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The Defense Acquisition System

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Chairman Grothman, Ranking Member Garcia, members of the subcommittee, thank you for inviting me to discuss the defense acquisition system. The views expressed below are my own and are not necessarily those of the National Defense Industrial Association.

Our defense acquisition system takes too long to deliver capability, costs more than it should, and often does not access or fails to adopt the most cutting-edge capabilities industry has to offer. In addition, our defense industrial base is shrinking. These are serious problems.¹

In this testimony I would like to make several key points critical to improving defense acquisition outcomes.

(1) The defense industrial base is shrinking.

The defense industrial base is shrinking. The consequence of a smaller industrial base is DoD not being able to leverage or gain access to some of the most advanced technologies and capabilities the commercial markets have to offer, less competition, increased costs, and a less robust or resilient supply chain.

A 2021 Government Accountability Office (GAO) report found that from fiscal years 2011 to 2020, the number of small businesses receiving DoD contract awards decreased by 43%, even as obligations to small businesses increased by approximately 15%.² But this is not a small business story—it's an industry-wide story. The same report found that the number of larger businesses receiving contract awards fell by 7.3% annually over the same period, a more precipitous decline than the 6% annual decline in the number of small businesses receiving contract awards.³ The defense industrial base continues to shrink. According to a Bloomberg analysis, in fiscal years 2021 and 2022, the number of small and other businesses contracting with DoD slid

¹ Schwartz, M. and Johnson, M. (February 2024). How Not to Alienate Business Partners. Contract Management.

https://content.govdelivery.com/attachments/USNPS/2024/03/08/file_attachments/2808032/Schwartz,%20Moshe%20and%20Johnson,%20Michelle%20-%20How%20Not%20to%20Alienate%20Business%20Partners.pdf.

² U.S. Government Accountability Office. (2021, October 14). Small business contracting: Actions needed to implement and monitor DoD's small business strategy. Bloomberg Government. <https://www.gao.gov/products/gao-22-104621>.

³ *Ibid*, page 9.

further, with small businesses decreasing by 5% and 7%, and other businesses decreasing by 1% and 5%, respectively.⁴

It is not only the defense industrial base that is shrinking but the entire federal government industrial base. According to Bloomberg, the number of small businesses selling to the federal government dropped from more than 100,000 in fiscal year 2014 to approximately 67,000 in fiscal year 2023. Last year alone, the number of federal contractors dropped by 2%.⁵

The decline in the defense and government industrial base is occurring precisely when the federal government increasingly relies on commercial technologies. In 2022, DoD's list of 14 critical technology areas vital to national security identified only three that are defense-specific (hypersonics, directed energy, and integrated sensing and cyber). The vast majority of critical technologies on this list are either the result of "existing vibrant commercial sector activity" or emerging technologies being developed exclusively in the private sector or in collaboration with DoD.⁶

(2) Workforce is the key to successful acquisition.

Better acquisition cannot be achieved through multiple audits, more regulation, or legislative fiat. Rather, giving a few capable people the authority to do their job, putting them in positions to succeed, holding them accountable, and minimizing red tape is the recipe for better acquisition. But that is not what we do. Instead of empowering people to take responsibility and make good management decisions that will deliver better systems faster, we measure them on compliance and process.

In 2021, a GAO report found that the six agencies reviewed—including the Department of Defense—all relied "primarily on process-oriented metrics...when managing their procurement organizations."⁷ In other words, compliance took precedence over common sense; process was more important than performance. If we empower the workforce and focus on outcomes, we can hold people accountable. As one Program Executive Officer said when expressing frustration over the multiple layers of approval processes: I was hired to make decisions. If you don't like my decisions, fire me, but let me do my job.

As part of empowering the workforce, we should simplify the approval processes. For example, there are a variety of statutes and regulations that focus on supply chains and the industrial

⁴ Nieberg, P. and Murphy, P. (2023, February 8). Labor shortages in US hamper defense manufacturing efforts. Bloomberg Law. <https://news.bloomberglaw.com/immigration/labor-shortages-in-us-hamper-defense-manufacturing-efforts>.

