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Doctorate Council

Doctoral (PhD) thesis “Analysis of the Challenges Faced by the Management of Enforcement Bodies and the Elaboration of the Proposals concerning Management Modernization”

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Review of the doctoral (PhD) thesis by the author

-Budapest, 2009 -

I. DEFINITION OF THE SCIENTIFIC ISSUE

In the past years the management of the enforcement bodies has been marked with underfinancing at the beginning of each fiscal year. The disagreement of the existing set of objectives, traditional organizational structure, the traditional decentralized management and the available financial resources has been more and more considerable from year to year. The formation of the currently used budget planning with base approach, which – in contrast to the theoretic methodology - is almost completely based on the top-down division of the quotas ensuing from the figures of macroeconomic balance, has been influenced to a great extent by the liability to decrease the budget deficit in per cent of GDP consequent upon the convergence programme.

On further investigation I studied how it may occur that - despite the numerous measures - the managers of the enforcement bodies face the deficit of the same extent and composition at the beginning of each fiscal year. That is why they start every year, as a routine, with actions aiming to handle financial deficiency and to find resources so that they could close the particular fiscal year without debts. Consequently, the organs supervising the enforcement bodies and the government have been implementing adjusting policies accepting the underfinancing as existing circumstances so that the financial liquidity could be ensured. They have made decisions on the withholding of one-off revenue surpluses and on granting additional general government subsidies in the course of the year to liquidate the predictable and continuously emerging debt stock. This phenomenon, referred to as soft budget constraint syndrome (SBC syndrome) by János Kornai, professor of economics, may be traced back to the information asymmetry between the subsidizing and the constraining budgetary organizations. The SBC syndrome effect appears more explicitly with the enforcement bodies as the political intention to maintain the administration stability of enforcement bodies may affect the decision-making of the subsidizing organization to a greater extent.

I also studied the reasons for the softening of the budgetary constraint of the enforcement bodies may be attributed to, and the measures which may be taken to find a way out of this situation. In my view the responsibility of the managers of the enforcement bodies is much less considerable than it may be expected at the first glance. The intervention of political

forces (often ad hoc) with reference to meeting the EU requirements repeatedly hinders the formation and maintenance of completely clear management situation.

I have analyzed the composition of budgetary expenditures of enforcement bodies, and I used a method of my own for grouping them. The groups of expenditures and the factors affecting them greatly influence the financing needs of the enforcement bodies. In the light of this I have undertaken to elaborate modernizing proposals aiming to improve efficiency and to decrease expenditures. In many fields there have already been scientific results published such as outsourcing analyses, the inclusion of entrepreneurial activity and the issues of logistics approach and budget planning. However, no analyses concerning the impact of the increased IT expenditures on the budget have been published so far. In this aspect the impenetrable expenditure elements, which are also significant on the long run, may influence the management of the enforcement bodies, for which I have elaborated comprehensive re-organizational proposals.

I consider my general statements and conclusions, based on the experience I have gained in all my positions held so far, relevant for the Police (the organization formed by the integration of the Police and the Border Guards on January 1, 2008), the Customs and Finance Guard, disaster management and penal institutions since the management of these organizations shows essential similarities. Due to the extent limits of this thesis I will deal with two organizations from the enforcement bodies in detail, namely with the integrated Police and the Customs and Finance Guard. During my recent research I have relied on the management rules and consultations with the managers of enforcement bodies. The conclusions I came to by analyzing these two organizations may also be applicable and comprehensive for other organizations as well.

Similarly to many other papers and studies published in this subject, the approach of enforcement bodies basically has an **economic aspect** for me as well. I have also compared the organizational and accomplishment requirements with opportunities from this aspect, whilst other structures and objectives have only been presented in the depth relevant to this thesis. I carried out my research till December 31, 2008.

