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**DEPARTMENT OF DEFENSE SMALL
BUSINESS (SB) PROGRAM: A
KNOWLEDGE-LEVEL ANALYSIS OF HOW
CUSTOMER EDUCATION RELATES TO
MEETING SB GOALS**

December 2014

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RELATES TO MEETING SB GOALS**

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ABSTRACT

For more than a decade, the federal government, to include the Department of Defense (DOD), has consistently failed to meet its congressionally mandated small business goals. Part of this problem has been attributed to the lack of emphasis on market research to identify small businesses that can provide the goods and services required. A partial remedy is holding leadership more accountable for small business award performance in their organizations, which has shown immediate improvements in the DOD's small business utilization performance. Is this remedy, however, the solution to solving a decade-long issue? Research indicates that there are other key players who can substantially affect achievement of small business goals. The requirement generator (e.g., program manager, technical expert, or customer) serves as one of these key players. Requirement generators are responsible for defining the requirement, driving the acquisition strategy, and performing market research to identify contractors. Because requirement generators are not adequately educated and trained on the importance of the small business program, there is not enough emphasis on supporting small businesses during the initial phases of the acquisition process. Our research shows that educating requirement generators is another way to improve DOD's achievement of small business goals.

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LIST OF ACRONYMS AND ABBREVIATIONS

AMC	Air Mobility Command
BMDS	ballistic missile defense system
BP	best practice
CBRN	chemical, biological, radiological and nuclear
COCOM	combatant command
DAU	Defense Acquisition University
DFARS	Defense Federal Acquisition Regulation Supplement
DLA	Defense Logistics Agency
DOD	Department of Defense
DSB	Director of Small Business
DTRA	Defense Threat Reduction Agency
EDWOSB	economically disadvantaged women-owned small businesses
EO	executive order
FAR	Federal Acquisition Regulation
FASA	Federal Acquisition Streamlining Act
FPDS	Federal Procurement Data System
FY	fiscal year
HUBZone	historically underutilized business zone
IPT	integrated product team
MDA	Missile Defense Agency
MFT	multi-functional team
MSC	Military Sealift Command
NAICS	North American Industry Classification Systems
NDAA	National Defense Authorization Act
OSBP	Office of Small Business Programs
OSDBU	Office of Small Disadvantaged Business Utilization
RFP	request for proposal
RFQ	request for quotes
SAT	simplified acquisition threshold

SB	small business
SBA	Small Business Administration
SBP	small business program
SBS	small business specialist
SDB	small disadvantaged business
SDDC	Military Surface Deployment and Distribution Command
SDVOSB	service-disabled veteran-owned small business
SecDef	Secretary of Defense
SME	subject matter expert
USA	United States Army
USAF	United States Air Force
USN	United States Navy
USSTRATCOM	United States Strategic Command
USTRANSCOM	U.S. Transportation Command
VOSB	veteran-owned small business
WMD	weapons of mass destruction
WOSB	women-owned small business

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I. INTRODUCTION

A. BACKGROUND

The Department of Defense (DOD) has failed to meet its congressionally mandated small business goals for the better part of the past decade (U.S. Department of Defense Office of Small Business Programs (DOD OSBP), n.d.-a). Small businesses are vital to the nation's economy, as well as to the DOD. Ensuring small businesses receive a fair portion of federal contract opportunities prevents the defense industry base from dwindling. Small businesses make up approximately 99.7% of all U.S. employers and employ about 50% of the nation's workforce (U.S. Small Business Administration Office of Advocacy, 2014). Small businesses also are major players in the international trade market, accounting for approximately 97.7% of companies exporting goods from the U.S. and generating about 33% of the nation's total export value (U.S. Small Business Administration Office of Advocacy, 2014).

In fiscal year (FY) 2013, the federal government met its goal of awarding 23% of prime contracts to small businesses for the first time since 2005 (Tabriz, 2014). Unlike the federal government's overall success in FY 2013, the DOD's troubles continued as the department fell short of its 22.5% goal for awarding prime contracts to small businesses (DOD OSBP, n.d.-b). Without official statistics from the Small Business Administration, there have been reports that the DOD has exceeded its FY 2014 small business goal of 21.35% (Forrester, 2014). This would also mark the DOD's first time meeting its prime contract small business goal since 2005.

In addition to the small business prime contract award goals, there are also prime contract award goals for specific socioeconomic subsets, to include (1) 5% to small disadvantaged businesses, (2) 5% to women-owned small businesses, (3) 3% to service-disabled veteran-owned small businesses, and (4) 3% to historically underutilized business zone (HUBZone) small businesses. In addition to the prime contract award goals, there are subcontracting award goals for small businesses and each socioeconomic subset. The FY 2014 subcontracting goal for small businesses is 36.7%. The

subcontracting goals for each socioeconomic subset are the same as the prime contract goals presented above (DOD OSBP, n.d.-a). To ensure these objectives are achieved, all stakeholders must be aware of the DOD's goals and how those goals relate to the President's objectives. According to President Obama,

Small Businesses have always formed the backbone of the American economy. These entrepreneurial pioneers embody the spirit of possibility, the tireless work ethic, and the simple hope for something better that lies at the heart of the American ideal. The problem is, our small businesses have been some of the hardest hit by this recession. There's no question that the steps we've taken have improved the overall climate for small businesses across the country, but there is more we need to do. (The White House, n.d., para. 4)

B. PURPOSE

The purpose of this research is to consolidate information and knowledge obtained from Office of Small Business Programs (OSBP) directors and deputy directors across the DOD. The information will be used to provide analyses and recommendations on how the DOD can increase its SB participation and utilization. We chose to interview the OSBP directors and deputy directors because these individuals are the strategic thinkers responsible for establishing policies and driving strategies to increase the DOD's small business utilization in order to meet small business goals. This research highlights how the roles of key stakeholders in the acquisition process, specifically the requirement generators, impact the DOD's small business goal performance. As the technical expert and initiator of requirements, a significant part of the customer's role is to gather market intelligence and perform any market research required to identify potential contractors that can meet agency needs. Performing market research requires more than just simply identifying contractors, however. The entire acquisition team has a responsibility to seek out eligible small business companies to maximize small business contract award opportunities for every acquisition. In order for this to be possible, all members of the acquisition team must be knowledgeable about the small business program and the DOD's objectives/goals to increase small business participation. Having better informed customers who understand their roles in the process will help improve market research and ensure the small business acquisition process is more effective.

C. RESEARCH QUESTIONS

This research addresses specific issues related to the government's small business procurement process and internal controls. We feel the best way to examine a problem is to start at the beginning to see where breaks in the processes occur. Thus, we feel it is important to examine the customer's role in government acquisition, because requirements originate at the operational organization level. We must keep in mind, however, that change generally originates via a top-down approach, which means that strategic leadership elements drive the procurement processes and have overall responsibility for identifying and addressing barriers that prevent the DOD from meeting its small business goals. Thus, our research simultaneously addresses bottom- and top-level roles in meeting small business goals, and is intended to answer the following questions:

What is the purpose of the SB Program?

- What benefits does the program provide to the U.S. economy and the DOD?
- Who are the primary stakeholders?
- What are the stakeholders' roles and responsibilities?

What is the significance of meeting SB goals?

- How are the SB goals established?
- What are the DOD's SB goals?
- What is the DOD's historical SB goal performance?
- What shortfalls/challenges have been identified?

How are agencies currently addressing their challenges?

Which "best practices" have positively impacted an agency's SB goal performance?

What efficiencies can be generated by consolidating SB expertise across the DOD?

D. RESEARCH BENEFITS

Studying the DOD's small business acquisition process, challenges, and best practices allows the department to identify possible areas for improving its small business goal performance and optimizing small business contracting opportunities. This study aims to benefit stakeholders in operational and systems acquisitions, including management at the operational, tactical, and strategic levels. We examine both operational and systems contracting, the diverse environments of which offer multiple challenges and benefits that could (and should) be shared across the DOD. For example, a best practice at the systems program level is the utilization of integrated product teams (IPTs), which allow all stakeholders to be involved at the earliest stages of the acquisition process, specifically promoting contracting/customer interaction. At the operational level, however, getting all stakeholders to work together in the initial phase of a purchase is a challenge. If the operational level took a similar IPT-like approach, it may positively impact the DOD's small business goal performance.

E. REPORT ORGANIZATION

The remainder of this paper proceeds as follows: Chapter II discusses the relevant literature, including a detailed examination of the small business program, each socioeconomic category, the legislation/policies governing the program, and the Department of Defense's specific goals/performance. This chapter also addresses the roles and responsibilities of the Office of Small Business Programs and the key personnel responsible for ensuring the success of the small business program. Chapter III discusses the exploratory nature of this research. The chapter provides an overview of the DOD agencies used in this research. These agencies were chosen to capture the DOD's diversity in mission and population size, which presents a multitude of challenges when attempting to meet small business goals. Specifically, since the military's strong suit is standardization and uniformity, developing standardized instructions that are applicable to each agency's environment and which address each agency's small business challenges has proven to be difficult. Chapter IV presents the project's findings and analyses resulting from interviews conducted with strategic management of each agency.

These subject matter experts drive strategies for improving small business utilization within their agencies. Finally, Chapter V provides conclusions and recommendations, as well as offering areas of further research that might be meaningful to addressing DOD small business goals and potentially reversing the negative performance trend.

F. SUMMARY

As the DOD searches for ways to improve its SB goal performance, the problem areas/areas for improvement must be identified. Thus, we begin with the procurement planning phase of the acquisition process and study the significance of requirement generators. This report examines the role of requirement generators and DOD small business contracting challenges. Based on process gaps identified in this research, we will provide recommendations that could contribute to addressing some of the DOD's major challenges.

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II. LITERATURE REVIEW

A. INTRODUCTION

For more than a decade, the federal government, to include the Department of Defense (DOD), has consistently failed to meet its congressionally mandated small business goals. In efforts to reverse this trend, the government has placed more emphasis on the importance of small businesses and the benefits they provide. A small business is a company “that is independently owned and operated, not dominant in the field of operation in which it is bidding on government contracts, and qualified as a small business under the criteria and size standards in 13 CFR part 121” (FARSite, 2014b, sec. 2.101). Legislation and executive orders (EO), such as the Small Business Act and EO 13360—*Providing Opportunities for Service-Disabled Veteran Businesses to Increase Their Federal Contracting and Subcontracting*, are examples demonstrating the government’s dedication to supporting small businesses. DOD regulations and policy directives, such as Federal Acquisition Regulation (FAR) Part 19—Small Business Programs and *Increasing Opportunities for Small Businesses through Small Business Set-asides under the Simplified Acquisition Threshold* memorandum, are demonstrated efforts to help improve the DOD’s small business goal performance. The DOD closely monitors agencies’ processes to see if practices enable agencies to successfully meet small business goals and to reveal problem areas that may prohibit an agency from meeting its established goals. The literature reviewed in this chapter summarizes the current state of various regulatory and statutory references, policies, and instructions. This chapter also examines the purpose of the small business program and DOD’s performance relative to goals for each small business concern.

