Financial Management of Public Institutions

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Abstract. *The paper provides a perspective on the public institution as an organization, its financial management including principles and funding mechanisms helping to form a picture from the point of view of the person involved in its management. From the scientific perspective, the paper has an economic approach. This means that the public organization is valued in terms of efficiency, effectiveness and cost. In view of the entity of interest, as well as the adopted scientific perspective, a description of the functional elements of the public organization in a manner similar to that of the management studies resulted, always being analyzed from the perspective of comparisons with private organizations.*

Keywords: management, public institution, financial management.

JEL Classification: G00, H00.

1. Introduction

Specialist literature dealing with public management, public administration, public policies, and other similar topics indicate that most begin by explaining what is associated with the public attribute, such as management, administration or policies. It goes without saying that there are no definition problems associated with the public concept. Hence, the lack of explanations associated with concepts related to the domain covered by this attribute appears as normal and the consequence is the occurrence of some confusion or logical hiatus.

The general approach of public institution management in this paper is a theoretical one reflecting the conclusions associated with a series of theories that synthesize views that directly or explicitly relate to the public institution and its management. The financial management segment is clearly focused on the specific aspects of the organization's respective functions.

From the scientific point of view, the work is tributary to the economic perspective, the concepts put in question being reported to the national particularities without insisting on the legal elements of Romania.

2. Management of public institutions - conceptual delimitations

Băcanu (2008, p. 26) claims that "the public organization is the state-owned organization". The state is represented at the central or local level by organizational units that are legally constituted in the subject of property.

Analysis of the management of the public organization requires discussions on basic economic concepts, some of which are associated with public / private dichotomy. This discussion is necessary to highlight significant differences in content related to pair concepts created from the original division, concepts such as public assets/ private assets, public property/ private property, public organization/ private organization, etc.

Given the clarifications related mainly to the public organization and the interest of managing this type of organization, the explanation of the concept of *public* *management* reveals itself as natural. Previous delimitations will allow understanding of the concept and its positioning towards the public organization. However, unlike the organization or sector, in the latter case the *private management* dichotomics is rarely used, despite the fact that management is focused in practice on private organizational entities. On the other hand, although the links between public management and the public organization or the public sector are immediate, they need to be explained, and in order to avoid a series of common confusions, a few more nuanced boundaries must be pointed out. These are generated by the relative novelty of the concept of public management and the implications of its use in theory.

The primary guidance of the explanations associated with the concept can be done by switching from general to particular, in terms of common management acceptances. Thus, three main concepts can be distinguished, with immediate utility:

• public management as *a process*;
• public management as *a theory (domain of knowledg*e);
• public management as *a group of people*.

The use of the concept to designate a process refers to relational aspects between organizational entities. Thus, public management means managing the system of relations between public sector organizations in order to satisfy the public interest, including by regulating the activities of the private sector. Even though the definition is questionable for its simplicity, it draws attention to the fact that this management refers to the public sector, that is to say, to all public organizations. Uses in a narrower sense are rare and could be interpreted as accidental.

The abstract side of the content of the concept, that is to say, the second meaning in the list, signifies the "theory of the stated process." The third understanding has the meaning of "a group of people dealing with the reminded process". It should be noted that this concept is rarely used in the public sector, other concepts being preferred, such as bureaucrats. From this, it seems logical that the idea of "public management" commonly refers to a process or a theory.

As *public administration* is used in the current speech, it is of course emphasised the interest in analyzing the public administration - public management relationship. The result may be the discovery of a content identity or the inclusion of one of the spheres of coverage in the other. Relative positioning is useful to identify the applicability of theoretical or empirical results in the field.

The richness of the post 1990 specialist literature that discusses the administration-management relationship is obvious, even with a brief overview of titles or positions expressed by reference names on this subject. In the diversity of existing opinions, the three possible relative positions of the coverage area of the concepts in question are therefore ilustrated, but also the idea that public management is a more elaborate form of *public administration*.

