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U.S. SENATE COMMITTEE ON ARMED SERVICES
SUBCOMMITTEE ON READINESS AND MANAGEMENT SUPPORT

STATEMENT FOR THE RECORD

OF

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ON

DEPARTMENT OF DEFENSE SMALL BUSINESS TOOLS
FOR ENHANCING THE INDUSTRIAL BASE

BEFORE THE SUBCOMMITTEE ON READINESS AND MANAGEMENT SUPPORT
U.S. SENATE COMMITTEE ON ARMED SERVICES

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INTRODUCTION

Chair Hirono, Ranking Member Sullivan, Members of the Subcommittee,

My name is Scott Kiser, and I am the Director of Small Business Programs for the Department of the Air Force (DAF). On behalf of the Secretary of the Air Force, thank you for the opportunity to share the combined Department of the Air Force (DAF) perspective – including both the U.S. Air Force (USAF) and the U.S. Space Force (USSF) – on small business tools for enhancing the defense industrial base. It is a privilege to appear before this distinguished panel, and it is especially good to see that you, Madam Chair, and Senator Shaheen also serve on the Senate Committee on Small Business and Entrepreneurship. I am honored to share the table with highly experienced and dedicated fellow Directors of Small Business Programs for the Department of Defense (DoD), the Department of the Army, and the Department of the Navy. We applaud Congressional foresight in FY2021 NDAA to call for an updated DoD Small Business Strategy to shore up our Nation’s readiness in this challenging national security environment. We value your continued support for small business, and for civilian employees and uniformed military members serving as Small Business Professionals (SBPs) across the DAF who carry out the critical work of keeping our industrial base strong.

DAF SMALL BUSINESS PARTICIPATION RECORD

Small business participation in DAF acquisitions is measured by a variety of metrics and reports prescribed by Congress, the Small Business Administration (SBA), the Office of Management and Budget (OMB), and the Office of the Secretary of Defense (OSD). The most well-known metrics are small business prime contracting spend goals. These goals are set pursuant to law for the DoD as percentage shares of small business-eligible contracts by the OMB and the SBA, and further apportioned to the Military Departments in negotiations with the

DoD Office of Small Business Programs (OSBP). Consistent with law, OMB guidance, and DoD policy, the goals are further apportioned from the DAF Secretariat to Air Force Major Commands (MAJCOMs), Space Force Field Commands (FLDCOMs), Direct Reporting Units (DRUs), and Program Executive Offices (PEOs).¹ The MAJCOM/FLDCOM/DRU-level and PEO-level goals become the quantitative element of Senior Leader Performance Expectations (SLPEs) for general officers and senior executives involved in acquisitions, along with the qualitative element of small business-friendly organizational processes, outreach, and climate. We find that leadership and tone at the top are key to program success. Across Air Force and Space Force units, Small Business Programs are meant to be the commanders' programs.

In FY2022, for the third year in a row, the DAF exceeded its overall small business (SB) contracting goals. We have also exceeded all our FY2022 goals for small business categories.² Specifically, FY2022 Small Business (SB) participation as prime contractors in small business-eligible DAF acquisitions reached a record 22.92 percent (over 18.10 percent goal), or \$15.58 billion. Small Disadvantaged Businesses (SDBs), including those owned by disadvantaged individuals as well as by Native American Tribes, Native Hawaiian Organizations (NHOs), and Alaska Native Corporations (ANCs), received 10.12 percent of DAF contract spend (over 9.58 percent enhanced goal). This success implements the President's and OMB's direction³ to raise Government-wide SDB contracts spend from 10.54 percent in FY2020 to 15 percent by FY2025. Participation by other small business categories also exceeded goals: contracts with Service-Disabled Veteran-Owned Small Businesses (SDVOSBs) reached 3.39 percent (over 2.60 percent

¹ 15 U.S.C. 644; OMB Memorandum M-22-03; DoDI 4205.01.

² SB category goals are developed by the Military Departments, rather than assigned by DoD OSBP. Subcontracting goal achievement is reported to the SBA at the DoD-wide level, not by Military Department.