B. SMALL BUSINESS PROGRAM OVERVIEW

Since 1941, Congress has been encouraging support of small businesses in federal contracting. Congress acknowledged that small businesses did not have the cost advantages that larger businesses could obtain and, as a result, Congress declared that a fair portion of total federal purchases and contracts be placed with small business

concerns. In 1953, the Small Business Act was passed to fuel development of small businesses. Ensuring small businesses are awarded a fair portion of federal contracts is accomplished in a number of ways. For example, the Competition in Contracting Act of 1984 commonly involves “full and open competition” for federal contracting opportunities; SB set-asides, however, are allowable competitive measures as well. The Small Business Administration (SBA) is responsible for the implementation and administration of such procedures. Small business goals are established annually at the statutory level to assure small businesses receive a fair proportion of DOD contract awards. The Small Business Reauthorization Act of 1997 raised the federal government SB goal to 23%. In addition to the overall small business goal, the SBA has established four socioeconomic small business goals for the federal government; these include prime and subcontracting for (1) women-owned small businesses, (2) small disadvantaged businesses, (3) service-disabled veteran-owned small businesses, and (4) historically underutilized business zone small businesses. A prime contractor is “a person who has entered into a prime contract with the United States. A *prime contract* is a contract or contractual action entered into by the United States for the purpose of obtaining supplies, materials, equipment, or services of any kind” (FARSite, 2014b, sec. 2.101). A subcontractor is “any person, other than the prime contractor, who offers to furnish or furnishes any supplies, materials, equipment, or services of any kind under a prime contract or a subcontract entered into in connection with such prime contract; and includes any person who offers to furnish or furnishes general supplies to the prime contractor or a higher tier subcontractor” (FARSite, 2014b, sec. 2.101).

1. Women-Owned Small Business

The Women-Owned Small Business (WOSB) program authorizes acquisition professionals to limit competition and set aside certain requirements exclusively for WOSBs or economically disadvantaged women-owned small businesses (EDWOSBs). A WOSB concern is “a small business concern (1) that is at least 51% owned by one or more women; or, in the case of any publicly owned business, at least 51% of the stock of which is owned by one or more women; and (2) whose management and daily business operations are controlled by one or more women” (FARSite, 2014b, sec. 2.101). Passed

in 1994, the Federal Acquisition Streamlining Act established a 5% prime contract and subcontracting goal for WOSBs (Federal Acquisition Streamlining Act, 1994). Prior to the program, there was no requirement for acquisition professionals to set aside contracts for WOSBs or EDWOSBs.

In order to set aside a contract for a WOSB or EDWOSB, it must meet certain criteria: (1) the North American Industry Classification Systems (NAICS) code for the requirement must be assigned to an industry in which the SBA has designated that WOSBs are considerably underrepresented, (2) there must be a “rule of two,” where there is an expectation that at least two WOSBs will submit an offer for the requirement, (3) the contract award price must not exceed the thresholds of \$5M for manufacturing and \$3M for other contracts, and (4) the acquisition professional must anticipate the ability to award the contract at a fair market price (FARSite, 2014a). The goal of the program is to ensure WOSBs have the same opportunities as other small business concerns when competing for federal government contracts.

2. Small Disadvantaged Business

The purpose of the Small Disadvantaged Business (SDB) program is to increase opportunities for socially and economically disadvantaged businesses to compete for contract awards. A SDB is “a small business that is at least 51 percent owned by one or more individuals who are both socially and economically disadvantaged. SDB status makes a company eligible for bidding and contracting benefit programs involved with federal procurement” (FARSite, 2014b, sec. 2.101). The SBA (Small Business Administration, n.d.-b) defines socially disadvantaged groups as those who have been historically subjected to “racial or ethnic prejudice or cultural bias” within the larger American culture (para. 2). Identified groups include: African Americans, Asian Pacific Americans, Hispanic Americans, Native Americans and Subcontinent Asian Americans (Small Business Administration, n.d.-b). Passed in 1987, the National Defense Authorization Act (NDAA) established the SDB program, as well as the 5% minority owned business prime contract and subcontracting goals (National Defense Authorization Act (NDAA), 1986).

3. Historically Underutilized Business Zone Small Business

The Historically Underutilized Business Zone (HUBZone) Program is a SB support program whose main purpose is to increase employment rates and wealth in distressed communities. A HUBZone is “an area located within one or more qualified census tracts, qualified nonmetropolitan counties, or lands within the external boundaries of an Indian reservation, qualified base closure areas, or redesignated areas, as defined in 13 CFR 126.103” (FARSite, 2014b, sec. 2.101). The program provides small businesses located in areas with low income, high poverty rates, or high unemployment rates much needed federal contract award opportunities. HUBZone SB contracts result in employment opportunities for thousands of people that are jobless. Competition may be restricted to HUBZone businesses if there is a reasonable expectation that (1) there will be at least two SBA-certified HUBZone offerors, and (2) a fair and reasonable price will be received (FARSite, 2014a, sec. 19.1305). A business must meet certain criteria to be considered a HUBZone company: (1) the company must be certified as a small business based on its NAICS code, (2) the principal office of the company must be physically located in a designated HUBZone area, (3) at least 51% of the company must be owned by U.S. citizens, and (4) at least 35% of the company must be operated in a designated HUBZone area (FARSite, 2014a, 19.1306).

4. Service-Disabled Veteran-Owned Small Business

The Veterans Entrepreneurship and Small Business Development Act of 1999 recognized that veterans were important to SB innovativeness in the U.S. It also recognized the significance of the nation providing assistance to veterans so they are better equipped to establish and develop SBs. A service-disabled veteran-owned small business (SDVOSB) is a “small business concern—(1) not less than 51 percent of which is owned by one or more service-disabled veterans or, in the case of any publicly owned business, not less than 51 percent of the stock of which is owned by one or more service-disabled veterans; and (2) the management and daily business operations of which are controlled by one or more service-disabled veterans or, in the case of a service-disabled veteran with permanent and severe disability, the spouse or permanent caregiver of such veteran”

(FARSite, 2014, part 2). The Act also established a statutory SDVOSB goal of 3% of prime and subcontract awards (Veterans Entrepreneurship and Small Business Development Act, 1999). There is no set-aside program for VOSBs and currently no statutory goals. In 2003, the Small Business Act was amended, enabling contracting officers to sole source or set-aside contracts to SDVOSBs. A contracting officer may award a sole source contract to any small business concern owned and controlled by service-disabled veterans if: (1) the contracting officer does not expect to receive offers from two or more SDVOSB concerns, (2) the anticipated award price of the contract (including options) will not exceed \$6 million for a requirement within the NAICS codes for manufacturing or \$3.5M for requirements with any other NAICS code, (3) the contractor has been determined to be responsible, (4) the requirement is not being performed by an 8(a) company, and (5) price fair and reasonableness can be determined for contract award (FARSite, 2014a, sec. 19.1406).

C. SMALL BUSINESS PROGRAM ROLES AND RESPONSIBILITIES

It is the responsibility of all members of the acquisition team to ensure the small business program is implemented effectively. A large part of effective program implementation is accomplished by clearly defining requirements in the early phases of the acquisition. This allows contracting officers to identify which requirements are eligible for set-asides, what the market can support, etc. Key players in the contracting process are Commanders, program managers and requirement generators, contracting personnel, and small business specialists.

1. Commanders

Commanders are responsible for implementing a small business program (SBP) in their units. They are also responsible for ensuring that contracting and technical personnel maintain knowledge of the SBP requirements and take all reasonable actions to promote SB participation. Commanders must appoint a full-time (or part-time) unit small business specialist (SBS) who manages the SB program for the commander. The SBS reports directly to the commander on SB matters. Commanders must also provide the SBS optimum staff and resources to perform assigned duties or functions (SAF/SB, 2014).

2. Program Manager/Technical Expert/Customer

The customers are responsible for developing well-defined requirements with nonrestrictive specifications and standards in order to promote competition. They must ensure adequate market research is accomplished to identify potential SB contractors that can meet the agency's needs. The program managers and customers accountable for the requirement are responsible for actively supporting the SBP by promoting opportunities to increase SBP awards. The customer should work directly with the SBS to identify SBP opportunities.

3. Contracting Personnel

Contracting personnel are responsible for assisting the customer in clearly defining the requirement and establishing understandable language for the solicitation. They select the appropriate contract type and procurement method for each requirement, which includes determining if there are opportunities to increase SBP awards. They must also coordinate any potential opportunities with the customer and SBS during the initial acquisition phase.

4. Small Business Specialist

The SBS is responsible for supporting the enhancement of SB contracting by assisting the unit competition advocate to maximize opportunities at the SB and socio-economic subcategory levels. The SBS must develop and manage the unit's SB plan and program, to include establishing and maintaining a system for monitoring unit SB program performance. The SBS's plan must be approved by the command's director of small business (DSB), and mid-term/annual inputs must be submitted to the DSB stating the program's performance (SAF/SB, 2014). The SBS is required to review acquisitions as required by the Defense Federal Acquisition Regulation Supplement (DFARS). DFARS 219.201 requires the SBS to (1) review and make recommendations for all acquisitions over \$10,000, except those under the simplified acquisition threshold that are totally set aside for small business concerns, and (2) conduct annual reviews to assess the extent of consolidation of contract requirements and the impact of those consolidations on small business concerns (DFARS, 2014).

D. OFFICE OF SMALL BUSINESS PROGRAMS

Each agency has its own Office of Small Business Programs (OSBP). The general purpose of the OSBP is the same for all agencies. OSBP advocates for small business utilization within its respective agency and is the primary source of information to the small business community. OSBP provides regulations and recommendations to the agency on all small business matters and assists acquisition stakeholders (requirement generators and contracting personnel) with small business market research. “OSBP also educates and develops resources for industry, participates in preparation and marketing opportunities, develops and monitors Small Business goals and achievements, and ensures small business regulations, policies, and procedures are followed” (U.S. Transportation Command, n.d., para. 1). The ultimate goal is to increase prime and subcontract award opportunities to small business concerns.

As is evident, the population size of the various DOD agencies varies, as does the mission. The mission certainly impacts each agency’s small business goal performance. For example, the USAF’s mission is to provide aerial support for the Armed Forces. The small business market for major weapon systems programs for aircraft development is virtually non-existent, though there are many subcontracting opportunities. Subcontracting on major weapon systems, however, can create numerous cost and performance risks. In contrast, DLA’s mission is to provide acquisition and logistics support for goods and services such as food, medical supplies, fuel, and uniforms. There is an overwhelming market of small business companies to provide these types of supplies and services, thus creating prime contracting opportunities for small businesses. As a result of the varying missions and markets among the agencies, the DOD’s small business performance tends to be inconsistent throughout the department. Therefore, it is evident that meeting small business goals can be somewhat dependent on the agency’s mission and types of purchases. This challenge makes it even more important that all stakeholders are educated on the small business legislation, policies, and programs, and that they also are familiar with the small business marketplace for items/services they are responsible for procuring.

E. SMALL BUSINESS LEGISLATION AND POLICIES

The government has a long history of supporting small businesses and attempting to establish fair practices that ensure small businesses are afforded the same opportunities as large businesses when it comes to federal contract awards. Notable legislation prior to the establishment of the Small Business Administration in 1953 includes the:

- Small Business Mobilization Act of 1942 – The Small Business Mobilization Act of 1942 was established to support war efforts. The Act recognized that small businesses did not have the production efficiencies that would provide cost savings necessary to compete with larger companies. As a result, a price differential was needed to keep smaller companies mobilized in order to provide support.
- Armed Services Procurement Act of 1947 – The Armed Services Procurement Act of 1947 was established to promote SBs during times of peace and times of war. The Act specified that a fair proportion of total federal purchases and contracts be placed with small business concerns in both situations.

