

The Slow Destruction of the Defense Industrial Base

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What is the State of the National Security Innovation & Industrial Base – and Why?

The Shrinking Defense Industrial Base

From FY2011 to FY2020

- The number of small businesses receiving DoD contract awards decreased by 43% (dropping from 42,723 to 24,296)
- Obligations to small businesses increased by approximately 15% (GAO, 2021)
- The number of larger businesses receiving contract awards fell by 7.3 percent per year on average (GAO, 2021)

The Growing Commercial Industrial Base

From FY2011 to FY2020

- U.S. GDP grew by 34% from 2011 (\$15.6 T) to 2020 (\$20.9 T)
- The total number of businesses in the U.S. economy also grew, increasing 7% from 2010 to 2019 (U.S. Census Bureau, 2021)

Even increased defense and government spending is not a sufficient enough incentive to persuade companies to work with the Department of Defense

Members of the NSIB are hamstrung by government policies that prevent true innovation and adaptation—they are at a severe disadvantage when competing with industry for high-skill talent critical to innovation, dedicating resources to R&D, and staying ahead of the technology and innovation curve

Key Findings

Primary factors companies avoid doing business with DoD:

- Intellectual Property (IP) rights
- Cash flow and risk return alignment
- Bureaucracy that slow acquisition timelines and transitions to scaling up contracts
- Policies that inhibit good business decision-making

Recommendations

Recommendations to Reverse Current Trends in the NSIB

- Cut bureaucracy and regulatory burden
- Operate with urgency
- Protect Intellectual Property rights
- The NISB workforce: Support it, don't alienate it
- Let NSIB companies act like commercial companies and innovate

Evaluate the Regulatory Environment

Companies operating in the private sector who wish to work for DoD as a traditional contractor, must:

- Prepare for cybersecurity standards on Cybersecurity Maturity Model Certification (CMMC)
- Abide by Section 889 requirements
- Adhere to Buy American requirements that can disrupt supply chains and hurt cost competitiveness in the commercial market;
- Install Cost Accounting Systems; and
- Build a compliance capability for government-unique requirements and audits

Develop a core competency of compliance