

THE BEGINNING OF THE IMPLEMENTATION OF VE IN THE HUNGARIAN PUBLIC ADMINISTRATION AND EXECUTIVE BRANCH OF GOVERNMENT

Fodor Árpád - MicroVA Development Co. (Budapest, Hungary)

Fodor Valéria - MicroVA Development Co. (Budapest, Hungary)



Valéria Fodor, Manager of MicroVA, Inc., Organization Development Department, independent Licensed Value Analyst, Licensed Economist and Psychologist.

She has been involved Value Analysis (VA) for over ten years. She has been Team Leader of numerous VA projects while gaining experience in organization and process development. Mrs. Fodor has taken part in the preparation of several laws and regulations using Value Analysis. Since 1997 she has served as a consulting Value Analyst for the Prime Minister's Office.



Árpád Fodor, CVS, CEO of MicroVA, Inc., Licensed Mechanical Engineer, Licensed Economist, Value Analyst.

He has been specialized for value analysis since 1979. He founded his own VM consulting company in 1993. He led about 100 VM studies including product, technology, quality assurance system (QAS), software, state funds, bill and law etc. related projects. He usually teaches VM at Budapest Technical University, Horticultural and Food University and TÜV Rheinland Akademie (German Quality Assurance Firm). He is the author of appr. 40 articles and co-author of Manual of Value Analysis.

Abstract

The authors of this document will present an overview of several projects prepared for various government agencies in Hungary. Through a specific project the Hungarian Method of Value Analysis will be presented. The budget preparation work of the government agencies will also be presented using examples.

At the end of this presentation, the authors will summarize their experience and describe the benefits of using Value Analysis regularly in the budgeting process. The summary will include the opinions and observations of various government ministries as well as those of the authors.

The application of Value Analysis in Hungary is about 30 years old. Some public agencies (i.e. Department of Finance, Department of Industry and Internal Trade, the National Technical Development Committee, etc.) have commissioned VA studies, primarily for application in the manufacturing industry.

Naturally, the indirect affect of these projects was that eventually VA found its way into the field of Public Administration. During the past ten years there have been experiments aimed at developing

the routine use of VA for problem solving in public institutions.

1. VALUE PLANNING PROJECTS

Some government initiated pilot projects follow:

In 1988 the National Technical Development Committee took the initiative to analyze the Sheep Industry which has an annual budget of 21 billion Hungarian forints (HUF) per year (approximately \$102 million U.S.).

The main target was to decrease the state subsidy of 3 billion HUF/year. After 15 sessions during three months, the 16 member Team recommendations resulted in 800 million (\$4 million U.S.) in savings annually.

In 1992 the National Technical Development Committee, together with the Department of Interior, sponsored a major pilot project. This included analysis of the administrative process of the City of Győr. The primary issues of the total VA study were the following:

- The overall budget planning process.
- Revision of educational and social institutions.
- City operation.

- Operation of art, cultural, recreational and sport facilities.

During the VA study, the local government trained 178 employees in a five-day course and deployed 23 VA teams. The teams completed their assignments within four months at one session per week. The team recommendations resulted in the Győr government having saved 100 million HUF/year (\$5 million U.S.).

The Ministry of Finance developed the Hungarian Wine Industry Marketing Strategy utilizing Value Planning in 1995. The main objective was to increase the profits of exported wines and to improve efficiency of the process.

Also in 1995, the Department of Labor made an evaluation with Value Analysis on the following issues:

- Unemployment Compensation Funds
- Labor Market Organization
- The Educational System
- Labor Laws

The total budget of these activities was 80 billion HUF/year and more than 6.5 billion HUF/year savings were recognized due to the VA recommendations. Beyond the monetary benefits, some of the other significant recommendations implemented are:

- Annual review of employment policies.
- Merger of Unemployed Fund with the Labor Market Fund.
- Elimination of some ineffective bureaucratic processes.
- Introduction of some new proactive and reactive unemployment programs (i.e., Welfare, training, etc.)

VA was introduced into the government procurement process. (This corresponds to the USFAR.) However, the law mentions Value Engineering/Analysis as an option, not as mandatory.

In 1996 the Prime Minister's Office accepted our suggestions and organized several instructional courses in VA. The goal was to make VA better known, widespread and to explore the opportunities of its method.

To attain this goal, the Prime Minister's Office organized a three day team member training course. The next step was to organize VA workshop on the proposed legislation regulating the newly privatized housing projects (owner's rights, obligations, etc.).

In the same year, the following VA projects were completed.

