# CONCEPTUAL DEFINITIONS AND FINANCIAL MANAGEMENT SPECIFIC FEATURES

**IRINA MARIA ALEXANDRU**
*PH.D. CANDIDATE, THE UNIVERSITY OF CRAIOVA*
*irinalex2003@yahoo.com*

**GHEORGHE MATEI**
*ACCADEMIC PROFESSOR, THE UNIVERSITY OF CRAIOVA*
*ghematei@yahoo.com*

***Abstract***
*The present paper analyzes the stages of the emergence and evolution as well, of the financial management concept in the light of the modern theories expressed by various specialists in the field of corporate finance that have become the basis for its development as a science. It also identifies the main views of different famous economists and the relevant periods that have contributed significantly to the scientific foundation of the notion of financial management.*
*In the same time, the authors drew some proper conclusions related to the premises of the development of financial science and also to the research priorities in the financial management of the enterprises/firms/signboards.*
*In the article we highlighted a series of important concepts, more or less known or completed, beginning with the evolution of the term "management", from the etymological point of view and continuing with the presentation of the manner in which financial management was imposed as a science in the economic field.*

**Keywords:** *management, financial management, corporate finance*

**JEL classificasion: G00, G30**

## 1. INTRODUCTION

In the specialized publications, the notion of financial management has been the subject of numerous attempts to define it, some of them complete, others less complete, or rather improper, which consider the organization and the financial mechanism to be the center of the general management activity of an economic and social entity.

As an independent branch of science in the financial management of an economic sector as an entity, the financial management emerged at the intersection of three important scientific areas: the general management theory, the classical theory of finance and accounting. Specifically, with the development of entrepreneurship, the emergence of corporate property, the financial intermediation institutions, the development of financial markets, and the enhancement of integration and globalization throughout the world, a specialized theoretical branch called "Financial Management" has emerged for a better understanding of the significance financial management in the development of national economies, the importance of applying basic concepts and fundamental methodological theories, it is relevant to study the development of financial management as a science. The role of financial management is mainly to maximize the value of the firm through efficiency and profit making by facilitating the protection of the interests of different classes of person related to the firm. Today, external factors have an increasing impact on the financial manager. Increased corporate competition, technological change, inflation volatility and interest rates, the global economic uncertainty, the fluctuating exchange rates, the changes in the tax legislation, the environmental issues, and ethical concerns about certain financial transactions have to be tracked almost daily. As a result, funding is needed to play a more strategic role within the corporation. The financial manager has emerged as a team player in the global effort of a company that standards value. The so-called "old ways of doing things", are not simply good enough in a world where the old fashioned ways are fast becoming obsolete. So, the financial manager of today must have the flexibility to adapt to the changing external environment if the firm has to survive. The future successful financial manager will need to balance the traditional metric performance metrics with new methods that take into account the uncertainty and multiple assumptions. These new methods will try to capitalize on the inherent flexibility of initiatives - that is, how to take a step gives them the option of stopping or continuing in one or more ways. In short, a correct decision involves doing something today that itself is of little value, but it can offer the option of doing something that is more valuable in the future.

## 2. THE NOTION OF FINANCIAL MANAGEMENT

"The term of management has become very important in the economic area after the `50s of the last century, thanks to the work of James Burnham and *The Managerial Revolution,* published in New York in 1941. The idea generated by Burnham is that any company, unconcerned of the ideological, legal or political regim, needs managers if it wants its economy to thrive in an innovative and creative rhythm"(Vasilescu, 2007, p.1)**.**

In order to plan, organize, lead, guide and control a group of people and resources, being carried out in a well-defined legal framework, the management is a complex activity and also a professional function, as well.

Originating in English, the notion of "management" was adapted in this form having available a very complex semasiology expressing both the scientific organizations and their management science.

The term management comes from the Latin "maneo" which means " to stay" becoming the French "maison" and "housekeeping", then from the noun "manus" (hand in Latin) it formed the term "Menaggio" meaning "manual processing". Either from Italian or Latin, these words have acquired in English the verb "to manage" in several senses but the most important ones for this domain are those of "administering" or "driving." Starting from these, as a derivation, the English have obtained the "manager" and "management" forms.

