What Productivity EO May Mean For Defense Industrial Base

By **Amy Fuentes, Christian Nagel and Mike Wakefield** (January 20, 2026)

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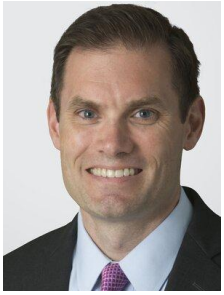

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On Jan. 7, the White House issued an executive order that aims to accelerate defense procurement and enhance the defense industrial base by shifting contractor priorities from investor returns to production and performance, including by limiting stock buybacks, dividends and executive compensation.

Executive Order No. 14372 establishes a new policy preventing major defense contractors determined to be underperforming from conducting stock buybacks or issuing dividends if such actions come at the expense of accelerated procurement and increased production capacity. This article breaks down the executive order and discusses its potential implications for industry.

Core Policy and Prohibitions

According to the executive order, some contractors have prioritized "newer, more lucrative contracts, stock buy-backs, and excessive dividends" while underperforming on existing contracts or investing in increased capacity and innovation.

In response, the executive order provides that the stated policy of the U.S. government is to revitalize the defense industrial base to "maintain peace through strength." To achieve this, the executive order establishes a new policy preventing major defense contractors from conducting stock buybacks or issuing dividends if doing so comes at the expense of accelerated procurement and increased production capacity.

The executive order states that, effective immediately, contractors who fail to remedy government-identified deficiencies are not permitted to pay dividends or buy back stock until they can deliver a "superior product, on time and on budget."

Contractor Review and Identification Process

The executive order establishes a formal review process, led by the secretary of the U.S. Department of Defense, to identify and address contractor performance issues.

Coverage, Timeline and Scope

Within 30 days of the executive order, and on an ongoing basis, the secretary is directed to identify defense contractors for critical weapons and supplies that are underperforming. In terms of which contractors are affected, the executive order mentions "large contractors" and "major defense contractors," but neither of those terms is defined.

Further, Section 3 of the executive order mentions contractors that provide "critical weapons, supplies, and equipment," which potentially limits coverage and may exclude contractors providing services, for example.

Moreover, the proposed remedies related to stock buybacks and dividends suggest that coverage may be limited to publicly traded companies, but the executive order is not entirely clear in this regard.

Criteria for Identification

A contractor may be identified if it is found to be:

- Underperforming on its contracts;
- Not investing its own capital into necessary production capacity;
- Not sufficiently prioritizing U.S. government contracts; or
- Demonstrating insufficient production speed as determined by the secretary.

Importantly, a critical criterion for this identification is that the contractor must have also engaged in stock buybacks or other corporate distributions during this period of underperformance.

Notification and Remediation

Once identified, the executive order provides that the contractor will receive a notice describing the deficiencies. The contractor will then have 15 days to submit a board-approved remediation plan for the secretary's review. Contractors that have already been reviewed by the secretary for these issues may not require an additional review.

Enforcement and Announced Future Contractual Mandates

The executive order grants the secretary several enforcement powers in the event that a contractor's submitted remediation plan is deemed insufficient. When deciding whether to initiate these actions, the secretary is directed to take into account the contractor's financial condition, economic viability of the programs in question and potential mutual benefits from sustained government growth opportunities paired with contractor capital investments.

Direct Statutory and Regulatory Enforcement

The executive order announces that the secretary may use enforcement actions available under the Defense Production Act, as well as contract enforcement mechanisms found within the Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS). The executive order does not reference specific FAR or DFARS clauses and instead refers to these regulations generally. Industry should anticipate forthcoming DFARS and FAR deviations to implement.

Voluntary Agreements

The executive order notes that the secretary can also secure remedies through a voluntary agreement with the contractor.

Withholding Advocacy

The order also directs the secretary to consider, in consultation with the secretaries of the U.S. Department of State and the U.S. Department of Commerce, ceasing ongoing advocacy or denying new advocacy related to an underperforming contractor's efforts to secure international foreign military or direct commercial Sales.

The executive order further directs the chair of the U.S. Securities and Exchange Commission to consider adopting amended regulations that would prohibit an underperforming defense contractor from using the safe harbor provisions of Rule 10b-18 for a stock buyback.

