existing ACAT I–IA, II, III, IV programs, or into other defense acquisition programs.
- **RIF Implementation Guidelines:**
 - **Organization:**
 - The Military Department Service Acquisition Executives (SAEs) and the Director, Office of Small Business Programs (OSBP), will establish RIF processes that support the Department's goals and meet the guidelines outlined in this Attachment.
 - The OSBP processes will combine and represent the interests of the organizations listed in the Appendix into a common RIF solicitation.
 - The Assistant Secretary of Defense for Research and Engineering (ASD(R&E)) will coordinate RIF activities among the Military Departments and OSBP.
 - The Military Departments and OSBP will forward the name(s) and contact information of their RIF point(s) of contact (POC(s)) to the ASD(R&E).
 - **Solicitation of Technical Proposals:**
 - The Military Departments and OSBP will use Broad Agency Announcements (BAAs) to solicit technical proposals for RIF funding.
 - For efficiency purposes, the Military Departments and OSBP may combine efforts to publish a common BAA. The solicitation's technical areas shall

Attachment

identify the DoD organization(s) seeking proposals for that area. The Components' personnel shall be responsible for conducting the evaluations of proposals submitted to the areas where they were identified as having an interest (See "Evaluation of Technical Proposals" in this Attachment).

- The BAA will list the targeted JUON challenge areas and the targeted ACAT I-IA, II, III, IV or other acquisition programs.
 - The OSD Joint Rapid Acquisition Cell (JRAC) will collaborate with the RIF POCs to agree on a common list of JUON challenge areas.
- The ASD(R&E) will provide the list of tier 2 and 3 suppliers in the defense industrial base according to their participation in IR&D to the RIF POCs.
- The BAA will be open for 45 days.
 - The RIF solicitation process shall include the opportunity for potential bidders to submit a white paper to determine government interest. RIF POCs shall attempt to provide responses to white paper submissions within 5 business days, circumstances permitting.
- **Evaluation of Technical Proposals:**
 - Component Program Executive Officers (PEOs) or Program Managers (PMs) will conduct the evaluations of the technical proposals and provide funding recommendations to the Source Selection Authority (SSA).
 - The SAEs will appoint a SSA to review the PEO or PM recommendations and select the proposals that will be funded using appropriated RIF funds.
 - The USD(AT&L) will appoint the SSA for the organizations listed in the Appendix.
 - In a combined solicitation that represents the interests of the Military Departments and the organizations listed in the Appendix, the SAE-appointed SSA remains responsible to select the projects to be funded using their respective RIF funds. The USD(AT&L)-appointed SSA shall only select projects to be funded by the defense-wide RIF funds.
 - The following source selection criteria are RIF-specific. They are to be added to the minimum evaluation criteria required by the FAR or DFARS.
 - Project is relevant to the targeted JUON challenge areas or acquisition programs identified in the solicitation, and it:
 - Enhances military capability; and/or
 - Accelerates the development of military capability; and/or
 - Reduces the development costs of acquisition programs; and/or
 - Reduces the sustainment costs of fielded systems.

