



An Open Door and a Leg Up: Increasing Service-Disabled Veteran-Owned Small Business (SDVOSB) Participation in Defense Contracting Through Simplified Acquisitions

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Research Problem Identified

Research Problem:

Paradox between Real Goal Achievement Success and Predictions of Program Malfunction

Malfunction factors from academic literature:

- Veteran Disillusionment
- Veteran and Buyer Confusion
- Entrenchment of Already Successful Firms



Research Questions

Research Questions:

- 1. Can the SDVOSB Program be understood in terms of the generally accepted contract management performance model (inputs, process, outputs, and outcome)?**
- 2. Is individual-level Contracting Officer discretion the right mechanism to support SDVOSB participation in Defense contracting?**
- 3. Can Simplified Acquisitions positively influence Program outcomes?**



Methodology

- **Review of Prior Academic Assessments**
- **Theoretical Foundation of Effective Program Design**
 - applying the Cohen & Eimicke Contract Management Performance Model to Socio-Economic Contracting
- **Understanding the performance taxonomy of SDVOSB Program designs**
 - Laws, regulations, precedence, and policies
- **FPDS/SAM/VA data analysis for validation of SDVOSB**
 - Current SDVOSB Program performance design taxonomy; examination of Contracting Officer discretion trends; and examination of opportunities for use of Simplified Acquisitions
- **Discussion, Conclusions, Recommendations**

SDVOSB Program Taxonomy Design(s)

1/1/1997
"Fair Consideration" in purchase by Federal Gov & Business Development Assistance - Small Business Reauthorization Act of 1997

1/4/1999
Congressional Commission SDVOSB to Receive 8(a) Assistance and Goals

12/16/2003
Unutilized Business Development Direction - Veterans Benefit Act Public Law 108-183 Section 101 and 102

6/5/2003
Rejection of Access to 8(a) Program in HR 1460 Veterans Entrepreneurship and Benefits Improvement Act of 2003

10/20/2004
OFPP and SBA Make Agencies Responsible for SDVOSB Strategy Development; Set-asides Optional

3/23/2005
SBA Regs state SDVOSB NOT a Business Development Program

4/3/2007
COFC - Knowledge Connections v. US - 3% Goals Legally Binding and KO must Consider new/niche SDVOSBs in Acquisition Strategy

6/23/2007
Next Edition of DOD 5 Year Strategic Plan

1/1/2008
GAO - MCS and IBV Ltd - SDVOSB "MAY" Set Aside but MUST Consider

1/14/2009
Final Edition of DOD Strategic Plan

9/27/2010
Small Business Jobs Act 2010 - Discretion to Set Asides on MAC and IDIQ and "Program Parity"

11/1/2011
Task Force Report I: KO's to Utilize MAX PRAC, MACS, IDIQ's

12/6/2012
GAO - Split Rock-Costs KO's Again Obligated to Set Aside for SDVOSB

7/15/2014
Senate Hearing Identified Problem with KO Discretion and SAP Problems

1997

1997

1999

2001

2003

2005

2007

2009

2011

2013

2014

SDVOSB Given Socio-Economic Small Business Status 1/4/1999

8/17/1999
Goals of 3% to SDVOSB Established by Public Law 106-50

KO's to use Tool of Set Asides and Sole Sources for SDVOSB by Veterans Benefit Act of 2003 Public Law 108-183 Section 308 12/16/2003

Executive Order 13360 Providing Opportunities for SDVB to Increase Their Federal Contracting and Subcontracting 10/20/2004

DOD 5 Year SDVOSB Strategic Plan 5/31/2005

FAR Council Determines SDVOSB not a Business Development Program 2/23/2005

USD AT&L Memos: KO's to set aside SDVOSB on GWAC, MAC, IDIQ's 4/12/2007

GAO - DAV Prime, Inc. - Determination of MCS and IBV Ltd. Reversed - KO's Not Required to Consider SDVOSB Set Asides 5/8/2008

COFC- Knowledge Connections v. US - No duty to attract niche/new SDVOSBs 12/19/2007

Far Council - FAR Part 19.2039(d) SHALL use Market Research to Determine SDVOSB Set Asides 2/4/2011

4/26/2010
Executive Order 13540
Interagency Task Force on Veterans' Small Business Development

11/29/2012
Task Force Report II: - Expressly Promotes Established Firms and More Support for Contracting Officers

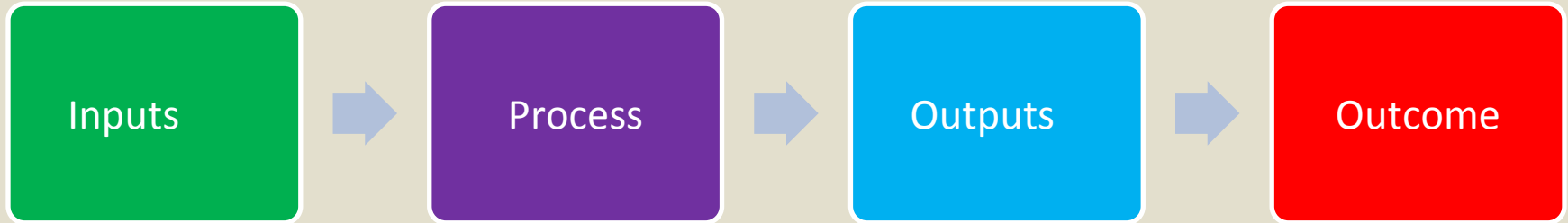
DOD Achieves 3% Spending Goal to SDVOSB 10/23/2014

COFC/CAFC Kingdomware - KO's may ignore Set Asides on FSS; should refuse set-asides to qualified SDVOSBs when 3% or higher Agency Goal is Already Met 1/1/2014