II. SUMMARY OF RESEARCH OBJECTIVES AND METHODS

The research objectives I have set for my thesis are as follows:

1. I will **explore** the current management environment and the characteristic features of enforcement bodies, especially those of the Police and the Customs and Finance Guard, and I will also **trace** the tension points implied in their management.
2. Secondly, I'd like to **investigate, elaborate** and **systematize** the possible responses to the challenges which have already appeared and which are likely to appear in the management of enforcement bodies.
3. Thirdly, I intend to **verify** that the introduction of the IT supported management system integrated at government level may have a major influence on the efficient operation of enforcement bodies.
4. Fourthly, relying on my research findings and those of other researchers and focusing on the economic professional fields of enforcement bodies – with special regard to the Police and the Customs and Finance Guard - I will **explore, analyze** and **evaluate** the appearance and practical adaptability of centralization and organizational integration.

In the course of my research I have proposed the following hypotheses:

1. I assume that the currently used budget planning with base approach is contrary to the responsibilities of the managers of enforcement bodies in respect of the budgetary management duties stipulated by the laws on state budget. The difference between the appropriations available at the beginning of the fiscal year and the financial resources needed for the operation is bridged over by the government intervening in the management of institutions several times during the year. In my judgement this practice has resulted in the softening of the budget constraints.
2. Taking into account the increasingly limited budget, we may establish that the managers or decision-makers concerned often respond to this challenge by centralizing the organizational units and financial resources. The increase in efficiency and the decrease in expenditures – due to the principle of economies of scale and the decrease of administrative expenses – reachable by centralizing resources may be verified only to a certain extent; however, according to my assumption there is a stage where the expanding centralization will lead to the deterioration of efficiency.

3. The integrated management systems, which have been centrally introduced in enforcement bodies, may create the unity between budget planning, appropriation management and budgetary reporting needed for efficient management. The raising of centralized systems to the government level and the broadening of their full scale operation may be a response to the problem – traceable to SBC syndrome – related to the access of the controlling organizations and the financial administration to correct management information and it may promote further improvement in efficiency.
4. I assume that it is possible to create a general model for the performance of the IT tasks of enforcement bodies which will also provide cost-saving, efficient and safe operation even on the long run.

Presentation of research methods

I have used general and specific research methods so that I could succeed in the performance of my objectives. My chosen subject relates mainly to the secondary and applied research methods of military science. The methods I used in my research include observation, statistics analyses, library research, analysis, induction and adaptation.

- I have **studied** relevant theoretical resources, Hungarian and foreign scientific literature;
- I have **consulted** and **interviewed** the managers and employees in the economic fields of enforcement bodies and ministries responsible for their control;
- I have **examined** and **analyzed** the challenges appearing in management, the practical responses given to them, and I **have also drawn conclusions from them**;
- I have **carried out the critical analysis** of the planning methods used so far by enforcement bodies (focusing on the Police and the Customs and Finance Guard) and that the of centralization concept;
- I have searched the IT support of management systems and the lack of the integration between these systems by using the **analysis and synthesis** of empiric data based on observation;
- I have **accomplished the comparative analysis** of possible crisis management measures and the currently used patterns;
- I have **synthesized** the usable experience, and I have **drawn conclusions** from it.

III. STRUCTURE OF THE THESIS

In **chapter one** having presented the general features of budgetary management I have analyzed and evaluated the role of management in the operation of enforcement bodies. I have accomplished international outlook in concern with the features of the budget of enforcement bodies in the European Union member states, and I have shown the trends in the budgets of Hungarian enforcement bodies during the period between 2002 and 2008. I have illustrated the sequence of figures with graphs and diagrams, and drawn conclusions from the trends in the original appropriations (budget planning) and in the satisfaction of appropriations (execution of budget and reporting).

In **chapter two** I have carried out the scientific investigation on the appearance of the soft budget constraint in the enforcement bodies. I have investigated and sorted the challenges appearing in the management of enforcement bodies by summarizing the correlations between the soft budget constraint syndrome, the requirements to be fulfilled by enforcement bodies and the tendency in the budget situation described in chapter one. Besides studying the general challenges affecting the management of all enforcement bodies in Hungary I have also dealt with the special challenges concerning the integrated Police and the Customs and Finance Guard in detail.