The verb "to manage" has gone through several domains starting with the sporting horse-riding of the horses to that of operative art and military science. This term has become indispensable in many economic activities and has been in the frequent use during the last decades, today being used in most fields - education, health, sports, etc. in the sense of efficient, rational, modern driving. Referring to management in the study "Shop Management", Frederick W. Taylor defined the term "to know exactly what people want to do and supervise them to make this the best way and the cheapest, as well" (Frederick W. Taylor, 1903, p. 7). In his book named "Industrial and General Administration", Henri Fayol questioned the fact that "managing is to predict, organize, command, coordinate and control" (Henri Fayol, 1916, p.156). He considered that the management theory should pursue a general management education within the family but especially at the level of the school system including all levels.

More recently, A. Mackens noting in the "Harvard Business Review" defines management as "the process in which the manager operates on three fundamental elements: ideas, things and people achieving goals through others" (Mackens A., 1969, p. 124).

The management is analogous to the "person who manages" the term "management being only a pleasant substitute for" chief "says Peter Drucker. He also argues that "the main and perhaps the only task of management is to mobilize the economic unit's energies to accomplish known and defined tasks" and the test of success is " achieving high efficiency and adapting to external changes" (Druker F., 2001, p. 217).

The term "management" is defined as "the activity or the art of managing; the science of organizing and managing the enterprise" (Marcu F. et al., 1978, p. 650). Oxford Advanced Learner's Dictionary defines management as "making decisions and controlling them in a similar business or organization" (Crowther J., 1999: 712), while the Larousse Dictionary explains the term as "a set of techniques for targeting, organizing and management of the enterprise "(Legrain M. et al., 2001, p. 620). The verb "to manage," from which derives the English term "management" is defined as "being responsible for or making decisions in a business or an organization, or in a part of a business or organization" (Crowther J., 1999: 712) by Oxford Advanced Learner's Dictionary, while Larousse defines this verb right "Practicing management; organizing, conducting a business, service, or training athletes" (Legrain M. et al., 2001, p. 620).

To achieve a complete definition, some theorists addressing management, treated it from a science management perspective or from the management as seen in art. Thus, any of the two situations, determines some generally agreed elements, namely:

- The management is a continuous activity, a progressive one, specific to the everyday life of both individuals and organizations;
- It presumes the existence of one or more of the goals set for the individual or an organization as well as the sub-division of the individual organizational objectives;
- In order to achieve the desired result, the consumption of certain individual or organizational resources must be taken into account;
- "Through management,we mean planning the way in which the proposed actions will be achieved in order to accomplish the ideal results, the organization of the proper resources in this respect, the leadership (also known as the "coordination" or "motivation and involvement") of the human resources involved and the control over the degree of achievement of the planned ones" (Ionescu Gh. Gh., 2007, p. 9).

We bring into our attention the ***Postulate to modern management*** from the perspective of the education field formulated by Peter Drucker and supported by Gheorghe Ionescu considering them as proper and according to our times:

- "The management is so general that it is present in all economic and social fields;
- The developing of the spirit of innovation is an essential feature of modern management;
- The management is geared towards increasing the productivity of intellectual and physical work;
- the management is grafted on the cultural, social and political traditions of each country, on the conditions of its development;
- the management is the main factor for enhancing the efficiency of the activity carried out;
- as a logical consequence, the management is the main " animator" of economic development, a claim supported by the existence of poor countries, in what concerns the material resources, but still economically well-developed" (Ionescu Gh. Gh., 2007, pp. 9-10).

Management schools were classified according to different criteria by various specialists. Thus, there are ones who postulate the existence of the process of management school, the empirical school, the school of the human behavior, the social system school, the school of the theory of decision, the mathematics school, the school of dynamics or according to others the classical school, the neoclassical school the school of modern organization.

Other classification postulates: the behaviorist school, the scientific school, the quantitative school, the decision-making school, and the school proceedings.

