

## Recognizing the need for controlling in the public sector

**Biljana Veselinović**

(Internal auditor, JKP Čistoća Novi Sad, Sentandrejski put 3, Serbia, e-mail: biljanaveselinovic1978@gmail.com)

**Veselin Perović**

( Full professor, University of Novi Sad, Faculty of Technical Sciences, Novi Sad, Trg Dositeja Obradovića 6, Serbia, e-mail: vesa@uns.ac.rs)

### Abstract

*Despite the fact that controlling has been used for years in the companies of the developed countries in the world and that it is a very important concept of governance, we can conclude that in Serbia, especially in the public sector the situation is completely different, and that controlling is still a big unknown factor in the public sector. What is controlling? It is very true that controlling is dominated by numbers. Rules and practices showed, like Kelvin said long time ago: „that we cannot manage anything that cannot be numbered or measured”. However, controlling is a defined by much more than numbers.*

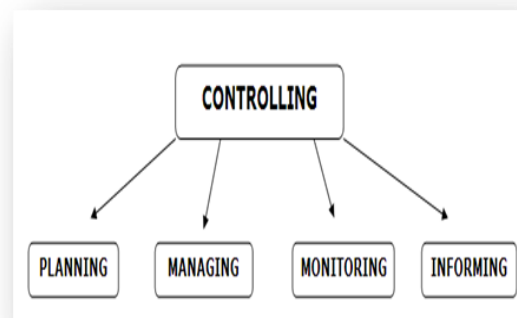
*If we were directed to make business decisions based solely on numbers, most decisions would be wrong because of the lack of intuition and experience which predicts the steps that follow. However, if we relied only on intuition and experience, we would surely make a lot of bad business decisions because intuition and experience which help us in predicting and planning future situation do not mean much unless they are based on some past data. Therefore, the correct method is to establish and implement controlling because by using numbers, analysis, planning and predicting we are getting the most complete information based on which decisions are made. There are several definitions of controlling, but according to Dale, controlling, in simple terms, means “to calculate, plan and convince colleagues to cooperate.” Controlling isn't the same as to control. Controlling isn't just reporting. Controlling is a lot more than that. It is a process that should always be adjusted and improved. In the public sector it is necessary to increase awareness regarding controlling and that controlling is a necessity and not an option because business conditions are changing and expectations are growing.*

**Key words:** Controlling, controller and his role, planning, controlling in public sector

### 1. INTRODUCTION

As a modern managerial activity, controlling should be present in all types of organizations regardless of industry, size, number of employees or whether they are for-profit or non-profit organizations.

As shown in Figure 1. basic functions of controlling are: planning, managing, monitoring and informing. [1].



**Figure 1.** Basic functions of controlling

The controller does not control [2]

## 2. THE ROLE OF CONTROLLER AND HOW IT HAS BEEN CHANGING OVER THE TIME

The role of the controller and tasks of controlling have been changing over time. Each time period brought its own specifics which affected business. [3].

- Controller as a registrar
- Controller as a navigator
- Controller as an innovator

### 2.1 Controller as a registrar

The period of fifties and sixties of last century was characterized by: stability in business, the supply was greater than demand, a stable environment and reliable information. It was easy to monitor and plan the running of the business because changes in business conditions were rare. The company was adapting passively to the changes shown in Figure 2. The controllers used the basic instruments: bookkeeping, balance sheets and calculations based on partial costs. These we based on previous observations.

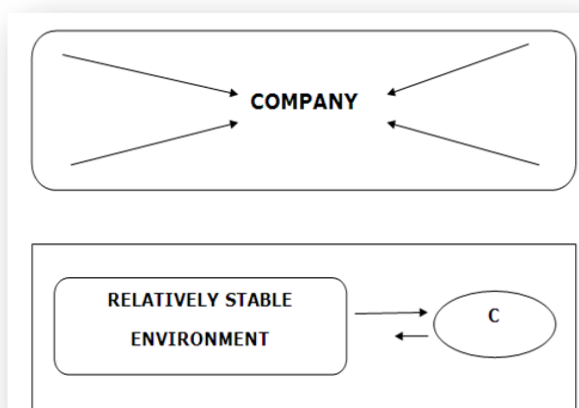


Figure 2. Controller as registrar

### 2.2 Controller as a navigator

Changes in the environment that is called limited dynamic environment would inevitably affect the business and generate information which is no longer completely reliable, as shown in Figure 3. Predicting is becoming more uncertain and greater flexibility in planning is expected. Market saturation calls for new ways of selling. By using the following instruments: planning, controlling execution of the plan and reporting as a navigator, helps the management of the company to lead the company towards safety.

