

DOCTORATE COUNCIL
ZRÍNYI MIKLÓS NATIONAL DEFENCE UNIVERSITY

LÁSZLÓ VARGA

**An analysis and evaluation of MoD acquisition in Hungary:
Opportunities of modernisation**

PhD Thesis Resume

2006

**Zrínyi Miklós National Defence University
Bolyai János Military Technical Faculty
Military Technical Doctorate School**

LÁSZLÓ VARGA

**An analysis and evaluation of MoD acquisition in Hungary:
Opportunities of modernisation**

PhD Thesis Resume

Consultant:

Prof. Dr. Károly Turcsányi, CSc

2006

I. IMPLICATIONS OF THE RESEARCH TASK

In the 1990s political and economic changes took place both in Hungary and in Central Eastern Europe, which dramatically changed the political and economic environment and conditions of the operation of the Hungarian Defence Forces. The new situation had a deep effect on the defence budget of MoD of Hungary including defence acquisition.

In fact, Hungarian MoD acquisition policies and practices, too, were fundamentally changed in the new political and economic environment in which Hungary's NATO and WEAG (Western European Armament Group) memberships represent a landmark.

The Hungarian military equipment and arsenal – their manufacture and acquisition sources – were once produced as determined by Warsaw Pact policies. As opposed to those times, Hungary today has to make decisions as to demands that go beyond the actual possibilities – Hungary has to decide in what order, to what extent and from which sources to fulfil these demands. All this decision-making is now to be accomplished by a NATO member Hungary with a market economy, yet lacking in capital. This in an environment with multiple unknown factors which offers a considerably more complicated situation in terms of internal and foreign policy than the one in the Warsaw Pact era did.

The fact that Hungary is a member of EU, NATO and WEAG requires that the defence acquisition regulations set by the above organisations are adopted, applied or taken into consideration by Hungary.

For Hungary as a NATO member, new modernisation and acquisition procedures have emerged, such as the NATO Security Investment Programme (NSIP), which demand brand new acquisition procedures to be accomplished.

It is of high priority today that the supply demands of the NATO-related military organisations or organisational elements are fulfilled. Indeed, this has greatly influenced the obtainment of the new acquisition sources.

As to Hungary, there have been significant changes not only in the foreign policy and the foreign trade environment but also in the internal political situation and the national economy. Defence budget including defence acquisition has deeply been influenced by the change in the political decision-making system in terms of Hungary's security as well as by the fact that a new government takes power every four years. In Hungary these changes have had an effect on several factors: the home defence tasks of the national economy; the situation of the military industry; the principles of making military stocks; the organisations of MoD and the Defence Forces, and their sizes; and the structure of the demands of home defence.

In point of fact, the changes already touched here that have occurred over the last 15 years are of crucial importance each; however, their effects have not yet been scientifically studied. The scientific study of all the effects of these changes – the resultant conclusions and the suggestions for enhancing the regulations and organisation of acquisition – could greatly assist rationalisation of acquisition and exploration of potential sources to economise. This could lead to an easier decision-making on the highest levels. The changes in structure as well as the changes in military economy including acquisition processes that have already taken place require scientific studies. With the changes in the international environment and in the national economy and home defence of Hungary still in progress, the problem does need to be given a deep scrutiny, undoubtedly. A complex tool for the decision-makers to effectively prevent operational flaws and failures that occur in an acquisition system forced to change may be gained through a scientific analysis of the subject matter. As a result of this analysis, by the establishment of a theoretical background, crucial conclusions for MoD of Hungary and the Hungarian Defence Forces could be drawn to assist the prevention. Without this, the flaws in operation could only be eliminated at the cost of significant extra expenditure and extra personnel.

Considering the above, I set the following scientific goals:

1. To explore the circumstances that influenced defence acquisition (and its system) after the political, economic and social regime change in Hungary in 1990.
2. To study and evaluate what influence Hungary's accession to international organisations had on MoD acquisition actions.
3. To explore the possibilities of modernisation in MoD acquisition.
4. Through the above to give to the decision-makers a complex tool that can prevent or reduce flaws in the operation of an acquisition system that is forced to change.
5. To rationalise defence acquisition and to explore potential economisation possibilities in order to assist the work of the those preparing decision-making and that of decision-makers.
6. To study the possibilities of domestic utilisation of foreign defence acquisition experience.