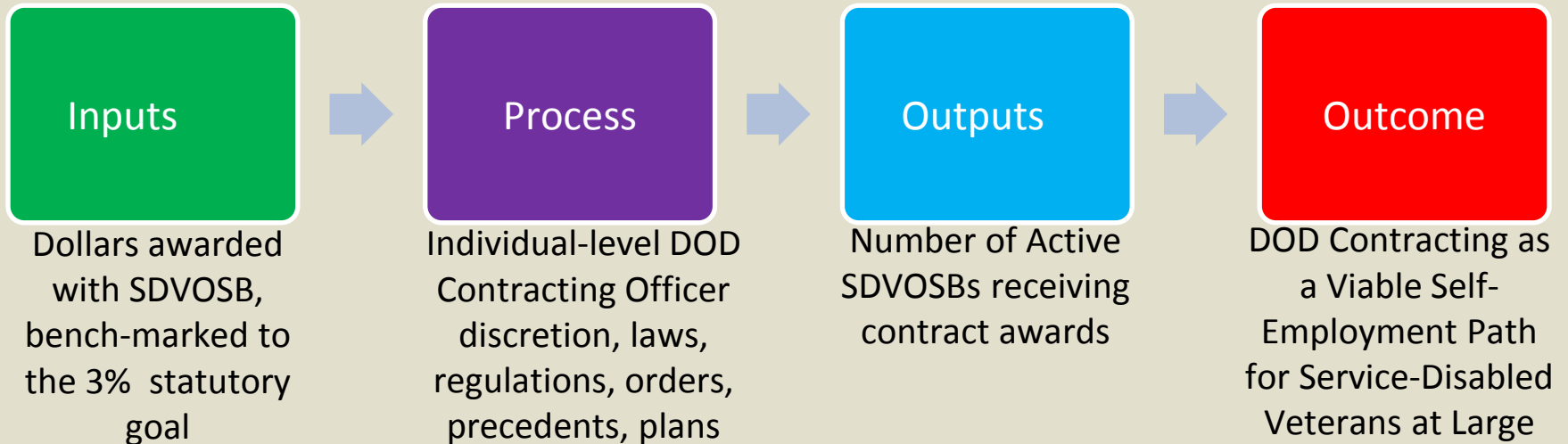
- SDVOSB Need Identified
- 3% Goal
- Missed Opportunity for Business Development Support
- Red Flags in SDVOSB Program
- Direction to Contracting Officer

Contract Management Performance Model

Cohen & Eimicke, *The Responsible Contract Manager* (2008)