"At the microeconomic level, the general management sets out the general objectives and strategy of a company's development, taking into account all the components of the company's activity: the production, the sales, the marketing, the advertising and the general administration. The general management, with the support of specialists from other fields of activity, must also establish the company's internal policies [...]. So, the financial management is a subsystem of the general management of the firm" (Vasilescu, 2007, p.1-2).

As an independent branch of science in the financial management of an economic sector as an entity, the financial management emerged at the intersection of three important scientific areas: the general management theory, the classical theory of finance and accounting. Specifically, with the development of entrepreneurship, the emergence of the corporate property, the financial intermediation institutions, the development of financial markets and the intensification of the integration and globalization around the world, a specialized theoretical branch called "Financial Management" has emerged. For a better understanding of the significance of financial management in the development of national economies, the importance of applying basic concepts and fundamental methodological theories, is relevant to the study of the development of financial management as a science.

Theoretically, financial management has many definitions:

- The preface of the English translation of the 1949 "Administration industrielle et générale" highlighted the fact that at the end of the 1940s` a comparison was made between Henri Fayol and Frederick Taylor. Both engineers had considerable experience in large corporations and had a particular interest in management. They both maintained their recommendations;there were general recommendations in that they applied to all types of organizations. Still, their approaches to management were radically different. If Fayol drew attention to the similarities between organizations, Taylor (1911/1998) highlighted the differences between them. Taylor's managers were technical experts who were supposed to support workers and help them produce as much as possible given the "scientific" knowledge of how they had to work to perform. While Fayol approaches "top-down" management, Taylor's approach contrasts with that of "bottom-up". Consequently, Taylor did not support management training; such a proposal would be very much against his perception of management.

An important part of an organization's management is the financial management, with everything he or she represents: the principles, the methods used, the totality of the objectives and instruments specific to the organization. The main goal is to identify and optimize the use of economic and financial resources within the organization.

Under the market economy conditions, it can be regarded as a set of measures and activities within the enterprise which, according to the proposed objectives, contribute to the efficient use of the entire system of financial relations, to the funds and reserves that form the financial mechanism of the company activity.

In the context of the business environment, the definition of financial management is customized in the sense that any enterprise operates within a system of relationships that depend on a number of internal factors: funding and investment policies, products and services offered, marketing, technology, interpersonal relationships, and external factors: the government and the National Bank policy legislation, to the world economy, competitors, the financial markets and the economic environment: the risk or uncertainty of the economic environment.

In his paper "Financial Management and Banking Management" Ioana Bogdan defines financial management " as a subsystem of the general management of the company with the purpose of providing the necessary financial resources, their profitable allocation and distribution, increasing the value of the firm and the security of its assets, fulfilling an active role, starting from the financial resources mobilized to establish the strategic and tactical objectives of the firm and to control and evaluate its fulfillment" (Ioana Bogdan, 2002, p. 31).

"Any human activity, in order to be initiated, deployed, developed needs the dynamic presence of three factors or key resource elements - man, time, and money. .... Depending on their own needs, these resource-based resources or source of existence for the human factor set itself strategic objectives. The objective of acquiring, accumulating the necessary means for the individual, is conceived directly according to his own needs" (Luca and Olaru, 1998, p .1).

It is established that, in relation to the nominated resource-factors:

- the man decides and puts into practice the appropriate ideas to put them into practice;

- regarding to the notion of time, it is necessary to reduce it to a minimum to achieve the proposed objectives;

-to quantify the quality of the results of the human activities and to maximize the effort involve infer the existence of financial resources.

Money became absolutely necessary while pressing the man, which in turn, closely relates to its limits, involving other key elements such as "control", "leadership".

Obtaining financial resources by controlling, conducting (social, economic, etc.) activities is a fairly dynamic and complex process that involves and correlates the whole mankind, influenced by the multitude of unprecedented scale factors and conditions.

According to Ghe. Manolescu "The subject studying the process of making fair financial decisions for an economic agent is called financial management" (Manolescu Ghe., 1995, p. 20).