- Project can be completed within 24 months from award.
- Project costs are reasonable and realistic, and total cost does not exceed \$3 million.
- SSAs will use the following selection preferences, listed in order of priority:
 1. Small business projects, including SBIR Phase II or IR&D projects, that accelerate the deployment of military capability to resolve operational challenges characterized by JUONs or other critical national security needs.
 2. Small business projects, including SBIR Phase II or IR&D projects, that show a clear transition path to fielding the technology into existing ACAT I–IA, II, III, IV and other defense acquisition programs.
 3. Projects from other than small businesses that accelerate the deployment of military capability to resolve operational challenges characterized by JUONs or other critical national security needs.
 4. Projects from other than small businesses that show a clear transition path to fielding the technology into existing ACAT I–IA, II, III, IV and other defense acquisition programs.
 - Projects recommended for award that simultaneously satisfy both priority areas 1 and 2 shall be selected before projects that satisfy only priority 1.
 - Projects recommended for award that simultaneously satisfy both priority areas 3 and 4 shall be selected before projects that satisfy only priority 3.
- **Awards:**
 - Contracts, cooperative agreements, and other transactions are allowed for purposes of issuing RIF awards.
 - The Military Departments and OSBP RIF processes shall include procedures to preclude a single firm from receiving multiple RIF awards for equivalent technical proposals submitted to another Component’s RIF BAA.
- **Phased Implementation:**
 - The Department will implement the RIF in phases.
 - Phase 1 (August to December 2011): Development of Military Department and OSBP RIF processes leading to project selection and awards. Funds released for RIF awards are:
 - Army \$24 million
 - Navy \$24 million
 - Air Force \$24 million
 - Defense-wide (OSBP) \$27.5 million

- Military Departments and OSBP may expend up to 3 percent of the RIF-appropriated funds for program management and administrative expenses.
 - The SAEs and the Director, OSBP, in collaboration with the organizations listed in the Appendix, shall accomplish the key RIF implementation tasks not later than the following dates:
 - August 2011: Development of Component RIF processes; and
 - September to December 2011: BAA publication, evaluation of technical proposals, and awards.
 - The ASD(R&E) shall assess the effectiveness and efficiency of the Phase 1 implementation processes and results and report the findings to the USD(AT&L) by December 23, 2011.
- **RIF Reports:**
 - Military Department RIF POCs shall forward the following information to the ASD(R&E) not later than 15 business days following completion of awards under a BAA:
 - The competitive, merit-based process used;
 - A list of the projects funded under the RIF;
 - The amount of funds awarded for each project;
 - The JUON challenge area and/or acquisition program that the RIF project supports; and
 - Anticipated transition timeline for the project.
 - The Director, OSBP, will be responsible for the preparation and completion of all congressionally mandated reports regarding RIF implementation and awards.
 - **Waivers to Implementation Guidelines:**
 - The USD(AT&L) is the waiver authority for deviations from the implementation guidelines and for the selection of technical proposals that exceed the 24-month or \$3 million criteria. Submit waiver requests through the ASD(R&E).

APPENDIX

SUBJECT: Organizations Represented by the Director, Office of Small Business Programs, in
Rapid Innovation Fund Implementation

- U.S. Special Operations Command
- Defense Advanced Research Projects Agency
- Defense Logistics Agency
- Defense Threat Reduction Agency
- Missile Defense Agency
- National Geospatial Intelligence Agency
- Defense Microelectronics Activity
- Joint Science and Technology Office for Chemical and Biological Defense

**WITNESS RESPONSES TO QUESTIONS ASKED DURING
THE HEARING**

NOVEMBER 1, 2011

RESPONSE TO QUESTION SUBMITTED BY MR. SHUSTER

Mr. LAMBERT. Please see the document “DOD Best Practices and FY12 Strategy” on page 67. [See page 33.]

RESPONSE TO QUESTION SUBMITTED BY MR. LARSEN

Mr. GUDGER. Issues and Concerns Identified at the Roundtable:

Insourcing

- A challenge to small business in this climate is insourcing. Government needs to identify those functions that are, in fact, “inherently governmental” in nature.
- The fear is that decisions are made in an arbitrary nature without regard for facts. Would like to see a mechanism for small business to address the loss of personnel to insourcing. Initiative—The pendulum is already swinging the other way.
- Government initially used insourcing to build workforce—specifically its acquisition workforce. Many agencies took at face value.

SBA and DOD Relationship

- The relationship between SBA and DOD is not fully communicated or understood by the small business community.

Congress and White House Action

- A serious concern about the deadlock between parties in Congress.
- It affects small businesses, especially from investors when the economy is seen as in an unstable time.
- Across the country small businesses are advocating for bipartisan collaboration and action.