Applied to the SDVOSB Program

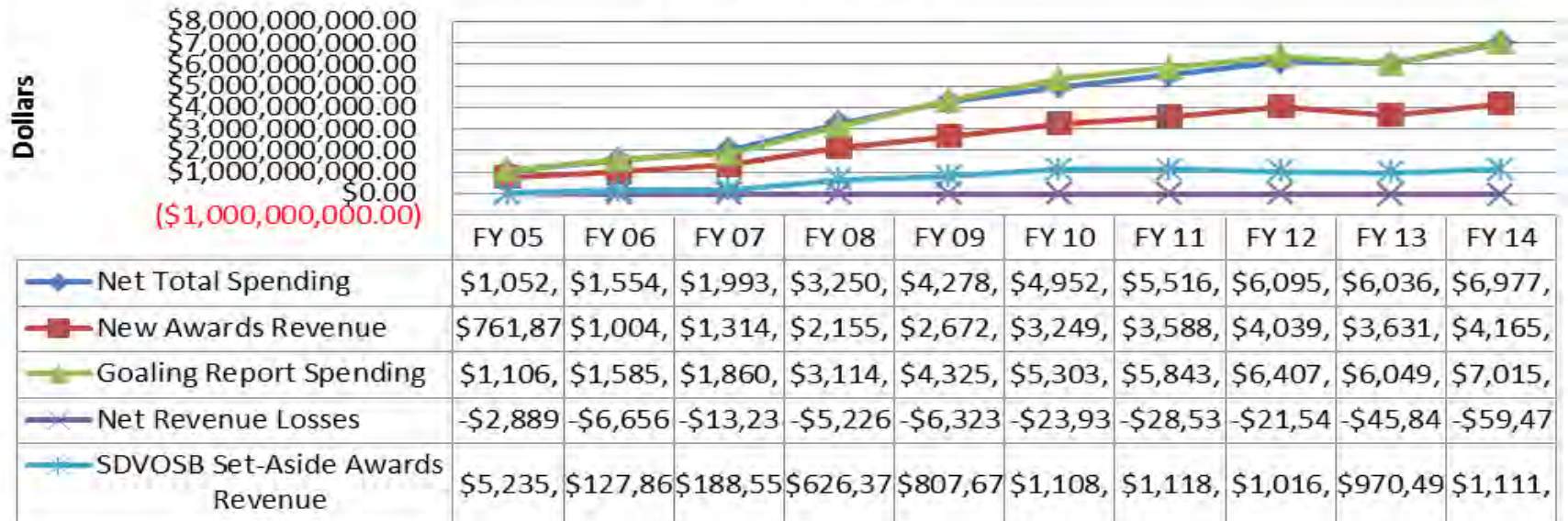




SDVOSB Program Taxonomy: Inputs

Overall Trends on DOD Spending with SDVOSBs

DOD SDVOSB Spending through SDVOSB Program and Non-Program Contracting



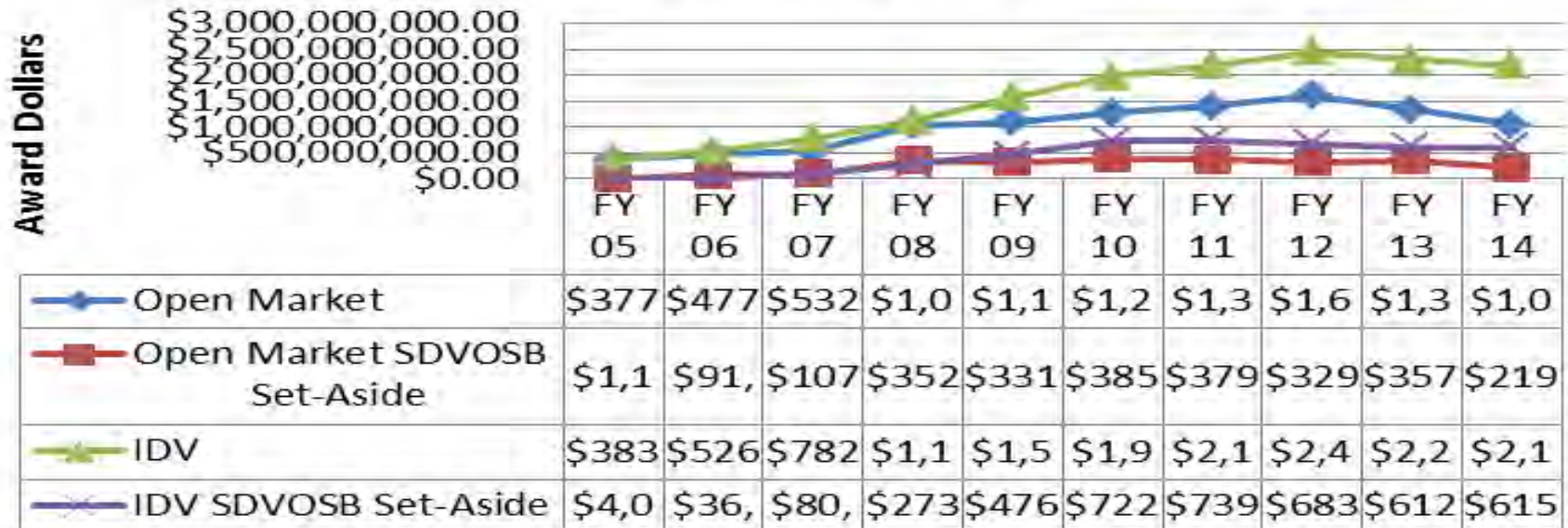
- Input is the spending commitment from DOD towards the 3% goal SDVOSBs.
- New award revenue has shown little growth from FY09 till present
- Spending on accretive modifications (options and change orders) is growing
- SDVOSB Program (set-aside) awards spending is stagnant since FY10



SDVOSB Program Taxonomy: Inputs

Overall Trends on DOD Spending with SDVOSBs

SDVOSB Spending Realignment Among Contracting Mechanisms



- The predominant spending now goes towards stimulating SDVOSBs holding IDV's (green), followed by Open Market (blue)
- The minority of the spend is under SDVOSB's set-asides (purple) on IDV's
- In the Open Market, SDVOSB set-asides (red) spending is shown to be on the decline since FY10



SDVOSB Program Taxonomy: Process Contracting Officers' Discretion

Federal Acquisition Regulations (FAR) Part 19

19.203 -- Relationship Among Small Business Programs.

(a) There is **no order** of precedence among the 8(a) Program (subpart [19.8](#)), HUBZone Program (subpart [19.13](#)), Service-Disabled Veteran-Owned Small Business (SDVOSB) Procurement Program (subpart [19.14](#)), or the Women-Owned Small Business (WOSB) Program (subpart [19.15](#)).

(b) **At or below the simplified acquisition threshold...** (1) of the simplified acquisition threshold definition at 2.101), the requirement at [19.502-2](#)(a) to **exclusively reserve acquisitions for small business concerns does not preclude the contracting officer** from awarding a contract to a small business under the 8(a) Program, HUBZone Program, SDVOSB Program, or WOSB Program.

(c) **Above the simplified acquisition threshold... the contracting officer shall first consider an acquisition for the small business socioeconomic contracting programs (i.e., 8(a), HUBZone, SDVOSB, or WOSB programs) before considering a small business set-aside** (see [19.502-2](#)(b)). However, if a **requirement has been accepted by the SBA under the 8(a) Program, it must remain in the 8(a) Program** unless SBA agrees to its release in accordance with 13 CFR parts 124, 125 and 126.



SDVOSB Program Taxonomy: Process Contracting Officers' Discretion per 15 U.S.C. §657f (2003)

15 U.S.C. §657f (2003)

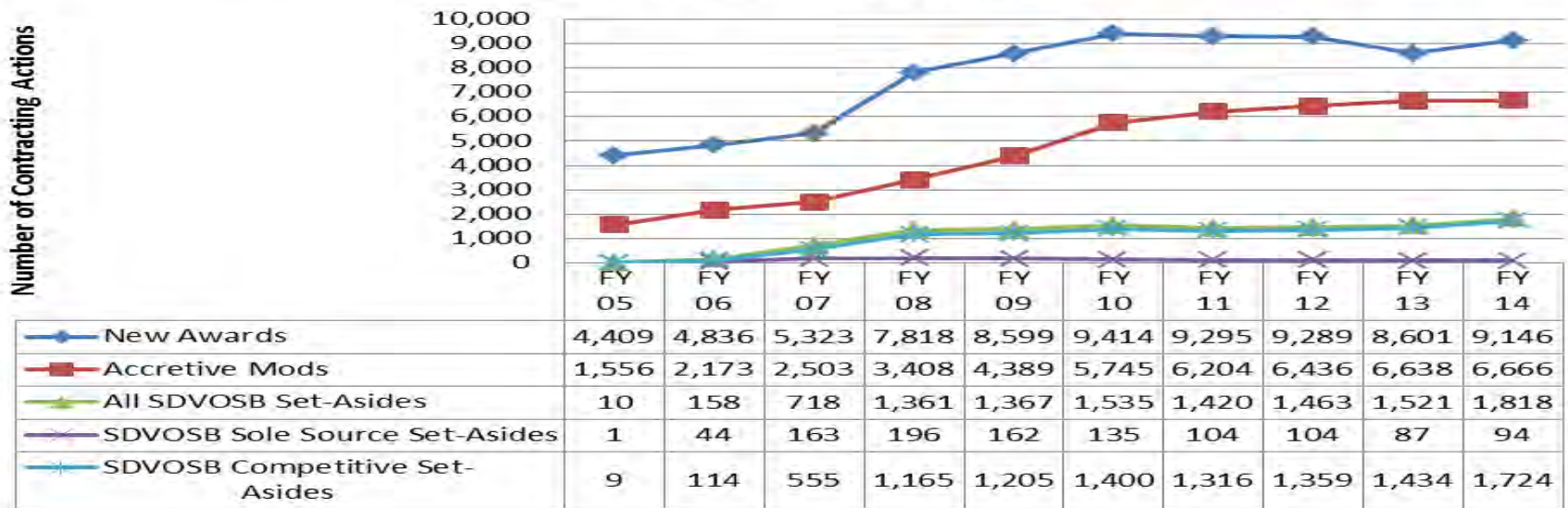
The original 2003 set-aside authority (with thresholds since adjusted for inflation to \$6 million for manufacturing NAICS buys and \$3.5 million for other buys) provided:

(a) **Sole source contracts**. In accordance with this section, a contracting officer may award a sole source contract to any small business concern owned and controlled by service-disabled veterans if— (1) such concern is determined to be a **responsible contractor** with respect to performance of such contract opportunity and the **contracting officer does not have a reasonable expectation that 2 or more small business concerns owned and controlled by service-disabled veterans will submit offers** for the contracting opportunity; (2) the anticipated award price of the contract (including options) will not exceed— (A) \$65,000,000, in the case of a contract opportunity assigned a standard industrial classification code for manufacturing; or (B) \$3,500,000, in the case of any other contract opportunity; and (3) in the **estimation of the contracting officer**, the contract award can be **made at a fair and reasonable price**. (b) **Restricted competition**. In accordance with this section, a contracting officer may award contracts on the basis of competition restricted to small business concerns owned and controlled by service-disabled veterans if the contracting officer has a **reasonable expectation that not less than 2 small business concerns owned and controlled by service-disabled veterans** will submit offers and that the award can be made at a fair market price.



SDVOSB Program Taxonomy: Process Trends on Contracting Officers' Discretion

DOD Contracting Officers' Spending Tools for SDVOSB Contracting



- Top two lines (blue and red) represent the strategic direction of SDVOSB awards.
- Accretive modifications (red) are shown to be increasing.
- Bottom two lines (purple and teal) show that the process of sole source and set-asides of the SDVOSB Program result in awards that are low and flat
- The above shows that Contracting Officers disfavor the discretion to set aside exclusively for SDVOSBs



Flat and Diminishing Spending Trends on SDVOSB Set-Aside Awards

ENTRY INTO THE PROGRAM: NEW SDVOSB SET-ASIDE AWARDS													
FISCAL YEAR	SDVOSB Sole Source Awardees	SDVOSB Sole Source Spending	Share of New SDVOSB Awards Spending	Share of Total SDVOSB Spend	SDVOSB Competitive Set-Aside Awardees	SDVOSB Competitive Set-Aside Spending	Share of New SDVOSB Awards Spending	Share of Total SDVOSB Spending	All SDVOSB Set-Aside Awardees	All SDVOSB Set-Aside Spending	Share of New SDVOSB Awards Spending	Share of Total SDVOSB Spending	
FY 14	79	\$43,091,617.15	1.03%	0.62%	707	\$1,068,019,124.40	25.64%	15.31%	761	\$1,111,110,741.55	26.68%	15.92%	
FY 13	81	\$30,870,226.70	0.85%	0.51%	638	\$939,623,966.50	25.87%	15.57%	690	\$970,494,193.20	26.72%	16.08%	
FY 12	89	\$33,188,898.78	0.82%	0.54%	700	\$983,481,441.21	24.35%	16.13%	766	\$1,016,670,339.99	25.17%	16.68%	
FY 11	88	\$27,370,260.15	0.76%	0.50%	728	\$1,091,437,028.02	30.41%	19.79%	790	\$1,118,807,288.17	31.18%	20.28%	
FY 10	115	\$29,563,592.75	0.91%	0.60%	763	\$1,078,915,571.31	33.21%	21.78%	845	\$1,108,479,164.06	34.12%	22.38%	
FY 09	138	\$54,970,337.86	2.06%	1.28%	712	\$752,706,170.12	28.16%	17.59%	810	\$807,676,507.98	30.22%	18.88%	
FY 08	158	\$62,002,225.78	2.88%	1.91%	666	\$564,373,249.43	26.19%	17.36%	774	\$626,375,475.21	29.06%	19.27%	
FY 07	126	\$30,797,418.88	2.34%	1.54%	404	\$157,753,931.31	12.00%	7.91%	493	\$188,551,350.19	14.35%	9.46%	
FY 06	44	\$16,718,813.00	1.66%	1.08%	123	\$111,146,009.10	11.06%	7.15%	158	\$127,864,822.10	12.72%	8.23%	
FY 05	1	\$11,143.00	0.00%	0.00%	9	\$5,224,519.21	0.69%	0.50%	10	\$5,235,662.21	0.69%	0.50%	

The set aside program is attracting less and less SDVOSB firms to DOD contracting



SDVOSB Program Taxonomy: Process

Contracting Officers' Use of Discretionary Authority

All Set-Aside Awards Revenue

SDVOSB Program (Set-Asides) Awards Spending



SDVOSB Set-Aside (red and green) program revenue is shown to be stagnant since FY 10

SDVOSB Sole source (teal) awards revenue is minimal

Simplified Acquisition Procedures (Threshold) set asides revenue is increasing slowly



Alternative Use of Contracting Officers' Discretion

Awards Under the Simplified Acquisition Threshold (SAT) of \$150,000.00 by utilization of Simplified Acquisition Procedures (SAP) FAR 13