Ott, Hyde and Shafritz (1991, p. 55) consider that ”public administration has a wider scope than public management, including organizations involved in regulating the private sector." Another category of authors marks the identity of administration and management in an explicit form, as Wildavsky (1985, p.87) considers that "only one word has been replaced, going from *public administration* to *public management*”.

The fundamental idea of the construction of this paper is based on the position and arguments of those who claim that public management includes public administration, both as an area of coverage of the masses of public organizations and as a functional issue addressed to those involved in the work of these organizations. Thus, public companies are also included in the category of public organizations. The last two decades reveal a tendency to differentiate and clarify concepts, owing to the strengthening of the economic outlook on public interest, which would be an additional argument for this approach that considers the public management to be the broadest sphere of coverage.

The theoretical basis of the discerned terminology differentiation is generated by the difference in content between administration and politics highlighted by Max Weber by stating the principles of bureaucracy as an ideal form of organization. He considered that "the administrative system consists of formal structures and institutions through which it governs" (Weber, 1947, p. 267). Weber's theory has been revalued in recent decades by adepters of a new approach to public sector management, with differences in management of organizations in both public an d private sectors diminishing, public management reflects the public organization's orientation towards the consumer and the market . In fact, this is an approach whose fundamentals are of economic nature, reflecting the neoclassical concept in the field. This approach puts into question the characteristic features of the public sector: size, structure and role. It is claimed that, as a matter of fact, "the public organization is not capable of efficiently managing products such as electricity or telecommunications or obstructing the initiatives of private organizations" (Minogue, Polidano and Hulme, 1998, p. 127).

The public sector and public management are in a direct relationship, if the state is used as a "benchmark." It is the owner of the organizations - a management object, and also a subject of management, manifested in the management of their assembly. From this position, it is justified to follow an optimum of the ensemble instead of a sum of optimal positions of the components that are public organizations. At the level of the terminology, it is justified the phrase "public management", while the private management has no similar content in the private sphere, there is no correspondent of the concept, in terms of content, meaning there is no optimistic approach to the whole of private organizations.

The demarcation line between management of public organizations and public management is similar to that between microeconomics and macroeconomics. The analytical unit for public organization management is the public organization, a distinct entity with autonomous manifestations, while in the case of public management the object is represented by a large number of organizations.

While public management also offers sociological, political or legal perspectives alongside the economic perspective, the management of the public organization presents an obvious and defining imbalance to the economic one, essentially expressed by optimizing an output-input ratio, the former being cost-type. This approach is also subordinated to the numerous theoretical elements of sociological, psychological, legal support, etc.

The organization's management study shows that it seeks to achieve its functionality and performance associated with the purposes for which it was created. The essential difference to the management of the private organization is given by the level and nature of the restrictions imposed on the functioning of the public organization. In this case, the restrictions are more important and more numerous, because the public organization by definition has to find the common denominator of the interests of a larger number of people. Synthesizing, the management of the public organization is a management process with restrictions generated by the nature of the organization-object.

The current public management has borrowed from the management of the organization "an orientation instrumentally guided more by economic principles than values and a pragmatic approach of operational managers, instead of an elitist or politically guided political outlook. Balance has leaned toward a specific approach to scientific management, instead of one marked by political or sociological principles. " (Garson and Overman, 1983, p. 176).

The emphasis in public management of the economic and managerial perspective, with specific content for private firms, has generated over the last twenty years a model or a doctrine called "new public management". This "new public management" (also known as the NMP acronym) marks a paradigm shift by moving from the "welfare state" to the "entrepreneurial guild model" (Minogue, Polidano and Hulme, 1998, p. 209). It is in fact a response to many criticisms of the old model, considered inefficient. It is believed that new public management transfers market-to-state concepts.