I applied the following scientific approaches and methods in achieving the goals set in my PhD thesis:

1. Assumption of defence acquisition to be an open and dynamic system as an integral part of its environment. Application of general, partial and specific research methods.
2. Search, study, analysis, and evaluation with conclusion of the documents, measures, reports and figures related to defence acquisition that took place prior to the regime change in Hungary in 1990 while applying methods of historic research, analysis, induction and deduction (See literature).
3. Search and study of the related MoD and Defence Forces regulations and directions as well as the publications, both those domestically issued and the several internationally issued ones (See literature).
4. Making consultations with experts in defence acquisition; comparing interviews with my own experience, applying methods of interviewing and comparison.
5. Making a summary of conclusions and making suggestions for betterment while applying the methods of synthesis, comparison, abstraction, generalisation and induction.

II. A BRIEF DESCRIPTION OF THE ACCOMPLISHED RESEARCH AND ITS CONCLUSIONS

A whole thesis chapter is dedicated to the study and analysis of some decisive aspects: the classification and the planning of defence acquisition. Also, in the same chapter it is covered what influence the aftermath of the regime change in Hungary in 1990 had on defence acquisition, in terms of changes in economy and in politics, domestic and international. Furthermore, this chapter explicates the factors determining today's defence acquisition; the international experience and the possibilities of application; and the possibilities of modernisation of defence acquisition.

It is to be noted, however, that the subject matter is such a comprehensive one that my effort had to be limited. In fact, within the framework of a PhD thesis it is impossible to cover the whole subject matter in its entirety. What could therefore not be discussed was the system analysis of defence acquisition and the presentation of all the spectrum of defence acquisition.

My thesis has a classic structure with chapters as follows: the thesis statement; the research goals; the research approaches and methods; defence acquisition as a research issue; scientific results; suggestions for the utilisations of the results in this thesis.

The treatise of the research issue is composed of four parts. Chapter 1 contains the research and analysis of the classification and the planning of some decisive aspects of defence acquisition. This chapter serves to be fundamental for the following ones in that, providing a theoretical basis, it determines the directions of further research.

Chapter 2 of my thesis mostly deals with the analysis of the influence of the changes in domestic and international politics and in national economy: on the defence forces and defence acquisition. Chapter 2 studies the factors determining today's defence acquisition as well.

In Chapter 3 I study the direct influence of the aftermath of the regime change in Hungary in 1990 on MoD defence acquisition. In this chapter I also study the budget opportunities, the regulations effective in defence acquisition, and I summarise the present situation.

In Chapter 4 of my thesis I study the possible domestic applications of international experience after examining EU acquisition actions and the defence acquisition policy as well as defence acquisition procedures of NATO. Furthermore, I come to conclusions for future use, by making case studies of an American, a German and a British defence acquisition action.

I present an analysis of defence acquisition as an independent field, while utilising the American and British examples I produce an interpretation, too, of their relations with human resources. Finally, I draw conclusions to summarise the preceding parts, and I make suggestions for the modernisation of defence acquisition.

III. A SUMMARY OF THE SCIENTIFIC FINDINGS; SUGGESTIONS

According to my goals set in my thesis I accomplished the following :

1. I studied and analysed the implementation of defence acquisition actions (developments) of great magnitude and of crucial importance. I found that they had suffered serious setbacks due to lack of funds during subsequent fiscal years. I concluded that the budget resources needed for Defence Forces development may only be ensured by a programmed budgeting that enables long-term planning.

2. I studied and analysed the possible consequences of restructuring and revamps in that are employed in an army too frequently and without planning. I pointed out that if the operation of any system - this time, that of a military system to be formed - is interrupted, then what follows as a result is chaos. The chaotic effect can further be enlarged by ad hoc and inconsiderate as well as improperly funded and partially accomplished replacement of Defence Forces weaponry and military equipment. Indeed, the Hungarian Defence Forces are the epitome of this chaos. I concluded that the establishment of a system operation that is consistent and stable is ensured – beyond the time factor – by the quality that it can be planned. The more complex a system is – with complexity being no overstatement in terms of a modern army – its components are the more intimately related to one another.