ENTRY OF SDVOSB FIRMS INTO DEFENSE MARKET: IMPACT OF THE SIMPLIFIED ACQUISITION PROCEDURES (SAP) TOOL						
Fiscal Year	SAP SDVOSB Awardees	Share of All New Awardees	SAP Awards Spending with SDVOSBs	Share of New SDVOSB Awards	Share of Total SDVOSB Spending	
FY 14	1346	54.80%	\$468,344,284.31	12.78%	7.63%	
FY 13	1331	59.02%	\$416,013,773.62	11.45%	6.89%	
FY 12	1483	56.34%	\$284,690,662.76	7.05%	4.67%	
FY 11	1464	53.47%	\$288,016,823.61	5.19%	5.22%	
FY 10	1002	36.40%	\$198,879,487.81	6.12%	4.02%	
FY 09	6	0.24%	\$995,452.71	0.04%	0.02%	
FY 08	10	0.44%	\$1,347,737.60	0.06%	0.04%	
FY 07	11	0.65%	\$2,835,360.21	0.22%	0.14%	
FY 06	857	53.97%	\$122,053,714.76	12.15%	7.85%	
FY 05	1039	72.05%	\$169,117,905.21	22.20%	16.07%	

- SAP shows growth in new awards spending dollars and share
- More awards going to SDVOSB's at lower dollars under the threshold of \$150,000.00
- New SDVOSB awardees/suppliers like SAP – significant growth shown
- Notable positive collateral effect was growth in the FY13 DOD Sequestration Year

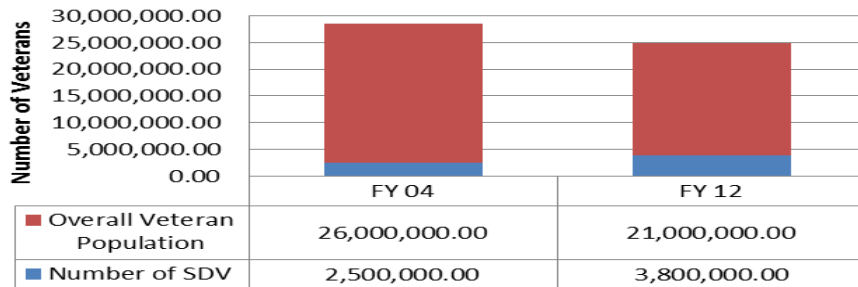


SDVOSB Program Taxonomy: Outputs

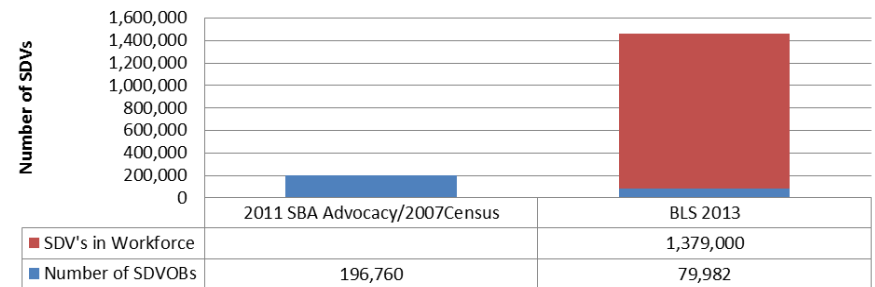
Context for SDVOSB Program Utilization

Is DOD Contracting a preferred self-employment path for Service-Disabled Veterans?