Clean Energy

- More information about clean energy initiatives and avenues for eco-friendly businesses to expand in the industry.
- If there are resources available for clean energy, how are they best offered?

Government Contract Bidding

- A general gap in knowledge about and how to bid on government contracts as a small business.
- Contracting world seems to be fixated on price and fail to include other important factors such as quality.
- More information requested about government contracting opportunities.

Mentor/Protégé and SBIR Programs

- More information and awareness building about the benefits of the Mentor/Protégé program.
- Need long term re-authorization of Mentor/Protégé and SBIR programs
- Large businesses are often hesitant toward the program because they do not have enough of an interest in the MPJV.
- There should SBA programs should be more streamlined and more awareness needs to be promoted.
- Foreign companies that are prime contractors in the USA need to be educated/informed on the Mentor/Protégé program.

American Jobs Act

- The American Jobs Act and the related legislation directly affect many small businesses.
- There is a widespread gap in knowledge about the bill and further action the Obama Administration has taken since the Act failed in Congress.

Youth Entrepreneurship Initiatives

- Small businesses are concerned about the youth of America.

- Roundtable participants who want to hire remark that graduates or young workers are looking for jobs, rather than pursuing entrepreneurship paths that would ultimately lead to greater innovation for the whole country.
- There is similarly a lack of skilled manual labor.
- There is a need for the promotion of trade school as a viable career opportunity compared to the standard general four-year education.
- A major concern is how the Administration plans on dealing with this issue of youth motivation and education reform.

Payment withholding

- Simply because prime contractors have not received payment themselves, hurting the subcontractors.

Red Tape

- Too much red tape, it is really hard to deal with the DOD and is an extremely lengthy decision process.
- Paper work requirements present significant burden to small businesses (example: program requirements and Veteran certification).
- It takes too long to award projects.
- Certifications are critical, but the process is grueling and too long, with too much paperwork. Any way to streamline it?
- There is also a concern about the high barriers to entry for small businesses such as capital, taxes, and funding.
- There is a call for the administration to help make a better environment for risk taking, especially for startups.
- The microenterprise RS Code should be explained more. If people knew on the front end exactly how much revenue they would be taxed on and what credits and rebates they would be eligible for it would offer more stability.

Capital Limitations

- Banking regulations requiring collateralization with cash instead of assets which makes things very difficult.
- Revision of bonding policies and coding is urgently needed.
- The government needs to provide support to protect IP rights and capital formation.

NAICS codes revisions.

- NAICS code thresholds are too low.
- By the time small businesses have established staffing processes and infrastructure to properly manage/prime an effort, they have outgrown small business size standard.

Veteran Employment

- Veteran employment concerns.
- Incentives and training programs for both the veteran and the company hiring veterans.

Infrastructure and Transportation

- Transportation Infrastructure investment has been a concern brought up in every roundtable across the country.

Auditing Reform

- Too many audits on small businesses.
- They have sufficient inaccuracies and on top of the inaccuracies the audits are causing many delays and impeding progress.

Long-Term Solutions rather than immediate fixes

- Need long-term solutions that encourage businesses to make investments in people.
- Long-term tax breaks, broader approach to regulations for tax breaks.
- A business will make investments if it knows it's getting the return.

Policy Suggestions

- Explain the Rapid Innovation Fund better, and how it works.
- Revisions are desperately needed for the acquisitions process; it really needs to be streamlined.
- There should be local business representatives during government contracting bids.
- There also needs to be very clear and concise requirements and timelines for the bids.
- Recommend bringing in people with real-life experience to teach small business skills more efficiently about contract bidding.