The appearance of the new model has generated numerous disputes, controversies and standpoints for and against, starting with the discussion on novelty and ending with the assessment of its impact on the efficiency, all aspects have been carefully analyzed by theorists and practitioners in the field. The popularization of the ideas of the new public management, expressed in an attractive form, was made in 1992 by Americans David Osborne and Ted Gaebler in a book entitled *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector.*

"Ten essential principles are considered to underpin the practice of new public management:

- trim, rather than skinning;
- enable the competition, rather than just provide services;
- encourage competition, rather than monopoly;
- be guided by the mission, not the rules;
- finance results, rather than entries;
- satisfy consumer needs, rather than bureaucracy;
- focus on collection, not just on spending;
- invest in prevention, rather than in healing;
- decentralizes authority;
- solve problems using market rules, rather than creating public programs. "(Osborne and Gaebler, 1992, p. 218).

Even if some of them were issued long before other public viewers (for example, the first principle on the list was known two thousand years ago in Ancient Rome), the overall message has had a considerable impact. The consequences of the new public management are translated into:

- restructuring of the public sector (mainly through privatization);
- restructuring and restricting public service organizations;
- introducing competition by building an internal market and contracting public goods with the private sector;
- improving efficiency as a consequence of focusing on performance measurement and auditing.

The market orientation of public management is at present achieving a shift of emphasis from normative to objective (positive). The normative character, which remains at a significant level, derives from the fact that a political ideology is reflected, while the objective character is generated by the approaches based on the positive theories, especially the economic one.

What is more important, however, is to question the connection that might exist between different concepts associated with the public concept. Researching a connection between the nature of the good and the nature of the organization or between the nature of the asset and the nature of the funding is interesting in terms of the hypothetical purpose of optimizing the management of the public organization. In other words, it concerns the link between the public asset and the public organization or between the public asset and public funding. The analysis of some examples shows that a public organization does not exclusively produce public assets and moreover it can only produce private assets. The wrong conclusions from forced translations based on the use of the "public" label can be avoided by using the usual definitions in current economic theory. Even after the definitions are outlined, a series of comments are needed to adapt them to management use.

The management of public institutions (or public management) has emerged as a scientific field distinct from general management, being more a practical activity, but also an art of the civil servant.

Public management reflects the way planning, organization, coordination, decision making, motivation and control at the level of public authorities through restructuring and resource management programs and processes. In public management, the fundamental principles refer to unitary leadership, autonomous leadership, continuous improvement, efficient administration and respect for legality. At the same time, public management is a dynamic, bureaucratic and hierarchical process that relies on fundamental values such as ethics, democracy and respect.

Public management resorts to standard management and strategic analysis techniques, but also takes into account the fact that the cost-benefit approach can only be used as a general but not unique approach, often by public decisions ignoring this principle. In public management, the requirement for institutional performance for public administration is to satisfy citizens' needs by providing efficient public services to the population and economic operators.

In a narrow sense, public management is a way of applying the management language in the public sector defined in a legal sense. In a broad sense, it is a manageable way when the organization becomes too high relative to the outside environment.

Public management is the set of well-structured management processes and relationships existing between the components of the administrative system through which the laws / processes of action are implemented in the public power regime and / or are planned, organized, coordinated, managed and controls activities that satisfy the public interest.

An efficient public management can be implemented in Romanian society only with the participation of public officials trained in the specialty fields, in the field of public management and with a new vision on the role of public institutions within the macro system.

The management of public administration, its quality and its content depend mainly on how the conception and execution personnel have mastered the managerial theory and apply it in the process of exercising their attributions and responsibilities. In order to ensure the success of this process, it must not be forgotten that under market economy conditions, management in public administration can not only be professionally trained in native dowry, but requires the use of methods and techniques that are learned and used in practice .

The essence of public management is made up of concepts, practices, strategies, policies and tactics.