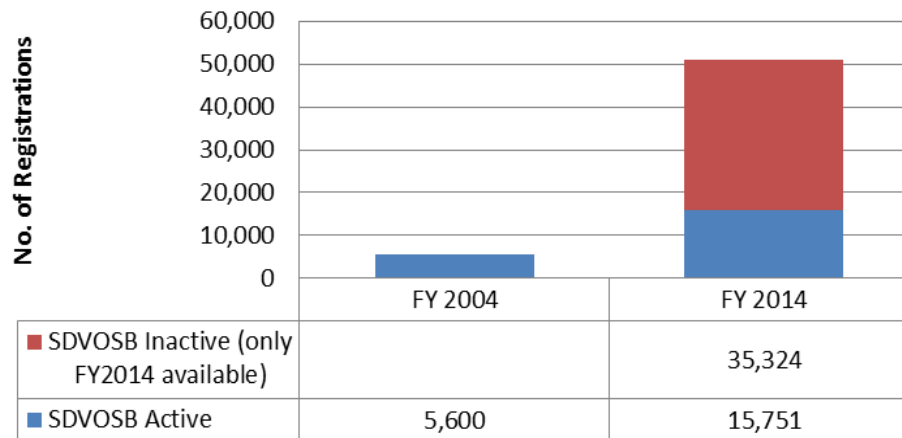
VA Data on SDV Population Growth



Data on SDVs in Workforce, Including Self-Employment



SDVOSB Seekers of Federal Contracts: SAM.gov/CCR.gov Registrations

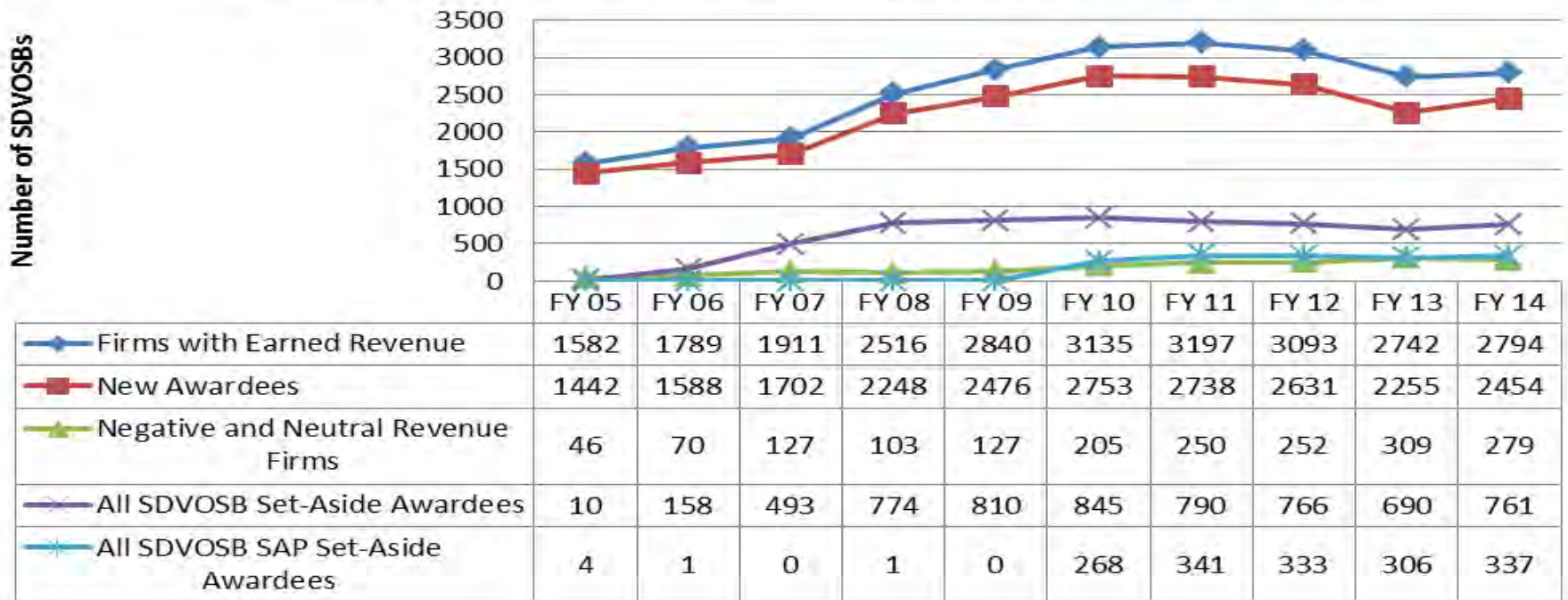




SDVOSB Program Taxonomy: Outputs

Strategic Direction Trends of SDVOSB Participation in DOD Contracting

SDVOSB Participation Trends in DOD Contracting



- Strategic future: SDVOSB Program recently on a course to start running out of suppliers.
- Number of SDVOSBs brought into DOD contracting through set-asides is decreasing
- SAP set asides shows potential as a positive growth mechanism for SDVOSB participation



SDVOSB Program Taxonomy: Outputs

Trends on all SDVOSB Awardees in DOD Contract Awards

**SDVOSB Program Participation:
Trends in Contracting Officer Discretion**



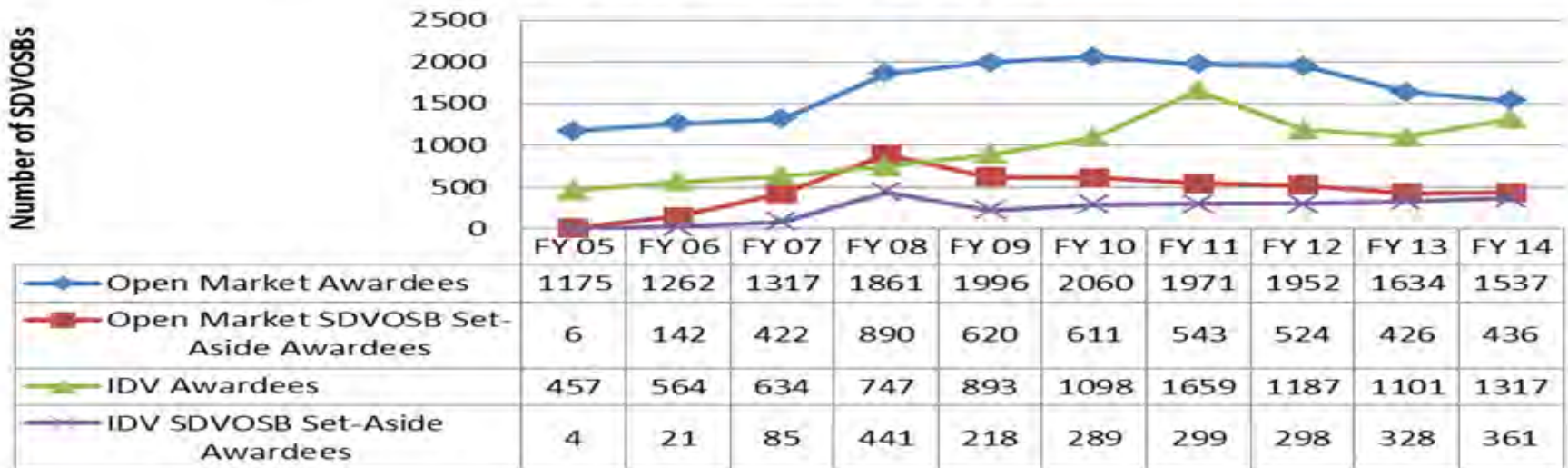
- SDVOSB set-aside (blue) awardees show little growth and a decline since FY10
- SDVOSB sole-source (red) awardees has been on a continuous decline since FY09
- SAP set-asides (purple)/sole source (teal)/and competitive (orange) SDVOSB awardees have increased consistently since FY09
- Competitive SAP procurements are bringing more and more SDVOSB to DOD Contracting



SDVOSB Program Taxonomy: Outputs

Trends on SDVOSBs IDV Participation in DOD Contract Awards

SDVOSB Program and Non-Program Participation in DOD Contracting: Open Market v. IDV Orders