The removal or modification of any element does influence the operation of the rest.

3. I analysed the influence of restructuring and revamps on defence acquisition. I concluded that the principle of national security planning had been disregarded; according to this principle, the sequence that should have been produced is as follows: 1. creation of national security strategy 2. creation of national military strategy 3. creation of national military doctrine. When these accomplished, the tasks of armed forces including the defence forces are to be determined accordingly. I concluded that by no means the generally known planning procedure could be disregarded according to which the organisation, the capabilities and the equipment of the defence forces are to be determined by considering the security

policy requirements, the military capabilities demanded and the national economic strength, etc. It is to be noted that the transitional period for the implementation of defence forces reforms ought to take 10 to 15 years. In point of fact, the provision of this time period is what the success of the defence forces reform now in progress depend upon.

4. I studied and analysed defence acquisition in the USA and in the UK. I determined that crucial changes in defence logistics had been implemented as a result of SDR (Strategic Defence Review) in the UK, assigning significant roles to the new defence acquisition organisations Defence Logistics Organisation (DLO) and Defence Procurement Agency (DPA). In the wake of this restructuring, Integrated Project Teams (IPT) operate within Smart Acquisition. IPTs control the defence equipment acquisition and development programs due to which extra expenditure and delays are significantly reduced. I therefore concluded that – when it is a matter of acquisition of defence equipment of great magnitude – the success and the standards of defence acquisition implementation is largely dependent on the introduction of an acquisition system relying on Project Management and Project Teams. This, however, would require stable conditions for operation as well. The British experience could possibly successfully adopted while ensuring certain conditions required.

5. I studied and analysed the acquisition systems in developed Western states so as to compare them with my personal experience. I determined that in these countries human resources management is considered to be of great importance while defence acquisition is regarded as an independent profession as well as a specialist field. In addition, I pointed out that training or advanced training in acquisition is nonexistent in Hungary: no human resources management does this duty despite the fact that preparing and training acquisition personnel is a task that demands plenty of time and funds. I concluded that it is impossible to operate a modern defence acquisition system without the support on the part of human resources management.

Scientific results

1. Exploring the main characteristics of defence acquisition before the regime change in Hungary and those of today's defence acquisition, I outlined the system procedures in both eras. I explored and outlined the factors that have over the last 15 years influenced and formed the system, the orientation and the objects of defence acquisition.

2. I determined what influence Hungary's accession to international organisation had on MoD acquisition.

3. I analysed the policy and the procedures of NATO defence acquisition as well as elements of defence acquisition in the USA, the UK and Germany. I indicated that their experience (e.g. introduction of project acquisition and project management) could possibly successfully employed within the Hungary Defence Forces as long as the required system of conditions are ensured. I indicated, too, that preparing the defence acquisition personnel demands plenty of time and funds. Therefore it is rational for the Hungarians to adopt and utilise experience from the above-mentioned countries. According to this, defence acquisition is to be considered an independent specialist field to be supported by human resources management.

4. To MoD of Hungary I suggested new, modern procedures for application. The most significant ones of them are as follows: defence acquisition as service acquisition needs to be changed so that it is part of ordering long-term development; the consistent implementation of this; Horizontal Technological Integration that integrates joint technology into complex systems; Transport Logistic Support and the en-bloc-warranty (“overall-guarantee”); provision of modular, replaceable, joint and open structures.

Suggestions

1. Suggestions for enhancing the planning procedure

In order to resolve practical problems and to eliminate the flaws in planning, I suggest that a preliminary information summary is made during defence acquisition planning. This summary is to be based on a programmed budgeting that follows the pattern in the Western states and, also, is to be based on Acquisition Act.

1.1 Making an MoD acquisition yearly plan and a preliminary information summary

In the latest release of MoD directives on MoD acquisition procedures it is required that an MoD Acquisition Yearly Plan and a Preliminary Yearly Acquisition Plan are made. The procedures for the Acquisition Yearly Plan and the Preliminary Yearly Acquisition Plan are designed to abate the tension that is caused by the unbearably protracted MoD acquisition time period.

