

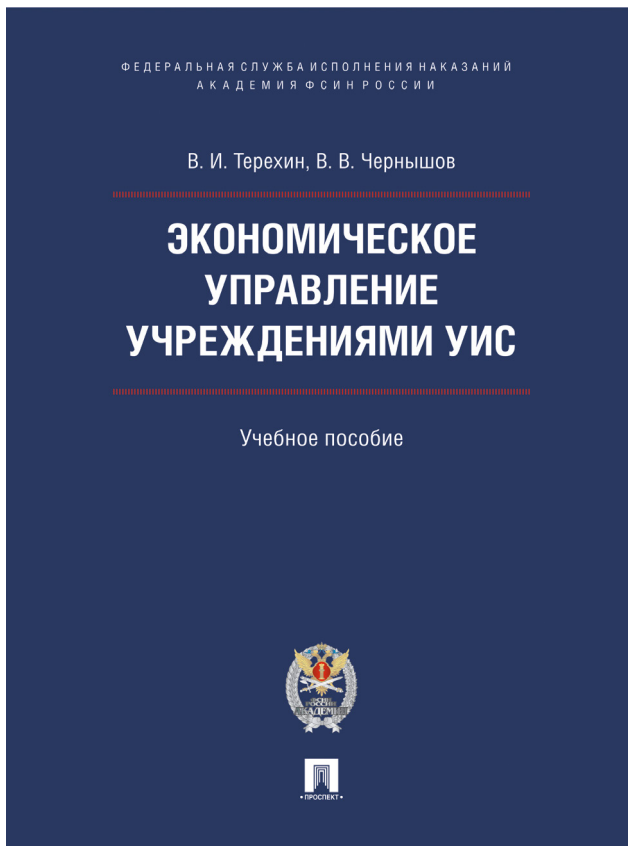
STUDY BOOK OF TEREKHIN V. I., CHERNYSHOV V. V.
“ECONOMIC MANAGEMENT
OF THE PENAL SYSTEM INSTITUTIONS”

УЧЕБНОЕ ПОСОБИЕ ТЕРЕХИНА В. И., ЧЕРНЫШОВА В. В.
«ЭКОНОМИЧЕСКОЕ УПРАВЛЕНИЕ УЧРЕЖДЕНИЯМИ УИС»

Recommended citation

Terekhin, V. I. & Chernyshov, V. V. 2017, *Economic management of the penal system institutions: study book*, Moscow.

Терехин, В. И., Чернышов, В. В. Экономическое управление учреждениями УИС : учебное пособие. – М. : Проспект ; Академия ФСИН России, 2017. – 448 с.



Authors of study book

Valery Ilyich Terekhin, DSC (Economics), Professor, professor of management and organizational activity of the penal system department, Academy of the FPS of Russia, e-mail: ryazantvi@yandex.ru.

Viktor Valentinovich Chernyshov, PhD (Law), Associate Professor, associate professor of management and organizational activity of the penal system department, Academy of the FPS of Russia, e-mail: vitos-62@mail.ru.

For purchase please contact

111020, Borovaya str., 7, building 4,
Moscow, Russia,

tel./fax.: +7 (495) 651-62-62

e-mail: mail@prospekt.org

<http://prospekt.org>

<https://litgid.com> (online ISSN)

© LLC “Prospect”, 2017

© Academy of the FPS of Russia, 2017



The article is licensed under the license

[Creative Commons Attribution-NonCommercial-ShareAlike 4.0](https://creativecommons.org/licenses/by-nc-sa/4.0/)

The negative impact of crime on society is multidimensional. Firstly, it is the formation of anti-social motives and actions of population that leads to a decline of the social quality of life, the growth of which is the most important goal of the state. Secondly, crime is always associated with significant direct and indirect economic losses of society (losses of organizations and individuals). Thirdly, there are significant economic losses due to the decline in the labor resources which are effectively used in the economic and social spheres of life. The loss of labor resources refers to the part of the able-bodied population serving sentences in the form of imprisonment. Non-productive losses should also include the labor of persons employed in law enforcement agencies. Fourthly, the material and financial resources provided from the state budget for law enforcement. Fifthly, high rate of crime reduces the economic attractiveness of the country as an object of foreign and domestic investments, and leads to the “leak” of capital from the country and similar consequences.