The company seeks instruments with which to influence its environment, and the previously passive behavior is transformed into active behavior.

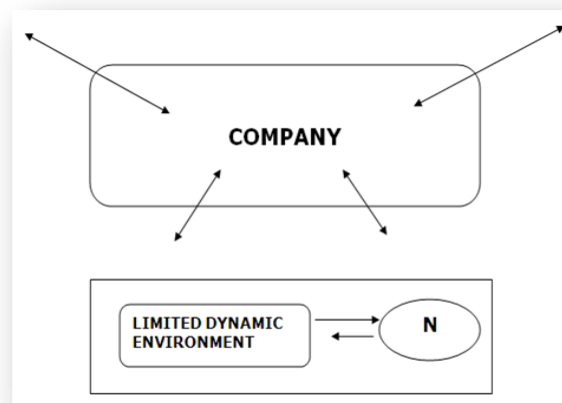


Figure 3. Controller as navigator

### 2.3 Controller as an innovator

Constant development brings everyday changes, as shown in Figure 4. Company operates in an extremely dynamic environment where competitiveness, battling for customers and market share prevail. Information is changing constantly and is extremely unreliable. Predicting is very difficult to implement. Key factors that determine the success of the company are associates who are highly qualified, motivated and knowledgeable. Controller has to be able to develop new instruments which will help the company survive in turbulent circumstances. Therefore, operative and strategic controlling is being developed.

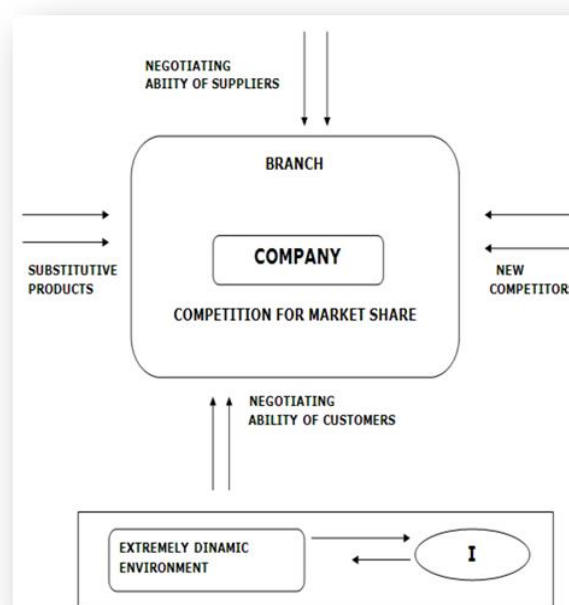


Figure 4. Controller as an innovator

### 3. RECOGNIZING THE NEED FOR CONTROLLING IN THE PUBLIC SECTOR

In order to respond to the requirements imposed on the public sector, the way of operating in the public sector must be changed.

Corporate management, public-private partnerships and non-financial reporting are all requirements imposed in the operations of the public sector and each of these demands are more easily fulfilled by using controlling. Good corporate governance should provide an adequate incentive to the management of the company to achieve the objectives which are of interest to the company and shareholders...[4]

At a time when limited resources are available for the daily functioning of the public sector, we must strive to be economical, effective and efficient and to get the most out of available resources, because with less we need to achieve more.

Model "3E" is what we strive for. [5].

The public sector operates "*under the watchful eye*" of the entire community. Despite the difficulties that the public sector is facing, it should become a segment that meets the needs of all stakeholders, because in this way the management of the public sector can justify primarily the trust it has been given.

The public sector is important for society as a whole, bearing a special responsibility for manufactured products and services rendered. Measuring achievements is certainly not possible without controlling. However, in this case, it must be supplemented by a specific way of thinking and observation, because in the public sector the primary goal is not to make a profit or increase market share, but to meet the needs of all stakeholders.

If we do not know exactly what we want to achieve because we have not clearly defined the end goal, the method used to achieve something, assessing how much the procedure will cost and what quality is expected, we have no basis for quality decision making and management. When a problem arises, which in the public sector in Serbia happens daily, the solution is not to arbitrarily cut costs, which is something that occurs often. We need to look for a solution immediately, allowing for small deviations, in order to find ways to reach the end goal.

Controlling will help us the most in searching for the best solutions.

In the public sector in Serbia does not have clearly defined strategic and operational objectives.