The advantages of the acquisition plan can only be achieved only if the MoD acquisition actions are accomplished per schedule. Presently, the situation is not like this: the former system of preliminary approval is still in use which procedure completion requires a definitely longer period of time. I suggest that MoD should change the poignant practise that because of “the special situation the MoD is in” it is only the 40-60% of defence acquisition can be planned prior to a specific fiscal year. This is so since the bureaucratic approval procedures have only partly been eliminated by the latest MoD directive; several of them are still in effect in terms of the acquisition actions. This means that the modification of any of the plans in the Acquisition Plans, or any defence acquisition procedure that is not based on demands included in the plans, are still to be approved. It is required then to apply for these in the form “Application for Acquisition Approval”.

1.2 Introduction of the programmed budgeting

The possibilities of the programmed budgeting at present in Hungary are not the same as those of the programmed budgeting procedures applied in several Western states. This is so because the programmed budgeting in Hungary is lacking in the most essential elements of the Western procedures – that the programme resources are guaranteed by a comprehensive budget plan covering several fiscal years and that the savings can automatically transferred for use to further fiscal years. The deficit of the programmed budget in Hungary makes it impossible to implement the mid-term or long-term plans or to envisage systematic developments of great magnitude.

As for Hungarian Defence Forces development it is a must that the programme budget resources are guaranteed by the government’s comprehensive budget plan covering several fiscal years. I suggest that MoD of Hungary initiates the introduction of fully programmed budgeting.

2 Suggestions for regulations

I suggest that the decision-making levels are to be set in accordance with the information-handling levels. Therefore, I suggest that the post of starting an acquisition procedure and the post of choosing the winner of a tender ought to be returned to the commander of the competent organisation which is actually assigned to use the budget itself. In point of fact it is he who is responsible for the appropriate use of the budget and he is in the possession of all the information necessary for the decision-making.

3. Suggestions for the utilisation of international experience

In recent years defence acquisition regulations have increased both domestically and internationally and have become very complex. As a result, defence acquisition procedures too have become so complex that a relatively simple defence acquisition action can only be accomplished by competent personnel with special training and sufficient experience. I suggest that it is regarded more of a priority in the future that competent defence acquisition personnel are established by means of training and other essential management actions.

3.1 Establishment of defence acquisition personnel

Defence acquisition has already become an independent specialist field both in Hungary and internationally. Preparing and training the defence acquisition personnel is a task that demands plenty of time and funds. Therefore human resources management handling the establishment of the defence acquisition personnel is of huge importance.

MoD of Hungary has no human resources section that would serve to handle defence acquisition matters. I suggest that as based on the British example the defence acquisition personnel are established, registered, and their careers managed. I suggest that it is to be re-considered that MoD Acquisition Department is disbanded, and, finally, re-established.

3.2 Establishment of defence acquisition training

The examples mentioned in my thesis and the negative domestic experiences warn us that defence acquisition personnel and their training are to be established. For military officers with a specialist field of logistics and economy, attainment of basic knowledge in defence acquisition is a must.

For this purpose I suggest that a defence acquisition subject in 60 hours is to be established to train the students of Military Logistics Department and Economy Department of Zrínyi Miklós National Defence University of Hungary.

For military officers and civil servants on posts in acquisition I suggest non-MoD training – acquisition rapporteur training at training organisations and training institutes. Out of them, I find, the highest educational level is achieved by the training that is jointly run by Hungarian Acquisition Society, and Financial and Accountancy School of College of Economics of Budapest.

For the military officers who are not part of MoD Acquisition and Security Investment Office I suggest that advanced training courses are organised. On these courses, new developments and experience of the latest period – domestic and international as well as MoD-wise – are to be dealt with in two to three days every year. The courses are to be held by MoD Acquisition and Security Investment Office under the auspices of MoD Human Resources Directorate.

The utilisation of the thesis research results

The research results in my thesis provide

1. a complex tool for the decision-makers, in the preparatory work of short-term, medium-term and long-term decisions, to prevent operational flaws in an acquisition system that is forced to change continuously.

2. rationalisation of defence acquisition action, and exploration of potential economisation; through these, assistance of the work of the highest level of decision-makers.

3. a basis for a future material that could be used in training at MoD training institutes (e.g. in the subject of acquisition) or on courses and advanced courses held for defence acquisition personnel

of MoD and Defence Forces.