- The government's operating schedule.
- The legislative process.
- Preparation of the law for trust funds.
- Preparation of the law for those with disabilities.

2. LOCAL GOVERNMENT'S BUDGET PLANNING WITH VALUE ANALYSIS

In this chapter, as example of VA methods as practiced in Hungary will be presented.

The current process of budget planning in this case was the following:

In the **Preparatory Phase** of the VA study the agency requested that the resulting recommendation should be submitted within one month after approval of the national budget. And the local governments should have an approved budget by that time as well.

The next step was selection of the six team members for the development of the budget planning process. They were as follows:

- The Manager of the Department of Finance.
- His Deputy Manager.
- Person responsible for Budget.
- Official of the City Development and Maintenance Department.
- Official of the Cultural and Sport Department.
- Official of the Health and Welfare.

Two Value Analysts provided leadership for the team. Local government made 8-10 experts available to assist the team. A schedule was set for the study. The minutes of each session included each team member's responsibilities, assignments and deadlines.

In the **Information Analysis Phase**, the team dealt with eight significant function areas. This two week process established the facts.

The next phase analyzed the customer expectations (**needs**). The team established needs of all those who were involved in the budgeting process. The main difficulty of this phase was that the individuals interviewed voiced needs for items within the budget rather than the budget process. The team identified these and directed them to the appropriate managers. (Figure 1)

The **functions** dealing directly with the budgeting process were defined corresponding to the customer

expectations list. More than 100 functions were defined.

Assembling the **function diagram** was the next phase. A customer oriented function tree-diagram (Figure 2) was developed via "How" and "Why" questions. The diagram includes "Cause" and "Effect" as well. Because it is derived from the customer's expectations list, the diagram reflects the Planned situation.

In the next phase, the functions which were the last level of the function chain were organized and analyzed. The **judgment of function fulfillment** was made by comparing the "existing" and "planned" parameters. Based on these, the function were classified into the following groups:

- Missing functions (unmet need)
- Functions below expectation
- Satisfactory functions
- Over-achieved function

(See - Functions - Figure 3)

Then we have defined how much **time**, and thus cost, each individual function required.

It was a characteristic of the existing situation than, as the deadline neared, the energy expended grew. In the team's point of view, there should be more emphasis placed on the early phases of budget preparation, thereby saving time and energy toward the end. It was the consensus of the team that 25% of the time now required could be saved.

In the **Creative Phase**, the team sought out weaknesses in the function fulfillment and time (which relates directly to cost). During this brainstorming no criticism is allowed. Intensity and quantity are desired more than the quality of the

suggestions. About 110 different ideas were presented at this point.

In the **Evaluation Phase**, the ideas were considered according to their organizational and economical value. After measuring quality and grouping the ideas, the team worked out approximately 15 idea groups in detail, then expanded on them before judging them on their merits. The final versions were summarized in a recommendation report. The report was distributed to agency management as well as to the heads of the corresponding departments in the local government. This phase lasted three weeks.

The Team's recommendations had several levels based on the competence of the evaluators. Where applicable, the managers were authorized to make decisions regarding adoption of the recommendations that affected their departments. Otherwise, the mayor and the City council had the final word.

On the suggestions which concerned security issues, the Team deferred to the heads of the committees.

Some of the recommendations had been presented to local government officials prior to the VA study. After careful consideration of the suggestions, the Team was available for meeting with the officials for further discussion. Besides the Technical Committees, the Budget and Finance Committees also reviewed the suggestions. The most significant proposals were then compiled and copies of the document were submitted to the elected officials and the experts. Thus they were made aware of this phase of the study and could anticipate the final recommendations. One example of this process was the 30 page documents regarding the budget preparation process which was dispersed to 70 people to survey their opinions.

Figure 1.

Need List for the budget planning process

Limits of the project

- from the concept of the sector and the institution
- up to the approval of the board (representative corporation)

Need generators

- departments
- committees
- institutions
- elected officers (mayor, deputy mayor, notary)
- citizens, groups of interests, parties
- general assembly
- Department of Finance
- Department of the Interior
- Parliament

List of needs

Departments

1. information of the exact amount of resources
2. basic activity of the institutions should be financed
3. professional development, profile change should be financed
4. clear, lucidly arranged structure
5. realistic tasks based on a concept
6. survey of the citizens needs + financial background for it
7. explore the methods of job fulfillment
8. increase incomes, limit costs
9. no performance records

10. priority for needs
11. responsible of deciding about the rank
12. keeping deadlines
13. discipline of planning and spending money
14. position, or relations should affect the items

Committees (representatives) needs

15. to know the whole process
16. the committee should represent the common point of view
17. the task of the sector should be publicly known
18. the committee should lobby in which it is professional
19. the committee want to see a presentation of the process
20. 1-2 expert should be there from the committee
21. coordination of professionally homogeneous groups
22. more money and implements

Needs of elected officers

23. "no noise"
24. more frequent, deeper participation in the process
25. appropriate proportion of sectors
26. more effort for incomes
27. coordination among officers
28. approval of parliament + 1day

Needs of citizens and groups of citizens

29. more frequent and wider information
30. the sense of justice should not be hurt
31. opportunity to assert needs
32. etc.