³ OMB Memoranda M-22-03 and M-23-01.

goal), contracts with Women-Owned Small Businesses (WOSBs) reached 4 percent (over 3.50 percent goal), and contracts with Historically Underutilized Business Zone (HUBZone) Small Businesses reached 1.82 percent (over 1.20 percent goal).

For DAF leaders and buyers, small business spend goals are not an end in themselves. Secretary Kendall's DAF small business policy directive No. 90-18 and the long-standing "Beyond Goals" ethos of our office ensure that DAF small business goals and programs support a resilient industrial base and the main mission objective of the defense acquisition system. This objective is to deliver goods and services in support of the warfighter. Spend goals are not a license to charge above fair market price or to lower the quality of performance. However, spend goals can prompt buyers to take a hard look at contract scope for small business-suitable work, to consider small business award flexibilities, and to diligently search the market for capable and innovative small firms in broad spectrum of industries.

DAF Small Business Programs engage broad and complex areas of the industrial base. In FY2022, top industry sources for DAF small business contractors included: research and development (R&D) in Physical, Engineering, and Life Sciences; Commercial and Institutional Building Construction; Engineering Services; Computer Services, Custom Programming, and Computer Systems Design; Aircraft Equipment Manufacturing; Facilities Support Services; and Wired Telecommunications. The top DAF requirements portfolios on which small businesses have performed in FY2022 as prime contractors included: Support Services, e.g., Professional, Technical, and Engineering Support, Program Management Support, Contract Support, and Other Professional Support; National Defense R&D Services for Applied Research and Experimentation; IT & Telecom Business Applications and Applications Development; and Building Alteration and Repair as well as Facilities Support. For instance, Akima Logistics

Services, LLC (ALS), an ANC-owned SDB, was awarded a contract for up to \$109.7 million for logistics support of 58 training aircraft at the United States Air Force Academy (USAFA). This competitive small business set-aside award went to a best value contractor with excellent experience and understanding of customer needs, ensuring continuity in flight line operations.

The 2022 National Defense Strategy calls on the DoD to “bolster support” for small businesses and innovative technology firms to strengthen our R&D and technical capabilities. In FY2022, the DAF obligated 19.67 percent (or \$2.712 billion) of its small business-eligible Research, Development, Testing, and Evaluation (RDT&E) work contracts to small firms – higher percentage share than the Navy’s, and more dollars than any other DoD component. Obligations under Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Phase I for technical feasibility and Phase II for further research and prototyping accounted for \$1.013 billion, representing 37.36 percent of total small business RDT&E awards, 7.35 percent of total RDT&E awards, and about 6.5 percent of DAF small business awards.

Our SBIR/STTR Phase I and II investments generated notable returns in the form of Phase III contracts for transition across most MAJCOMs, FLDCOMs, and PEOs – with Air Force Materiel Command, Space Systems Command, and PEO Digital in the lead. In FY2022, the DAF awarded SBIR/STTR Phase III contracts with the ceiling value of almost \$1.995 billion, with over \$1.770 billion awarded to small firms. Our FY2022 small business-eligible Phase III contract obligations – measured similarly to spend goals -- reached \$772 million. Of those, \$627 million went to small firms, representing approximately 1 percent of total DAF small business-eligible spend. DAF SBIR/STTR Phase III technology transition obligations represent 49.55

percent of such obligations DoD-wide. This data does not include the approximately \$323 million in DAF-funded Phase III awards obligated by GSA through assisted acquisitions.

DAF SMALL BUSINESS PARTICIPATION ENHANCEMENT TOOLS

Our small business participation successes are not accidents or lucky breaks. Rather, they were results of deliberate management of tools and resources applied to DAF mission needs. Along with spend goals, there are many programmatic authorities, goals, and policies that serve as tools for growing the small business industrial base. Most of the tools were provided by Congress, OMB, and DoD, and some were developed within the DAF. But the most important tool we have -- and our most valued resource -- is our highly qualified and dedicated Small Business Professional (SBP) workforce. The DAF SBP workforce performs Small Business Programs duties and provides general guidance and oversight. SBPs are a community within the Defense Acquisition Workforce, like contracting officers or acquisition program managers.