Mandatory Clauses in Future Contracts

The order gives the secretary 60 days to take steps to include new provisions in all future defense contracts, including renewals. The executive order provides that these clauses will:

- Prohibit any stock buybacks and corporate distributions during a period of underperformance, noncompliance or insufficient investment, as determined by the secretary;
- Link executive incentive compensation to performance metrics such as on-time delivery and increased production, rather than short-term financial metrics driven by stock buybacks; and
- Allow the secretary to cap underperforming contractors' executive base salaries at current levels, adjusted for inflation, for a period sufficient to ensure incentive pay is properly aligned with performance metrics.

Key Takeaways for the Defense Industry

The executive order signals a potentially significant shift in the government's expectations for the defense industrial base, away from rewarding short-term financial metrics and toward mandating production, performance and internal investment.

Contractors should prepare for a new era of heightened scrutiny and government influence over corporate decision-making. Below are a few critical takeaways for the industry.

Performance Metrics Supersede Shareholder Returns

The core policy of the executive order is to stop contractors from prioritizing stock buybacks and dividends at the expense of production capacity and on-time delivery. The administration's stated view is that though contractors are entitled to profit, that right is secondary to the responsibility of equipping the military. Contractors must consider reevaluating their capital allocation strategies to align with these new priorities.

Capital Distributions as Contingent on Performance

The executive order creates a direct link between performance and a company's ability to conduct stock buybacks or issue dividends. An underperformance designation by the secretary could trigger the immediate prohibition of these activities until the contractor can prove it is delivering a superior product, on time and on budget.

New and Subjective Review Process

The secretary is tasked with identifying underperforming major contractors on an ongoing basis. It remains unclear which defense contractors will qualify as "major" or how such a determination will be reached.

Further, the metrics to be used for this designation are undefined and subjective — including "insufficient production speed" and "not sufficiently prioritizing United States government contracts," as determined by the secretary.

Once identified, contractors have only 15 days to submit a board-approved remediation plan, creating a very short window to respond to government concerns.

New Restrictive Contract Clauses

Within 60 days, the secretary must begin incorporating new mandatory clauses into all future defense contracts and renewals.

The clauses will formalize the prohibition on stock buybacks and dividends during periods of underperformance.

In addition, the new clauses will mandate that executive incentive pay be tied to operational performance metrics such as on-time delivery and increased production, rather than financial metrics driven by buybacks.

Although it was not specified in the text of the executive order, on Jan. 7, President Donald Trump posted on social media that "no Executive should be allowed to make in excess of $5 Million Dollars," unless their companies invest in additional production capacity

The new clauses will also grant the secretary the authority to cap executive base salaries for underperforming contractors

Consequences Extend Beyond Contract Performance

The penalties for an underperformance designation are not limited to contract enforcement, as the order give the secretary authority to recommend ceasing advocacy for a contractor's foreign military sales or direct commercial sales.

Furthermore, the executive order directs the SEC to consider rule changes that would prevent underperforming contractors from using the Rule 10b-18 safe harbor for stock buybacks.

In addition, the Defense Production Act could be used to further increase pressure on defense contractors, including prioritization of certain DOD contracts related to commercial and non-DOD contracts.

Proactive Self-Assessment

Given the subjective nature of the review criteria and the short timeline for remediation, contractors should not wait to be identified. It is critical that companies proactively assess their contract performance, production capacity, internal investment plans and executive compensation structures to ensure they align with the executive order's directives, and that they prepare for potential scrutiny.

Impact on the Supply Chain and Lower-Tier Subcontractors

Contracts for "critical weapons, supplies, and equipment," which are the focus of the executive order, often involve substantial and complex supply chain issues, as well as multilayered subcontracting arrangements.

Contractors, subcontractors, suppliers and vendors should expect the production pressures to flow down through the supply chain and subcontracting tiers, with prime contractors and higher-tier subcontractors potentially making greater demands and increasing their enforcement of agreement terms.

This will likely lead to stricter deal terms in sub-agreements and the heightened enforcement of deal terms in those agreements.

Conclusion

This executive order represents a significant shift in the relationship between the government and defense industrial base. It moves beyond traditional performance oversight into direct intervention in corporate governance, capital allocation and executive compensation.

The speed, subjectivity and severity of the new regime require immediate attention from every defense contractor. As the landscape of compliance and government expectations is being reshaped, navigating these changes will be critical.

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