PROCEEDINGS

of

North International Conference on Economics

1st Issue / 2016

http://econ.cunbm.utcluj.ro/nice2016

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FINANCIAL DIAGNOSIS AS A TOOL OF IMPROVING THE PERFORMANCE OF AN ORGANISATION

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ABSTRACT

The financial difficulties of many countries have led to the need of finding solutions for a better use of public money. Emphasis is placed in a more significant extent on more efficient use of state resources in each public institution. To achieve this goal, management tools specific to private companies have been adapted and implemented in the public sector. As this approach is relatively new, there is little information on the impact of using these instruments by public institutions. Based on these considerations, the aim of this research is to analyse the extent to which performance of a financial diagnosis improves the results of organizations within the public sector. Following the case study conducted at the County Museum of Art «Baia Mare Artistic Center», it was found that after three years since the diagnosis was performed, the institution's own revenues increased by more than 60%. However, some recommendations have not been implemented, reason why the performances are below the expected level. One of the causes of this situation is the legal system in Romania, which does not stimulate the efficient use of public money, despite the numerous restrictions that exist in terms of spending financial resources of the government.

KEYWORDS: *financial and economic analysis, performance, efficiency, museums, budget*

JEL CLASSIFICATION: *H21, H72, H83, M29, M42*

1. INTRODUCTION

Diagnostic analysis is a tool for evaluating and improving the performance of the organization that works on a principle similar to the diagnosis made in medicine (Mereuţă, 1994). In this regard, after the stages of situation analysis and diagnostic of factors and causes responsible for the current state, there is "the prescription of treatment" (Andekina & Rakhmetova, 2013). From the economic point of view, this last stage involves making recommendations for the future development of the organization.

Depending on the purpose, general or partial diagnostic tests can be performed, unique to an area within the organization, such as finance, marketing, production and human resources (Verisan & Achimescu, 2012). Thus, some authors refer to general organizational diagnose and various models of implementing it, such as the CEMATT model (Alexa et. al., 2013), while others have studied the features of partial diagnoses. One such case is Verkooijen (1993), who has focused his attention on examining the characteristics of financial diagnosis. In addition to the fact that this diagnosis allows the appreciation of the financial health of a company (Gundová, 2013), Tlessova et. al. (2013) concluded that it can also be used as a tool for recommending measures to develop sustainable organizations.

The advantages of a diagnosis analysis, such as facilitating the adoption of management decisions and maintaining market competitiveness of an organization (Andekina &

Rakhmetova, 2013), have led researchers to study the distinct features that this tool has in various sectors. In this regard, Verisan & Achimescu (2012) showed the peculiarities of this analysis in the tourism sector and Pop & Borza (2014) made the conclusions on how to perform a general diagnosis in the museum sector.

Also, the direction of public institutions towards results, performance and efficiency (Hood, 1991; Scorțar et al., 2009) led to the adoption by them of management tools widely used in the private sector (Nistor et. al., 2010). In this context, the Central Unit for Public Administration Reform in Romania recommended the use of diagnostic analysis by public institutions as a self-assessment framework of the functioning of public institutions (Bosovcki, 2009).

Even though many experts have discussed the ways to perform a diagnosis, little research had as objective to determine the actual effects that diagnosis has generated in an organization. As shown, organizational diagnosis and studies on it are limited to making recommendations that is "the prescription of treatment", without checking the extent in which that "treatment" was found to be beneficial. For this reason, this paper aims to examine the extent to which the achievement of a financial diagnosis has a positive impact on the performance of an organization. So, in this article the diagnosis is seen as a process made up not of three but four stages, namely: (1) analysis of the situation, (2) identification of the factors and causes that have led to a certain state of the organization, (3) prescription of treatment, and (4) subsequent verification of the efficiency of such treatment.

2. METHODS

This paper started from the assumption that financial diagnosis contributes to improving the performance of an organization. To check this hypothesis we used the case study conducted at the County Museum of Art «Baia Mare Artistic Center». The research had two major phases. The first stage took place in 2013 and involved the conduct of a financial diagnosis based on data for the period 2010-2012. The second stage was aimed at monitoring the extent in which recommendations made in the diagnosis have been implemented and the effects that these recommendations have had on the performance of the museum. In this regard, we compared the financial results of the museum in 2015 with its situation before making a diagnosis. In both stages the research was based on economic and financial statements for the periods analyzed.