I serve as the principal advisor on small business programs and tools to the Secretary and the Under Secretary of the Air Force, the Acquisition Assistant Secretaries over Air Force and Space Force (SAF/AQ and SAF/SQ), and other DAF senior leaders. In this role, I report directly to the Under Secretary, and I am supported by a statutory office established by Title 10, Section 9024, and Title 15, Section 644(k), U.S. Code. My Deputy Director and I lead a staff of 9 career civilian administrative and subject matter experts, along with several support contractors. Our office has complex and growing responsibilities, most of which are within the areas of policy, advocacy, and oversight. For example, we: support DAF senior leaders' engagements with local community groups and Chambers of Commerce; develop and negotiate goals; analyze and develop DAF policies and guidance for implementation of Congressional small business statutes,

Executive Orders, and SBA guidance; advocate for small business in consolidated, bundled, or other significant DAF acquisitions and efforts such as Category Management; and respond to Congressional, SBA, and other programmatic audits, oversight requests, and reporting requirements. We resolve SBA's complaints and appeals on behalf of the Secretary, review of subcontracting plans and reports; outreach, assist small businesses with obtaining payments due from the DAF or primes; facilitate workforce training and functional appointments; and manage the DAF Mentor-Protégé Program, DoD's largest. Our office does not execute SBIR and STTR Program budgets: these two programs are executed by AFWERX and SpaceWERX under managerial oversight and direction from SAF/AQ and SAF/SQ. However, our office advocates for SBIR/STTR Phase III opportunities in DAF acquisitions and provides policy oversight of the SBIR and STTR programs to ensure consistency with SBA policies and guidance. We also serve as DAF's focal point and lead on regulatory compliance assistance to small firms under the Small Business Act, the Small Business Paperwork Relief Act (SBPRA), and the Small Business Regulatory Enforcement Fairness Act (SBREFA).

I lead the DAF-wide SBP professional functional community of 162 experts in acquisition strategies, policies and procedures, support programs, outreach, and technical assistance. Except for my immediate staff, the rest of SBPs are employed by DAF organizations in the field. The main duty of SBPs in the field is to manage policies, processes, outreach, oversight, and reports concerning unit Small Business Programs on behalf of unit commanders, review acquisitions and advocate for small business prime contracting- and subcontracting-inclusive strategies, and assist individual small businesses. Our SBPs account for about one quarter of the 700+ DoD-wide SBP community, most of which are full-time. Within DAF, 90 SBPs and supporting staff are full-time, while 72 serve part-time (dual-hatted) under special

waiver in other jobs, like installation Directors of Business Operations (DBOs). Each MAJCOM, FLDCOM, DRU, and Center typically has a Small Business Office to ensure proper support for organizational leadership, contracting officers, and the small business industrial base. Our SBP are hard workers whose dedication to their duty is second to none. Last year, DAF buyers executed 103,938 total small business-eligible contract actions, including 60,244 contract actions for 9,473 small business contractors. This comes to about 642 small business-eligible contract actions on average per SBP workforce position, although this ratio changes depending on workload distribution, complexity of action, entry barriers, and process efficiencies. Contract actions count does not include SBP involvement in other actions, e.g., Other Transactions.

Beginning in 2020, as the recently appointed Director, I sought to align the DAF SBP workforce more efficiently and to capitalize on significant expertise in the field by convening SB Directors and experts at major DAF units into the DAF Small Business Board of Directors (BOD). Employing the Objectives-Key Results (OKR) management model from leading private sector organizations, we subdivided the BOD into teams across broad Lines of Effort (LOEs). Our BOD currently has three (3) LOEs. Each LOE team's member collaborate to develop Objectives and Key Results which support the team's Line of Effort.

Our LOE 1 is "Build Mission-Focused Small Business Leaders." This LOE has two Objectives: (1) continue progress in training and developing DAF SBP workforce, and (2) advocate for proper identification, structure, and fill of DAF SBP workforce. LOE 2 is "Provide Relevant Tools and Rules." This LOE has three objectives: (1) deploy effective policy/guidance for SBP and other acquisition team members; (2) deliver metrics and data driven tools to improve SB participation; and (3) equip SBPs to support SBIR/STTR and other innovation programs. LOE 3 is "Strengthen the Department's Engagement and Support of Small Business."