The features of public management:

• study processes and management relationships;

• based on principles and laws;

• it is being determined and determines: economic, political, social, cultural values;

• has the purpose of satisfying the public interest;

• increases the level of performance in the organization and functioning of public institutions.

✓ *Major approaches to public management*

We can talk about three major approaches, namely: politics, legal and managerial.

The Political Approach - explained and supported by Wallace Sayre (1949, p.201) and Paul Appleby (1978, p.13), according to which "public administration and its management are a political process." This approach focuses on values (representativeness, sensitivity, receptivity) that ensure the maintenance of constitutional democracy and its integration into public management.

The legal approach involves the legal procedures that public administrators can use to substantiate decisions and plays an important role in understanding and defining public management, as it brings together three values:

• the procedure used to carry out administrative processes;

• the actual individual rights of each civil servant;

• legal aspects that influence the results of conflicts between private individuals and the state.

The managerial approach, which dates back to the nineteenth century, has the following features: it promotes a bureaucratic organization aimed at maximizing earnings, underlines the role of shared coordination on the principles of specialization and emphasizes values such as efficiency, economy and effectiveness in organizations of public administration.

✓ *Principles of public management*

Formed on complex scientific bases and abundent experience, the principles constitute the theoretical-practical foundation of public management and direct the ways and the way of conceiving and realizing the administrative activity, as follows:

• legality - the fundamental principle, provides the legal framework for the organization and functioning of the public administration institutions and limits the space of action of civil servants. This principle sets the attributions, responsibilities, decision-making powers and the system of relations at the level of the public administration institutions. Based on the legal framework, the managers of the public administration institutions elaborate the fundamental goals, the objectives of the organization and determine the directions and modalities of action for their realization and, implicitly, for the satisfaction of the general social needs;

• unitary leadership - generated by the vastness and complexity of the public administration activities, aims to achieve the economic and social efficiency of the objectives and is carried out on hierarchical stages, by subordinating the institutions of public administration, one to the other;

• managerial autonomy contributes to the elimination of bureaucratic phenomenons and encourages initiative and responsibility in public management activity;

• flexibility - responds to the need for operative adaptation of the public administration institutions to changes in its environment and obliges the manager to act promptly on the changes in the situation, on the new events occurring the life of the unit, based on the knowledge of the functional state of the institution;

• restructuring - aims at creating an efficient administrative and social frame capable of responding to the general social needs as well as establishing the structure of each component of the machinery of the public administration institutions and its judicious use. The purpose of this principle is to avoid over-dimensioning of the machinery, parallelism in activity, additional costs;

• continuous improvement of the public management - imposed by the continuous changes taking place in the social life of the public administration institutions and by the qualitative and quantitative amplification of the objectives to be achieved by the public manager.

3. Public Financial Management

To discuss public organization management means, in one way or another, to explain how it operates from an economic point of view and what is the nature of the processes through which the money is collected or received and then spent. Regardless of how atypical it is from an economic perspective, a modern organization uses financial resources to achieve its goals and function. The public organization has mechanisms that involve the public as a generic owner and finale client associated with the rationale of existence. In principle, every individual contributes to the functioning of the public organization through a financial contribution and can benefit from the results of its work.

The fact that a public organization has a financial insertion in a more sophisticated society than an organization or a private company would justify special attention to the financial function and its management. At the public sector level, the problem of funding generates additional management difficulties and political dilemmas, given the many balances that need to be managed simultaneously. Even though the importance of funding can be easily intuited, however, literature goes quite easily over this chapter. (Osborne and Gaebler, 1992, p. 219) A conversation centered on how to finance a public organization, as Osborne and Gaebler have, is relatively rare in general management work.

One possible explanation for this "myopia" in treating the management of the public organization would be that funding is a very technical problem that would require a large amount of detailed explanations and a lot of mathematics profiled on the subject. The result was the emergence of specialized, incomprehensible textbooks for a manager without economic studies. Sometimes the technical solutions are not in line with the reality of the existence of a strong political component that affects the decision of the public organization. Even these specialized manuals deal separately with the public companies and offices justifying the existence of an economic theory of the public company, which also discusses financial issues.