- Small business training grants. The relationship between the contractor and the mentor is failing. The HU incubator wants to be the clearinghouse to help build the relationship between small businesses and mentors.
 - Use technology to update union programs so that DoL training and apprenticeship programs perform better and do not last too long.
 - There is a need for federally backed loans for trade schools. If there are already such loans, they should be on a higher scale with lower rates.
 - There is a lack of proper trade skill training in the workforce that the act should invest in improving with the ultimate goal of workforce development.
 - We need to get the word out to promote institutions (businesses and community colleges) to hire and train the unemployed.
 - Community colleges should partner with the Federal government to provide for job training.
- [See page 11.]

RESPONSE TO QUESTION SUBMITTED BY MS. SUTTON

Mr. GUDGER. The Office of Small Business Programs (OSBP) understands the importance of intellectual property issues faced by small businesses. OSBP continues to be proactive in understanding these concerns and in developing policy and programs that foster environments for small business to continue to innovate. Through industry roundtables, we have been able to get a real sense as to what some of the intellectual property issues that small businesses face. We are working closer with the U.S. Patent and Trademark Office (USPTO) and are analyzing our SBIR and Mentor/Protégé programs to ensure that our policies and procedures are aligned with the direction of the USPTO. As a result of the USPTO now participates in our outreach events, including our 2011 Small Business Innovation and Research conference and our upcoming Mentor/Protégé conference in March 2012. [See page 22.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

NOVEMBER 1, 2011

QUESTIONS SUBMITTED BY MR. SHUSTER

Mr. SHUSTER. It has been reported to the Committee that remarks, made by Department of Defense officials a few weeks ago at the Association of the United States Army conference, indicated there would be a requirement, prior to any future/further insourcing, that Senior Acquisition Executives certify that there would not be an adverse impact or harm to the industrial base. Can the Department verify if such a requirement exists, is being implemented, or is being considered and what the rationale/justification may be? If so, please explain how that reconciles with sections 129a and 2463 of title 10 and whether it was coordinated with the Office of the Under Secretary of Defense for Personnel and Readiness, who is responsible for insourcing oversight and policy in the Department?

Mr. LAMBERT. While the Department greatly values the contributions made by private sector firms as a part of the Department's Total Force of military, civilians, and contract support, no such certification requirement exists. We recognize that the private sector and the industrial base are, and will continue to be, a vital source of expertise, innovation, and support to the Department.

At the same time, the Department is committed to more appropriately balance its workforce and meet our statutory obligations to annually review contracted services, identifying those that are more appropriate for government performance and should be insourced. This includes services that are:

- inherently governmental or closely associated with inherently governmental in nature;
- may otherwise be exempted from private sector performance (to mitigate risk, ensure continuity of operations, build internal capability, meet and maintain readiness requirements, etc);
- require special consideration for government performance under the provisions of 10 USC 2463; or
- can be more cost effectively delivered by the government consistent with a cost analysis and in support of section 129a.

Mr. SHUSTER. 10 USC 2330a requires that the Department submit an inventory of contracts for services annually that is based on direct labor hours and associated costs collected from contractors. The Department consistently has resisted implementing this requirement as required by statute. While we appreciate the Department's "Better Buying Power" efforts to control costs by moving increasingly to firm fixed price contracts, absent a compliant inventory, this policy poses significant risks. Gauging reliance on contracted services by dollars alone is not an accurate measure of workload, as contractors can use the "trade-space" afforded in their pricing structures on firm fixed price contracts to do additional duties, particularly when there is a civilian workforce cap in place. What is the Department doing to implement the requirements of 2330a, and in particular to link that, as required by 10 USC 235, to the budget to preclude year of execution increases in contracting?

Mr. LAMBERT. Without an accurate accounting of the direct labor hours expended on services, as required by law, how can the Department prevent work that was being done by civilians or military, since we have both a civilian cap and declining end-strengths, from being absorbed by contractors within that trade-space? Essentially, the dollars spent aren't increasing, but the level of service is since the Department has no true accounting of contractor equivalents executed compared to the budgeted levels.