This LOE has three Objectives: (1) analyze and reduce barriers to entry for small businesses through cross-functional effort lead by Office of the Deputy Assistant Secretary for Contracting; (2) deliver DAF enterprise small business outreach and messaging; and (3) leverage collaborative partnerships with organizations such as APEX Accelerators as well as Small and Minority Business Development Centers (SBDCs and MBDCs).

I would like to share a couple of examples of how this model generates results in practice. For instance, LOE 3's outreach and messaging Objective is supported by two Key Results (KRs): (1) identify key topics for outreach and messaging, and (2) pursue a DAF enterprise-wide outreach and messaging campaign. For these KRs, our team prepared messaging topic materials, including forecast lists of expiring contracts for industry, State Fact sheets for Congressional offices and local community groups, and tailored presentations events covering specific industries and small business categories. Our FY2022 small business participation success has been fueled by largest-ever outreach conducted by Small Business Offices across the DAF. Outreach is also a statutory metric we report annually to the SBA for further transmission to Congress. During FY2022, we held 41 events reaching nearly 30,000 audience members from the small business industrial base ecosystem (a 45.7 percent increase in audience over FY2021). For instance, our office's SBIR/STTR expert spoke in Hawaii at the Governor's invitation.

As a small rudder that can turn a large airplane in the right direction, even small improvements to policies, processes, and systems can direct contract dollar flowing where they should. Our LOE 2, "Provide Relevant Tools and Rules," worked together with the Office of the Deputy Assistant Secretary for Contracting to amend the Air Force Federal Acquisition Regulation Supplement (AFFARS) for FY2022. The amendments empowered SBPs to more closely review SAT-level purchases and other buys to ensure maximum practicable opportunity

for SBs in all categories, reducing pre-review paperwork. In FY2022, small firms received 78.20 percent (over 68.50 percent goal) of contract value between the Micro-Purchase Threshold (MPT) (typically, \$10,000) and the Simplified Acquisition Threshold (SAT) (typically, \$250,000) or \$351.53 million out of \$449.51 million, continuing a three-year trend upwards. While not a statutory goal, SAT-level SB spending is an OSD-tracked area especially suitable for very small, emerging, and small commercial firms. The Small Business Act, 15 U.S.C. 644(j), automatically reserves most SAT-level acquisitions for small businesses unless two or more capable small businesses cannot be found, with notable exceptions such as GSA Schedules.

As part of acquisition planning, SBPs can recommend several planning and contracting tools for inclusion of small businesses: insightful market research showing capable small firms; breaking up of contract requirements; total or partial set-asides or reserves of contracts or orders, use of small business subcontracting plans or commitment documents; use of subcontracting incentives; and teaming arrangements. Based on our recommendations, DAF for the first time ever used an innovative Contractor Teaming Arrangement (CTA) under GSA procedures. We engaged a team consisting of 1 large business and 9 technologically savvy SBs, SDVOSBs, and SDBs to deploy new IT service desks for over 700,000 DAF total force users. This will result in about \$2 billion in SB prime spend and about \$1 billion in SDB prime spend over 10 years.

Our SBPs can also recommend the use of special authorities, such as Mentor-Protégé Program (MPP) agreements. MPP enables experienced prime contractors to develop the capacity of small protégé firms by providing reimbursements for assistance or subcontracting plan credits. Since DAF MPP's inception in 1992, its participants have successfully completed over 330 agreements. Currently, DAF MPP has DoD's largest program portfolio with 13 active agreements: 6 in IT and Cybersecurity industries, 5 in Parts and Equipment Manufacturing, 1 in

Technical and Engineering Services, and 1 in Medical Equipment Manufacturing. For instance, the MPP agreement between Lockheed Martin and Marvin Engineering, a California small business, facilitated transfer of robotics spray-coating technology to automate the manufacturing of F-35 II Lightning missile launchers, pylons, and internal bay adapters.