James Van Horne defines Financial Management as follows: "Planning is an incomprehensible dimension of financial management. The term of financial management indicates that fund flows are targeted according to a certain plan" (James Van Horne, 2009, p. 256).

The financial management can be considered a good guide to assigning future resources to an organization. The preparation and implementation of plans can be defined as financial management. In other words, the collection of funds and their efficient use for efficient operation and organization is called financial management. Financial management influences all the activities of an organization. From here it can be said that it is important.

Financial management is a matter of financial function. In today's business administration, financial management is an important branch. No one will think of a business without financial implications. Its main responsibility is to successfully complete the funding function. It also has relationships with other business functions. All business decisions also have financial implications. According to Raymond Chambers, "the function of financial management is financial management" (Chambers R., 1969, p. 97).

However, financial management is not considered as a profit-making device. If finances are used appropriately through plans, they lead to profits. In addition, without profit, there will be not, any generation of funding. All these are facts. This fact could not be complete.

Financial management continues to change in a rapid pace. Progress is not only in the theory of financial management, but also in its real-world practice. It is indeed, a period of both challenges and opportunities. Issues of corporate governance, ethical dilemmas, stakeholder claims involved in conflicts, a reduced corporate environment, globalization of finance, e-commerce, strategic alliances, increased outsourcing and a number of other aspects and considerations now penetrate into the financial decision making.

Progress does not occur only in the theory of financial management, but also in his real-world policy. The result requires that the financial management concentrate more on a strategic plan, as managers strive to create value within a corporate setting. In the process of creating financial value, managers are making traditional performance measurements in new ways to emphasize the importance of the multiple hypotheses role.

The financial manager plays a dynamic role in the development of a modern company. That's not how things always happened. Until the first half of the twentieth century financial managers, first of all were busy raising funds, and trying to manage their company's cash requirements - that required a lot of time. In the 1950s, the growing acceptance of current value concepts encouraged financial managers to expand their responsibilities and to focus on selecting investment capital projects.

According to Raymond Chambers, "the notion of financial management is applicable to all types of businesses, regardless of their objectives" (Raymond Chambers, 1969, p. 201).

"The role of financial management is to create a favorable framework for action, establishing natural links between financial objectives and the means and tools used to measure its performance. For this reason, modern financial management is oriented so as to ensure the following: obtaining efficiency; recognition of individual responsibilities in the performance of public duties, decentralization of responsibilities; introduction and development of strategic management; outsourcing certain services to the private sector; introducing modern management techniques" (Onofrei et al., 2011, p. 20).

"Financial management addresses multiple dimensions such as planning and control, past and future, internal and external factors, financial theory and practice, short and long term objectives can be defined as a process of identifying, planning and preserving resources. Depending on the financial management, the company will offer better products at low prices, high salaries for both production and management staff, and high revenue for investors who have contributed with capital to the business" (Halpern et al., 1998).

Fine management can also be defined as "a set of principles, methods, techniques, tools and actions that reinforce financial decisions in the context of organizational goals, formulated in a firm strategy" (Pirtea et al, 2010, p. 17).

Financial management involves the organization and systemic management of financial activity on the basis of the income and expenditure budget through financial forecast, the control of the proposed financial objectives and continuous tracking in the management of assets for prevention of the risk of bankruptcy.

In order for the financial managers to carry out high-quality and professional performance in performance conditions, they must benefit from some conditions regarding managerial training and their motivation in achieving their objectives, bringing to their knowledge the general objectives of the company as well as the correlation of general objectives with those of the financial compartment to avoid taking risky commitments that may have negative effects on production efficiency, resource provision, etc. Both securing a degree of independence but especially that of the resources (material, technological, informational, human, financial) will help the financial manager to overcome the established objectives and to choose the best decision options.

"Financial management refers to the acquisition, financing and management of active funds pursuing a general purpose. Thus, decision-making positions their financial management can be divided into three major areas: investment, financing and asset management" (James Van Horne, 2009, p. 27).

Effective financial management requires the existence of an objective or purpose, because when it comes to determining whether a financial decision is effective or not, it must be done in the light of some standards. Although different goals are possible, we assume that the company's main goal is to maximize the wealth of current owners.