In order to take decisive and deliberate steps towards meeting the requirements of 10 USC 235 and 2330a, the Department submitted a consolidated plan on November 22, 2011 to the Congressional defense committees. The plan identifies both short- and long-term actions the Department will undertake to improve the inventory of contracts for services, so that we have an accurate accounting of the direct labor hours expended on services. As an enclosure to the plan, the Department provided a copy of the draft guidance that will be issued to the secretaries of the military departments and the directors of the defense agencies and field activities. That guidance will include the prescribed methodologies for collecting direct labor hours from contractors. The Department is continuing efforts to strengthen the relation-

ship between the Inventory for Contract Services and the budget justification materials. The FY 2013 budget guidance to the DOD Components requires the budget estimates to be informed by the FY 2010 Inventory for Contract Services. The FY 2013 budget guidance also requires that all components report funding for contracted services (utilizing object class information) and contractor full-time equivalents for all appropriations at the budget-line-item level of detail.

QUESTIONS SUBMITTED BY MR. LARSEN

Mr. LARSEN. Could you briefly describe the legal and procedural definitions of a small business as it relates to your responsibilities?

Mr. GUDGER. The Department of Defense relies on the size standards established by the Small Business Administration (SBA) for its definitions of small business. The SBA establishes size standards for all for-profit economic activities as they are described under the North American Industry Classification System (NAICS) Identifying Industry Codes. Size standards based on annual receipts are determined by the concern's three most recently completed fiscal years. Size standards based on number of employees are determined by the concern's 12 most recently completed calendar months (not its calendar year). Some SBA programs, such as the Small Business Innovation Research, Small Business Investment Companies, and Surety Bond Guarantee, have unique size standards designed to accommodate their specialized needs. You may find a more comprehensive explanation of size standards by going to www.sba.gov and selecting "Size Standards."

The Office of Small Business Programs' responsibilities are defined by the Small Business Act and are explained on our web page at www.acq.osd.mil/OSBP/. We strive to fulfill our mission statement through creating opportunities and maximizing the contributions of small businesses.

Mr. LARSEN. In your oral and written testimony you discussed several challenges small businesses face with securing work with the Department of Defense. You also mentioned various statutory and regulatory programs you oversee that assist small businesses with overcoming some of those challenges. During recent field hearings held by the Defense Business Panel, many of our medium-sized companies shared their experiences of similar challenges with capturing or maintaining work with the DOD. Are there any programs/procedures within the Department that track the challenges faced by our medium-size industrial partners? Are there any programs, procedures, or goals that assist those businesses that fall outside of your small business lane, but are not large contractors, with performing work for the Department?

Mr. GUDGER. The Office of Small Business Programs (OSBP) recognizes small businesses based on the Small Business Association's (SBA) size standards as set in the SBA's Small Business Size Regulations. The SBA defines business entities as "small" or "other than small." The SBA does have programs like the Small Business Innovation Research, Small Business Investment Companies and Surety Bond Guarantee that have unique size standards to assist different businesses' needs. Programs such as Small Business Technology Transfer, the Rapid Innovation Fund, and programs in the Office of Manufacturing and Industrial Base Policy such as the ManTech and the Title III program also provide opportunities to medium size enterprises to perform work for the Department. Additionally, OSBP works closely with SBA to ensure that growing companies have a smooth transition to becoming medium or large companies. An example of this includes recommending to SBA that it grant waivers to companies that are graduating from the 8(a) program and could lose contracts under which they have exceptional past performance and should remain on the contract. DOD also encourages teaming and for medium size firms to participate as mentors in the Mentor/Protégé program.

Mr. LARSEN. During your testimony, you briefly mentioned the Rapid Innovation Fund. Please explain the role of your office in implementing the Fund. Describe how the Department's implementation of the Fund meets the goals and intent established by Congress in both statutory and report language.