One key focus for our BOD teams is “mainstreaming” SBIR/STTR Phase III as regular consideration and competency in acquisition planning and messaging. Our AFFARS amendment clarified that Phase III opportunities are part of SBP’s acquisition reviews. Both the 2019 and the 2023 DoD Small Business Strategies called for such reviews to facilitate small business participation and technology transition. Our SBPs regularly advise on Phase III direct awards or other preference tools under Title 15, Section 638(r) and SBA Policy Directive, and the Phase III Multiple-Award Contracts under Section 1710 of FY2018 NDAA, Public Law 115-91. Section 1710, which is due to expire on 30 September 2023, uniquely empowers buying organizations to swiftly create pools of SBIR/STTR firms that could sell their technologies on an expedited basis.

Yet, even after decades in existence, continued validity of SBIR/STTR and the Phase III special acquisition preference remains uncertain. Before the latest 3-year extension of SBIR/STTR, there was much debate between industry and government as to whether the Phase III preference and technology transitions it enables could continue past 30 September 2022. The potential that Phase III preference and related data rights protection would abruptly stop made small businesses and DAF buyers anxious for Phase III-supported missions. Ultimately, the Under Secretary of Defense for Research and Engineering concluded that Congress made Phase III authorization for SBIR and STTR co-extensive with Phases I and II.⁴ The DAF, as the rest of

⁴ USD R&E Memorandum, Impact of Expiration of SBIR and STTR Program Authority (6 September 2022).

the DoD, supports permanent reauthorization of SBIR/STTR. We also believe the distinctions between Phase III and Phases I/II are significant enough to justify Congress making Phase III permanent now, without waiting for 2025. Most of the disputes which prevented permanency in 2022 related to practices for awarding Phase I and Phase II funds. For instance, Congress had questions about awards to small firms focused on R&D services versus to small firms focused on R&D for eventual transition. Phase III, of course, is not funded with SBIR/STTR programmatic funds. Phase III involves interested DAF commands and PEOs seeking to meet mission needs through technologies already developed in Phases I and II R&D. To keep technology transitions uninterrupted, Congress should narrow the reach of temporary SBIR/STTR sunsets in Title 15, Section 638 only to Phases I and II – thereby making Phase III permanent.

SPECIFIC CHALLENGES FOR SMALL BUSINESSES

Despite all our successes, we know that small businesses continue to face entry barriers and challenges to doing business with the DoD and the DAF. In addition to the DoD Small Business Strategy and Implementation Plan, over the last two and a half years the DoD published at least 4 reports and plans addressing this topic with a wealth of observations and recommended actions. These reports and plans include: the 2022 Defense Business Board (DBB) Assessment of the DoD Mentor Protégé Program, the 2021 DoD Equity Action Plan, the 2022 DoD Competition Report, and the 2022 DoD Supply Chain Report. Recommendations cover both areas that are suitable for agency action and areas that may need Congressional assistance. For instance, the DBB suggested enabling MPP protégés to joint venture with mentor firms. I commend these reports and plans to the Subcommittee's attention.

Within the DAF, our office has been working as part of cross-functional team to define and study entry barriers and other factors affecting small firms' counts, and to identify potential actions within the DAF to reduce or eliminate the barriers. An action report is expected soon based on this study effort. In addition, we are working with DoD OSBP, SBA, and OMB on methodology and metrics for defining and tracking the number of new entrants. For FY2022 over FY2021, based on our definition of "no contracts above \$10,000 in the last 5 years," DAF demonstrated a slight increase in the number of new small business entrants, 2,102 over 2,077 -- though the count of all DAF-awarded small business contractors decreased to 9,473 from 9,808.

Time and space will not permit me to address every challenge and entry barrier, many of which I covered earlier. However, I'd like to highlight a few examples. Barrier one is the twin challenge of confusion and complexity in entry points and other aspects of Small Business Programs. We worked hard to reduce confusion and streamline entry. As part of standing up the Space Force, I leaned heavily on existing authorities to prevent duplication or unnecessary overhead in Small Business Programs for USAF and USSF. Our DAF Office of Small Business Programs (SAF/SB) now serves two Services, with only 1 position added to focus on USSF. Our website has a locator for SBPs in the field and guidance for submission of unsolicited proposals.

