FINANCIAL CONTROLLING IN NON-PROFIT ORGANIZATIONS. THE CASE OF SLOVAK REPUBLIC

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Abstract

The aim of financial controlling is to secure liquidity and financial stability of an organization. It is very important especially for NPOs. They are not founded primarily for the purpose of making profit, so their financial policy gives priority to continuously provide liquidity. The paper presents partial results of a pilot primary research of utilization of financial controlling tools in governmental and non-governmental non-profit organizations in the conditions of Slovak Republic. Primary data were obtained by the sociological method of a structured questionnaire. The analysis was carried out by adequate mathematical and statistical methods for processing qualitative data and ordinal variables. The presented paper provides a new insight into the studied problem while generating a primary information basis for further scientific study and research work in this field.

Keywords: Financial Controlling, Non-profit Organizations, NPOs, Financial Stability, Primary Research

JEL classification: L31, L39

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1. Introduction

Controlling appeared in the economic theory and practice in the USA towards the end of the 19th century, however did not get fully developed until the 1930s when the controller position became an independent job. Controllers were responsible for creating plans, accounting, controls, reviews, taxes as well as developing methodologies for these activities. In Europe, especially in Germany, controllers were employed in the 1960s and 1970s to promote new management tools and methods that had been commonly applied in the USA. In Czechoslovakia, the comprehensive system of organisational, budgeting, accounting and calculation principles introduced by Tomas Bata in the 1930s was well known. The system of that time would comply with the requirements laid down for controlling even today. In Slovakia, controlling started to be implemented in practice as late as after 1989, especially in companies with foreign ownership.

When defining the term controlling, authors often differ. Over time, not only the number of views has been rising, but they have also crystallized (Refläuter, 1990; Freiberg, 1996; Foltinová – Kalafutová, 1998; Foltinová – Kalafutová, 1998; Eschenbach, 2000; Sládek – Valenteová, 2006; Foltinová, 2007).

In terms of temporal dimension we can distinguish the controlling focused on long-term management i.e. strategic controlling and the short-term management, i.e. operational controlling.
Operational controlling focuses on the present or the near future. The aspect of the future is determined by the planning horizon which is delimited by short-term and long-term outcomes and their evaluation. Its role is to take stock of the current situation within an organization. The key task of operational controlling is to formulate the system of planning and control and deliver any required essential information to it so that it would be possible to compare the plan with the reality within a short period of time and, on the basis of such a comparison, apply management countermeasures in time, enabling the annual plan to be met. Operational controlling can be divided into internal, financial and investment controlling.

Freiberg (1996, p.15) characterizes financial controlling as “a subsystem of corporate controlling the objective of which is to secure liquidity and hence also financial stability (balance) of a company”. So under the term financial controlling we mostly understand the cash flow management outside of an organization. It points out the problems, sends warning signals and gives managers advice, which helps them to make the right decisions. There are some important advantages and contributions of financial controlling such as rising of financial sources, their proper allocation and administration.

2. Material and methods

The aim of the paper is to assess the current state of implementation of financial controlling and its tools in conditions of non-profit sector organizations in Slovakia. We assume that it is necessary to apply the chosen controlling tools that are commonly used in the profit sector, on conditions of non-profit sector (Vaceková, 2011). In the interest of a long-term sustainability the non-profit organizations have to pass on to modern management methods and in the current difficult economic conditions we consider the utilization of controlling as an essential base of success of any organization (Kuvíková – Vaceková, 2010).

The data used in the paper were obtained in a pilot primary research by the sociological method of a structured questionnaire. We decided to create two types of questionnaires – one for the governmental (state) non-profit organizations and one for the non-governmental non-profit organizations. Sequentially we classified the organizations according to the chosen criteria such as the area of their activities, their legal form, the age of the organization, the number of its employees and the seat of the organization.

We built the questions following the same structure for the both types of questionnaires. The survey part of the questionnaires was divided into two topics. In the first one we wanted to find out whether the non-profit organizations have already implemented the financial controlling. Sequentially, we asked the organizations, which have not implemented the financial controlling yet, if they were interested in its implementation in the future and what could be the reason for its utilization. Then we asked the non-profit organizations which have already implemented the financial controlling about the reasons for its implementation and the advantages of its utilization. We were also interested in who was responsible for the financial controlling in the organization. In the second part of the questionnaire we focused on the utilization of selected tools of financial controlling and on activities which were performed while implementing these tools by the non-profit organizations.