In **chapter three** by using a scientific approach to the necessity of budgetary reforms I have studied the active role undertaken by enforcement bodies in the execution of reforms. During the recent period the legislation of reforming significance has created the possibility of the modernization of the state budget as a consequence of passing acts on legal status under the name of Status Law and of the amendment to the acts on the state budget. On further investigation I have analyzed the major obstacles emerging during the decision-making processes of reforms which I have associated with the issue of information asymmetry being in close connection with the phenomenon of soft budget constraint syndrome and with the lack of management controlling systems, which may cause the further strengthening of SBC syndrome.

In **chapter four** I have described the concept of the budget management system being implemented at the government level which provides an overall budgetary solution to the lack of the management system discussed in the previous chapter. This issue closely fits into the logic structure of my thesis. Being a leading participant of the elaboration and implementation of the system I have formed positive expectations in respect of the effects and potentials which the budgetary management system may have on government units, including

enforcement bodies, and in addition, I consider the management system a suitable solution to the elimination of the soft budget constraint and information asymmetry.

In **chapter five** I have presented the possible responses to the challenges indicated and analyzed in previous chapters, which I also recommend as means for the modernization of the management of enforcement bodies to the managers of governmental, controlling, supervisory and enforcement bodies. I have also made analyses of deep insight on some possibilities of modernization, and I have also elaborated new models and verified constraints of the application of some accepted methods.

In the **last chapter** I have summarized the research completed so far, drawn conclusions, drafted proposals for the further course of work. I have described my new scientific findings.

IV. SUMMARY OF THE SCIENTIFIC RESEARCH AND SCIENTIFIC FINDINGS OF THE THESIS

The Hungarian government planning practice formed during the budget planning with base approach methodology, which is based almost exclusively on the division and breakdown of quotas – ignores real needs. In my thesis I used figures to support the fact that the period since the millennium has been featured of underestimating budget planning; compared with the objectives the quotas are based on underestimation. No essential change has been carried out in the budget system of financial planning either, consequently the budgetary subsidies steadily lag behind the real needs of the organizations with unchanged structure and operation. Therefore enforcement bodies usually start each fiscal year with a predictable lack of resources of a volume which is impossible to manage with independent measures during the particular year. Financial deficiency of such volume will **significantly constrain the accountability of the management** in respect of budgetary management tasks stipulated in general government rules, and it will not give even a chance to handle the problems which could be solved in a creative manner in the sphere of own authority. The expectations related to obtaining additional interim subsidies will weaken the efficiency of the operation. For lack of time and resources needed for data processing the organizations making decisions in chapter competence on the subsidies do not have enough information to justify the requested resources or to judge their lawfulness. All these together affect against the basic principles of efficiency and economy. My research has proved that in such cases the management obligations may only be fulfilled after the presentation of the situation and the early rejection of responsibility by (possibly repeated) interim interventions of the Government through the competent ministry. The continuous injury of management discipline and the accumulation of

a predictable debt stock have an impact **against the enforcement of government intentions** and **have led to the softening of the budget constraint of institutions**. This is how I have verified that the phenomenon called **SBC syndrome**, referred to in several fields of scientific literature of economics, also exists in the operation of enforcement bodies.

According to my conclusions the following solutions could be efficient against the softening of institutional budget constraints of such extent:

- *assurance of well justified appropriations during the responsible budget planning,*
- *consistent observation of management responsibility of managers of enforcement bodies and,*
- *strengthening of steady chapter controlling and monitoring functions.*

I have investigated and systematized **the correlations of management challenges in enforcement bodies**, and here I have divided these factors influencing management into two groups.

1. General challenges:

- the lack of financial resources needed to accomplish the strategic objectives of enforcement bodies;
- financing problems resulting from the shift of the internal budget proportions;
- management of external impacts influencing the income conditions of staff;
- assuring the operating costs of projects financed from the Community resources;
- the fulfilment of obligations related to property management.