Functional segmentation of Fayol's organization according to "General Administration et industrielle" (Fayol, 1916, p. 151) has generated a counterproductive specialization for the management of the organization, because it may create the impression that technical aspects have priority over general goals, and the "financier" is independent of the manager. From the point of view of the managerial process, an imbalance in favor of finance equates to a focus on procedures, to the detriment of the organization's objectives and mission.

Treating the money problem can also be done "unbalanced" when emphasis is placed on accounting in the face of financing or, in other words, when the emphasis is on the situation of o*utputs* over the *inputs*. The imbalance has a human nature, but on the one hand, accountants have a preponderance within the economic staff and are encouraged by the precepts of the new public management, according to which saving and efficiency are guiding values of the public organization. On the other hand, the politicians are inclined to spend money, even at the price of an unbalanced budget, to get votes.

The modern approach to financial management of the public organization means focusing on finding sources of financing and other than budgetary ones. Care for the parsimonious spending of money from the budget is preserved, but the function now requires entrepreneurial treatment. Therefore, the manager must have an integrative vision of the organization, which implies inclusion in the overall approach and financial function.

4. Financing mechanisms

Clarifying how public organizations are funded begins with explaining how to finance the different categories of assets that are the subject of these organizations. Current economic theory has synthesized interesting financing experiences and developed a number of models that prove viability in practical applications in the various market economy countries. Most types of interest are focused on the economy of the public sector and the *public sector economy* as segments with their own identity of economic theory, but interesting theoretical approaches also offer *public policy analysis* combining the economic and political aspects of production and financing economic goods.

The relationship between public asset - private asset dyad and public organization - private organization dyad was approached at first instance at the beginning of the paper. These are conceptual delimitations to explain that the public asset - public organization link is not associated with an automatic translation of the attribute, that the public asset is not produced exclusively by public organizations, but it is underlined the idea that most public assets are publicly funded. The reality of these relations is more complex, however, because the "boundaries" between the public and the private are more diffused than the operational definitions used in management, and the way of financing further complicates their differentiation.

The interest of the public organization manager for a theoretical approach to classifying assets is guided by the need to understand the possibilities of rationally choosing the solution to finance them from the set of solutions identified by this classification. As "borders" are diffused and changes according to the public policies adopted, there is even a possibility for a public organization to generate options and ideas that shape public prospects, as well as solutions to improve economic or social efficiency.

The study of the financing of public and private assets requires more detailed typologies than the initial one associated with public / private dichotomy. As this first segmentation was based on two characteristics, non-righteousness and nonexclusiveness, it is obvious that there are four possibilities of combining beyond the "extreme" ones already mentioned. If there is a feature added there will be $2^3 = 8$ possibilities that will ask for individual solutions for specific combination problems. The third characteristic used differs according to the preferred analytical perspective for discussing the nature of the assets.

In a specific view of public policy analysis, Weimar and Vining (1999, p. 117) make a classification of assets adding the *overcrowding* feature. ”An asset is overcrowded if the marginal social cost of consumption exceeds the marginal private consumption cost.” Understanding the economic definition is facilitated by a trivial example: going through a limited capacity and enrolling in a queue, adding a consumer will slow down the chain, but what a consumer loses due to overcrowding (say 1 minute) will be multiplied by the number of consumers in the row (for example, 10 consumers). The group loses 11 minutes due to adding the additional consumer, compared to 1 minute lost by the add-on, so the marginal social costs are higher than the marginal individual cost.

The connection between public asset and public funding is done using a "link" presented by a public and private organization. In all states there are also public assets provided by private firms and their number seems to be growing under the pressure of the ideas of the new public management. If the defense is provided by a public organization, street cleaning or maintenance of public parks is done by private firms. The public organization is traditionally preferred for the supply of public assets on which national security depends, especially defense and information services .