We sent the questionnaires to 260 respondents from the non-governmental and to 300 respondents from the governmental non-profit organizations by a chosen method of electronic distribution. For the research purpose we could use 53 completed questionnaires from the non-governmental and 65 from the governmental non-profit organizations.

We placed the questionnaires on the internet using the Google domain’s function. Respondents were directed to the questionnaire by a hypertext link in an e-mail. In the direct electronic data collection the primary data were saved in MySQL database from where they were exported to the Microsoft Excel program. For a following-up statistics evaluation these primary empirical data had to be transformed into a symbolical code’s language. It means it was necessary to develop a system of categorization of examined empirical phenomena and a coding key (Kuvíková – Vaceková, 2009). During the data processing we
applied some relevant mathematical-statistical methods using the SPSS program.

3. Utilization of financial controlling in the conditions of NPOs

At the beginning of our survey we investigated the state of controlling use in the non-governmental and in the governmental non-profit organizations.

Graph 1. State of utilization of financial controlling in non-profit sector organizations

By evaluating the structure of respondents representing non-governmental and governmental (state) organisations according to predetermined identification criteria, we have obtained not only an overview of the structure of the organisations that have participated in the research but we could also carry out some statistical tests of obtained primary information.

We tested the non-governmental and the governmental organizations by chosen statistical methods of data dependence analysis. The aim was to find out whether there was some dependence between the utilization of financial controlling and some pre-established criteria which are: legal form, average evidentiary number of employees, year of organization’s constitution, seat of organization.

Table 1. Analysis of dependence of financial controlling utilization on chosen identifying criteria

<table>
<thead>
<tr>
<th>Dependence of utilization of the financial controlling on the legal form</th>
<th>Dependence test</th>
<th>Dependence rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fisher’s Exact Test/Sig</td>
<td>0,004&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0,353</td>
</tr>
<tr>
<td>Cramer’s V</td>
<td>0,010&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0,331</td>
</tr>
<tr>
<td>0,160&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0,207</td>
<td></td>
</tr>
<tr>
<td>0,892&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0,162</td>
<td></td>
</tr>
</tbody>
</table>

We examined whether there was a dependence between the utilization of financial controlling and the legal form of non-profit organization.

For testing the dependence of two variables we used the Fisher’s Exact Test. The test tells us if there is a dependence between the studied characteristics on the level of significance α = 0,1. To verify the dependence it is necessary to sum up the partial probabilities. If the sum of the probabilities was smaller than the level of significance (p ≤ α), the significance of the relation between the studied characteristics and the existence of some dependence would be proved. We calculated the strength of this dependence by Cramer’s V coefficient (it takes values from 0 to 1), where the correlation 0,1 – 0,3 means a weak dependence, 0,3 to 0,5 a medium-strength dependence, 0,5 to 0,8 a strong dependence and the...
correlation higher than 0.8 means that there is a very strong dependence between the studied characteristics.

Based on the Fisher’s Exact Test (Table 1) we can say that between the legal form and the utilization of financial controlling there does exist a dependence because the value of Fisher’s test is 0.004, which is lower than 0.1. According to Cramer’s V coefficient (0.353) there is a medium-strength dependence between the utilization of financial controlling and the legal form of non-profit sector organizations. Thus there is an implemented system of financial controlling mostly in the organizations with the following legal form: non-profit organizations offering public services and foundations. Civic associations, which took part in our survey, have not implemented the system of financial controlling yet. In the examined budgetary and contributory organizations the financial controlling is used by more than a half of asked respondents.