The primary task of the controller in the public sector is to modernize the process of determining and defining goals until their operational execution, with continuous monitoring of execution by using specific indicators. These indicators are always a blend of qualitative and

quantitative evaluators of performance. Universal indicators do not exist, but are adapted to each system separately.

A well-defined goal is measurable. Indicators which are shown through numbers demonstrate a degree of the realization of the objective.

Frajdag and Schmidt [6] have defined a process called ZAK (Ziel - Aktion - Kennzahl), i.e. Goal - Action-Indicator. The idea for ZAK was generated by Herwig and Smidth.

The second, but not any less important task of the controller, is a successful communication with the company management. The controller is the person who assists the management of the company and helps it to make a profit, i.e. to achieve its goals. In order to ensure the achievement of the objectives and determine whether its operations are implemented in accordance with the plan, it is necessary to establish controlling. Through German interpretation and understanding of the concept of controlling, the most important steps are: continuous monitoring and comparison of planned and realized, comparison of actual and expected, and always looking ahead.

When the target is not reached, everyone notices, but then it's too late. Controlling acts as the first "*warning*" that something is not going as it should, which will eventually result in only a partial realization of the target. The controller, on the basis of the "early warning system", should propose ways to return to the right path that leads to the realization of the objective.

The system of reporting and planning in public enterprises is prescribed and this is, according to the law, the minimum that must be met. The current philosophy of looking at business dealings by companies in the public sector includes mainly the analysis of what has already occurred.

However, for successful and good business decisions to be made, the prescribed minimum is not sufficient. Comprehensive monitoring of certain indicators is necessary because financial measures themselves are not sufficient. It is necessary to obtain information about the quality of products / services, speed of delivery, the number of complaints, training of employees, employee satisfaction, etc. The introduction of controlling contributes to the analysis of the current state of a business and defining the solutions that will ensure business success in the future.

Using the instruments of controlling, operation of an enterprise can be seen from the financial and non-financial perspective and thus more sufficient information can be obtained which will serve as a basis for decision making. Establishing a system of controlling is not goal in itself. The goal is to set up an adequate system of controlling which will ensure that the information derived from it provides the basis for making the best decisions possible. The job of a controller is to provide the basis for decision making

and the job of management is to make a decision based on the information provided. There are several approaches that explain the cooperation of managers and controllers, but the point of each is that the manager and controller together find the best solution [7].

The system of controlling must be improved and upgraded. However, we must ensure that the data and information we receive is clear and comparable.

Some of the benefits of an adequately established system of controlling are:

- Corporate management, public-private partnerships and non-financial reporting are requirements which are imposed in the public sector and each of these requirements can be realized more easily by using controlling
- The management of a company receives timely and clear information based on which it makes decisions and whether it is on track to achieve its objective
- The founder has a clear picture of business trends of each segment and sees where the business is going according to the plan and where the "bottlenecks" are
- Employees have clearly defined goals and the way they should work, they know what is expected of them and transparent indicators are available for them to monitor whether the company is on the "right track". Therefore, this creates greater confidence in the system
- Users - misinterpretation of information which is not sufficiently transparent and clear represent the public sector in a negative light. We must be aware that the "reputational risk" is also one of the risks faced by the public sector
- Public-private partnerships, a segment that is in its infancy will be much easier to implement if we have indicators which clearly show a realistic view of a company's business dealings during a specific period of time

*„Controlling cannot provide miracles for business decision-making but it can predict future events“[8]*

#### 4.CONCLUSION

Today, in the modern management system, controlling is inevitable regardless of whether we are talking about a private or public sector. In times of high spending and the growing needs of society, it is essential that resources are managed optimally. The public sector does not pay sufficient attention to introducing and establishing systems of controlling.

Can companies in the public sector exist without controlling?

It may seem like they can. But it is far from true that modern public administrations and enterprises should operate without controlling.

Expectations from the public sector are increasing every day. On one hand there are growing demands of citizens who expect better service, while on the other hand the allotted budget is becoming smaller.

The modernization of public administration is not required only for rationalization of expenses, but primarily to increase efficiency and for business dealings in the public sector to become more transparent and acceptable in the market so that it can initiate economic growth.

Setting clear goals, setting standards of performance, qualitative and quantitative indicators of efficiency must become the framework for life and work of the public sector. However, even if these basic conditions are fulfilled, the fulfillment of objectives cannot be guaranteed completely.

The deviation from objective is normal. The question is how big is the deviation, what caused it and what can we do to change it? Controlling can give us the answers.

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