The existence of public companies as providers of public assets is the materialization of the idea that these organizations can be more efficient in certain areas of activity. They end up in the position of supplier after a competition that assumes that for a quality standard of the good, the lowest price is required, which feeds the idea from which it started. It remains to be emphasize that the private company is interested in maximizing profit, which creates a series of theoretical dilemmas. Practice shows, however, that the public organization has higher costs than private one.

More complicated situations arise when the public asset is carried out in parallel with a private good and so-called "positive external issues" appear, as well as "privileged group" situations. "Positive external issues are advantages that a tertiary group benefits from when creating a public asset for a particular group or when creating a private asset. The privileged group is a demand bearer who buys enough from an asset so to be close to the economically efficient level. " (Olson, 1973, p. 176) Thus, the free-rider phenomenon ("blatist") appears from the person who thinks it is rational to escape from sustaining the public asset. From the point of view of financing, the solution is to use the budget and the public organization.

Alternatives to the financing of goods in the "intermediate area" of the typologies presented are focused on covering part of the cost with the help of the budget. The budget quota is variable depending on the nature of the product, the consumer or a combination of socio-cultural and political-economic elements with a pronounced national specificity. For example, public transport by rail involves budget support, because it is preferable for a uniform tariff based on distance and facilities for categories of travelers such as retirees, students, veterans, etc.

Forms of budget support to the costs of some products, generally labeled "subsidy", are modeled on the economic and social effects pursued, but also on the "technical" characteristics of the product, such as the possibility of being transferred from one consumer to another. If the product can not be transferred, such as transport tickets for retirees, then the subsidy may have a positive discriminatory character.

By synthesizing the issue of using subsidies, it should be pointed out that they have the role of correcting market failures and redistributing them. The debates around the effects of their use were particularly intense in the 1980s of the 20th century, without satisfactory conclusions that would lead to uniformity in the approaches.

5. Conclusions

The fundamental idea of this paper is based on the position and arguments of those who argue that public management includes public administration, both as an area of coverage of a large number of public organizations and as a functional issue addressed to those involved in the work of these organizations. Thus, public companies are also included in the category of public organizations.

Today, the managerial approach to public management is represented by a coherent sum of concepts of economic and managerial nature, in which only some vague ideas are associated with the principles of Taylor, Weber or Fayol. The economic treatment of essential values, effectiveness and efficiency, is the distictive sign of the new approach.

There are also many other theorists of the new approach that can be considered significant by the pertinent and original points of view they adopt. Of these, the number of economists is increasing compared to that of sociologists or psychologists. As a rule, economists want to transfer from the private firm what they believe would improve the performance of the public organization and the public sector. In the coming decades this transfer seems to be the big bet of public management and public financial management.

We consider the observation regarding the approach of the public management in terms of its orientation towards the consumer and the market reflecting the neoclassical concept which puts into question elements of the public sector, namely: size, structure and role. Also, the level and nature of the restrictions faced by public management must not be neglected, requiring a common ground to be found between the interests of as many people as possible, which are not the same as private organizations.

We support the idea of achieving an efficient public management conditioned by a thorough training of civil servants in the specialized fields as well as in the field of public management, but especially with a new vision of the role of these institutions within the macro system. This is confirmed by the findings of the inconsistency between the technical solutions and the reality of the existence of a strong political component that frequently affects the decisions of public organizations, the problem of financing at the level of the public organization resulting in management difficulties and political dilemmas conditioned by the need for simultaneous balance management.

Therefore, it is confirmed that the financial insertion in the public institution's society is more sophisticated than in the case of private firms, which requires increased attention to the financial function and its management. The interdisciplinary vision of the organization equivalent to inclusion in the overall approach of the financial function is a basic condition of the public organization's manager.

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