Figure 2.

Tree diagram

F1. Provides planning conditions

- F1.1. Appoints responsible
- F1.2. Concentrate professionalism
 - F1.2.1. Provides staff
 - F1.2.2. Creates interest
- F1.3. Schedules planning
 - F1.3.1. Makes plan for the job
 - F1.3.2. Fixes deadline
- F1.4. Clears spheres of responsibility
- F1.5. Provides information flow
 - F1.5.1. Plans information flow
 - F1.5.2. Provides computer aided work
- F1.6. Makes the process known
- F1.7. Provides statistics

F2. Keeps promises of election

- F2.1. Makes strategic plans
- F2.2. Makes strategy accepted by the board (representative corporation)
- F2.3. Makes programs

F3. Makes budget

- F3.1. Evaluate experiences
 - F3.1.1. Examines level of supply
 - F3.1.2. Analyses statistics
- F3.2. Plans incomes
 - F3.2.1. Defines sources of income
 - F3.2.1.1. Plans central budget support
 - F3.2.1.2. Plans the unit's own income
 - F3.2.2. Plans amount of income
 - F3.2.2.1. Decides about changing local tax
 - F3.2.3. Takes inflation into consideration
- F3.3. Estimate expenses
 - F3.3.1. Collects needs
 - F3.3.1.1. Works out form of needs supply
 - F3.3.1.2. Works out content of needs supply
 - F3.3.1.3. Gives reason for need
 - F3.3.1.4. Gives professional requirements
 - F3.3.1.5. Provides professional-economic control
 - F3.3.1.6. Arranges public audience
- F3.4. Develops frame numbers of branches
 - F3.4.1. Takes strategic plans into consideration
 - F3.4.2. Defines importance of sector
 - F3.4.3. Makes agreements by sector groups
 - F3.4.4. Develops sector reserve
- F3.5. Makes sector concept
 - F3.5.1. Determines level of supply
 - F3.5.2. Defines tasks
 - F3.5.2.1. Arranges public audience
 - F3.5.2.2. Decides about level
 - F3.5.2.3. Decides about activity development
 - F3.5.3. Decides about task fulfillment
 - F3.5.4. Gives priority to tasks
 - F3.5.4.1. Assert needs
 - F3.5.4.2. Coordinate opinions of the officers
 - F3.5.4.3. Brings committee attitude
- F3.6. Makes concept accepted by the board of representatives (representative corporation)

F4. Schemes budget

- F4.1. Provides balance of budget
 - F4.1.1. Plans incomes
 - F4.1.2. Plans expenses
 - F4.1.2.1. Finishes task-plans
 - F4.1.3. Calculates balance of income-expense
 - F4.1.4. Suggests resource
- F4.2. Defines budget structure
- F4.3. Update according to decision of Parliament
- F4.4. Approve budget

Figure 3.

**Definition of function fulfillment
(Extract)**

Function label	Function, Aspects of evaluation	Parameter		Qualification
		Fact	Plan	
F1.1	Appoints responsible	No responsible	Have a responsible	missing
F1.2.1	Provides staff Time spent on it Energy Time structure	Aug-March. 8 month work Too much time for debate because low level preparation	Sept-January 36 month work max. more preparation. less discussion	Over-fulfilled Over-fulfilled Under-fulfilled
F1.2.2	Creates interest	Not direct	Direct	Under-fulfilled
F1.3.2	Fixes deadline	Not kept the "gentleman's agreement"	Written form. Kept	Under-fulfilled
F1.4	Clears spheres of responsibility	No rules for budget making	Rules for budget making, uniformed	Missing
F1.5.1	Plans information flow	Not planned	Plans in advance	Under-fulfilled
F1.5.2	Provides computer aided work	Local. no software for it	Network	Under-fulfilled. Missing
F1.6	Makes the process known	In the office. In the city		Under-fulfilled. Missing
F1.7	Provides statistics	Bureau for Statistics. Department of Finance. Department of the Interior		Fulfilled
F2.1	Makes strategic plans	Need starts at the Board. Responsible: mayor	Rolled with parameters. minimally 1 year in advance and build the budget on it. Valid minimally for one election period	Missing
F2.2	Makes strategy accepted by the board	No strategic plans now		Missing
F2.3	Makes programs	Programs are made yearly Not based on strategic plan	Programs should be based on the strategic plan	Under-fulfilled
Etc.				

