



## Controlling of non-profit organizations

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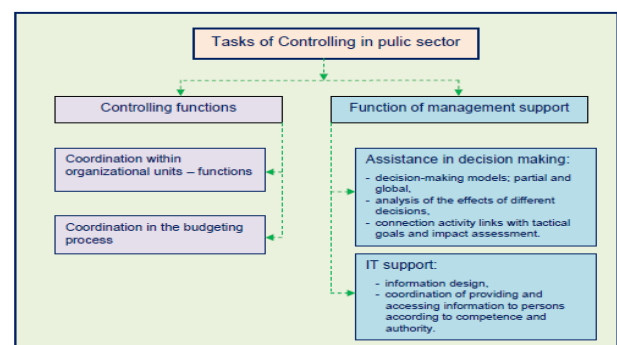
### Abstract

*Controlling as a modern instrument, necessary for successful business operations, is a relatively unexplored concept in our theory and practice. Thus, in demonstrating the opportunities of applying the concept of controlling, the paper uses experiences with its implementation in non-profit organizations of Germany and Austria, where it has been used by dozens of organizations for more than thirty years. During last decades, the concept of controlling has been developed significantly, particularly in industrial enterprises. This statement can create the impression that controlling makes sense only in the industry. When considering the literature in this field it is noticeable that controlling is used in almost all enterprises of countries in the German speaking region. Therefore, the paper presents the areas in which controlling is used successfully. The implementation of controlling will be analyzed in public administration, non-profit sector and healthcare. Through the presentation of practical experiences with the concept of controlling in these areas, the paper demonstrates that this modern instrument can be gradually introduced in our business practice. Introducing the concept of controlling requires examining the possibilities of application, primarily through graduate and postgraduate studies, as well as through adequate professional seminars, creating in this way preconditions for the steady introduction of the concept of controlling in our practice through cooperation of science and businesses.*

**Key words:** concept of controlling, application of controlling

### 1. INTRODUCTION

Reasons for introduction of controlling in public administration are determined by budget documents and procedure of budget planning for the tasks of municipalities and users of municipal budget, since controlling is one of the ways of auditing budget planning, spending budgetary funds, as well as checking the implementation of adopted public administration programs, as is shown in Table 1. [2]



**Table 1.** Basic tasks of controlling in public sector

## 2. CONTROLLING IN PUBLIC ADMINISTRATION

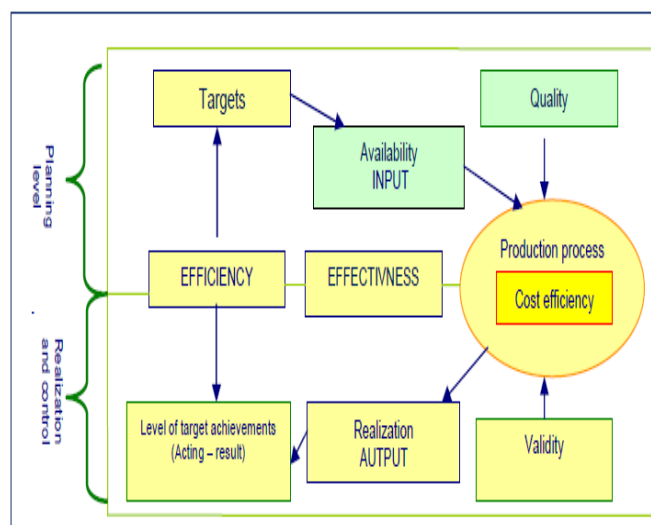
The conditions for introducing controlling vary and depend on the size of municipalities and their organizational level. When introducing controlling in public administration, attention should be paid to its basic tasks. Given the lack of theoretical and practical experience in Serbia regarding the application of controlling in public administration, the next section of this paper will focus on the experience and specific problems in implementation of controlling in Germany. The introduction of controlling in public administration in Germany was initially faced with two problems: a large and increasing debt on one hand, and the poor quality of public administration, often criticized by the clients (citizens), on the other. When looking more carefully, causes of this criticism become clear: as opposed to enterprises in private ownership, most public administrations lacked any business programs, where "products" were not defined. [2] [8] Reporting, which is an essential element of information flow in private companies, was almost completely absent. Due to inadequate computing of costs, controlling the operation in many places was impossible or insufficient. The reason for this was certainly in the fact that concepts of information and communication techniques were mostly present in items. In addition, deficiencies have also occurred in the presentation of administrations to their clients, citizens and staff. Another problem was the poor distribution of competences, that is, in defining the competences between the administration and municipal council, which constantly led to conflicts and discussions. In order to avoid ambiguities in competences in future contacts, a new model of management was proposed. The main elements of the model are shown in Table 2.