While there was emphasis placed on the impact of small business to the economy, there was no agency to represent small businesses, no statutory goal government agencies were required to meet, and no contracts automatically set aside to assist in this effort to increase small business award opportunities. The following are a few laws that were passed in order to fill these gaps.

1. Small Business Act of 1953

The Small Business Administration (SBA) was established by the Small Business Act. As an independent agency, the Small Business Act specified that the SBA would ensure that small businesses receive a reasonable share of government contracts. The Small Business Act states: “the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns in order to preserve free competitive enterprises” (Small Business Act, 1953, p. 3). The Act also ensures that small businesses are informed of subcontracting opportunities. All federal agencies with procurement powers were directed to form an office to be known as the “Office of Small Disadvantaged Business Utilization” (OSDBU). In the Department of Defense, the Office of Small Business Programs (OSBP) serves this purpose.

2. Federal Acquisition Streamlining Act of 1994

The Federal Acquisition Streamlining Act (FASA) allows the contracting process to be streamlined and enables the contracting officer to obtain only the necessary information needed to determine price fair and reasonableness. Due to FASA, the Small Business Act was revised to require that contracts above the micro purchase threshold (currently \$3,000) and below the simplified acquisition threshold (currently \$150,000) be reserved for small businesses. The “rule of two” still applies, which requires the contracting officer to obtain two or more offers for the requirement in order to reserve it exclusively for small businesses. Even though micro purchases are not required to be set aside for small businesses, contracting officers are expected to distribute contract award opportunities equitably (FASA, 1994).

3. Federal Acquisition Regulation

As the Federal Acquisition Regulation (FAR) governs federal procurement, FAR 19.201(a) states

It is the policy of the Government to provide maximum practicable opportunities in its acquisitions to small business, veteran-owned small business, service-disabled veteran-owned small business, HUBZone small business, small disadvantaged business, and women-owned small business concerns. Such concerns shall also have the maximum practicable opportunity to participate as subcontractors in the contracts awarded by any executive agency, consistent with efficient contract performance. The Small Business Administration (SBA) counsels and assists small business concerns and assists contracting personnel to ensure that a fair proportion of contracts for supplies and services are placed with small business. (FARSite, 2014a, sec. 19.201)

Since the FAR and Defense Federal Acquisition Regulation Supplement (DFARS) is the foundation for federal procurement in the DOD, contracting officers are required to follow the regulations. With proper utilization of SBA resources and with assistance from SBA representatives, the government’s acquisition team is likely to be able to successfully link the federal contracting opportunities with small business contractors.

4. DOD Policy

DOD policy stems from federal laws and regulations. To support the DOD's focus on small business utilization, DOD Directive 4205.1 states "It is DOD policy that a fair proportion of DOD total purchases, contracts, subcontracts, and other agreements for property and services and sales of property, be placed with Small Business Programs" (Department of Defense, 2009, p. 1). This means that contracting officers should seek to identify opportunities for small business contractors in each acquisition.

F. DEPARTMENT OF DEFENSE SMALL BUSINESS GOALS AND PERFORMANCE

The following tables provide the DOD's small business goals and performance over the past decade. The information includes statistics for each small business category's prime contracting and subcontracting goals. Since each socioeconomic subset is a small business, subset goals count towards the overall small business goal. Further, a contract may be counted in more than one subset category. For example, a contract awarded to a WOSB in a HUBZone area that is owned by a service-disabled veteran would be counted towards the WOSB, HUBZone, and SDB goals.

Table 1 presents the DOD's prime and subcontracting goals for each small business goaling category. Due to the annual federal budget, the overall small business category is the only category that may (and sometimes does) fluctuate from year to year. The other categories' goals have remained constant since 2008. Table 2 presents the DOD's prime and subcontracting award performance (in dollars and percentages) for each small business goaling category. The table shows a steady increase in Defense spending following the 9/11 attacks until 2008. In 2009, when the Obama administration took office and war efforts began to decrease, the focus changed to controlling government spending. Since 2009, there has been a steady decrease in DOD spending, which has resulted in a decrease in small business contract awards.

Table 1. DOD Small Business Goals, FY08–FY14 (From DOD OSBP, n.d.-
a)

Small Business Program Goals

Prime Contracting Goals	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<u>Small Business (SB)</u>	<u>22.24%</u>	<u>22.24%</u>	<u>22.28%</u>	<u>22.28%</u>	<u>22.50%</u>	<u>22.50%</u>	<u>21.35%</u>
<u>HUBZone SB</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>
<u>Service-Disabled Veteran-Owned SB</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>
<u>Small Disadvantaged Business</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
<u>Women-Owned SB</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
<u>Historically Black Colleges & Universities and Minority Institutions</u>	<u>5.0%</u>	<u>5.0%</u>					

Subcontracting	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<u>Small Business (SB)</u>	<u>37.2%</u>	<u>37.2%</u>	<u>31.7%</u>	<u>31.7%</u>	<u>36.7%</u>	<u>36.7%</u>	<u>36.7%</u>
<u>HUBZone SB</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>
<u>Service-Disabled Veteran-Owned SB</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>
<u>Small Disadvantaged Business</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
<u>Women-Owned SB</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
<u>Historically Black Colleges & Universities and Minority Institutions</u>	<u>5.0%</u>	<u>5.0%</u>					

Table 2. DOD Small Business Performance, FY03–FY13 (From DOD OSBP, n.d.-b)

Prime Contract Awards (Dollars in Billions)

Fiscal Year	Total Awards	SB Awards	% of Total	SDB Awards	% of Total	WOSB Awards	% of Total	HUBZone Awards	% of Total	SDVOSB Awards	% of Total
2013	\$228.9	\$48.30	21.09	\$17.80	7.79	\$8.2	3.57	\$4.1	1.78	\$6.0	2.64
2012	\$275.0	\$56.10	20.40	\$20.10	7.3	\$9.30	3.38	\$6.0	2.20	\$6.4	2.33
2011	\$289.8	\$57.4	19.8	\$20.0	6.9	\$10.0	3.43	\$7.5	2.58	\$5.8	2.02
2010	\$291.9	\$61.1	20.94	\$20.8	7.1	\$10.5	3.6	\$8.8	3.0	\$5.3	1.8
2009	\$302.4	\$63.9	21.13	\$21.7	7.2	\$10.2	3.4	\$9.9	3.3	\$4.3	1.4
2008	\$314.6	\$62.5	19.86	\$19.0	6.05	\$9.3	2.95	\$7.5	2.39	\$3.3	1.0
2007	\$269.3	\$55.0	20.44	\$15.5	5.8	\$7.7	2.9	\$6.0	2.2	\$1.9	0.7
2006	\$235.0	\$51.3	21.8	\$14.7	6.3	\$6.9	2.9	\$4.7	2.0	\$1.6	0.7
2005	\$219.3	\$53.9	24.6	\$14.6	6.6	\$6.6	3.0	\$4.3	1.9	\$0.5	0.5
2004	\$194.1	\$44.8	23.1	\$12.0	6.2	\$5.3	2.8	\$3.1	1.6	\$0.5	0.3
2003	\$187.5	\$42.0	22.4	\$11.8	6.3	\$4.7	2.5	\$2.9	1.6	\$0.3	0.2

Subcontract Awards (Dollars in Billions)

Fiscal Year	Total Awards	SB Awards	% of Total	SDB Awards	% of Total	WOSB Awards	% of Total	HUBZone Awards	% of Total	SDVOSB Awards	% of Total
2013	\$147.1	\$52.0	35.4	\$7.0	4.80	\$8.3	5.70	\$2.20	1.50	\$3.10	2.20
2012	\$158.50	\$55.70	35.5	\$7.5	4.80	\$9.00	5.70	\$2.20	1.40	\$3.00	1.90
2011	\$151.6	\$53.5	35.3	\$7.5	5	\$8.8	5.8	\$2.9	2	\$3.3	2.2
2010	\$139.5	\$52.2	37.4	\$6.9	4.9	\$8.7	6.2	\$3.4	2.4	\$2.6	1.9
2009	\$144.6	\$49.5	34.2	\$6.0	4.1	\$8.1	5.6	\$3.0	2.0	\$2.0	1.4
2008	\$160.7	\$50.9	31.7	\$5.9	3.7	\$8.4	5.3	\$3.0	1.9	\$1.6	1.0
2007	\$127.8	\$46.0	36.0	\$5.5	4.3	\$6.9	5.4	\$2.2	1.7	\$1.1	0.9
2006	\$106.6	\$39.6	37.2	\$5.1	4.8	\$5.8	5.5	\$1.8	1.7	\$0.7	0.7
2005	\$121.1	\$43.7	36.1	\$5.4	4.4	\$6.0	4.9	\$1.4	1.2	\$0.5	0.4
2004	\$101.8	\$35.2	34.5	\$4.1	4.1	\$5.0	4.9	\$1.1	1.1	\$0.4	0.4
2003	\$86.5	\$32.0	37.0	\$4.1	4.7	\$4.2	4.8	\$0.9	1.0	\$0.3	0.3

G. SUMMARY

In this chapter, we examined the purpose of the small business program, which is to ensure small businesses are awarded a fair portion of federal contracts. In addition to the overall small business program, there are also socioeconomic sub-categories that the federal government must consider when awarding contracts. To ensure that government requirements are defined properly and small businesses are provided adequate opportunities for contract awards, the government has designated key personnel such as Commanders, customers, contracting professionals, and small business specialists to ensure performance goals are met. Even though legislation and policies clearly support small business contracting, the DOD has continually experienced issues meeting its mandated small business goals. In the next chapter, we will (1) briefly discuss the exploratory nature of this research, (2) examine the missions of each agency used in our analysis and (3) discuss the methodology we used for conducting the interviews and analyzing the responses.

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III. EXPLORATORY RESEARCH

A. INTRODUCTION

The goal of our research is to obtain information from small business subject matter experts that may help identify issues and consolidate best practices throughout the DOD. We hope that a comparison of the consolidated information will help generate ideas to improve the DOD's small business utilization and goal performance.

Small business program knowledge can be assessed in a variety of ways, to include working groups, knowledge-based assessments or surveys, and/or personal interviews. Given the level of knowledge we wanted to obtain, the last method was chosen. Specifically, we chose to interview Directors and Deputy Directors of each agency's Office of Small Business Programs (OSBP). We feel it is extremely important to gather information from top leadership at the OSBP because reversing the unsuccessful small business performance trend requires a top-down solution. Further, any actions taken based on this research will be implemented at the top leadership level.

For this research, we wanted to explore (1) the customer's role in the acquisition process, (2) the challenges of each agency in meeting small business goals, and (3) what each agency is doing to counteract their challenges. We believe that educating requirement generators/customers about the small business program and its benefits is essential for reaching Congressionally-mandated small business goals. In particular, we feel that proper training for all stakeholders, specifically requirement generators, will help reverse the trend of not meeting established small business goals. In order to evaluate the commitment level to reversing this trend, we conducted interviews with several subject matter experts who have an immense amount of knowledge and experience in DOD small business contracting. Clearly, each agency's mission differs greatly, which permits different levels of attention to small business contracting and poses different challenges that may help or prohibit the agency from consistently meeting its established goals. In this chapter, we introduce the agencies that were assessed and discuss the interview methodology used with agency SMEs.