⁵ Murphy, P. (2024, May 6), Rising Contract Spending Fails to Lure, Keep Vendors in Market. <https://www.bgov.com/next/news/SD254WT0AFB4>.

⁶ Under Secretary of Defense for Research and Engineering. (2022, February 1). Technology vision for an era of competition. https://www.cto.mil/wp-content/uploads/2022/02/usdre_strategic_vision_critical_tech_areas.pdf.

⁷ Government Accountability Office, [Federal Contracting: Senior Leaders Should Use Leading Companies' Key Practices to Improve Performance](#), July 27, 2021.

base that are all written just a little differently, without any discernable policy reason for doing so. The exceptions are different, the waiver standards are different, and the officials who can approve a waiver are different. Often, the official with the authority is so senior that the approval process is very time-consuming. Such convoluted requirements add bureaucracy, increase costs, delay delivery, and add confusion as to who makes what decisions.

(3) We need to streamline the acquisition rules and regulations.

There are just too many acquisition rules, and the rules are overly complicated. In a poll conducted by NDIA, companies were asked “What is the most pressing issue facing the defense industrial base?” Thirty percent of those polled cited the burden of the acquisition process and paperwork, which ranked higher than concerns over budget stability, workforce, inflation, or any other issue. Respondents also indicated that it is much more difficult to do business with DoD than with other agencies. Specifically, 18 percent of respondents said it was “very difficult” to do business with DoD, compared with 10 percent for other government agencies and 8 percent for nongovernment agencies. These regulations are driving some businesses to leave the defense industrial base and others not to enter in the first place.⁸

Commercial companies seeking to enter the defense market must ensure that their supply chains, software and hardware content, sourcing, cybersecurity, accounting systems, and pay scale meet unique DoD and government-wide requirements. Conforming to these requirements can be time-consuming and require significant up-front investment. Streamlining the procurement process and making it easier to work with DoD is critical. When acquisition processes that are not overburdened by regulation have been used, such as Other Transaction Authority, the results have generally been positive. Some of these regulations that apply only to selling to the government also drive up the cost of goods and services.

Some will argue that streamlining is code for repealing necessary oversight. On the contrary. Done right, streamlining will increase accountability by clarifying lines of authority, as well as shortening timelines and improving outcomes, without undermining oversight. This is the approach industry takes: fewer regulations, more consistently applied, by an empowered workforce.

Overregulation in government contracting requires companies to spend money on compliance instead of on what that really matters. This dissuades some companies from working with DoD and squanders limited resources. A prime example is the hearing that this committee’s subcommittee on Cybersecurity, IT, and Government Innovation is holding tomorrow, *Enhancing Cybersecurity by Eliminating Inconsistent Regulations*. The Office of the National Cyber Director recently released a report that found

The lack of harmonization and reciprocity [of government regulations] harms cybersecurity outcomes while increasing compliance costs through additional administrative burdens. Many

⁸ National Defense Industry Association, *Vital Signs 2023: Posturing the U.S. Defense Industrial Base for Great Power Competition*, February 2023.

respondents noted that **compliance spending drew resources from cybersecurity programs.**⁹ (Emphasis added.)

We should take a holistic approach to oversight, ensuring that regulations aimed at solving specific problems don't have unintended consequences to the overall acquisition system that cause more harm than good. We should encourage using commercial buying processes. We should look at the thresholds, such as the Simplified Acquisition and Certified Cost and Pricing thresholds, to ensure that the cost and delay of imposing the requirements on relatively lower dollar thresholds do not outweigh the potential savings these requirements could generate.

(4) DoD needs to modernize its IT systems and improve its use of data.