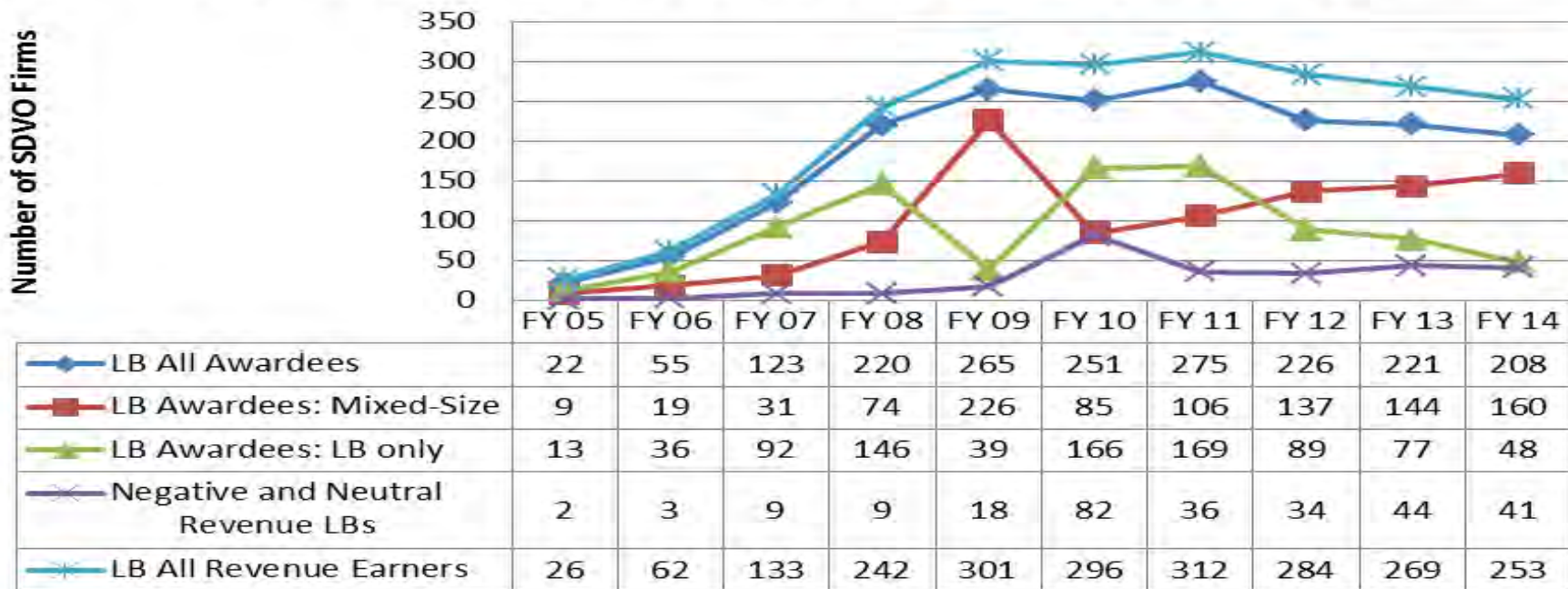
- Awardee mix is changing from Open Market in favor of established firms as IDV Participants
- SDVOSB Program is losing its role in the Open Market: Open Market awardees (blue) and Open Market set-aside awardees (red) had a stagnant/declining trend since FY09
- IDV SDVOSB awardees (green) show growth consistently until FY12/FY13 and a slow rise for FY 14
- IDV SDVOSB set-aside awardees have seen growth from FY 05 to FY 09 and have seen little to no growth from FY10 to FY14



SDVOSB Program Taxonomy: Outcome of Current Design

Graduations from Small to Large Business

Fate of SDVOLBs: SDVOSBs Which Totally or Partially Outgrew Small Business Size Caps

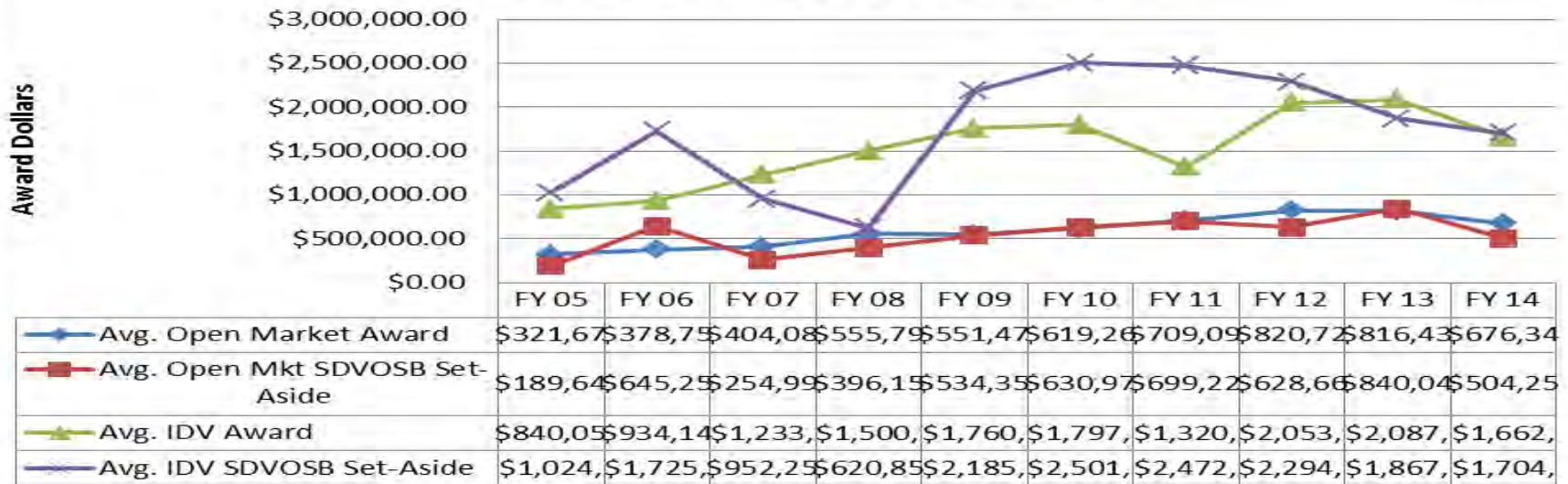


- Number of SDVOSB firms turned large is very low compared to the entire population.
- Large Disabled Veteran-owned firms are not surviving outside of SDVOSB status.
- Mixed size (red) with both small and large NAICS business sizes show some growth



SDVOSB Program Taxonomy: Outcome of Current Design Earnings Expectations

**Capability Growth Expectations:
Average Earnings by Contracting Mechanism
in and out of the SDVOSB Program**



- Open Market (blue) shows little favor to SDVOSB set asides in earning capacity
- IDV earning capacity favors established SDVOSBs through set-asides (purple) over average IDV awards (green)
- Both Open Market awards (blue) and Open Market SDVOSB set-asides (red) show little potential and stagnation



Answers to Research Questions

1. Can the SDVOSB Program be understood in terms of the generally accepted contract management performance model (inputs, process, outputs, and outcome)?

