FINANCIAL MANAGEMENT OF THE ECONOMIC ENTITY USING ALTERNATIVE DECISIONS

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ABSTRACT: Financial management is reflected in the financial decisions through which the executive management has achieved the objectives of the economic entity, while significantly contributing to the achievement of performance indicators included in the warrant targeting managerial activity, requiring the entity to operate in compliance with the rigors of law in the economic, fiscal and even social domain. In order to achieve a performant economic entity, the most appropriate decision is required, whose application should generate the expected results by the management, shareholders, employees or contributors, should help identify sources of capital and finding the most appropriate ways to use them. The creation of the necessary circumstances to select the most efficient managerial decisions in the financial area prompted the need to identify and build new managerial tools that allow the possibility of simulating alternative decisions that are assigned default effects, instruments based on scientific reasons and empirically applicable, according to the financial policies of the economic entity. It has also been taken into account the overall objective and of major importance of any economic entity, namely to add value both to net patrimony and income of shareholders.
KEYWORDS: managerial act, alternative decisions, financial decision, economic entity, financial information.

1. INTRODUCTION

Financial management is an activity of major importance in the life of any economic entity that makes it absolutely necessary to know *„all instruments, financial assets, variables and financial adjustment processes"* which guide executive management to coordination and improvement of financial decisions, and to controlling the relations with *„financial partners and the markets involved in the activity”*.
Fast growing economic flows in Europe and economic globalization, engages economic entities from Romania to reconsider both economic behaviour and theoretical and practical approaches in the management activity, so national economy should meet the global economic expectations by harmonizing and integrating into it.
In the present economic context we consider that the financial management of entities can directly contribute to the economic integration of Romania into the European economic environment through its role, to *„ensure the quality and performance levels on the long term, to maintain solvency and to master the risks”* to which the entity is exposed.
The current state of knowledge regarding financial management as the main activity carried out within an economic entity, but also in terms of financial decision has as reference the classical approach to information of economic-financial nature whose attributes describe them as useful elements in substantiation of managerial decisions in the economic field. According to this approach, we identified in literature three main categories of economic and financial information useful in substantiating and improving decision, as follows:

- *„general information on the economic, fiscal and monetary policy*;
- *information regarding the sector the enterprise belongs to;*
- *economic and legal information on the company.”*

Financial management is structured on three complex directions, as follows:

- *financial analysis*, that represents all concepts, techniques, tools and methods by which the financial accounting information is collected, analysed, handled and processed so that management may benefit from a realistic knowledge of economic and financial situation of the economic entity, of the vulnerabilities affecting it and of the opportunities it can harness;

- *financial planning*, defined as the process by which the economic entity establishes the elements and the synergy of actions necessary to achieve the targets and financial policies carried out on the short, medium and long term. Depending on the period covered by the financial planning, we find that its purposes are distinct as follows:
  - short-term financial planning is usually carried out for a year, focusing on maximizing revenues and minimizing costs or at least controlling them;
  - medium-term financial planning is carried out for a period between one and three years focusing on changeover and application of the concept of *„asset management"* which brings together financial management activities and tangible assets;
  - long-term planning is usually carried out for a period between three and five years and aims to strengthen the economic entity by increasing its capital and entering competitive markets. In this context, financial planning can be done both on forecasting the situation of the economic entity, and by building a system of multi-annual budgets that ensure available resources prediction and also control their use.
- *financial strategy* is defined as *„all long-term decisions (investment decisions, financing, distribution of net profit) which outlines possible paths to ensure a lasting and dominant position in the competitive economic enterprise"*.

The present study focuses on increasing the quality of financial management carried out within the economic entity by identifying the easiest possible use as a system of alternative decisions.

2. MATERIALS AND METHODS

2.1 Study Methodology

The present work was accomplished by combining sustained process of study, collection and analysis of theoretic information, with expertise in the field owned by us, obtaining thoroughgoing phenomena generated by the decision-making process in the financial management activity of economic entities.

The methodological approach in compiling this study was based on completing a series of steps as follows:

- „problem identification;
- submission of hypothesis;
- decision over procedure (deductive reasoning);
- data collection and analysis;
- drawing conclusions";
- presentation of results.

Through this study, as a segment of an extensive research covering the identification of new facets of the information financial accounting system in performing managerial act by alternative decisions, we aim to highlight the need to create a management tool that generates decision - making variations easy to carry out with impact on their application on the economic entity as a whole.

Under the circumstances, during the study, we used techniques as: basic research and research development. However, during the analysis we carried out within the limits of the principles of scientific research, respectively: complementarity, observation and correspondence.