We also examined if there was dependence between the financial controlling utilization and other identifying criteria such as number of employees, age of organization and its seat. The dependence was confirmed only in the case of tested criterion - number of employees and the size of organization. Based on the Fisher’s Exact Test (0.010) and chosen degree of dependence (Cramer’s V) we can say that there exists a medium-strength dependence between these two indicators. It means (according to the results of the survey) that there is a difference in financial controlling utilization in voluntary, small and big organizations. Organizations operating solely on the principle of voluntarism have not implemented the financial controlling yet. The situation in the organizations that have 1 to 5 employees is balanced and in the organizations with 6 and more employees the financial controlling is commonly used.

3.1. Reasons for implementation of financial controlling in non-profit sector organizations

There can be various reasons for implementation of financial controlling. We examined the reasons for implementing the financial controlling separately in non-governmental and separately in governmental non-profit organizations. The reasons are shown in Graph 2.

Graph 2. Reasons for the implementation of financial controlling

The most common reason for the implementation of financial controlling in non-governmental organizations, which took part in our survey, was to ensure the financial balance and to improve the fund management (both 72.73%), followed by experience of other organizations (18.18%) and other reasons (4.50%), e.g. overview of finances. None of the NGOs considered the pressure of the surroundings as one of the reasons for the implementation of financial controlling.

In governmental non-profit organisations the most common reason for implementation of financial controlling is the financial stability (68.29%) followed by improvement of the fund management (65.85%), pressure of the surroundings (9.76%) and experience of other organizations (4.88%). Other reason that was stated by 2.44% of government organizations is e.g. imposition of the obligation of the founder.

Based on the survey results we can conclude that the biggest difference that exists in governmental and non-governmental non-profit organisations is in the pressure of the surroundings. We think that this is caused by the fact that the governmental organizations are under a greater compulsion on implementation of controlling to make the use of their resources more economically. The governmental non-profit organisations are linked to the budget of their founder and they are financed mostly from public resources.
3.2. Financial controlling tools

The structure of financial controlling can be described as the cycle comprising debt controlling, inventory controlling – controlling of working capital, ongoing liquidity controlling and controlling of short-term liquidity surpluses and deficits. The Graph 3 gives an overview of the use of these tools in non-profit organizations that participated in our survey.

Graph 3. The utilization of financial controlling tools in NOGs

![Graph 3](Image)

Source: Own processing based on the results of primary pre-research.

Debt controlling and controlling of ongoing liquidity is applied equally by 86,36% of non-governmental organizations, where the financial controlling has been implemented in. Controlling of short-term liquidity surpluses and deficits as a part of the financial controlling is used in 68,18% of organizations. The least used financial controlling tool is the inventory controlling, which is used only by 36,36% of asked non-governmental organizations.

Keeping in view all the above facts we conclude that the most used tool of financial controlling is debt controlling and ongoing liquidity controlling. The financial controlling tool, which is used the least, is the inventory controlling.

Overview of the utilization of financial controlling tools in governmental non-profit organizations is shown in Graph 4.

Graph 4. The utilization of financial controlling tools in governmental non-profit organizations

![Graph 4](Image)

Source: Own processing based on the results of primary survey.

Ongoing liquidity controlling is applied by 90,24% of governmental non-profit organizations that use financial controlling, followed by debt controlling (85,37%). Controlling of short-term liquidity surpluses and deficits is used in 56,10% of organizations and the least used is the inventory controlling applied by 43,90% of governmental organizations.
According to the facts discussed in Graph 5 we can conclude that the inventory controlling is the least used financial controlling tool in the governmental non-profit organisations and the debt ongoing liquidity controlling is the financial controlling tool used the most.

Non-governmental and governmental non-profit organisations that have implemented the system of financial controlling do not have to use all its tools. We can provide a more detailed insight into the topic:

The controlling of receivables (debt controlling) is carried out by 83.36% of the addressed non-governmental organisations. Controllers should monitor the balance of revenues and receivables as of the last day in the monitored period, values of the indicators for individual periods, implementation of a credit policy, and should also check credibility of clients. We were nevertheless interested in the activities performed by non-governmental organisations as a part of their controlling of receivables.

We established that non-governmental organisations most often kept the balance of receivables under review (81.82%); this activity is followed by the monitoring of the balance of revenues (45.45%), monitoring of receivables (31.82%), checking the credibility of clients (27.27%). The least frequent activity is implementation of a credit policy (4.55%).