IV. LIST OF MY PUBLICATIONS ON THE THESIS SUBJECT MATTER

In: “Nemzetvédelmi Egyetemi Doktorandorum” (Periodical “National Defence Doctorateship” of Science and Research Coordination Centre of Zrínyi Miklós National Defence University) (ISSN 1588-2233)

1. NATO acquisition policy and NATO acquisition procedure, 2002/3 pp 58-84 (in Hungarian);
2. Acquisition regulations in EU, 2002/3, pp 84-113 (in Hungarian);
3. MoD Acquisitions 2002/4, Volume 2, pp 315-328 (in Hungarian);

**In: ”Új Honvédségi Szemle” (Periodical ”New Home Defence Review”)
(ISSN 1216-7436)**

4. Modern economic means of management and their application in Bundeswehr, 1998/5, pp 120-126 (in Hungarian);
5. Expenditure and Action Responsibility 1998/6, pp 105-113 (in Hungarian);
6. Controlling as management philosophy, 1998/11, pp 145-157 (in Hungarian);
7. Fundamentals of modern management procedures: Expenditure limitation and rationalisation, and Market Testing application in Bundeswehr, 1999/8, pp 131-139 (in Hungarian);
8. The continuous enhancement programme in Bundeswehr, 2000/1, pp123-135 (in Hungarian);
9. Acquisition in the European Union (1-3) 2003/8, pp 50-61, Volume 9, pp 40-52, Volume 10, pp 56-67; Budapest, 2003 (in Hungarian).

Others

10. Expenditure and action calculation in Bundeswehrben [In: Budget, Finances, Accountancy (MoD Financial and Accountancy Service professional issue) MoD Central Financial and Accountancy Office, Issue 1, 2nd Year November 2001, Budapest; pp 3-16] (in Hungarian);
11. Acquisition and logistics of the future army [In: Bolyai Szemle (Issue of Bolyai János military Technical College School of Zrínyi Miklós National Defence University) ISSN: 1416-1443 Special Issue of Haditechnika (Military Technology) 2002 – Symposium II. September 16-17, 2002, Budapest; pp 219-233] (in Hungarian);

University Textbooks

12. Col. Károly Turcsányi, PhD (co-author): British defence acquisition reform (Acquisition Logistics 1) (Zrínyi Miklós National Defence University Publishing, Budapest, 2003); (in Hungarian);
13. Col. Károly Turcsányi, PhD (co-author): American defence acquisition reform (Acquisition Logistics 2) (Zrínyi Miklós National Defence University Publishing, Budapest, 2003) (in Hungarian);

V. My professional career

Educational background

In 1968 I obtained my first degree majoring in Vehicles at MN Zalka Máté Military College of Budapest.

In 1976 I got a transport engineering diploma at University of Technology of Budapest.

I had my degree in engineering economy at Marx Károly University of Economics of Budapest in 1986.

Language Certificates:

Military German, intermediate, 1994

Military German, advanced, 1996

Military English, intermediate, 2000

Special Training:

In 2000 and 2003 I participated at EU Integration Preparatory Acquisition Courses for leaders and employees of central administration agencies organised by Hungarian Administration Institute under the auspices of Prime Minister's Office of Hungary.

2005-2006: Acquisition Rapporteur Training Course at College of Economics of Hungary.

Professional experience

1998-2003: Deputy Head and Head of Acquisition Department of MoD of Hungary. In my capacity there I gained huge experience in the field of the application of Acquisition Act and overseeing if the actions are in conformity with it. In my last position, too, I could gain an insight in the international practise of my field. Among others I represented Hungary in panels of Western European Armament Group .

My current position is Head of Acquisition and Coordination Office of MoD Electronic, Logistic and Property Management Corporation.

My main task is

- to operate and develop the acquisition system of the Corporation;
- to formulate and submit suggestions for development, and integrate them into the system;
- determining the professional demands of the acquisition communications system;
- professional direction of the work of personnel in charge of acquisition of acquisition directorates;
- monitoring acquisition procedures and tenders; providing and processing information;
- making reports of acquisition actions for Corporation Management.

My lecturer career

I have been working at Zrínyi Miklós National Defence University as an invited University Lecturer of the subject matter “Acquisition 3” since 2001.

László Varga
18 January, 2006, Budapest