Improvement of law enforcement has a high social importance, and a significant impact on the current state and prospects of socio-economic development of society. In reality, crime is incurable, and while crime exists the state is forced to fight it, by means of punishing, including isolation of criminals from society. The general objective of law enforcement is to protect and defend the rights and legitimate interests of citizens, organizations, society and the state, and the function of the execution of punishment for criminal offenses is objectively necessary in any modern state.

In the students' manual the authors consider a set of theoretical problems and practical issues of improving the penal system economic management as a socio-economic subsystem of modern Russia. The manual does not contain an analysis of the problems of the legal framework development and the improvement of certain specific functions of management institutions (security, operational activities, etc.). Its purpose is to expand and enlarge the know-

ledge of modern theory and concepts of socio-economic system management which are not being used at present in the penal system, but can improve the quality of management. Analysis of management problems in the penal system is considered on the basis of the preliminary study of the theory and experience gained in business and public administration. Along with this the manual summarizes the experience of the authors' research published in scientific articles and monographs, and considers the possibility of its use in management practice.

Structurally, the manual is divided into two sections (chapters 1–4 – the first section, chapters 5–8 – the second), with different content and level of presentation, which can be used both collectively and separately.

The main content of Chapter 1 allows persons studying or improving their skills in the field of penal institutions management to systematize their understanding of the economic situation in Russia, the causes of economic crises and ways to overcome them, the role and place of the penal system in this process. The authors set out the view on the problems of domestic economy innovative development and competitiveness on the basis of its analysis by domestic and foreign experts. Along with this the authors give a brief analysis of the market principles and laws and its development in Russia, as well as the main economic characteristics of business development.

The necessity to consider these issues is determined by the fact that many specialists of the criminal investigation department, having profound knowledge and wide experience of working with convicts, do not fully understand the market problems. The Chapter also provides a brief description and analysis of the state and problems of penal system development as a socio-economic subsystem of the country which is used further in the analysis of the of economic management features in the penal system in comparison with business and public administration in general. The most significant differences between the penal in-

stitutions and business organizations are the following:

- the main purpose of the penal institutions is social, economic purposes are secondary having just ensuring nature;
- the main method of state institutions management of the penal system is administrative, and economic methods are auxiliary;
- the specifics of a significant part of the staff in institutions is concerned with criminals whose incentives, qualifications, and attitude to work are mostly negative;
- the technical level of production in penal institutions is low which does not ensure the achievement of the required level of products and production competitiveness.

In general, Chapter 1 is aimed at improving the competence of specialists in the analysis of the external and internal situation in the country and abroad and understanding of the problems described in the following chapters.

Chapters 2–4 contain the understudied problems of economic management of the penal institutions, and the authors' proposals for their solution. These problems are primarily related to innovations in the sphere of bodies' and institutions management discussed in chapters 2 and 3. In the form of classification the possibilities of adjustment of separate theories and concepts to the conditions of institutions are considered for the first time. In addition to management innovations Chapter 4 emphasizes the issues of technical innovations efficiency consisting in improvement of their development and implementation organization.

Chapter 2 is devoted to the theory of goal-setting in the socio-economic management of systems and its adaptation to the penal bodies and institutions management. Goal-setting is the first stage of management of any objects which consists in substantiating the system of goals and their priorities. The goals of social and economic systems are shaped by the needs of people. The diversity of the needs of individuals are included in the needs of groups interested in the organization activities (owners, managers, employees, govern-

ment, business partners). They form the motives that determine the set of goals by setting execution time (strategic, operational and tactical), and the level of priority (the highest level of priority, intermediate and specific action goals). The highest priority of the goal (criterion) as a management tool is the most effective in its quantitative evaluation. Socio-economic systems have many goals the effective way of which is the goal tree. Each of the goals of the lower level is a condition (factor) to achieve the goal of a higher level.

The study manual considers a variety of economic goals and their corresponding criteria used by business structures, criteria development corresponding to changes in organization and production management nature. Modern criteria of economic goals reflect the ratio of resources, profit and risk of its receipt. It is much more difficult to develop the objectives of social systems which include law enforcement agencies of the penal system.

The authors prove that the objectives of the penal system defined in the theory of law, in legislation according to their cascading to penal bodies and institutions level lose their orientation on solving the goals of the state and society, turning into goals for solving internal problems. The main inconsistency of the objectives of the penal system as a subsystem with state-oriented objectives (super-system) is that the goals and results of penal bodies and institutions activities do not reflect their impact on the reduction of post-penitentiary crime recidivism. The generally accepted reason for this situation is that the causes of post-penitentiary recidivism depend not only on the activities results during the imprisonment period, but also on the combination of factors independent from the penal system.