- ❖ Clear delineation of responsibilities between the administration and politics
- ❖ Reduction of centralized management by protecting decentralized areas
- ❖ Contact management
- ❖ Decentralized responsibility, unifying professional responsibility
- ❖ Output, product-oriented acting

**Table 2:** Proposal for the model of management in public administration

This new system of management signaled the introduction of controlling in public administration. Controlling the administration is a general system for coordinating and protecting management in administration. While the basic principles of controlling are extremely transferable to the field of administration, its specific features still need a particular attention. The 3-E model (Effectiveness, Efficiency and Economy) created by Becker and Weiss, proved to be the appropriate framework for controlling the administration or target-oriented planning, management and control of public administrations. Using this model, which consists of the hierarchy of acting, productivity and process-related objectives, i.e. objectives of operational costs, different interests of public administration and its

demanding groups (citizens, representatives of interests, politicians) can be also taken into account adequately. [2],[4],[8] Based on the objectives of the administration, inputs are assigned (resources in the form of funds for personnel and actual assets), which are transformed in outputs by creating jobs and production (for example, teaching at school). Outcomes are created as a result of external influences (e.g. pupils' ability to read), in which the administration is interested. Controlling in the field of effectiveness management is focused on planning the strategies and objectives, as well as in controlling the success in achieving the objectives. Successful management is only possible if the objectives of public office holders are clearly divided between the political and administrative individuals and committees involved in the objective-creating process, and if there is a clearly formulated concept and planning. Monitoring the achievement of goals requires appropriate measures to be developed in the form of indicators, which should be based on internal and external reporting on administrative units. A balanced scorecard can be implemented as the most important instrument for supporting strategic planning of goals and resources, as well as for monitoring the achievement of goals in a multidimensional system of public task carriers at enterprise level. [9] The core tasks of controlling at this operational level include annual planning and budget planning, cost management, as well as planning and managing the internal interlacing of operations. Within the proposed management model, it is very important, for example, to have a consistent overlap between professional and financial accountability when budgeting. The most important part in budgeting is that those who are experts in doing it can be independently determined. Such decision requires accuracy regarding the available costs, i.e. expedient calculation of costs and operation. It is only after the expansion into the calculation of planning cost when the full benefit of management can be realized. Chart 1 presents the basic tasks of controlling in public administration.



**Chart 1.** Model 3E as a possible controlling instrument in public sector.

On this basis, the ongoing controlling tasks can be carried out, which involve reviewing the plan of realization, and comparing and analyzing the deviations. In order to continuously manage effectiveness and efficiency, the managerial staff is required to report in actual, gradual, understandable, performance-oriented manner.

A survey of more than 1,500 municipalities in Germany has shown that they still lack standardized reporting, indicating that the administration is in need for controlling. Based on the examination of expert literature, we can conclude that controlling of public administration in Germany is currently in the initial phase.

### 3. CONTROLLING IN NON PROFIT ORGANIZATIONS

While the use of controlling in private businesses has reached stable levels, the domain of non-profit organizations (NPOs) has long been exempt from the introduction of instruments of business management. [1],[3] Given the decreasing amounts of funds assigned by the society to these activities and the fact that they are increasingly required to report their costs, this sector is now forced to open to controlling and its ideas. One research examined the state of possible developmental paths of controlling in NPOs. As indicated by the current knowledge about tasks and capabilities of controlling in NPOs, the situation can be compared with that in the industry. [6] The study itself indicated the results that are expected from the introduction of controlling in NPOs. The growth mainly resulted from the introduction of professional business management, cost savings, more effective control, as well as ensuring survival in spite of declining cash inflows. According to these results, the greatest chance of controlling is introducing of economic ways of thinking in NPOs and saving these organizations from their current expenditure and task-related crisis, e.g. by critically rethinking various jobs and not accepting them anymore in the future. The biggest current obstacle to the introduction of controlling is the lack of personnel and scientific resources. The introduction of controlling in NPOs should be based on the creation of strategic planning, know-how, establishing a general strategy, improving customer orientation, and analyzing internal business processes. [2] Also, priority should be given to simple solutions instead of expensive ones, since the large expenditure required for the creation of a perfect system can jeopardize the motivation and acceptability by the associates. Chart 2 shows a framework model of controlling in NPO.