B. AGENCIES

As displayed in Figure 1, the DOD consists of three major military departments, seventeen defense agencies, ten field activities and nine combatant commands. Major defense spending comes from the Air Force, Army, and Navy (to include the Marine Corps) military branches. Significant spending, however, comes from other defense agencies as well, such as the Defense Logistics Agency, Defense Threat Reduction Agency, and Missile Defense Agency. In order to be as comprehensive as possible, we chose a sample of SMEs that represent each military service and some defense agencies/combatant commands. Our goal for the interviews was to obtain knowledge on SB performance, processes, and challenges from the major buyers in the DOD.

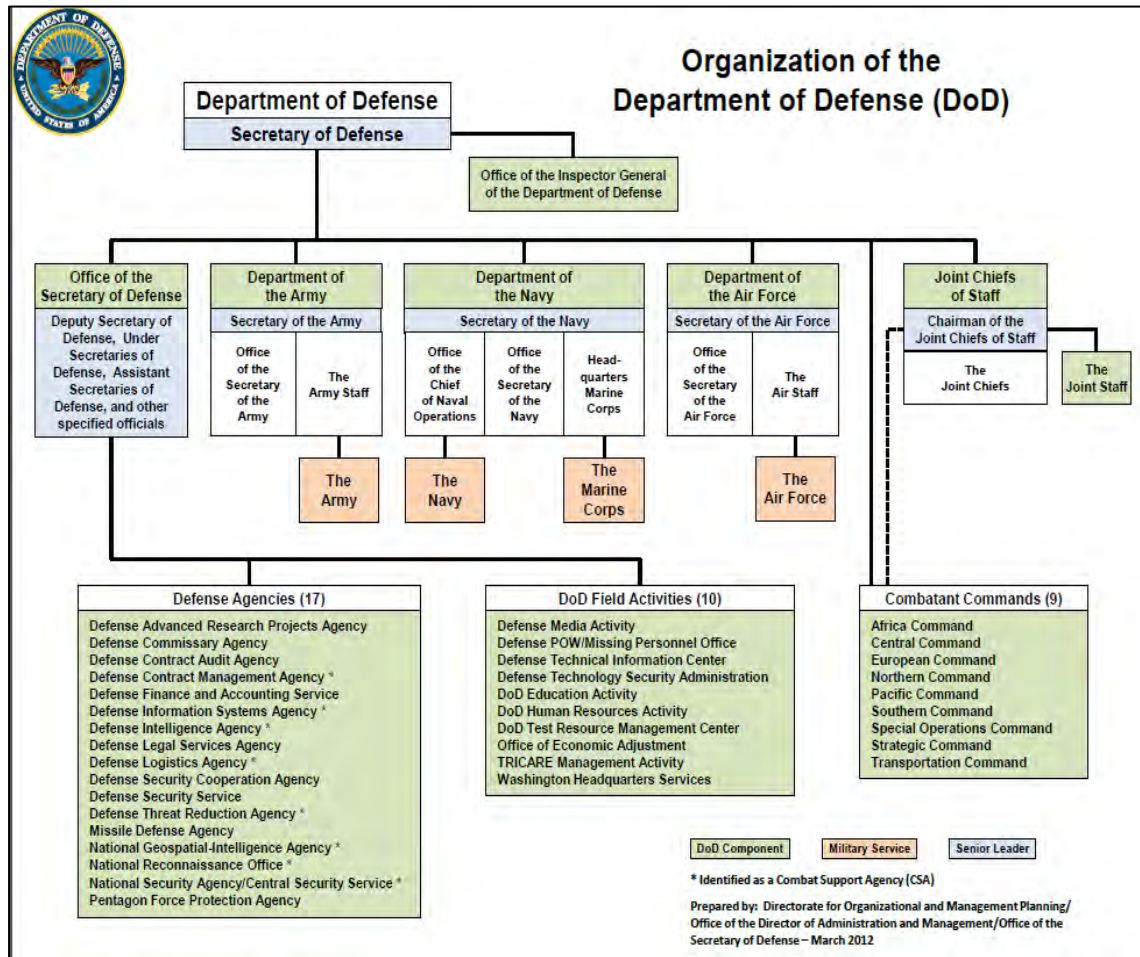


Figure 1. DOD Organizational Structure (from Directorate for Organizational and Management Planning, 2012)

1. United States Air Force

The aerial warfare service branch of the U.S. military is the United States Air Force (USAF). The mission of the USAF is to “fly, fight, and win...in air, space, and cyberspace. To achieve that mission, the Air Force has a vision of Global Vigilance, Reach and Power” (U.S. Air Force, 2014, para. 1). The service has approximately 325,000 active duty personnel and 179,000 civilian workers. The USAF provides air support for ground forces and assists in retrieval of personnel during combat. The USAF operates on a \$140B budget with more than 5,600 aircraft, 450 intercontinental ballistic missiles, and 60 satellites (Air Force Personnel Center, 2014). Per Section 8062 of United States Code, Title 10 (2006c), “it is the intent of Congress to provide an Air Force that is capable, in conjunction with the other armed forces, of (1) preserving the peace and security, and providing for the defense, of the United States, the Commonwealths and possessions, and any areas occupied by the United States; (2) supporting the national policies; (3) implementing the national objectives; and (4) overcoming any nations responsible for aggressive acts that imperil the peace and security of the United States” (p. 2196).

2. United States Army

The United States Army (USA) is the largest U.S. military branch, primarily responsible for ground warfare operations. “The Army’s mission is to fight and win our Nation’s wars by providing prompt, sustained land dominance across the full range of military operations and spectrum of conflict in support of combatant commanders” (U.S. Army, 2014, para. 4). The service has approximately 528,000 active duty personnel, 358,000 National Guard members, 198,000 reserve members, and 231,000 civilian employees (U.S. Army, 2013). The Army operates over 600 weapon systems that provide ground troops the best chances of being successful in combat. Some of these weapon systems include helicopters, ground combat vehicles such as Humvees, heavy artillery weapons, and small-arms weapons. Section 3062 of United States Code, Title 10 (2006a) states that the Army should be capable of “(1) preserving the peace and security, and providing for the defense, of the United States, the Commonwealths and possessions,

and any areas occupied by the United States; (2) supporting the national policies; (3) implementing the national objectives; and (4) overcoming any nations responsible for aggressive acts that imperil the peace and security of the United States” (p. 1837).

3. United States Navy

The naval warfare service branch of the Armed Forces is the United States Navy (USN). The mission statement of the Navy is “to maintain, train and equip combat-ready Naval forces capable of winning wars, deterring aggression and maintaining freedom of the seas” (Navy Recruiting Command, n.d., para. 2). The service has approximately 325,000 active duty personnel, 201,000 civilian workers, and 107,000 reserve members. As of October 2014, the USN operates 289 ships and more than 3,700 aircraft (U.S. Navy, 2014). Section 5062 of United States Code, Title 10 (2006b) notes three primary responsibilities of the Navy: “(1) the preparation of naval forces necessary for the effective prosecution of war; (2) the maintenance of naval aviation, including land-based naval aviation, air transport essential for naval operations and all air weapons and air techniques involved in the operations and activities of the Navy; and (3) the development of aircraft, weapons, tactics, techniques, organization, and equipment of naval combat and service elements” (p. 1933).

4. U.S. Transportation Command

The U.S. Transportation Command (USTRANSCOM) is responsible for the coordination and transportation of various military assets that enable the nation to sustain military forces anywhere in the world. This is accomplished by the utilization of military and commercial resources. USTRANSCOM is composed of three component commands: (1) the Army’s Military Surface Deployment and Distribution Command (SDDC), (2) the Navy’s Military Sealift Command (MSC), and (3) the Air Force’s Air Mobility Command (AMC). SDDC provides deployment and distribution services such as planning, booking, shipping, and tracking cargo for the Department of Defense (DOD). MSC provides sea transportation for the DOD in war and peace by using government and commercial ships for surge sealift, prepositioned sealift, and sustainment sealift. AMC provides aerial refueling, aeromedical evacuation, and expeditious delivery

of people and cargo across the globe for humanitarian and contingency efforts (U.S. Transportation Command, n.d.).

5. Defense Logistics Agency

The Defense Logistics Agency (DLA) is the nation's largest combat logistics support agency, providing support in peacetime, wartime and emergency/humanitarian missions. DLA's workforce includes over 25,500 personnel, operating in 28 countries and supporting approximately 2,400 weapon systems (Defense Logistics Agency, 2014). DLA provides the U.S. armed forces and allied forces, as well as other federal agencies, with technical, logistics, and acquisition services such as uniforms, food, medical supplies, fuel, etc. DLA processes an average of 98,475 requisitions and more than 9,000 contracts per day. This resulted in approximately \$39B in sales and revenue and \$2.1B in Foreign Military Sales for FY13 (Defense Logistics Agency, 2014).

6. Defense Threat Reduction Agency

The Defense Threat Reduction Agency (DTRA) is the DOD's combat support agency. DTRA's core mission is to "safeguard the United States and its allies from global [weapons of mass destruction (WMD)] threats by integrating, synchronizing, and providing expertise, technologies, and capabilities across all operating environments" with a vision "to make the world safer by countering the threats posed by WMD" (Defense Threat Reduction Agency, 2012, p. 5). The agency's workforce, when combined with its United States Strategic Command (USSTRATCOM) partners, amounts to over 2,000 military and civilian members, operating in nine U.S. locations and 13 countries outside the U.S. (Defense Threat Reduction Agency, n.d., para. 3). The agency is responsible for counteracting weapons of mass destruction by addressing chemical, biological, radiological and nuclear (CBRN) threats. DTRA operations include support to U.S. ground troops, research and development, and a force for foreseeing and eliminating future threats.

7. Missile Defense Agency

The Missile Defense Agency (MDA) is responsible for research, development, and acquisition support within the DOD. MDA's primary mission is to "develop, test, and field an integrated, layered, ballistic missile defense system (BMDS) to defend the United States, its deployed forces, allies, and friends against all ranges of enemy ballistic missiles in all phases of flight" (Missile Defense Agency, 2014, para. 1). Multiple combatant commands (COCOMs) depend on BMDS to protect the nation from hostile missile attacks. The MDA's workforce includes approximately 2,300 military and civilian members, located in five U.S. states. Over the past decade, the agency has operated on an \$8.4B average annual budget (Missile Defense Agency, n.d.).

C. METHODOLOGY

Interview questions were developed to assess the small business programs of the different agencies within the DOD. The interview questions were provided to each SME prior to the actual interview, which was conducted via teleconference. The Institutional Review Board at the Naval Postgraduate School assessed and vetted the survey in order to ensure that participants were not adversely affected by the questions in the interview. Interviews were conducted with seven subject matter experts from USAF, USA, USN, USTRANSCOM, DLA, DTRA, and MDA. The respective agencies are responsible for a wide array of products and services that could be contracted to small businesses across the nation. Interview results will be used to identify commonalities in the various agencies' processes and challenges. All information will be analyzed to provide recommendations that could contribute to DOD success in meeting its SB goals.

D. SURVEY FORMAT AND QUESTIONS

There were 12 formal questions prepared for the interviews, with the anticipation that responses would produce additional clarifying questions. All questions were objective in nature and designed to gather factual data to assess the agencies' small business programs and processes for educating stakeholders. We also hoped to uncover best practices that could be shared across DOD agencies. The following paragraphs further explain the methodology used and questions asked.