The authors prove the insufficiency of reducing of the penal system role in law enforcement in punishment execution. The socio-economic results of the penal system activities referred to correction and education of convicted persons during the period of sentence serving should be considered as the main objectives

and results. The goals and results should be determined, first of all, by the behavior of convicted persons after their release. The explanation of failure in assessments of the penal system impact on the reduction of crime by the inability to identify and measure this impact is insufficient. The possibility to measure the results by changing the criminal potential (social danger) of each individual convicted person during the period of imprisonment is substantiated. The methodological and methodical approaches to such assessment and the basic instruments for its practical implementation are proposed.

Justification of real and vital purposes, their confirmation, bringing to the individual processors, and the availability of the instruments of their evaluation are the conditions of management system development of socio-economic targets for the objectives (results). The principal advantage of the goals (results) management is the specificity and measurability of goals and results of their achievement. Measurability is achieved by clearly defined criteria – the most significant results that the organization seeks to achieve and has already achieved. Management by means of goals has been effectively used for several decades in business and a number of non-profit government agencies in Russia and abroad. Theoretically and practically it is proved that the management of the goals is effective only in its complex application. The manual has justified objective restrictions concerning the integrated use of management goals in the penal system at present. At the same time, it is shown that the use as a criterion for reducing recidivism probability and (or) expected losses from post-penitentiary crimes reduces these restrictions.

Chapter 3 deals with the management under conditions of uncertainty and risk. Three groups of uncertainty are identified: uncertainty of internal environment of the object under control at the time of development goals determination; uncertainty of the external environment at the time of management decision development; uncertainty of the dynamics of the envi-

ronment during the period of its implementation plan (project). The latter group of uncertainty factors is the most difficult to assess, therefore it forms the greatest risks.

In assessing the level of uncertainty, the authors used the approach of N. N. Taleb emphasizing the level of unpredictability of separate events that can bring significant negative or positive results (Taleb, 2015). This approach which is not currently used in risk management and adjusted to the risks of achieving the aims of the penal system makes it possible to assess the prospects of correction and re-socialization of convicted persons serving sentences.

Particular attention in the manual is given to the theories of changes and limitations of the systems used for the analysis of governance processes and its effectiveness improvement. The theory of change is considered as environment risk factor and reducing risk losses factor or even as a positive result due to adequate time, content and resources changes in the internal environment. The theory of restraint is simple and clear by its nature. Any system can be represented as a complex weave of connection chains. The risk of not achieving the goal (or the need for additional costs) is determined by the weakest link. Identifying the weakest links and their strengthening under continuous sequential analysis is the most efficient way to reduce costs on enhancing the sustainability of systems because resources are target-focused.

The manual describes the basic theory of risk management, the practice of its use in business, the method of certain principles implementation in the penal system and the possibilities of its integrated use in economic management. The author's risk understanding, risk identification and quantitative losses measurement instruments from the implementation of post-penitentiary recidivism risks are given. Special attention is paid to the specifics of risk management in the penal system institutions. Risks in this case are understood as the probability of post-penitentiary recidivism and (or) economic losses of the company.

It is shown that the probability and time of post-penitentiary recidivism, as well as the economic losses of society can be determined on the basis of effective instruments for forecasting the dynamics of socio-economic characteristics of convicted persons and committed crimes. The author's method of predicting the probability and timing of post-penitentiary recidivism of a convicted person based on the analysis of the dynamics of risk factors when he / she enters a penal institution and their change after release is presented. The results of its testing showed the possibility of its use and the conditions for forecasts reliability improving.

In Chapter 4 the authors discuss the organization of the penal bodies and institutions innovation. Due to its specific nature and limited resources, innovation of the penal system is not active enough. But it is a necessary condition for improving the staff efficiency in conditions of the optimization of staff quantity. Its main focus is the design and use of territory protection systems, contingent monitoring and control, etc. This type of innovation is specific as innovation effectiveness is determined by the ratio of the monetary equivalent of the social results of their application with the cost for use of technical control and monitoring systems.