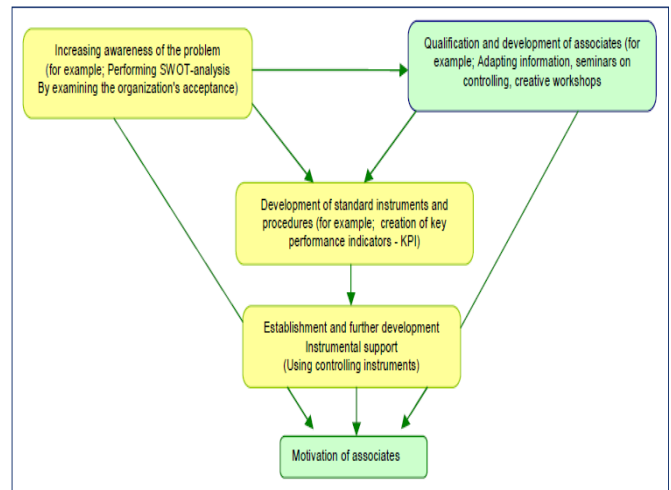


Chart 2. Development of controlling in NPO

### 4. CONTROLLING IN HELTHCARE

Healthcare is a new area in which controlling is introduced. In the future, the following factors will be important: healthcare budget, hospitals, recognized doctors, care services, as well as enterprises for the production and trade of specialized medical products. The specific nature of actors in the field where *health* is the product has led to introduction of extensive regulation in this branch of economy. [2] Changes in legal frameworks are therefore an essential motivation for expanding controlling in healthcare. In addition to regulating external accounting by law (for example through related account frameworks), bookkeeping regulations in hospitals both require accounting the costs and provide costing frameworks. Moreover, calculating the overall operations costs is also prescribed. It has recently been seen that hospitals in Germany are harmonizing their control systems with the cost paying system applicable from 2003, which depends on the operation and is based on so-called diagnostic relation groups (DRG). The purpose of the DRG is merging a large number of hospital-based therapies into homogeneous groups with similar cost structures. This has created transparency through the jobs offered by individual hospitals, as well as a base for establishing a standardized cost paying system. In Australia, where the DRG system has already been introduced, a catalog has been created that includes 661 DRG activities. For a specific activity, or DRG, it determines the lump sum that should be paid to the hospital in order to reach its usual objectives. Economic planning, management and controlling the services provided at the hospital require new calculation of costs and activities that meets the following objectives:

- Transparency of individual processes, enabling to monitor the activities undertaken towards the patients from their admission in the hospital to release;
- Post-calculations of total costs of activities in order to control the operation versus the profits earned from a specific DRG group;
- Making information available in order to ensure the minimum quality of treatment with as little

resource spending as possible; here, it is about the influence of behavior of medical and administrative staff. At the same time, comparison with other hospitals should also be enabled.

As long as the circumstances in hospitals have been considered seriously, the calculation of process costs will be suitable for meeting the requirements imposed by the new system of DRG-based costing. Other control tasks in hospitals are related to the economic management of conducting (market) analyses of the inflow, analysis of the doctors' work, analysis of diagnoses and their frequency in order to create proposals for future activities. [7], [9] The controller also conducts interviews with the chief medical officer and the management staff if it is about establishing the value of the plan and budgeting in individual clinics. Asking questions about managing a hospital requires special medical knowledge, for example, checking the coding of diagnoses and activities, knowledge of hospital business processes, treatment procedures and of conducting appropriate deviation analyzes. Controlling in medicine implies close cooperation between the economically and medically trained personnel.

## 5. CONCLUSION

The main goal of this paper was to show the participants of the conference the possibilities of applying controlling in various business areas. We analyzed the possibility of using controlling as a modern instrument, which is necessary for managing modern enterprises successfully. We have presented the possibilities of application of controlling in the areas of public administration, non-profit organizations and healthcare. By demonstrating the application of controlling in the aforementioned business areas, we have analyzed part of the possibilities offered by this modern management instrument. Looking at the concrete possibilities of applying the concept of controlling in different areas of economy, we see that adequate education can enable controlling to be gradually implemented in the operation of our companies.

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