2.2 General concepts and occurrence environment of the financial management

Generic, *„Management is a process involving a mixture of rational elaboration of logic decision-making and problem-solving activities with the activities of intuitive judgment"* [1].

Extrapolating from the general definition of management, we consider that financial management is one of the possibilities for practical manifestation of the managerial financial process this implying mainly maximization of the economic entity value and ensuring the necessary resources to conduct its business. The schematic presentation of the influence of external and internal factors on the activity of the economic entity in the light of the financial management act, respectively financial policies and scientific reasons, not least its practical applicability is described in Figure 1.

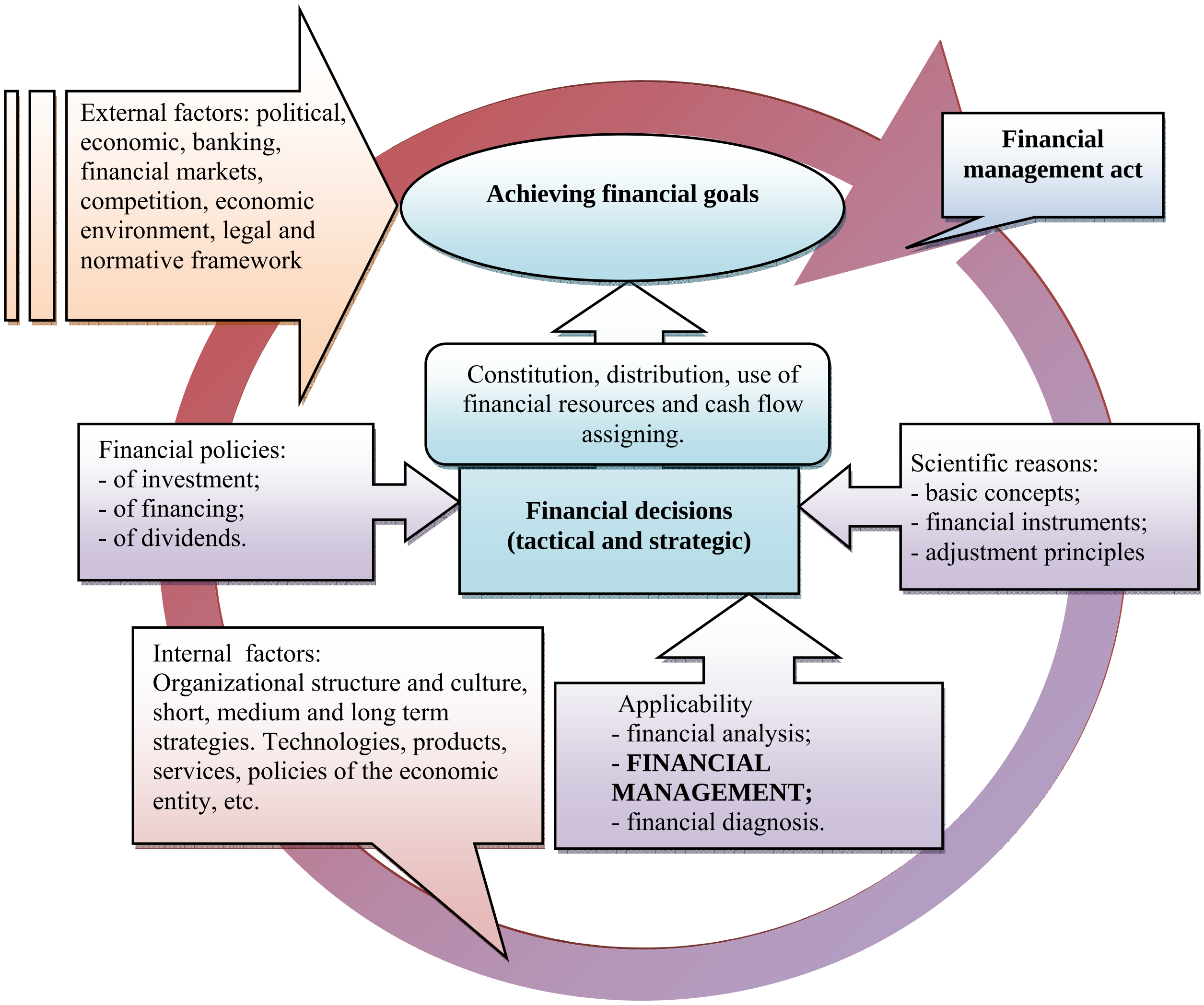

Figure 1. Interaction and action of external and internal factors on the financial decision

From the above representation is noted that financial decisions are taken in terms of three main directions, namely: the theoretical and rational concepts, adjustment tools and principles; financial investment policies, financing or dividends achieving; and not least the practical applicability through tools, methods and techniques such as financial analysis, financial management and financial diagnosis. Also, it can be observed that financial decisions are influenced both by internal factors of the economic entity and external. Thus, the internal factors are those of organizational structure nature, of functional and hierarchical relations, organizational culture, policies and development strategies and not least of the used technological degree. Among the external factors, the most relevant from our point of view are the political, economic, competitive environment and the legislative framework.