Mr. GUDGER. The Department implementation and the role of the Department of Defense Office of Small Business Programs and the Rapid Innovation Fund are outlined in USD AT&L Memorandum dated 12 August 2011. The USD AT&L Memorandum can be found at: http://www.acq.osd.mil/chieftechologist/publications/docs/USA003854-11_Signed.pdf. (The memorandum can be found on page 70.)

The Department goals are in accordance with section 1073 of the National Defense Authorization Act for FY2011 and the 2011 Defense Appropriation Act which reflect the emphasis on rapid, responsive acquisition and engagement of small innovative businesses in solving defense problems.

QUESTIONS SUBMITTED BY MR. WILSON

Mr. WILSON. You may be aware of campaigns led by foreign NGOs to boycott U.S. companies involved in the manufacture pursuant to contracts with the U.S. Department of Defense of weapons systems that they don't think the United States should have. Specifically, landmines that are compliant with the Ottawa accords and cluster munitions that are compliant with the U.S. policy on unexploded ordnance.

Do you believe these boycotts are exclusively driven by NGOs, or are some foreign governments also complicit in them? If so, which ones?

Mr. LAMBERT. To the Department's knowledge, the campaign is driven by NGOs and not by foreign governments. That said, a handful of States party to the CCM (Belgium, Ireland, Luxembourg, and New Zealand) have chosen to criminalize investment in the production of cluster munitions. The Department is not aware of any foreign governments currently boycotting U.S. defense contractors for producing cluster munitions for the U.S. Government.

Mr. WILSON. Are you concerned that these kinds of boycotts may dissuade some U.S. companies from continuing to supply these weapons to the Department of Defense?

Mr. LAMBERT. While we have not seen specific evidence to indicate that U.S. firms have been dissuaded from supplying the Department of Defense, we remain concerned about the current and future impact of boycotts on the industrial base, particularly in regards to the pressure on banks and insurance companies to stop servicing DOD suppliers if they continue producing certain products.

Mr. WILSON. What specific steps have you or other officials of the U.S. Government taken, if any, to resist these boycotts and support U.S. defense contractors that have been targeted by them?

Mr. LAMBERT. If notified of such a boycott, it is my understanding that the Department of State would be willing to raise the issue with the appropriate foreign officials. With respect to particular steps taken in responses to action by specific foreign governments, I defer to the Secretary of State.

Mr. WILSON. Have you, or to your knowledge, other officials of the U.S. Government expressed your concern about these boycotts to any foreign governments? If not, why not?

Mr. LAMBERT. If notified of such a boycott, it is my understanding that the Department of State would be willing to raise the issue with the appropriate foreign officials. With respect to particular steps taken in responses to action by specific foreign governments, I defer to the Secretary of State.

Mr. WILSON. Does your office track these boycotts and the potential impact on the United States industrial base, and if not, why not?

Mr. LAMBERT. When we become aware of a boycott, we work to identify potential impacts to the U.S. industrial base.

Mr. WILSON. Do you believe the United States Government in general, and the Department of Defense in particular, should continue to do business with foreign banks and other foreign businesses that are engaged in boycotts of U.S. defense contractors?

Mr. LAMBERT. The influence of activists and foreign governments on the U.S. defense industrial base is a complex issue. Protecting the U.S. defense industrial base and national security interests will require the DOD to collaborate effectively with other Executive Branch agencies and Congress. Before taking action, such as ceasing business with a particularly entity, we must ensure we thoroughly understand potential risks and communicate those risks to our industrial base. We will work closely with the industry sector and foreign nations to preserve domestic industrial capabilities.

Mr. WILSON. Does the Department of Defense have sufficient authorities to address foreign boycotts of the U.S. industrial base?

Mr. LAMBERT. The influence of activists and foreign governments on the U.S. defense industrial base is a complex dynamic. Protecting the U.S. defense industrial base and national security interests will require DOD to collaborate effectively with other Executive Branch agencies and the Congress. We must do more to understand and communicate the risks to the industrial base and work closely with other nations to preserve domestic industrial capabilities.