Deputy Secretary of Defense Hicks called data “a strategic asset” that “is essential to preserving military advantage.”¹⁰ Data analytics can improve all aspects of procurement, from estimating costs and fostering more competition, to writing contracts and implementing predictive maintenance. The data managed by DoD's IT systems too often are insecure, unreliable, and incomplete. Many IT systems are unable to transfer data or communicate with other systems, preventing data sharing within the organizations. DoD's IT and business systems are hampering its ability to leverage data and need to be modernized.

- First, DoD is using too many outdated systems. A recent IG report found that DoD plans to spend more than \$725 million in the next four years on systems that the Comptroller's office stated “can and should” be retired.¹¹ And that is only for financial systems.
- Second, DoD faces cultural and bureaucratic challenges in adopting modern IT systems, as exhibited in the stalled effort to replace the Defense Travel System with a modern and proven commercial IT solution. Successful IT modernization requires a culture change in the Department.

Until these twin challenges are solved, DoD will not have the secure, reliable, and complete data sets that are a prerequisite for realizing the promise of AI: AI is only as good as the data it is fed. DoD is working hard to improve its data architecture. Earlier this year, the Defense Logistics Agency awarded a contract to adopt commercial supply chain and business network capabilities to help identify contractors and drive efficiency. Such efforts can dramatically improve acquisition. DLA's effort is a positive step, but more—substantially more—needs to be done.

(5) Operations and maintenance matter.

⁹ Office of the National Cyber Director. “2023 Cybersecurity Regulatory Harmonization Request for Information,” June, 2024.

¹⁰ Office of the Deputy Secretary of Defense, “Memorandum on [Creating Data Advantage](#),” May 5, 2021.

¹¹ Department of Defense, Office of Inspector General, [Audit of the DoD's Plans to Address Longstanding Issues with Outdated Financial Management Systems](#), Jan. 19, 2024.

Sometimes, our focus on the procurement of a weapon system, and on driving down early procurement costs, has negative long-term effects. Seventy percent of the life-cycle cost of weapon systems is operations and maintenance, yet we are not investing in them sufficiently. This trend is significantly hurting readiness.¹² Investing more in the system acquisition phase to improve maintainability, and in the operations and support phase through initiatives such as predictive maintenance, will result in long-term cost savings and increased readiness. It is cheaper to maintain weapon systems that we already have than to buy more systems to make up for readiness gaps that arise from inadequate maintenance.

(6) We can be smarter in helping small businesses.

The federal government's small business strategy dates back to 1953, when President Dwight D. Eisenhower signed the Small Business Act, which established the Small Business Administration. Both Congress and President Eisenhower recognized the need to give small businesses a fair opportunity to compete for government contracts. As a former General, Eisenhower also had personal experience that reinforced the importance of small businesses to national security. DoD has significantly benefited from its small business efforts. However, even though DoD consistently meets its small business targets, the number of small businesses working with DoD is declining. The targets and set-asides are often an end in themselves rather than a catalyst for expanding small business participation or identifying critical capabilities.

DoD and Congress can take other approaches to expand small business participation. For example, small businesses generally do not have the resources to build or maintain Secure Compartment Information Facilities, creating a barrier to entry. Allowing businesses to access underutilized SCIF space—or establishing new SCIFs in excess GSA facilities—could help small and other businesses, increase competition, and provide new capabilities to the Department.

Until the federal government—including Congress—looks inward and matches policies to best leverage free markets, DoD will often get what it pays for: goods and services that are more focused on meeting compliance requirements and driving to the lowest cost than they are on innovation, capability, and speed. Those results will not position the United States military to deter, defend against, or dominate adversaries.

Thank you for the opportunity to share these thoughts. I look forward to your questions.

¹² Defense One, [Fewer Than 1/3 of Navy's Amphibious Ships Are Ready to Deploy](#), March, 2023; Government Accountability Office, [MILITARY READINESS: Improvement in Some Areas, but Sustainment and Other Challenges Persist](#), May, 2, 2023.