1. Small Business Program Questions

The purpose of the small business program questions was to assess the current state of each agency's small business program. The first question asked about the benefits of the small business program to the economy and agency. The second question asked about instructions and procedures used to ensure stakeholders are considering small businesses for each acquisition. The intent was to obtain a better understanding of what each agency is doing to reach established small business goals. The third question asked about challenges the agency faces in meeting its small business goals. We wanted to discover what subject matter experts have experienced as obstacles to meeting their goals. Lastly, we asked what role the requirement generators play in small business utilization and if the agency had any plans to increase the customers' roles. We wanted to assess if any resources are being used to address small business goaling in the initial phases of the acquisition process. Each agency received the same questions in the interview so we could see how standardized the DOD's processes are/are not; due to differing natures of the agencies, however, some questions were more applicable than others.

2. Education and Training Questions

The education and training questions were designed to assess the extent to which different agencies are ensuring all stakeholders are adequately educated and trained on the importance of the small business program. Subject matter experts were asked if the agency has a training program to educate stakeholders, specifically requirement generators, on the small business program and small business acquisition process. The purpose was to gauge if the agencies are placing enough emphasis on educating all stakeholders on the small business program, as well as determining the effectiveness of each agency's training program.

3. Best Practices Questions

The best practices questions attempted to reveal any best practices agencies are currently using to overcome obstacles that may prohibit successful SB goal attainment. Subject matter experts were asked if there were any best practices identified that would assist in successfully meeting their agency's small business goals. The question was

intended to assess how agencies are working to meet the objectives set forth by the Obama administration, which has pushed for agencies to increase contracting opportunities with small businesses. For example, one of the more notable efforts is the development of an interagency task force on federal contracting opportunities for small businesses. The task force was established with a mission to share best practices and provide the President with recommendations for (1) using innovative strategies to increase opportunities for small business contractors, (2) removing barriers to participation by small businesses, (3) expanding outreach strategies, and (4) establishing policies that will more effectively support efforts to create small business opportunities (The White House, 2010). Subject matter experts were also asked if there were any best practices developed inside or outside the agency that are currently being used across the DOD. The question was intended to gauge the level of information sharing via interagency communication.

E. INTERVIEW ADMINISTRATION

Interview participants include very experienced, highly credentialed subject matter experts from the strategic levels of the agencies presented in section B of this chapter. The interview questions were provided electronically to each agency's Office of Small Business (OSB) prior to the interview. The OSBP staffs for the interviewed agencies range from one to nine members. Providing the interview questions in advance enabled each office the opportunity to gather pertinent resources needed to provide proper responses for each question.

F. SUMMARY

The interview was designed to generate a 30–45 minute discussion of small business goal performance, workforce small business education, and small business contracting best practices. The results of the interviews are combined to comprehensively assess the knowledge and key takeaways applicable to the DOD's small business program. We also wanted to identify opportunities for improving the SB program across the DOD and to identify best practices for resolving goal-related issues. The next chapter will present consolidated results from the interviews in graphical form to assess the state of the DOD's small business program.

IV. FINDINGS AND ANALYSIS

A. INTRODUCTION

In this chapter, we provide the consolidated results and analysis of the interviews, offering insight into the correlation between agencies meeting their federally mandated SB goals and their customers' knowledge of the SB program. Our results focus on the SB program, customer education and training, and the agencies' best practices, while the analysis goes into further detail concerning education and training as well as best practices. Notably, not all of the questions and answers are included in our data, as we deemed some less relevant to the goals of the project after the interviews were conducted.

B. INTERVIEW RESULTS

Our first set of results focuses on extracting the benefits, agency-specific guidance, and challenges of the SB program. Our second set focuses on customer-specific SB education and training. Our third set focuses on best practices, as well as internal and external cross-communication of those practices.

1. Small Business Program

The first area of questions addresses the agencies' overall perspective of the SB program. The rationale behind the questions was to assess what the agencies felt were benefits the SB program provided, if the agencies had any agency-specific publicized guidance on the SB program, the challenges the agencies have faced in meeting federally mandated SB goals, and the role requirement generators (internal customers) play in the agencies' SB utilization.

We asked the SMEs to state the benefits that the SB program provides their agency. Of the seven respondents, 57% mentioned the SB program increases opportunities for SBs to compete for government contracts, 43% believed utilizing SBs increases overall competition, 29% thought SBs stimulate innovation and provide new capabilities for the warfighter, 43% noted utilizing SBs results in cost reductions and lower prices, 29%

indicated that SBs increase the industrial base and help grow the economy, and 29% felt SBs have less bureaucracy. Figure 2 displays these results graphically.

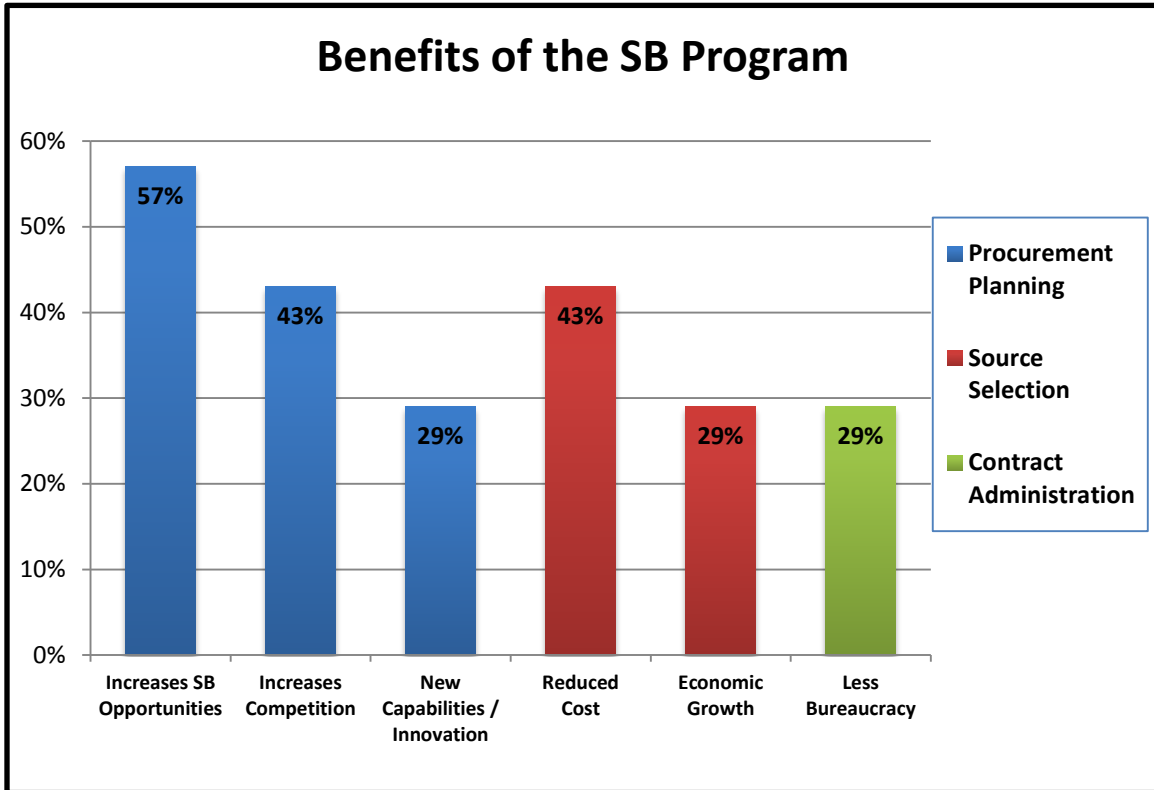


Figure 2. Benefits of the SB Program

We asked the agencies to explain the role customers play in the acquisition process. Of the seven respondents, 71% believed the customer drives the procurement strategy, defines the requirement, and should perform the majority of market research. Forty-three percent thought the customer’s role is to be a team member on a multi-functional team (MFT), and the MFT is actively involved in the requirement generation process (mainly for major systems contracting). Twenty-nine percent indicated the customer is as a sole entity in the requirement generation process (mainly for operational contracting). Figure 3 graphically displays these responses.

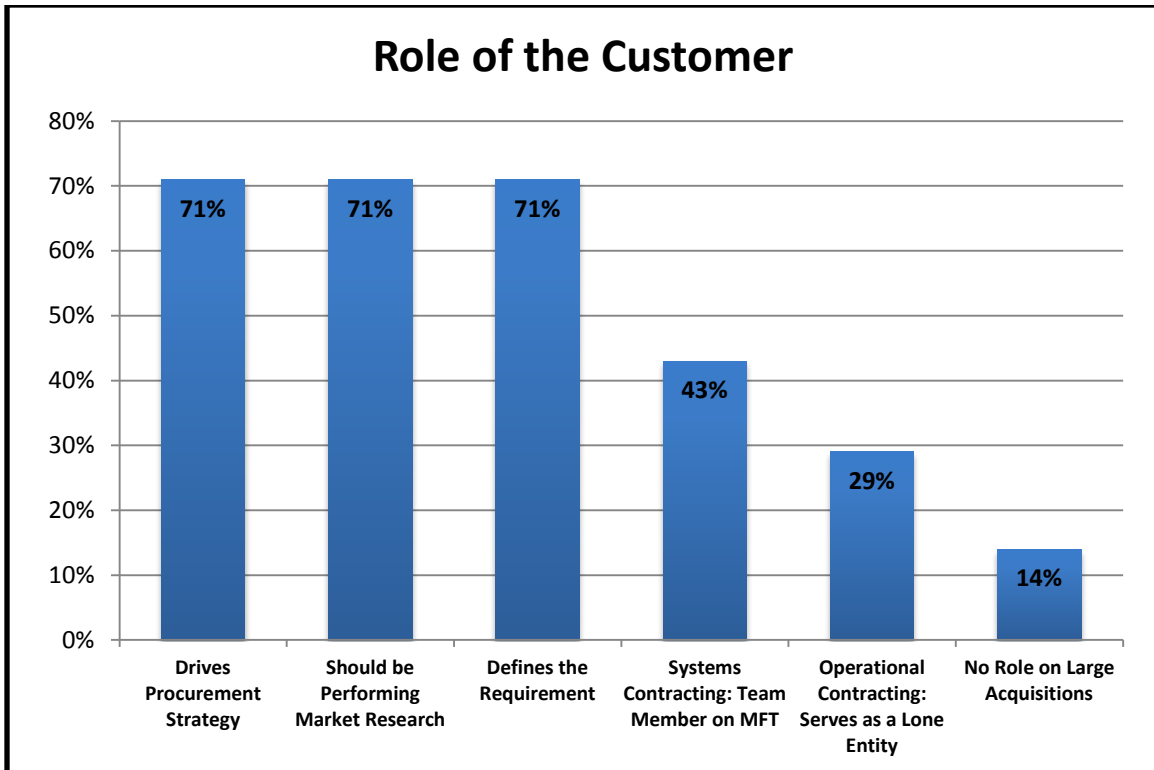


Figure 3. Role of the Customer

Next, we asked the agencies about the challenges they face in meeting their congressionally mandated SB goals. Of the seven respondents, 71% indicated that their challenges were (1) the customer’s lack of knowledge about the SB program and/or SB acquisitions, (2) the customer not performing or being involved with the market research process, and (3) the customer’s reluctance to change from using their traditional supplier to a SB. Forty-three percent noted sequestration is a challenge as it reduced the acquisition budget and decreased government spending, while 29% noted that the customer’s perception of SBs being technically insufficient was also a challenge. Finally, 14% indicated that their challenges were (1) SB’s lack of response to request for quotes (RFQ)/request for proposals (RFP), and (2) the lack of standardization regarding the agency’s SB acquisition process. Figure 4 graphically displays these results.