YES, gives the answer to the paradox of goal achievement, disillusionment, and malfunction concerns; provides insight into Program trends

2. Is individual-level Contracting Officer discretion the right mechanism to support SDVOSB participation in Defense contracting?

NO, without business development it is underutilized due to confusing market research standards, difficult balance in determinations of contractor responsibility, and transactional ease of other methods, such as the IDV orders as well as accretive modifications. Contracting Officers are reticent to exercise their discretion to make sole source and competitive set-sides to SDVOSBs.

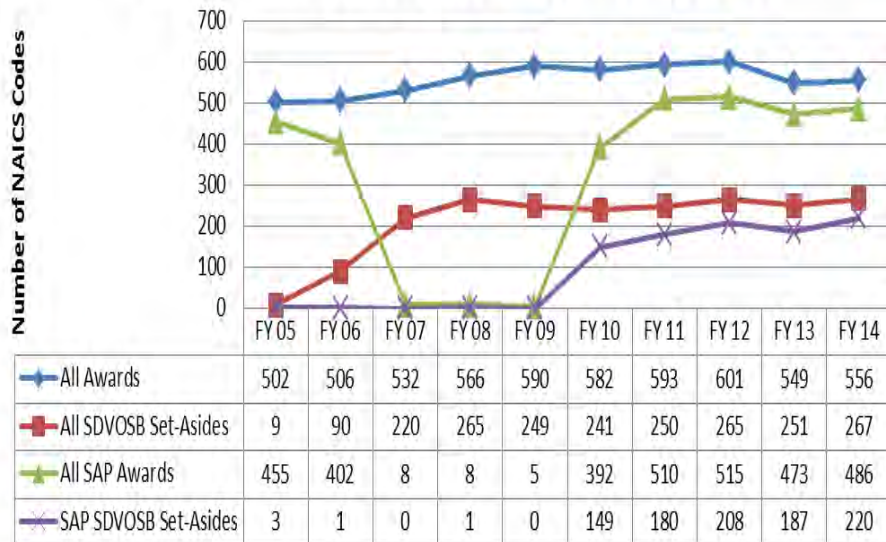
3. Can Simplified Acquisitions positively influence Program outcomes?

YES, strategic use if requirements under SAT (150K). Utilization of SAP is currently working as a method to increase SDVOSB participation and stimulate new awardees to gain past performance and experience.

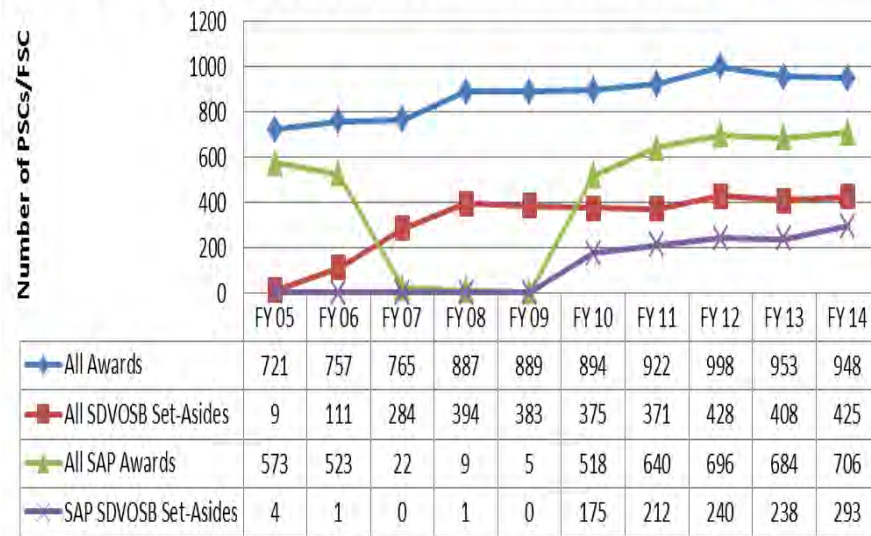


Recommendations: Strategic Targeting of NAICS and PSC/FSC Coverage Gaps Through SDVOSB Set-Asides and SAP

NAICS Trends: Opportunities for Industrial Targeting through the SDVOSB Program (including SAP)



PSC/FSC Trends: Opportunities for Matching SDVOSBs to DOD Product and Service Requirements



- Every contract has NAICS and PSC/FSC codes. NAICS codes show industries sought; PSCs/FSCs describe actual DOD needs.
- Out of 700 NAICS codes and 1200 PSC/FSC codes, the gaps between top two (blue and green) and bottom two lines (red and purple) show industries and requirements where no low-dollar Simplified contracts are being awarded. So, new or niche SDVOSBs can't gain experience and past performance needed for IDVs.
- To grow SDVOSB participation, gaps must be filled with be set-asides exclusively for SDVOSB, particularly in SAP.
- SAP shown itself to be an open door for a pathway into Government contracting for SDVOSBs.



Questions and Comments

“We need to look at this from the perspective of the soldier, not the perspective of the government.”

- Secretary of Defense Robert M. Gates on the wounded warrior transition system
in *Duty: Memoirs of a Secretary at War*