2. Specific challenges (in this instance the challenges in the Police and the Customs and Finance Guard):

- the operation of nationally controlled regional management organization within the integrated police organization;
- the elimination of technological deficiency evolved during the integration in the Police;
- management challenges appearing during the gradual extension of the scope of authority of the Customs and Finance Guard;
- the management of possibilities and dangers resulting from special management features of the Customs and Finance Guard regulated at legislation level.

According to a method tried and tested in practice, it is possible to realize **labour force savings** without the negligence of duties using info-communication devices, supported by better organized and modern IT applications and employing more highly qualified labour force in management, which is a possible alternative to the shift in proportions towards the basic tasks. However, the strict and bureaucratic set of rules concerning the use of budget resources means a major obstacle to decreasing the functional labour force (particularly in the field of economy). The use of tax revenues monitored with the distinctive attention of the society entails a larger administration, more documentation and stricter internal and external controlling than the average. The enforcement and implementation of the above mentioned basic principle requires keeping the number of employees in the field of economy beyond the optimal level; therefore, the steady presence of organization controlling institutions means **considerable and durable occupation of certain employees**, which is important to take into account when an economic organization is reorganized.

In my view it is a realistic expectation that **enforcement bodies should also participate in the transformation of the state organization**, however, this is **not possible to accomplish in direct relation** to decreasing the re-distributive role of the state. I have demonstrated that the scope for action of governmental actors is extremely little in the decrease of the enforcement expenditures, and I have illustrated this with a function based on the political assumption of risk and financial resources to be provided.

I have pointed out that the issues related to the decision support of reforms may also traced back mainly to the **information asymmetry** between actors. In this environment the information deficiency of the government may traced back to the lack of management control systems and that of decision supporting management information systems.

I have verified that the increase in efficiency attainable by introducing management supporting integrated systems at chapter level could be only an initial step of a process started in the right direction, however, the expected decrease of labour force may not be accomplished in the economic field. The reason for this is that the labour force saving is possible to achieve only with **central measures taken by the government to decrease economic administration**. Consequently, the introduction of **Budget Management System**, described in my thesis, may also produce the favourable effect on enforcement bodies. This

system provides manager information based on the widely shared and accessible information, and it also decreases administrative burdens.

In my judgement, the organizing principle of decentralization may be enforceable in many cases in professional fields; however, the implementation of **strict centralization in the fields of management and information technology** is justified. The two above mentioned principles may exist simultaneously in the institutional operation without any harm to efficiency.

The tightening financial resources inevitably lead to the partial or complete **centralization** of service providing systems of publicly financed institutions with a national network. This practically means the decrease in decision points (e.g. competence of undertaking obligations), concentration of resources to be distributed into centres, which entails integration measures at the organizational level. We may also expect the organization integration to greatly decrease administration burdens besides the centralization of resources since the merger of management-controlling units with functional fields will result in the decrease in costs and thus promote the creation of a more efficient form of operation in the medium term. I have found that the increase in efficiency resulting from centralization and integration measures are not in direct ratio, that is, the relationship of the two factors cannot be shown with steadily rising function.

I have elaborated a cost efficient modernization model for the accomplishment of **IT duties of enforcement bodies** (operation, development).

In the end I have shown **an operating organizational model for obtaining and using the Community (international) development resources**, which will assist the strengthening of the absorption capacity of the development resources available for the country as well as for the enforcement bodies.

I consider the following scientific findings new:

1. I have pointed out that due to the anomalies of budget planning formed financial deficiency of such volume will **constrain the accountability of the management** and make it impossible to handle the problems which could be solved within their own sphere of authority, and finally they **have led to the softening of the budget constraints of institutions.**
2. I have established that the advantages resulting from economies of scale will appear only to a certain extent when the tasks have increased in the economic field of organizations financed by state budget, i.e. there is a point where the increasing centralization harms efficiency due to the combined effects of several factors. This **point is the hypothetical reflection point of the function.**
3. I have shown in my research that increase in efficiency may be reached with integrated IT systems supporting management processes at institution or chapter level, however, the decrease of labour force is not possible carry out **without measures taken by the central government to decrease economic administration. The information asymmetry present at enforcement bodies which gives rise to the SBC syndrome may be resolved** with the application of a treasury integrated central system aiming to share and access uniform management information.
4. I have elaborated a model in relation to the **IT tasks of enforcement bodies (operation and development)** which gives advice on sharing centralized and decentralized IT operating tasks, on the creation and shared operation of a server park based on virtual technology at chapter level (beyond the enforcement bodies) and on the application of various outsourcing possibilities.