According to our proposals the principals of the new budget making model were the following:

- The processes in the budget should synthesize **the needs of the citizens**; this must be based on representative surveys among the citizens.
- The planning of the budget should be **ruled**. (To the order of the mayor, that includes the whole process, tasks, persons and organizational units responsible for the tasks, and the deadlines of budget making)
- More emphasis should be put on the **preparation of planning**.
- In order to save more money in the business, the responsibilities of the participants should be cleared.
- The planning of the budget must be based on **strategic planning**.
- The board of representatives should decide in the issues which influence the life of the **whole local government**, and not about the certain tasks.
- The function of the sectors must be cleared (we have suggested new type of classifications of the sectors)
- The **organization** of the office and the **structure of the budget** should follow the structure of the sectors.
- The sectors and its committees should do only **their own management**.
- This should include professional **responsibility**.
- By gradual liquidation of base-concept, the single tasks should be financed.
- The **cooperation**, ability of communication and dealing with conflicts of those who take part in the budget planning must be improved.
- The planning of the budget should be the job of a **separate organizational unit**.
- The modern **information (computer) system** must be used
- The modern **decision preparing methods** should be used

According to the opinion of the team members taking part in the VE the method of VE is suitable for solving the problems of the local government. ("We have never thought over the given process so thoroughly and therefore we were not able to develop so hard proposals.")

We hope we introduced successfully, what the method and use of VE in Hungary means. Of course, there are differences between the Hungarian and the American type, but the basic attitude is the same: in the focus there is function analysis and the solution of the whole problem is based on it. The

work, the method and the team will always brings the result!

3. WHY IS IT USEFUL TO APPLY VE ALSO IN THE PUBLIC ADMINISTRATION AND EXECUTIVE BRANCH OF GOVERNMENT?

The participants of the law preparation projects supported by VE and the Prime Minister's Office emphasize the complexity, system approach of the method, the possibility for multi-direction approach, effort for quality and that the method takes needs and functions into consideration.

Quotation from the opinions:

- "VE before codification is useful, because creates opportunity for a wider public to explore the needs and choose from the solutions, before having the final written form.
- Such problems were recognized and came into the limelight which "traditionally working" escapes from one's attention. Serious practical problems got into the focus of the lawmakers attention.
- Compared the present situation with the target.
- Approached the problem with a completely new method, there was chance to get to know to the view-point of the ones involved
- A new style of thinking (survey of needs, requirement, function)
- The topics was completely worked through, providing a complete material of the law makers."

At the end of the series of the team sessions we always ask the partners about their experience related to the project. 90-95% of the opinions are positive but there are negative attitudes as well. The question generally sounds like this: **what is most characteristic in using VE?**

Here are the answers:

- The preparation time of the law and rule making is decreased.
- The law is formed by constant team work and not only by the opinion of one expert.
- There is a chance for the cooperation of the involved and to work out agreement.
- In the planning process we take the need of the involved groups into consideration so it turns out in time not after.
- The problems of execution are explored during the preparation and there will be proposals to solve them.

- The social effect of the proposals can be explored, the expenses at the social and economic groups touched by the law can be calculated in a more realistic way.
- There are less motions for modifications at the discussion of the law in the Parliament (or at the board of representatives).
- The law is more permanent, there will be need for less modification.
- The structure of the rule or law will follow the processes.
- More effective working public administration.
- The processes are more regulated.
- It will be clear, who are the responsible for the certain tasks and decisions, clear authorities.
- The citizens will be more satisfied.

Differences in the American (USA) and Hungarian method of VE

One of us, thank the help of Mr. Rodney Curtis (CVS) and Géza Kmetty, we had the chance to take part in VE project, as observers, in Phoenix in the Spring of 1997. Apart this we got to know to some 60-80 articles at the SAVE International conference in Seattle in 1997, and at the conference organized by AASHTO in the topics of construction investments in Atlantic City.

Based on these information we think that the view and process of VE in the USA and in Hungary are basically the same. Regarding the steps, organizational background, usage we can see differences.