Activities carried out as a part of receivables controlling at governmental organisations copy the situation in non-governmental organisations. The only difference between them is that none of the respondent governmental organisations that participated in our survey implements a credit policy.

The stock controlling (Inventory controlling) is in place at 36.36% respondent non-governmental organisations and 43.90% governmental organisations. On the basis of that, we can state that it is the stock controlling that is paid the least attention by non-profit organisations within their financial controlling activities. It is logical because these organisations do not primarily create any stock and work on the non-profit principle.

The controlling of continuous liquidity (ongoing liquidity controlling) is carried out by 83.36% of the respondents from non-governmental organisations. The governmental organisations implementing the controlling of continuous liquidity even constitute as many as 90.24% of respondents. Among the tools of financial controlling, the controlling of continuous liquidity is definitely implemented most often.

Freiberg (1996, p. 45) presents the main principles that organisations should follow when monitoring continuous liquidity: to avoid delays in paying their liabilities, to make optimal use of lines of credit, to prevent any exceeding of credit limits, to make efficient use of temporarily available funds, to secure availability of flexible short-term resources, and to build information systems supporting money availability.

As a part of controlling their continuous liquidity, 72.73% of non-governmental organisations follow the principle of avoiding delays in paying their liabilities, 59.09% make efforts to efficiently use their temporarily available funds, 36.36% regulate the speed of the financial means flow, 22.73% follow the principle of securing the flexibility of short-term resources, 18.18% do not exceed credit limits, 13.64% of the organisations make optimal use of lines of credit and the same percentage of them develop information systems to support money availability.

Up to 78.05% of the governmental organisations most often follow the principle of avoiding delays in paying their liabilities, 46.34% efficiently use their funds, 19.51% of the organisations regulate the speed of their financial means flow, 9.76% follow the principle of not exceeding credit limits, 7.32% secure the flexibility of short-term resources, 2.44% of the organisations make efforts to make optimal use of lines of credit, and the same percentage of them develop information systems to support money availability.

On the basis of the overview of the principles and the scope of their implementation in the conditions of NPOs in SR we can state that non-governmental and governmental organisations abide by all the principles they should follow in controlling continuous liquidity.

The controlling of short-term liquidity surplus or deficit is in place at 68.18% of the surveyed non-governmental organisations and 56.10% of the governmental organisations. On the basis of an overview about the future development of the liquidity balance, financial controlling draws attention to any liquidity surpluses or deficits that have arisen, offering solutions aimed at increasing the value of liquidity surpluses or securing sufficient resources to cover liquidity deficits. Therefore, we were interested in how the surveyed non-profit organisations run their spendable funds and what measures they took when they lacked liquid funds.

We focused on a coherent overview of the activities that non-profit organisations can perform when they have any spendable funds available.

54.55% of the non-governmental organisations that apply the controlling of short-term liquidity surplus or deficit most often leave their spendable funds on their current account, 40.91% of the organisations use the funds to settle their liabilities, 22.73% deposit their funds to a fixed-term account, and 18.18% of non-governmental organisations use them to promote themselves. 39.02% of the governmental organisations leave their spendable funds on their current account, 36.59% use them for promotional purposes, 12.20% deposit their funds to a fixed-term account, and only 5% use temporarily available funds to settle their liabilities.
With respect to the controlling of short-term liquidity deficits, we were interested in what measures are taken by organisations when they lack liquid funds. Income acceleration and delayed expenditures as one of the measures of the controlling of short-term liquidity surplus and deficit are performed by 40.91% of non-governmental organisations, 36.36% of the organisations raise funds through adjusting their financial plans; in the case of lacking funds, the same percentage of the organisations obtain short-term external sources and 9.09% of the organisations deplete their liquidity reserves. Other measures, such as for example searching for donors, contributions from founders etc., were identified by 4.55% of non-governmental organisations.

The most frequent measure taken by governmental organisations in the case of lacking funds is obtaining funds through adjustment of financial plans, followed up with depleting the liquidity reserve, income acceleration and delayed expenditures. The respondents specified grant applications, implementation of budgetary measures or applications submitted for an increase in their budget as other measures taken when they lack funds.