Personal assessments:
The accomplishment of general and specific objectives of any economic entity requires a multitude of activities of a complex variable - small, medium, large, interconnected activities that form a functional system whose modelling, on a particular segment, determine influences on other constituent segments, that is why the shaping of the system is recommended to be carried out on the whole.
From literature, we deducted, regarding the above described context that: *"The things an effective manager must achieve, namely the elements he should be formed upon, are defined through a careful analysis of the specific nature and the circumstances of its work [...]"* [2].

2.3 Improving financial decision within the economic entities

The decision is defined as a *„ A resolution taken after examining a problem, a situation, etc., adopted solution (of several possible); resolution."*

From the individual study of literature and online resources, we identified that financial decision decomposes in three segments as follows:

„a) Decision on the financing sources of the company's activity on different terms (short, medium and long term). This refers both to identifying sources and to determine the amount of funds that can be provided from these sources.

b) Decision on the use of financial funds for investments, called investment decision, both in theory and in practice firm decisions.

c) Relative decision at the time of funds usage of the company, namely their allocation for present or future consumption”.

Robert J. Marzano, although a researcher dedicated to environmental education considers, in the studies he conducted and published in his various works, that in order to opt for a good decision you need to follow the following steps:

- *„Think about as many alternatives as possible.*
- *Think about the good and bad points of each alternative.*
- *Think about the likelihood of success of the best alternatives.*
- *Choose the best alternative based on its value and likelihood of success.”*

2.4 Results

Thus, the financial decision must be based on concrete knowledge base which offer as many variants as possible so that the manager may choose the right decision based on the purpose and objectives of the economic entity.

From the above mentioned in this paper, we consider that in order to exercise managerial act effectively in the financial area, it is necessary that the decision maker, the manager to dispose of a proper substantiation and approval instrument of financial decision, easily adaptable to short-term response.

The study of literature, online resources (conferences, workshops, digital libraries) revealed that the most used tool in business management is *„The dashboard”*.

Compared to the concern of this paper, we consider that the financial decision can be substantiated and adopted with the help of a *„Dashboard”* specialized on financial activity, built on the basis of some indicators or financial – economic rates whose calculation formula should use common elements to the indicators used in management in assessing performance in activity.

The increased efficiency of using a *„Dashboard”* specialized in financial activity can be registered if it allows the simulation of certain decisions legitimization results and the designation, by alerting the decision-maker of the consequences of financial decisions on other sectors, but also on the entire public entity.

To summarize, we consider that *„The Dashboard”* specialized on the financial management activity should strengthen elements - rates and indicators in all sectors and allow the sizing of possible consequences of financial decisions, thus creating an alternative system of financial decisions.

2.5 Conclusions

The performance of an economic entity through financial decisions require meeting the following conditions:

- Substantiation of the financial decision should be based on financial and accounting information available to decision-makers through coherent and comprehensive financial accounting information.
- Legitimization of the financial decision in time, which obliges the inclusion in the database of the accounting – financial information system of the economic entity of the management accounting. Management accounting can provide information in a quick manner, which is an advantage, but the accuracy of the data can sometimes be affected, this being a disadvantage. Within the economic entities, financial accounting offsets this disadvantage of management accounting.

- Consistency between financial decisions and management decisions on the whole. Hereby, the adoption of the financial decisions is done knowingly placing the economic entity in a comfortable position in the external environment in which it operates.
- The accurate communication of the financial decision, so that decision-makers have a solid base of information that would provide a clear understanding of it and an implementation with maximum beneficial effect to the economic entity.

The complexity of the financial management act, carried out within the economic entity requires the need for a fluent, coherent financial accounting information system, which should provide qualitative, timely and useful information. The impact of the financial managerial act on the economic entity should materialize in results such as:

- Ensuring sustentation of the economic entity in the financial balance.
- Managing expenses and therefore using in terms of efficiency and economy the resources of the economic entity.
- Maintaining a performant economic entity by maximizing profit, and as for public interest entities maintaining financial balance while increasing investment and financing in relation to financial risks which the entity can assume.
- Ensuring and optimization of cash flows created within the economic entity.
- Ensuring financial, economic capitalization and of the consumed resources etc..
- Strengthening and economic development of the economic entity.

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