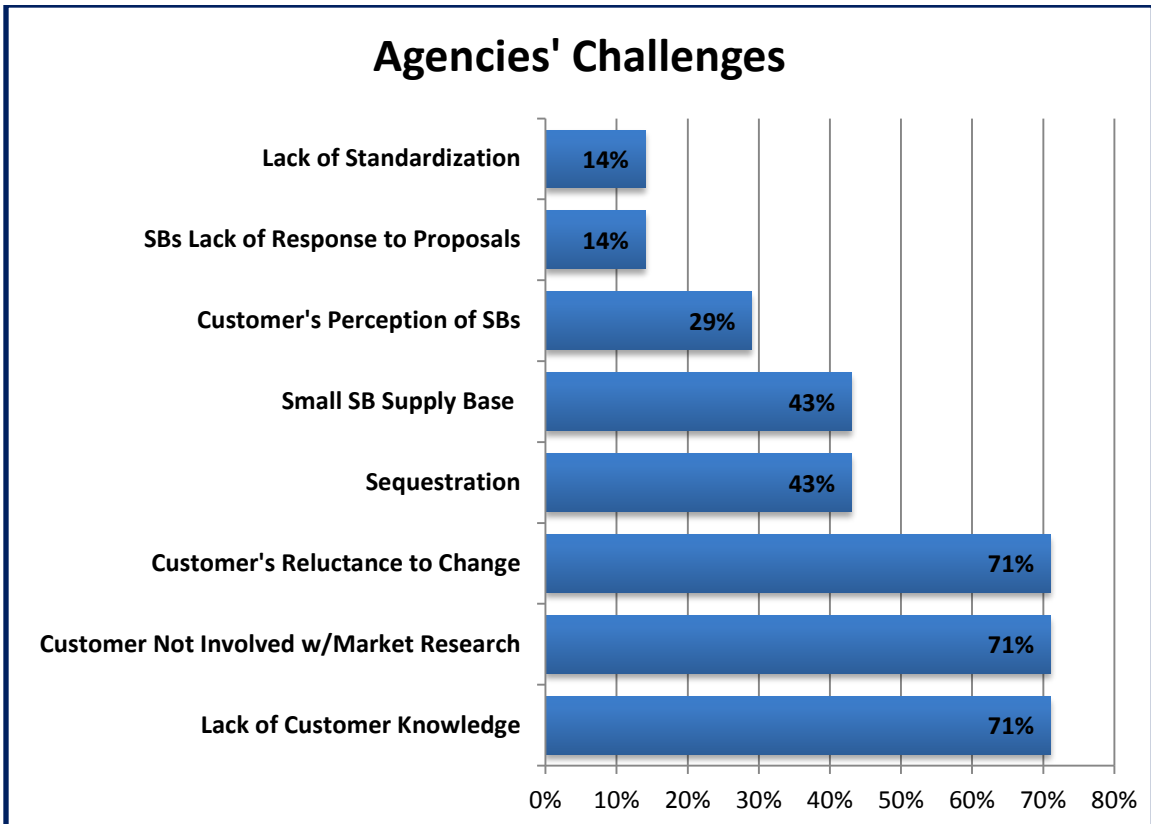


Figure 4. Agencies' Challenges

2. Education and Training

The second set of questions was designed to assess the extent to which the different agencies are ensuring all stakeholders are adequately educated and trained on the importance of the small business program. The rationale behind these questions was to gauge agencies' level of emphasis on educating and training customers on the SB program and acquisition process. Additionally, we wanted to assess the overall effectiveness of each agency's training program.

We asked the agencies if they had, and were disseminating, agency-specific SB guidance to their customers. Of the seven respondents, only 43% indicated that they were providing this type of guidance, while 57% said they were not, as shown in Figure 5.

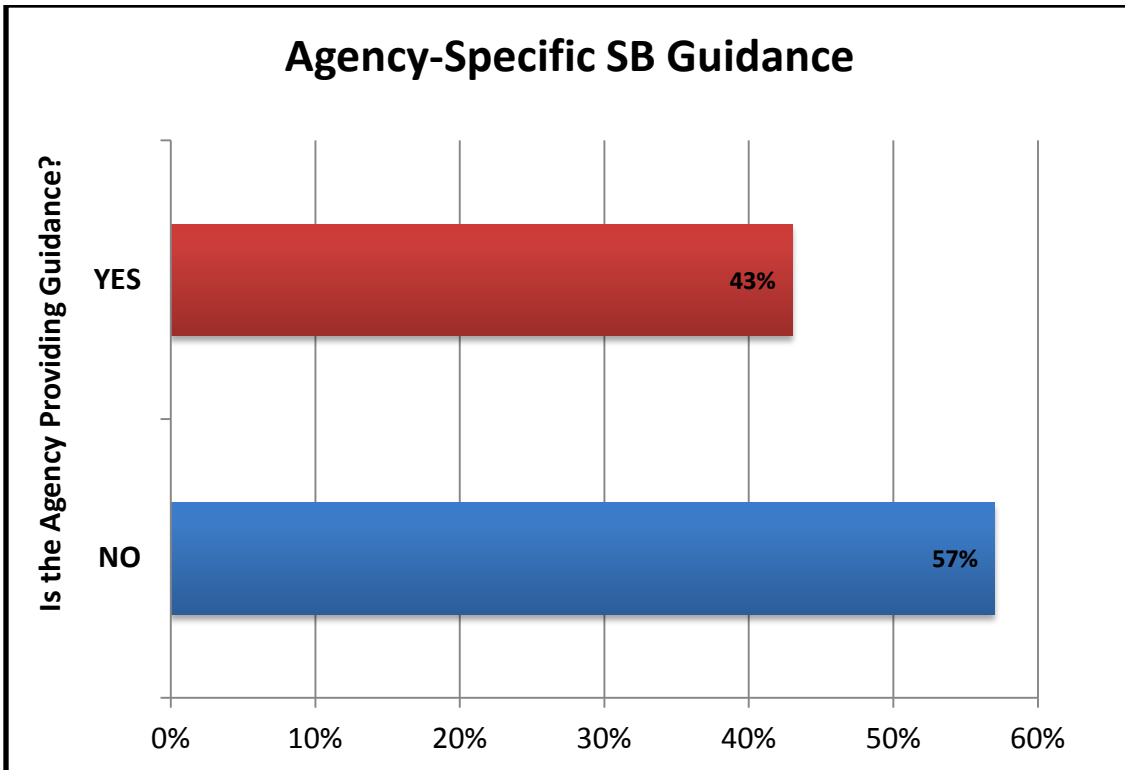


Figure 5. Agency-Specific SB Guidance Provided to Customers

We also asked the agencies if they were providing a customer-based SB training on the SB program and acquisitions. Of the seven respondents, 71% noted that they did not have a training program and therefore were not educating and training their customers, while only 29% said that they were providing customers with this training, as shown in Figure 6.

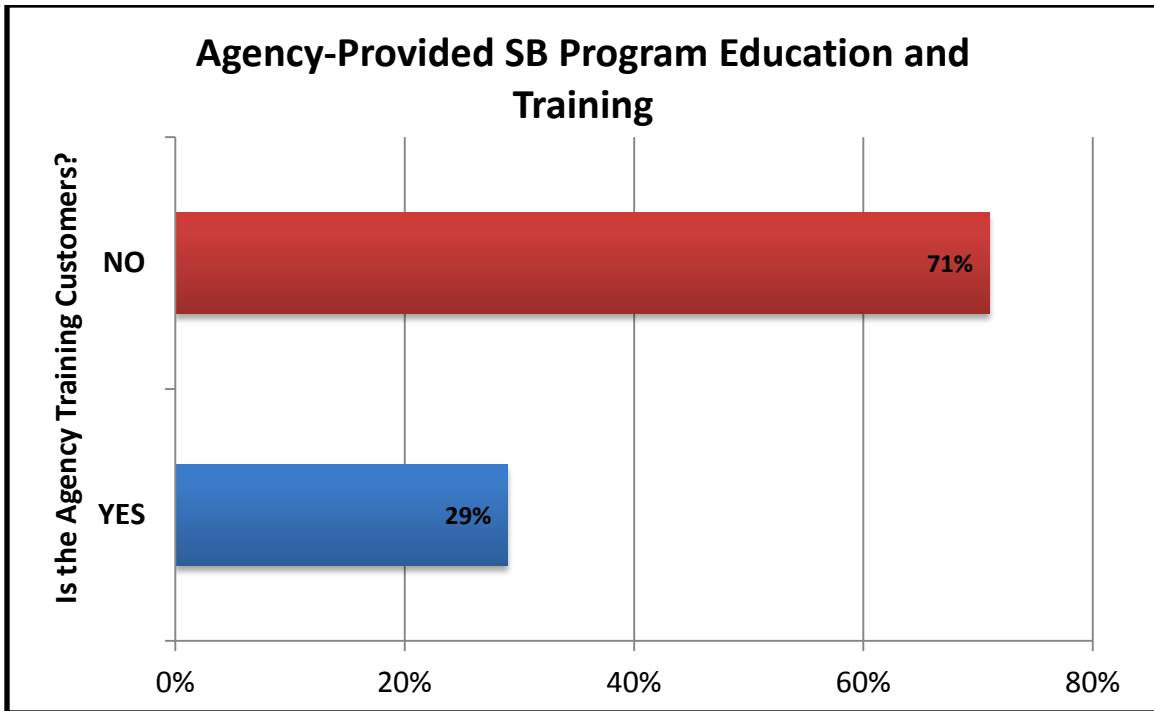


Figure 6. Agency-Provided SB Education and Training for Customers

3. Best Practices

The third set of questions sought to identify any best practices agencies are using to help them meet their SB goals. The rationale behind the questions was to reveal any best practices agencies are using to overcome obstacles that may prohibit successful SB goal attainment, as well as to identify if inter-agency cross-communication of best practices is occurring.

We asked the agencies what best practices they were utilizing to help meet their congressionally mandated SB goals. Of the respondents, 71% said that having senior leadership buy-in and support of the SB program was a best practice. Forty-three percent noted that using SBs as an evaluation factor during source selections was their best practice. Twenty-nine percent indicated that (1) utilizing an information dashboard on the agency’s internal website, (2) using DOD OSBP’s MaxPrac Opportunity Analysis Model to enhance SB utilization, or (3) conducting extensive/in-depth market research early and often was a best practice. Additionally, 14% indicated that (1) utilizing a SB marketing campaign, or (2) breaking down major acquisitions that are technically complex in nature

into smaller requirements in order to give SBs a chance to compete was a best practice. Figure 7 graphically displays the results for agency best practices.