More remains to be done, however, and Congress can help. With me today are three U.S. Code volumes from Titles 10 and 15, tabbed to illustrate page-volume parity of small business-related legislation and general acquisition legislation. Small business provisions are some of the most detailed and reporting-heavy portions in the U.S. Code, and for good reasons. However, every time agency Small Business Offices must deal with duplicative reports and overlapping or conflicting statutory language, it makes it harder to help small businesses. For example, we prepare duplicative reports on Phase III transition under Title 15, Section 638, and Section 279,

FY2021 NDAA – because Section 638 was changed to channel reports to Congress through SBA. A single report sent directly to SBA and to Congress would free up time spent in double drafting. There are four (4) statutory programs for small firms to address foreign ownership, control, and influence (FOCI), including a pilot with new duties for SB Offices.⁵ We recommend that Congress engage in ongoing dialogue with agency Small Business Offices to explore streamlining some of those reports and other provisions.

DAF IMPLEMENTATION AND IMPACT OF THE DOD SMALL BUSINESS STRATEGY

The DoD Small Business Strategy identifies 23 Implementation Actions across 3 Strategic Objectives: (1) implement a unified management approach for small business programs and activities through improved collaboration and simplification of entry points; (2) ensure that by stabilizing and scaling programs, data tools, and processes; and (3) strengthen DoD’s engagement and support of small businesses through training and education. The DAF Office of Small Business Programs, together with our colleagues from Army, Navy, and Defense Logistics Agency, played a significant role in development of the DoD Small Business Strategy and its Implementation Plan. We are fully committed to its successful implementation, understanding that most Implementation Action Items would first need coordination among the Military Departments and decisions at OSD level. Within the DAF, we have already assigned all Action Items into the Lines of Effort (LOEs) for our DAF-wide Small Business BOD Teams. Each BOD Team has adjusted the Objectives and Key Results (OKRs) under their LOEs. Each Team carries out at least preparatory or planning efforts in furtherance of the Action Items. BOD Team Leads brief me on the progress in monthly meetings.

⁵ FY2020 NDAA, Public Law 116-92, Sec. 847; FY2021 NDAA, Public Law 116-283, Sec. 223; SBIR/STTR Extension Act of 2022, Public Law 117-183, Sec. 4; and

We already have an early success: the DAF Category Management (CM) Charter was revised last month to incorporate the DAF Office of Small Business Programs as the small business lead and advisor to the Deputy Under Secretary for Management, the DAF Category Management Council, and other DAF CM officials. The CM Charter also incorporates specific OSD- and OMB-directed steps and criteria for consideration of small businesses in CM, particularly the rule that category management objectives must not be achieved at the expense of small business equities. Other efforts are ongoing, such as improvements to our website, training and guidance for SBPs, data tools and forecasting, Phase III and R&D participation processes, and collaboration with the Association of APEX Accelerators (a/k/a Procurement Technical Assistance Centers) to ensure that our SBPs can use APEX assistance for specific acquisitions.

The DAF is mindful of requirements in Section 861(b) of FY2021 NDAA, Public Law 116-283, that the Strategy and its Implementation Plan must include an identification of responsible organizations, metrics, and resources to support implementation activities. The DoD Implementation Plan identifies, for each Action Item, responsible offices, qualitative or quantitative metrics, and use of existing or additional resources for OSD, DAF, and other DoD Components. The DAF resourcing estimate for the Implementation Plan matching all Action Items to existing or additional personnel was prepared by my office, approved by the Under Secretary of the Air Force with concurrence of the Chiefs and Vice Chiefs of the Air Force and the Space Force, and transmitted to DoD OSBP last year for appropriate action.

CONCLUSION

In conclusion, America's small businesses provide crucial support to our Airmen and Guardians – all thanks to the tools and resources provided by Congress. Implementing the DoD

Small Business Strategy will not be easy, but the cause is worthy, and it is a challenge that we take seriously. Thank you for the opportunity to testify today and for your willingness to listen to the Small Business Professional perspective. I look forward to answering your questions.