The share of shareholders determines the market price of common shares of the firm, which in turn reflects in the investment decisions, financing and asset management. The idea is that successful business decisions should be judged by the effect it has on the price of actions.

Financial management goals should be useful for owners, managers, employees and consumers of the firm.

Financial management generally has the following objectives: efficient management of how the organization's capital is used; controlling decision-makers with a view to optimal use of all funds involved; appreciation of the financial effort to support certain actions in a well-established period; ensuring at the necessary time, under the necessary quality conditions of a financial capital at an optimal cost; permanently maintaining a financial balance within the organization and achieving the desired financial result.

The financial management needs to be continually reviewed. The shareholders who are dissatisfied with the manager performance may sell shares and invest in other company. This action, if taken by some dissatisfied shareholders, will exert a downward pressure on the market price per share. Thus, management must focus on creating value for shareholders. This requires seeking alternative investment strategies, financing and asset management with regard to the effect on shareholder value (share price). In addition, management should have some market strategies such as market share or increase the company customers satisfaction; only if they will rise, it will also increase the shareholder value.

Most of the specialists note as generally understood the following functions: the research and development function; the production function; the commercial function; the financial accounting function; the staffing function.

In the theoretical level, the respective functions can be customized, they may be independent of each other. Practically, they are in a tight relation. The financial accounting function is a complicated mechanism which is identified with the financial resources necessary to accomplish the organization objectives, and records as well the existence of the financial value of the entire patrimony. The components of this function are represented by financial activity, accounting, financial management and control.

## 3. THE EVOLUTION OF THE FINANCIAL MANAGEMENT

In the specialty literature on corporate finance from the developed Western countries, the issue of the fundamental conceptual development of the fundamentals of financial management was the subject of researchers and experts, namely J. Williams, J. Richard Hicks, H. Markowitz, F. Modigliani, M. Miller, M. Gordon, W. Sharpe, G. Donaldson, S. Myers, M. Scholes et al. The theoretical, methodological and practical aspects of the post-soviet space are covered in the works of such notorious scientists such as: I. Blank, A. Vasilik, V. Kovalev, A. Podpayogin, V. Savchuk, A. Stoyanova, V. Sutormina, A. Tereshchenko, V. Sheludko et al. Although they contributed to the development of financial management as a science and research of the relevance of the basic theories of development, as well as of the theory and practice of modern financial analysis confirms the existence of analysis problems and that of systematizing the major stages of establishment and development of financial management.

At its turn, the financial management appeared as a separate science in the developed countries in the nineteenth and twentieth century with the development of financial and commodity markets and with the emergence of need for more detailed justification of financial transactions through economic calculations.

The beginnings of management are attributed by most management theorists such as: Frederick Taylor and Henry Fayol. There are others who believe that there have been specialists and practitioners who have introduced management elements (Robert Owen, Charles Babbage, Henry Metcalfe, Henry Robinso Towne). They are even researchers in the field who push the history of managerial precepts to Antiquity.

As an actual science, the management seems to have appeared at the beginning of the 20th century and consisted of permanently adding the contributions of different thoughts, of scientific or social personalities. Around them were formed various schools, with different ideas and motivations that led to the development of the management concept.

Leadership, as a phenomenon itself, even if at first less structured, has existed since the emerge of the first forms of organization of human communities. Management and first studies, analyzes on it, appeared much later. The need to develop a certain scale company in terms of industrial, socio-economic and financial point of view, explain all these because, for this is necessary and only in this way it is possible to systematize knowledge and the emerge of accurate theories. The beginning of management as a science overlaps the US scientific leadership movement since the beginning of the 20th century, whose principle was to achieve maximum results with minimal effort.

With the appearance of the "Financial Policy of Corporations" by Arthur Stone Dewing, after the `20s of the twentieth century, originated the early financial management and, in the early `40s of the same century, the notion deepens and gains energy; especially after 1945, with the modern financial management in theory and practice.

