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

Presented at the 12th Annual Acquisition Research Symposium held May 13-14, 2015 in Monterey, CA.
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:

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

1/1/1997

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

1997
SDVOSB Given Socio-Economic Small Business Status 1/4/1999

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

12/16/2003
Utilized Business Development Direction by Veterans Benefit Act Pubic Law 108-183 Section 101 and 102

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

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

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

5/31/2005
DOD 5 Year SDVOSB Strategic Plan

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

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

2/23/2005
Executive Order 13360 Providing Opportunities for SDVB to Increase Their Federal Contracting and Subcontracting

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

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

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

5/8/2008
Executive Order 13360 Providing Opportunities for SDVB to Increase Their Federal Contracting and Subcontracting 10/20/2004

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

1/6/2009
Final Edition of DOD Strategic Plan

1/14/2009
GAO - DAV Prime, Inc. - Determination of MCS and IBV Ltd. Reversed - KO's Not Required to Consider SDVOSB Set Asides

1/1/2008
Next Edition of DOD 5 Year Strategic Plan

1/1/2008
GAO - SDVOSB "MAY" Set Aside but MUST Consider

1/1/1999
Goals of 3% to SDVOSB Established by Public Law 106-50

8/17/1999
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

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

2/23/2005
DOD 5 Year SDVOSB Strategic Plan

10/20/2004
FAR Council Determines SDVOSB not a Business Development Program

12/16/2003
Executive Order 13360 Providing Opportunities for SDVB to Increase Their Federal Contracting and Subcontracting

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
Task Force Report II: Expressly Promotes Established Firms and More Support for Contracting Officers

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

7/15/2014
Senate Hearing Identified Problem with KO Discretion and SAP Problems
Contract Management Performance Model

**Inputs**
- Dollars awarded with SDVOSB, bench-marked to the 3% statutory goal

**Process**
- Individual-level DOD Contracting Officer discretion, laws, regulations, orders, precedents, plans

**Outputs**
- Number of Active SDVOSBs receiving contract awards

**Outcome**
- DOD Contracting as a Viable Self-Employment Path for Service-Disabled Veterans at Large

Applied to the SDVOSB Program
SDVOSB Program Taxonomy: Inputs

Overall Trends on DOD Spending with SDVOSBs

- 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.
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.
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.

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) $3,5000,000, 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.
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

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 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

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>SAP SDVOSB Awardees</th>
<th>Share of All New Awardees</th>
<th>SAP Awards Spending with SDVOSBs</th>
<th>Share of New SDVOSB Awards</th>
<th>Share of Total SDVOSB Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 14</td>
<td>1346</td>
<td>54.80%</td>
<td>$468,344,284.31</td>
<td>12.78%</td>
<td>7.63%</td>
</tr>
<tr>
<td>FY 13</td>
<td>1331</td>
<td>59.02%</td>
<td>$416,013,773.62</td>
<td>11.45%</td>
<td>6.89%</td>
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<tr>
<td>FY 12</td>
<td>1483</td>
<td>56.34%</td>
<td>$284,690,662.76</td>
<td>7.05%</td>
<td>4.67%</td>
</tr>
<tr>
<td>FY 11</td>
<td>1464</td>
<td>53.47%</td>
<td>$288,016,823.61</td>
<td>5.19%</td>
<td>5.22%</td>
</tr>
<tr>
<td>FY 10</td>
<td>1002</td>
<td>36.40%</td>
<td>$198,879,487.81</td>
<td>6.12%</td>
<td>4.02%</td>
</tr>
<tr>
<td>FY 09</td>
<td>6</td>
<td>0.24%</td>
<td>$995,452.71</td>
<td>0.04%</td>
<td>0.02%</td>
</tr>
<tr>
<td>FY 08</td>
<td>10</td>
<td>0.44%</td>
<td>$1,347,737.60</td>
<td>0.06%</td>
<td>0.04%</td>
</tr>
<tr>
<td>FY 07</td>
<td>11</td>
<td>0.65%</td>
<td>$2,835,360.21</td>
<td>0.22%</td>
<td>0.14%</td>
</tr>
<tr>
<td>FY 06</td>
<td>857</td>
<td>53.97%</td>
<td>$122,053,714.76</td>
<td>12.15%</td>
<td>7.85%</td>
</tr>
<tr>
<td>FY 05</td>
<td>1039</td>
<td>72.05%</td>
<td>$169,117,905.21</td>
<td>22.20%</td>
<td>16.07%</td>
</tr>
</tbody>
</table>

- 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

- FY 04: Overall Veteran Population - 26,000,000.00, Number of SDV - 2,500,000.00
- FY 12: Overall Veteran Population - 21,000,000.00, Number of SDV - 3,800,000.00

Data on SDVs in Workforce, Including Self-Employment

- 2011 SBA Advocacy/2007Census: 1,600,000
- BLS 2013: 1,379,000

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

- FY 04: SDVOSB Inactive (only FY2014 available) - 0, SDVOSB Active - 10,000
- FY 14: SDVOSB Inactive - 35,324, SDVOSB Active - 15,751
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 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

- 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 FY14
- IDV SDVOSB set-aside awardees have seen growth from FY05 to FY09 and have seen little to no growth from FY10 to FY14
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.
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

- 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.
“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*