Along with this direction technical innovations are viewed as necessary condition for improving the socio-economic efficiency of the convicts' production activities of. But the significant public investments required for technical production upgrading don't practically exist at present and were insufficient in the past. Because of this Chapter 4 investigates mainly the issues of innovation works organization. Less attention is paid to the economic criteria of efficiency (only the main ones are given) which are widely described in numerous textbooks and manuals on financial management.

Based on the recommendations on the innovation activities organization in the penal system this manual adopted a globally recognized reference guide-book "Guide for project management knowledge" developed by the

Project Management Institute. The authors of the present manual have attempted to adapt this Guide in some way to the innovation activities of the penal system. In particular, the participants of innovation activities of the penal system, the specific effect sources and the risks of obtaining of expected results are specified. The authors think it vital to include technical training functions into innovation activities of the institutions (Guide relates these activities to operational one), etc.

Thus, the first section of the manual provides not only familiarization of penal system managers and specialists with modern methods and models of management, but also contributes to the effectiveness of their use.

Section 2 (chapters 5–8) contains the foundations of the theory of economic management of production sphere of the penal system as a business economy. It develops the problems of economic management of the production sectors of the penal system institutions contained in the first edition of the similar work (Terekhin, 2011).

Chapter 5 deals with property management problems that are the key problems in market economy.

The economic and legal essence of various forms of ownership, the rights and powers of organizations' owners, the conditions for the formation of state and municipal property and their effective use in the market economy are described. In the manual the main differences in organization management of different forms of ownership, the factors that determine the state penal system institutions, the advantages and limitations in the economic development of penal institutions associated with this type of management are described.

The main attention is paid to the issues of explanation of property management methods (non-current assets and current assets) providing the opportunity to reduce the production costs of penal system institutions and increase the employment of convicts in production activities. For non-current assets such methods are rent and leasing in the case of the validi-

ty of rent or lease payment. The tools of their justification are given. The issues of material inventory management, including the principles of inventory optimization, are determined as a part of current assets. The questions of receivable debts regulation are considered, in particular, the principle of coordination of economic interests of products suppliers and consumers is described. A brief description of land plots management, the principles of land cadastre formation, the formation of cadastral and market value of land plots are given. The principles of evaluation and modern methods of property accounting are presented.

In 6–8 chapters the authors discuss the microeconomic issues of production management in brief.

Chapter 6 contains the main provisions of supply and demand law and tools for their use in management. The mechanism of determining the demand elasticity concerning the price of the analyzed goods and related products, income and individual requirements of consumers is used as the tools for their use in management. The determination of elasticity in the current period and the forecast of its changes in the near future increase the validity of production volume plans and sales prices.

Chapter 7 describes the accounting approach to determining production costs and the patterns of their changes depending on changes in production volumes. The authors review the versions of the planning tool and actual costing based on estimated charges and output cost pricing including the method used in industrial divisions of penal system production establishments. Special attention is paid to the profit from production. The universal scheme of formation and use of profit of the organizations is given.

Chapter 8 is devoted to the key issues of tactics and strategy of justification and regulation of market prices. The book shows the shortcomings of pricing based on the cost approach, the principles of value approach, first of all, orientation on the current and future needs of the consumer.

Each chapter contains brief conclusions, recommended questions (tests, situations) for self-examination of knowledge level and a short list of literature for profound study of questions.

The manual is recommended for advanced training of senior staff of specialists in the field of management of economic and socio-economic processes. It expands and enlarges the understanding of economic management of the penal system bodies and institutions by taking into account the specific features of this system. The authors' recommendations are based on the study of the penal system development as a subsystem of the Russian Federation, the theoretical scientific research results, practical experience of heads of institutions who study at Master's degree program of the Academy of Federal Penal Service of Russia, and the study of the theory and experience gained in business and public administration.

The book as a whole and its individual chapters can be useful to specialists of law enforcement agencies for self-study of certain issues of management theory and practice.

Gratitude

The editorial board of the International Prison Journal expresses its gratitude to Grand doctor of Economics, Professor Terekhin Valery Ilyich, PhD (Law), Associate Professor Viktor Chernyshov, as well as to the publishing house "Prospect" for active participation in the preparation of this review.

References

- Taleb, N. N. 2015, *Black swan. Under the sign of unpredictability*, 2nd edn, Moscow.
- Terekhin, V. I. 2011, *Management economics: students' book*, Ryazan.
- Kit P. & Yang, F. 2008, *Management economics. Instruments for manager*, St. Petersburg.