Proposals and recommendations concerning the utilization

1. I propose that strong controlling fields should be created in the ministries controlling enforcement bodies in order to ease the information asymmetry which appears when the interim budget subsidies of organizations with soft budget constraints are awarded.
2. Before the centralization concepts and measures are realized in the functional fields it should be taken into account that the steady presence of controlling organizations in the institutions will result in considerable and steady occupation of labour force.

3. I would suggest to the leader of the law enforcement bodies that he should supervise the technical protocols using economic and efficient measures which will show the expenditure for these technical decisions which can be inspected at any time. Therefore we can choose the appropriate technology and techniques as a deciding point of the said protocols.
4. I propose that decision-makers should consider all the possible consequences; both the positive (strong points and possibilities) and negative effects (weak-points and dangers) before deciding on centralizing measures to be taken in favour of increase of efficiency and decrease of costs so that it would be possible to avoid the situation shown after the point of reflection in the centralization-efficiency function.
5. I propose that the controlling ministries and their subordinated organizations should support the introduction and extension of the Budgetary Management System started by the government so that they could take the advantages of the positive effects it will probably have on the organizations financed by the state budget.
6. I propose that decision-makers should consider the application of the organization model created for the performance of the IT duties of enforcement bodies as it could be suitable for adaptation by other publicly financed institutions with national competence.
7. I recommend the exemplary organizational model elaborated by the ministry of finance for obtaining and using the Community resources to the attention of the leaders of other ministries.

V. PUBLICATIONS ISSUED IN RELATION WITH THE SUBJECT COVERED IN THE THESIS

I.) Read articles and essays (in Hungarian and English)

1. **Demény Ádám – Tollár Tibor: A Belügyminisztérium fejezeti szintű controllingja**
(*The Controlling of Ministry of the Interior at Chapter Level*)
Határőrségi Tanulmányok 2003, issue 1, pp. 35-43 HU-ISSN 1786-2345
2. **Demény Ádám – Tollár Tibor: Controlling koncepció a kormányzati költségvetési gazdálkodásban**
(*The Concept of Controlling in the Governmental Budget Management*)
Bolyai Szemle 2003, issue 2, pp. 129-142 HU ISSN 1416-1443
3. **Demény Ádám – Tollár Tibor: A költségmegfigyelő és elemző controlling tevékenység módszertani kérdései a Belügyminisztériumban**
(*Methodological Issues of Cost Observing and Analyzing Controlling in the Ministry of the Interior*)
Határőrségi Tanulmányok 2003, issue 2, pp. 4-18 HU-ISSN 1786-2345
4. **Demény Ádám: A rendvédelmi szervek gazdálkodásában megjelenő kihívások és az integrált gazdaságirányítási rendszer hiánya közötti összefüggések**
(*The Relationship between the Challenges in the Management of Enforcement Bodies and the Lack of the Integrated Management System*)
Magyar Rendészet, vol. VIII, issues 1,2, pp. 141-150 HU ISSN 1586-2895
5. **Adam DEMENY: Progress of electronic administration at the Hungarian Customs and Finance Guard**
AARMS vol. 7, issue 3, 2008, pp. 505-521 HU ISSN 1588-8789
6. **Adam DEMENY: The central budget management system and the impact thereof**
Public Finance Quarterly vol. LIII, issue 4, 2008, pp. 633-644 HU ISSN 0031-496X
7. **Demény Ádám: A központi költségvetési gazdálkodási rendszer és hatása**
(*The Central Budget Management System and its Impact*)
Pénzügyi Szemle, vol. LIII, 2008, issue 4, pp. 624-634 HU ISSN 0031-496X
8. **Demény Ádám: A vámeljáráshoz és árumozgáshoz kapcsolódó magyarországi egyablakos ügyintézés megteremtésének koncepciója**
(*The Concept of the Creation of the Single Window Administration Related to the Customs Procedure and the Movement of Goods*)
Hadtudományi Szemle 2008, vol.1, issue 3, pp. 48-59 HU ISSN 2060-0437
9. **Demény Ádám: Az integrált határigazgatási rendszer és a vámigazgatási fejlesztések kapcsolata Magyarországon**
(*The relation between the Integrated Border Management and the Developments of the Customs Administration*)
Hadtudományi Szemle, 2009, vol. 2, issue 2, pp.52-63 HU ISSN 2060-0437