The field of financial management was limited to the presentation of financial markets and securities on these markets that remained until the beginning of the third millennium. Against this background, finance has traditionally dealt with stock and bond balances and increases in funds.

Over the second millennium, the financial management represented rather a complicated presentation of the characteristics of the financial market, of the values within them, as well as how they traded. Finances, as a branch itself, showed the analysis of the balance related to obligation, shares and to increase growth of funds.

Interesting confrontation have held between the financial actions of economic agencies and various new problems during the financial crisis of the `30s. This led to the emerge of new complicated movements regarding the financial management, specifically the insolvency regulations, the financial reorganization of an organization or trader. Even so, including the following years, the management was regarded and analyzed, especially qualitatively.

After the complicated `50s years, the financial management had some important, complicated changes. It was extended by introducing in its structure of the asset balance, as well as the way of using the funds. The implementation procedures to issue cash flow at the expected capital expenditures are defined more clearly, more exactly. Some instruments to assess the cost of capital and of the financial assets, appeared and they achieved a continuous progress, including the capital planning.

The beginning of the last important period in the modern financial law enforcement and development, is found in the late `50s of the twentieth century.

In the same time with the development of all branches of global management, a very active evolution has been registered regarding the managing financial resources.

The 1960s coincided with the introduction of mathematical models and statistical techniques and optimizers in the allocation of current assets. In this way, financial management made the leap to a "quantitative" way to regard its analysis. Apart from the complicated methods of old times, there have been new models for risk analysis in an attempt to maximize firm value and to achieve shareholder value maximization.

In the economy, the term was imposed over the last 70 years with the introduction of James Burnham's in "The Managerial Revolution"(1941, New York).

Due to the complicated appearance of some new areas, in full development such as: informatics, computers and office equipment, the financial management is enriched with new financially instruments of decision, computer-operated, the complicated management leadership style becoming somehow more aggressive, regarding the company assets, partly due to the huge rates of interest.

The risk in conjunction with a possible deviation of expected developments in the development of the company, faced with an uncertain environment is carefully included in the analysis and financial decision, contributing to the development of the modern theory of portfolio and the model's valuation of company assets. In order to maintain it on the European and world system, states that have had a centralized economy, find it difficult to accommodate the basic elements of modern financial management to them. For their connection to the European and world economic system and for adapting them to the legislation of the free economic market, considerable efforts are made in setting up adequate financial resources for activities carried out by organizations and institutions.

The financial management - has recently developed as a separate study of three main reasons:

• recognizing the importance of constant assessing financing needs of businesses and of the large and small public entities; identifying the sources of funding; optimum use of the resources provided by this funding;

• increasing the number of specialized managers in finances, designated by the largest companies and public bodies;

• supporting the development and the application of analytical techniques in financial decision making.

As an independent branch of science in the financial management of an economic sector, financial management emerged at the intersection of three important scientific areas: the general management theory, the classical finance theory and the accounting theory. Specifically, under the entrepreneurship development, the development of financial markets and the enhancement of integration in the global horizon worldwide, there was a specialized investment fund called

"Financial Management" which appeared. For a better understanding of the significance of financial management in the development of national economies, it is relevant to study the evolution of concepts and methodologies, the importance of their application, the establishment and development of financial management as a science.

## 4. CONCLUSIONS

A retrospective analysis of the major stages of the emergence and evolution of the concept of financial management, allows us to conclude that it, as a science, emerged in the mid- twentieth century in market- economy countries. During the one hundred years of existence, financial management has had a significant impact, expanded the range of issues studied - at first, it mainly considered the financial problems of setting up new companies and later on the investment management in general and financial investment in particular, bankruptcy issues, and now includes almost all areas of finance management. In the recent years, a number of issues related to financial management have developed in depth in new, knowledge-independent areas - financial analysis, investment management, risk management, business crisis management under threat of bankruptcy.

In a globalized world economy, the universalization processes of global information, the complicated system of internal and external financial relationships, the need for financial forecasts and financial long-term planning, applying new tools and leverage financial, a better understanding of the international financing mechanism as well as the development of specialized IT systems that comes in support of financial decisions has become evident.

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