3.3. Barriers to implementation of financial controlling

The financial controlling system has not been implemented yet by 58.49% of non-governmental and 36.92% governmental non-profit organizations that participated on our survey. We were interested whether the organizations, which do not use the financial controlling system, think upon its implementation in the future and which barriers they might face in this process (Vaceková – Pavlík, 2013).

Graph 5. Interest of non-profit organizations in implementation of financial controlling

The results of the survey depicted that only 35.38% of asked non-governmental organizations that did not applied the financial controlling system in the past were interested in implementation of the financial controlling system. Among the governmental non-profit organization, the interest in implementation of financial controlling system in future was even lower — only 12.50%. This could be caused by the fact that governmental non-profit organizations are connected to the budget of their founder, who adjudicates about the implementation and the use of financial controlling system.

More than a half (58.49%) of non-governmental organizations, that have participated in our survey, have not implemented the financial controlling system at all. Therefore we tried to find out what were the barriers and their significance to its implementation.

For verification we applied the Friedman test, which uses the assessment for the correspondence of medians for k variables (k>2) based on the average and total orders for each variable separately. The basic idea is that if there is no difference between the selections yields there is no difference between the average orders (Rezáková, 2010). Table 2 presents the results of the Friedman test.
Table 2. Friedman test for correspondence of barriers to implementation of financial controlling in NGOs

<table>
<thead>
<tr>
<th>Barriers to implementation of financial controlling</th>
<th>Average rating</th>
<th>Absolute frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of financial resources</td>
<td>4.61</td>
<td>Chi-square 53.261</td>
</tr>
<tr>
<td>Lack of human resources</td>
<td>4.03</td>
<td>df 5</td>
</tr>
<tr>
<td>Lack of material resources</td>
<td>2.87</td>
<td>Asymp. Sig. .000</td>
</tr>
<tr>
<td>Insufficient information system</td>
<td>2.87</td>
<td>Monte Carlo Sig.</td>
</tr>
<tr>
<td>Lack of information about financial controlling</td>
<td>4.03</td>
<td>99% Confidence Interval</td>
</tr>
<tr>
<td>Other</td>
<td>2.58</td>
<td>Lower Bound .000</td>
</tr>
</tbody>
</table>

Source: Own processing based on the outcomes from SPSS program.

According to the results of Friedman test we can conclude that there is a significant difference between the barriers. The most organizations (74,19%) considered the lack of financial and human resources (equally 54,84%) and the lack of information about financial controlling as well as the lack of material resources (both equally 16,13%) as the barriers to implementation of financial controlling. Non-governmental organizations identified also some other reasons, e.g. lack of interest in implementation of financial controlling or inefficiency of implementation of financial controlling caused by a low number of employees.

4. Conclusion

The contribution of the paper is a primary information about the current state of implementing the financial controlling in non-profit organizations in Slovakia. The author strived to show the application possibilities of financial controlling tools commonly used in the profit sector in the conditions of non-profit sector organizations.

The survey was performed as a pilot research by sociological method of a structured questionnaire. As the object of our survey, we examined the non-governmental and the governmental non-profit organizations in the Slovak republic. We focused on identification of current state of utilization of financial controlling as well as on the reasons to apply the financial controlling and its contribution to the non-profit organizations. We were also interested in the state of utilization of selected tools of financial controlling and in the activities, which these tools contain. In the last part of the primary survey we focused on barriers, which interfered the implementation of financial controlling system by non-profit organizations.

We think that implementing the financial controlling in the conditions of non-profit sector organizations brings to these organizations some significant benefits connected to the functions of financial controlling. These predicate in obtaining resources, its management and the use and that is why we believe that non-profit organizations should take advantage of possibility of implementing the financial controlling within their organization. Nowadays, non-profit organizations cannot carry out their activities without sufficient financial background (Vaceková, 2010). Therefore they should think upon application of new management methods, the appropriate way of financial security and more efficient use of funds. Another factor is the growth of competition in searching for donations, grants and subsidies that simultaneously force the organizations to more efficient use of their sources. And that is the answer to the need of implementation of selected financial controlling tools in the conditions of governmental and non-governmental non-profit organizations.

References