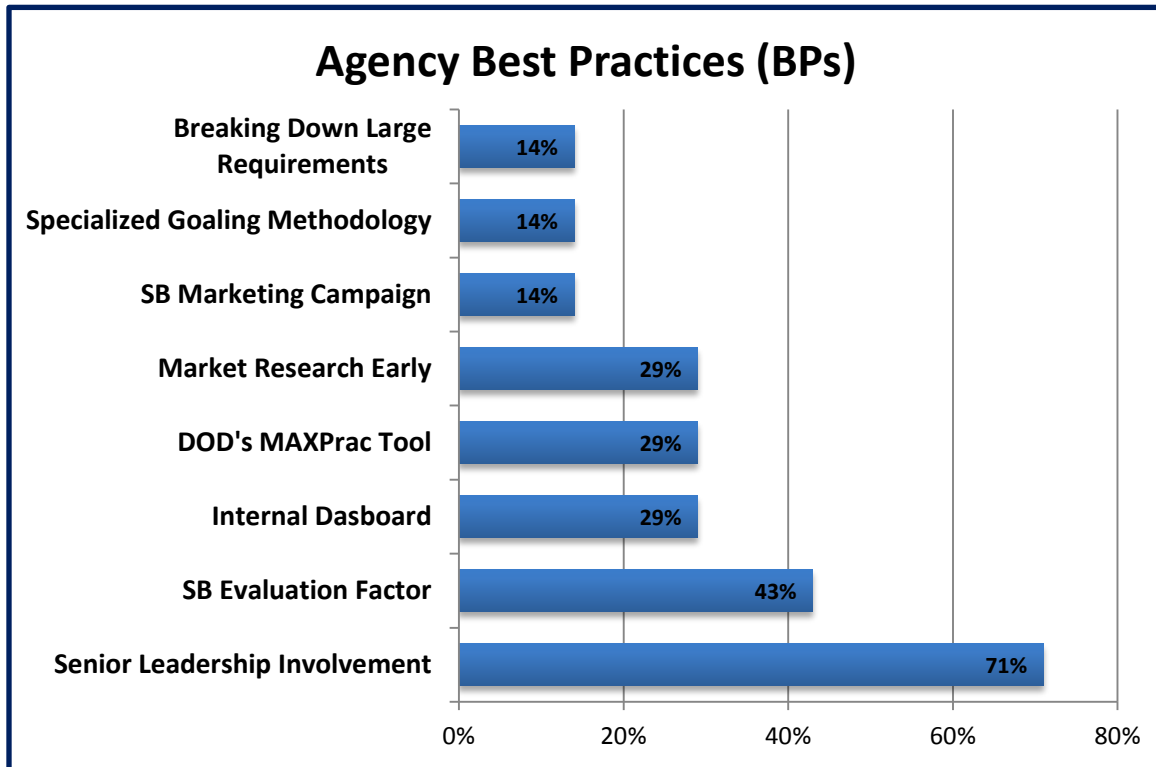


Figure 7. Agency Best Practices (BPs)

Finally, we also asked the agencies if cross-communication of best practices was taking place between their agency and sub-units (internally), and between their agency and other agencies (externally). Of the seven respondents, 71% indicated that cross-communication of best practices was taking place internally with sub-units of the agency (29% was not taking place internally, and 100% of the respondents indicated that communication was taking place externally with other agencies, as shown in Figure 8.

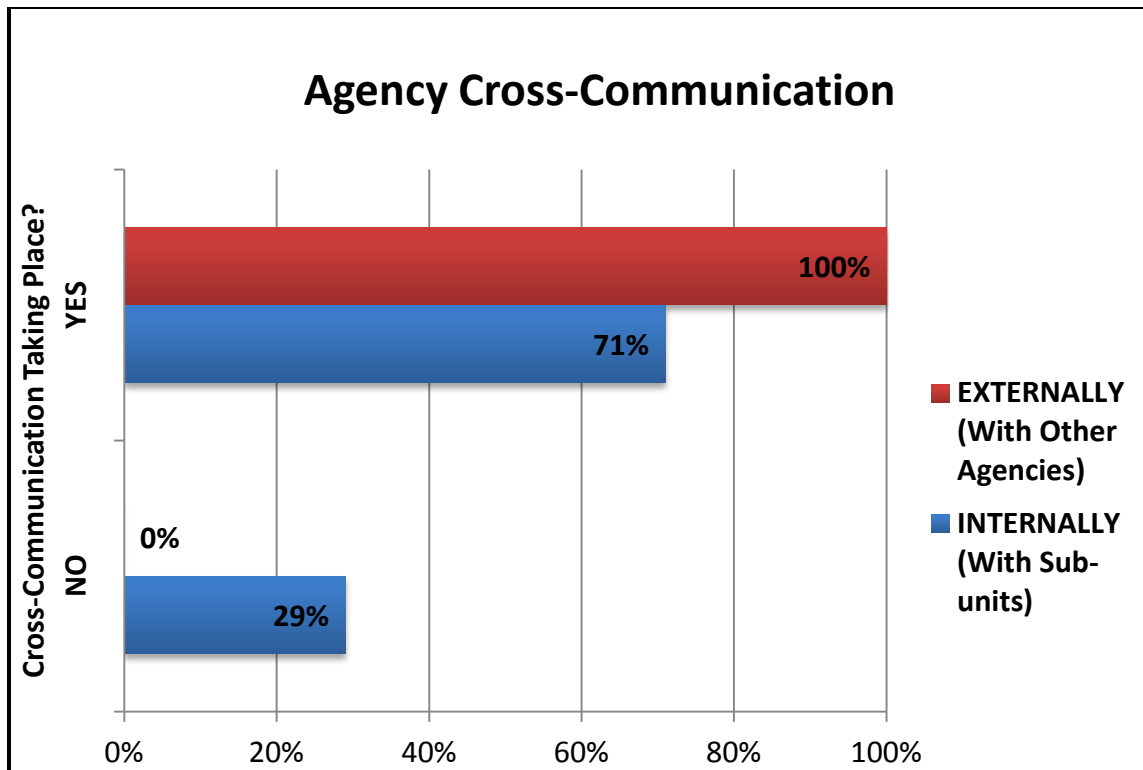


Figure 8. Agency Cross-Communication

C. ANALYSIS

Because the acquisition process starts with the requirement generator or customer, it was our intent to determine whether or not DOD agencies are taking steps to provide proper tools, education, and training on the SB program and acquisition process to their customers. Additionally, we identified best practices agencies are using to maximize SB participation and utilization. In the following two sections, we analyzed the interview results.

1. Education and Training

First, we wanted to determine what the agencies think the customer's role is in the initial stages of the acquisitions process. The results of our research indicate the majority of agencies agree that whether they are a part of an integrated product team (IPT) or MFT, or act as a lone entity, the customer's role is to drive the procurement strategy, define the requirement, and perform market research. We also wanted to know if the customers were

actually performing these functions. Our research indicates that they are performing all the functions, with the exception of conducting market research. Thus, it is not a coincidence that 71% of the agencies stated “customers are not performing market research” was one of the major challenges they faced when trying to meet their SB goals. This indicates that either (1) the customer does not know it is their responsibility to conduct market research, or (2) the customer does not understand the significance that market research plays in the acquisition process. Agencies (especially the Contracting Officer within those agencies) are heavily reliant on the customer’s keen knowledge of the marketplace, and rely on their ability to seek out qualified and capable small businesses that can satisfy their requirement. Market research is key to finding qualified SBs to fulfill their requirements, thus helping meet agency’s overall SB goals (or subcategory goals) (U.S. Small Business Administration, Office of Government Contracting and Business Development, 2012).

Secondly, we wanted to determine if agencies were training their customers on the SB program and acquisition process. The results of our research indicate that the majority of the agencies are not providing their customers with in-house customer-oriented SB training. Thus, 71% of the agencies indicated that “lack of customer knowledge” and “customer’s reluctance to change” were challenges they have faced in meeting their SB goals. The lack of knowledge is derived from the customer not having a sound understanding of the SB program and/or SB acquisition process. Reluctance to change derives from a customer’s unwillingness to stray from the comfort and norm of using their current contractors, thus limiting SB’s chance to compete for awards. Reluctance to change may also stem from the perception that SBs are not technically sufficient and lack the resources to successfully meet the agencies’ requirements. For this reason, agencies should make certain that their customers fully understand their role and duties in the SB acquisition process and the importance of the SB program for stimulating industry innovation and the overall economy. In order to maximize SB participation, agencies must engage and educate customers to induce a “SB first” mindset, and to debunk negative and false perceptions of SBs’ poor technical capabilities.

The question remains, how are customers supposed to gain this important knowledge if agencies are not providing the appropriate training? The answer is clear—they cannot. During a November 1, 2011 testimony to the U.S. House Committee on Armed Services, Mr. Andre Gudger, the current Director of the Department of Defense Office of Small Business Programs (DOD OSBP), indicated that OSBP “developed a small business training course for DOD contracting officers, which will be required for their re-certification,” and was also “developing additional small business training requirements for program managers that they will be required to take in order to receive their certification” (United States Congress, House Committee on Armed Services, 2012, p. 7). This training initiative will enhance the development of the acquisition workforce, but fails to fully address the lack of customer education. One way to educate customers is through a DOD-level SB training initiative that is mandatory for all DOD agencies. Mandating customer training as a prerequisite to making a purchase would likely improve market research and, subsequently, increase SB participation and goal attainment.

2. Best Practices

In addition to the aforementioned DOD-mandated SB training program, there are three best practices that agencies are currently using to maximize SB utilization and to assist in meeting their SB goals. These best practices include active involvement of senior leadership, the use of the MaxPrac Opportunity Analysis Model, and the application of SB participation as an evaluation factor. Each of these practices is discussed in detail below.

(1) Senior Leadership Involvement

Senior leadership buy-in and involvement is clearly a best practice. On February 10, 2012, Dr. Ashton Carter, the former Deputy Secretary of Defense, released the memo “Advancing Small Business Contracting Goals in FY2012,” which included a mandate to start evaluating senior-level Acquisition Executives and hold them accountable for DOD SB goal attainment (Carter, 2012). Dr. Carter specified that at the beginning of FY2012, executives who are either directly involved, or direct other DOD agencies that are involved, in the acquisition of supplies or services; or executives who manage acquisition

officials (e.g., program managers, contracting officers, and acquisition workforce personnel) will be subject to a mandatory performance assessment of their achievement of SB goals. Dr. Carter also identified specific language that was to be incorporated into the mandatory performance assessment:

Support the attainment of established DOD small business goals by considering potential small business contracting opportunities during the acquisition process and by establishing a command or program climate that is responsive to small business concerns. Ensure that small business awareness, outreach and support is incorporated as part of the command's overall mission and establish performance measures that reflect that commitment. Establish, for acquisitions under the executive's purview, annual goals for awards to small business concerns in each category that has a statutory goal. The goal should not be less than the performance achieved during the preceding fiscal year. Develop a corresponding spend plan that establishes the forecasted performance baseline, based on known procurement actions in the budget that can be used to track and report progress to the USD (AT&L). (Carter, 2012, para. 4).

This additional emphasis by DOD and agency senior-level acquisition officials has not only fortified DOD's strong commitment to SB utilization, but has also proven to be an effective best practice and key factor to the DOD meeting its small business goals for FY 2014—the first time since 2005.