II.) *Textbooks, Lecture notes, Essay-competition papers*

10. A rendvédelmi szervek pénzügyi-gazdasági igazgatása

(The Financial and Economic Management of Enforcement Bodies)

Policing Special Exam – Lecture notes, Ch.III (Edited by Tibor Tollár) Police College, Budapest, 2003

11. Demény Ádám: Integrált rendszerek a biztonság szolgálatában

(Integrated Systems at the Service of Safety)

Paper for the essay competition announced by Hungarian Association of Police Science (MRTT), 2005

12. A rendvédelmi szervek gazdálkodása

(The Management of Enforcement Bodies)

Lecture notes (MA), The Management of Customs and Finance Guard, Police College (to be published)

III.) *Other publications*

13. Demény Ádám: Korszerű irányítási módszerek a Magyar Köztársaság Belügyminisztériumában

(Modern Management Methods in the Ministry of the Interior of the Republic of Hungary)

(Business management methods, Controlling and Balanced Scorecard techniques)
Budapest University of Economics and State Administration, MBA thesis, 2002

VI. PROFESSIONAL CURRICULUM VITAE

Education

University/College	Zrínyi Miklós National Defense University Kossuth Lajos Military Science Faculty, Doctoral course Law enforcement sciences Doctorand Doctoral candidate	2009- 2006-2009
	Budapest University of Economics and State Administration Faculty of Business Administration School of Management, post gradual MBA course	2000-2003
	Budapest University of Economics Majoring in Finance Specialization in International Economy and Business	1994-1999
	Police College Police administration manager (officer), professional training	2006
	Hungarian Institute of Public Administration	

Special examination in administration 2002

Secondary Education: **Babits Mihály Secondary Grammar School**, Budapest 1990-94
Specialization in mathematics

Language exams:

English, completed with professional language, intermediate level 2003

German, completed with professional language, intermediate level 1997

Spanish, completed with professional language, intermediate level 1999

Employment

IT Services Centre for MINISTRY OF FINANCE

Position: **chief financial officer** Deployed officer 2006-

Directorate General of the Hungarian Customs and Finances Guard, disposability 2006-

Rank: customs officer major 2008-

customs officer captain 2006-2008

MINISTRY OF LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT,

civil servant

Position: **Financial Resource Management Department, deputy head of department**, 2006

Duties: The management of budget planning and controlling of the institutions and duties within the competence of the ministry (regional development, tourism, sports, elections, disaster management) as chapter deputy to the head of management.

MINISTRY OF THE INTERIOR, civil servant

Position: **Department of Economics, deputy head of department** 2004-2006

Duties: The management of budget planning for the organizations under the management of the ministry, the implementation of the budget, preparation of materials to assist decision-making within the framework of controlling activity as the general deputy head of department of economics.

Position: **Controlling Department, head of department** 2001-2004

Duties: Controlling analyses of the organizations under the management of the Ministry of the Interior, preparation of materials to assist decision-making for the senior management under the supervision of the deputy state secretary of economics and IT.

Position: **Pay and Social Insurance Department, head of department in charge** 1999-2001

Duties: The management of financial planning and labour force and wages management under the supervision of the deputy state secretary of economics.