(2) The MaxPrac Opportunity Analysis Model

The second best practice is the use of the MaxPrac Opportunity Analysis Model. Developed in 2010, the DOD Office of Small Business Program's (OSBP) "maximum practicable opportunity" analysis model takes acquisition data from the Federal Procurement Data System (FPDS) to help agencies identify prospective and practicable SB opportunities that would improve their overall SB utilization in *unclassified* contract awards for supplies and services (DOD OSBP, n.d.-c). This tool allows agencies to compare their SB utilization rates by NAICS and PCS code. Agencies can then improve their rates by reaching out to better performing agencies and finding SB contractors that can perform the needed service or provide the needed supply (United States Congress, House Committee on Oversight and Government Reform, 2102).

Taking this best practice a step further, one agency has expanded the functionality of the MaxPrac Tool by increasing its database from the standard one year worth of data to five or six years' worth of data. The agency then takes these data and uses them to compare/contrast a given NAICS or PSC code to determine how they are doing in SB use percentage and dollars spent with respect to other DOD agencies. If the agency sees that it is underperforming in a certain area, they can then draw more focus to that area to spur SB participation and increase SB utilization. Furthermore, in addition to identifying areas where small business participation and utilization needs to be improved, the MaxPrac analysis tool can broaden an acquisition professional's market research capabilities to seek out opportunities for SBs. Bottom line—all agencies should be utilizing the MaxPrac tool in their day-to-day operations to enhance SB utilization in areas where they are underperforming, as well as to find opportunities for potential SBs to compete for unclassified contract awards.

(3) Using SB Participation as an Evaluation Factor

The third best practice is the use of small business participation as an evaluation factor during solicitation planning and subsequent source selections. This initiative is an innovate practice to elicit SB participation and maximize SB goal attainment when agencies are considering contractors for award. Defense Acquisition University (DAU) suggests several things agencies should do to ensure that the acquisition strategy will achieve the maximum practicable opportunity for SBs to be prime or subcontract candidates: (1) the market research conducted must address SB participation at the prime and subcontract levels, (2) a separate evaluation factor for SB participation (as it pertains to SB utilization) must be included in the source selection evaluation criteria, and (3) an outline strategy for measuring SB goal attainment and evaluation of performance (as it pertains to SB utilization) must be developed (Defense Acquisition University, 2011).

First, as previously stated, market research is a critical factor in maximizing SB participation and meeting DOD and agencies' congressionally mandated SB goals. Second, utilizing SB participation as an evaluation factor gives ample opportunity for both large and small businesses to compete equally for award, expands competition, and enhances agencies' SB goal attainment. Large businesses can meet the agencies' SB

goals through a SB subcontracting plan, whereas SBs can meet the goals through their own performance or contribution as the prime contractor without having to subcontract. To ensure potential contractors understand that SB participation will be used as an evaluation factor for award, agencies should make it explicitly known during the solicitation-planning phase. The following are examples of language used:

SB status of the vendor shall be considered as a primary evaluation factor for award with the goal of achieving one of the agency's SB goals to increase SB participation as prime contractors. (Gordon, Mills, & Hinson, 2011, p. 12)

The following factors will be used by the government to evaluate proposals in descending order of importance: (1) SB status, (2) past performance, (3) price, (4) technical approach, and (5) management work plan & key personnel. (Gordon, Mills, & Hinson, 2011, p. 12)

Finally, it is important for agencies to know how well they are performing. They can accomplish this by planning, tracking and evaluating SB utilization through the collection and analysis of performance metrics. Examples include (1) using the MaxPrac Analysis Opportunity Model to help identify areas where agencies are underperforming and need to improve SB utilization and (2) tracking agencies' goaling achievement through the percentage of resultant prime contracts and subcontracts to SBs.

(4) Others

In addition to the best practices identified by the SMEs, there are two other best practices worth mentioning. The first is the agencies' use of internal dashboards, a website housing agency-specific performance metrics and goaling reports that are used to increase transparency as well as provide agencies with in-depth insight into their performance history in meeting SB goals (SmallBusinessDashboard.gov, 2014). The second is agencies' use of a SB marketing campaign. This is an innovative practice that validates agency support and endorsement of SBs by providing them with the opportunity to better understand the agencies' requirements and the acquisition process (i.e., how to participate and compete for those requirements). Internal dashboards and SB marketing campaigns may help agencies increase SB participation and maximize SB utilization.

D. SUMMARY

Interviews were conducted with the military services and DOD agencies previously mentioned in Chapter III. DOD agencies indicated that one of the roles of the customer is to conduct market research, but our findings show that customers do not fulfill this role. We also found that customers are generally reluctant to consider SBs for award participation due to their lack of confidence in SBs, and that the majority of agencies do not have an in-house customer training program. To rectify these issues, we advocate an across-the-board, top-down DOD customer-oriented SB training program. Additionally, the best practices found in certain agencies should be applied across the board: senior leaders should have a more active role in agencies' SB programs and goal attainment, the MaxPrac Opportunity Analysis Model should be used as a market research tool, and SB participation should be used as an evaluation factor during solicitation and award evaluations. Finally, the use of internal dashboards and SB marketing campaigns may further increase SB utilization. The next chapter provides an overall summary of the research project as well as conclusions and recommendations.

V. SUMMARY, FINDINGS AND RECOMMENDATIONS, AND AREAS FOR FURTHER RESEARCH

A. INTRODUCTION

This chapter provides answers to the primary research questions introduced in Chapter I. The results have generated recommendations for strategic management that we feel would greatly contribute to more consistent small business goal performance for the DOD. We conclude this work by recommending areas of further research that will help achieve the primary objective—improving small business utilization within the DOD.

B. ANSWERS TO PRIMARY RESEARCH QUESTIONS

1. What Are the Purpose and Benefits of the SB Program?

The SB program ensures SBs are afforded every practical opportunity to compete for federal contract awards. This objective is accomplished by establishing SB set-asides that award certain acquisitions exclusively to SBs and socioeconomic subsets. In addition to prime awards set aside for SBs, the program also ensures that SBs have subcontracting opportunities for larger contracts. As SBs make up the majority of U.S. employer firms and are accountable for the majority of U.S. jobs, it is imperative that SBs continue to receive the attention of the federal government to bolster the nation's economy.

2. What Challenges Prevent the DOD from Meeting SB Goals?

SB goal attainment is especially challenging given the multitude of unique agency environments and missions within the DOD. This makes standardizing guidance (i.e., policies and regulations) difficult; there are common challenges across the agencies that can be addressed, however. Some challenges are external issues that are out of the agencies' control, such as sequestration and lack of SB responses to proposals. Many issues are internal, however, and could be resolved if properly addressed. These internal challenges include (1) lack of customer knowledge about the SB program, (2) lack of

customer market research involvement, and (3) customers' reluctance to change organizational processes and practices.

3. What Are Some Best Practices for Successful Small Business Goal Performance?

Our research uncovered three best practices that recently helped the DOD meet its prime contract SB goal for the first time since 2005: (1) greater senior leadership involvement, (2) utilization of the MaxPrac tool, and (3) having SB evaluation factors in source selections. Beyond the best practices identified by the SMEs, we also recommend instituting internal SB dashboards for all agencies so they are better able to understand their historic and current SB goal performance, and starting a SB marketing campaign to familiarize SBs with the agencies' requirements and business processes. Leadership responsible for DOD-level SB participation should ensure that all internal agencies are using these best practices to the maximum extent practicable in order to continue to achieve DOD's SB goals.

C. FINDINGS AND RECOMMENDATIONS

This section covers our fourth primary research question: "What ideas can be generated from consolidating expertise from across the DOD that could contribute to the department meeting its SB goals?" Improvement ideas can be addressed in an array of SB areas, such as policies, processes, and/or internal controls. These recommendations are generated based on the challenges the agencies identified in meeting small business goals.

1. Requirement Generators Lack Knowledge of the Small Business Program

Finding: In general, requirement generators are not knowledgeable of the small business program and the agencies' requirements to meet small business contract award goals. Because of this lack of knowledge, customers are not thinking "SB first" in the initial phases of the acquisition process.

Recommendation: To improve customers' small business knowledge, the Secretary of Defense (SecDef) should mandate that the DOD OSBP create a small business customer knowledge guide to educate them on the program's history, purpose, objectives, and goals, as well as the role that requirement generators play in the small business contracting process. Each military department and agency OSBP in the DOD should consider creating a supplemental customer knowledge guide that is more specific to the agency's unique mission and challenges.

2. There Is a Lack of Requirement Generator Involvement in Market Research

Finding: The acquisition process begins with customers identifying organizational needs. Since the customers are the requirement generators and government experts, it is necessary that they have the market intelligence to establish independent government estimates and identify potential contractors that can perform the outsourced work. Customers are not currently actively engaged in this very important step of the acquisition process.

Recommendation: To improve requirement generators' market research participation, the SecDef should provide guidance that mandates customers to perform market research (with assistance from Contracting). In addition to specifying market research responsibilities, a customer market research guide should be developed to educate customers on the proper way to conduct and document market research. The guide should highlight the importance of identifying SBs that can meet the customer's needs.

3. Requirement Generators Are Reluctant to Change

Finding: Customers have been reluctant to change their involvement in the acquisition process. Customers' primary concern is meeting their organizations' needs. Based on previous experiences, some customers are hesitant to support SB participation. The perception is that SB concerns and market research are the contracting office's responsibility. Further, customers often feel that SBs are not as technically savvy or able

to support their needs as well as large businesses. This perception is unfounded, but it remains a hindrance to SB goal attainment.

Recommendation: Contracting commanders must be held accountable for their units' SB goal performance. A greater emphasis must be placed on contracting commanders being better business advisors and communicating the importance of SB participation to their colleagues. Leadership should make SB goals an agenda priority at all Command-level staff meetings to create a forum for contracting commanders to brief other commanders.

D. AREAS OF FURTHER RESEARCH

This research was limited in scope to the specific areas posed in the research questions and the areas closely related to those questions. Many additional areas for research have arisen, given that many stakeholders and factors determine the success of the DOD's small business program. Some of the prominent areas for further research are described as follows:

1. Knowledge Assessment of Contracting Professionals

As requirement generators and contracting professionals are the most likely to conduct market research and identify small businesses that can perform outsourced work, a knowledge assessment of contracting professionals should be accomplished. An assessment would help define the knowledge level of our contracting personnel and determine if there is a need for more SB program training.

2. Set-Aside Policy Assessment

Research should be conducted on the set-aside policy to determine if the simplified acquisition threshold (SAT) should be increased. Researchers could examine what effect(s) the previous SAT increase (\$100,000 to \$150,000) had on small business goal performance. Further, researchers should conduct a study for number of contracts at a specific award price (e.g., \$300,000) to determine how the SAT increase might affect small business goal performance.

3. Contract Awards Spend Analysis

A detailed spend analysis should be conducted at the operational and systems contracting levels to examine what awards were set aside for small businesses, what awards should have been set aside for small businesses, and how organizations are utilizing processes and internal controls to ensure the appropriate steps are taken to ensure small business participation is maximized.

E. SUMMARY

Through our research, we have determined that there is a gap between the SB responsibilities of requirement generators and what they are actually doing. The importance of requirement generators in the acquisition process cannot be overstated. Customers are relied upon for their technical expertise and industry knowledge. This knowledge helps the government determine fair and reasonable prices, as well as appropriate quality levels and delivery/performance schedules for each requirement. In addition to price, quality, and schedule assistance, customers can help identify SB concerns by performing effective market research. Thus, if requirement generators are knowledgeable about the SB program and are equipped with the tools necessary for conducting market research, they will be able to help the DOD achieve their SB goals.

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