Being a public museum, one of the most important documents analyzed was the execution account of revenue and expenditures (Cucoșel, 2004: 20). Based on this we determined the structure and dynamics of revenue and expenditures in the museum, and we compared these results with the situation in other competing museums. The analysis of revenues allowed us to: (1) assess the financial independence of the museum by comparing their revenue to total revenue; (2) determine the most productive results of the museum by comparing various categories of own revenues to total investments; (3) determine the share of income from grants, compared with the share of own revenues and grants received in total revenue. Structural and dynamic analysis of museum expenses allowed us to: (1) identify key areas in which the museum invests the bulk of its financial resources; (2) determine the underlying trend and structure on titles, articles and paragraphs; (3) identify areas where a saving of resources could be achieved without affecting the functioning of the institution. Based on this analysis we made recommendations in order to improve the performance of the museum. Below we summarized the most important results obtained from the two stages of research, i.e. the diagnostic phase and analysis stage of museum performances after the implementation of proposed recommendations.

3. THE RESULTS OF THE FINANCIAL DIAGNOSIS

Even if the purpose of a museum is to make a profit, conducting a financial diagnosis was based on the assumption that it has the ability to lead to an improved financial situation of the museum and achieve its cultural objectives to a greater extent (Klamer, 2011). Also, the efficiency of a museum generates benefits on a national level. The more public institutions operate out of their own income, the lower the risk of state budget deficit increase caused by the need to borrow to subsidize public institutions. Based on these considerations, the diagnosis was focused on two main issues: (1) analysis of own revenue and how to increase them and (2) analysis of the share of own revenues in total revenues and solutions to reduce dependence of the museum on public subventions. Besides increasing its own revenue, increasing the efficiency of the museum can also occur by optimizing costs. For this reason, the diagnosis also included an analysis of the structure and evolution of museum expenditures.

3.1. Revenue analysis

Between 2009 and 2012, the budget of the County Museum of Art «Baia Mare Artistic Center» recorded a declining trend. Amid the economic crisis, museum revenues were lower with 31.01% in 2012 compared to 2009.

The most significant share in total revenue is revenue from subsidies for public institutions. Own revenue was obtained from the sale of goods and services. Between 2010 and 2012, their share in total revenue stands around 2.80%.

In 2009, the museum was only funded at a rate of 0.56% of its own revenue because to a higher grant (64.27% higher than in 2010), and a revenue that was 68.01% lower than in 2010 following restoration works of the permanent exhibition.

Table 1. Structure and evolution of revenue in 2009-2012

Year	Grant	Own revenue	Total revenue	Share of own revenue in total revenue
2009	1,408,252	7,909	1,416,161	0.56%
2010	857,300	24,725	882,025	2.80%
2011	985,000	28,387	1,013,387	2.80%
2012	950,000	27,000	977,000	2.76%

Source: author's contribution

The analysis of the structure of the museum's own revenues (see Table 2) shows that the most important share is the revenue made from ticket sales that have averaged 72.77% from the revenues recorded in the period 2010 - 2012. In 2009, over 57% of revenues were made from the sale of products because the permanent exhibition was closed to visitors in order to carry out repairs. In 2012 there was an income growth in product sales due to the conclusion of several consignment agreements.

Compared to the amounts allocated to the production of goods (see Table 6, budget article "books, publications and documentary materials"), proceeds from their sale are very low, which leads to a low rate of inventory turnover and consequently to an immobilization of public funds (as demonstrated in the final balance of account 371 "goods").

Table 2. Structure and evolution of own revenue during the period 2009-2012

Year	Revenue from sale of products		Revenue from the sale of tickets		Total own revenue
	Lei	%	Lei	%	Lei
2009	4,550	57.53%	3,359	42.47%	7,909
2010	5,776	23.36%	18,949	76.64%	24,725
2011	7,843	27.63%	20,544	72.37%	28,387
2012	8,286	30.69%	18,714	69.31%	27,000

Source: author's contribution

Unlike other museums in the county, in 2010, the Art Museum was ranked on the penultimate place in terms of the share of own revenues in total revenues (see Table 3). The Mineralogical Museum, although it registered a grant which was only 1.91% higher than that of the Art Museum, has managed to raise own revenues 695.18% higher than it.

Table 3. Structure of revenue of museums in Maramures in 2010

No.	Museum	Grant – lei -	Own revenue – lei -	Total revenue – lei -	Share of own revenue in total revenue
1.	Museum of History and Archaeology	1,671,364	51,295	1,722,659	2.98%
2.	Museum of Ethnography and Folklore	1,500,000	11,289	1,511,289	0.75%
3.	Mineralogical Museum	873,703	196,608	1,070,311	18.37%
4.	Art Museum	857,300	24,725	882,025	2.80%
5.	Museum of Maramureș	1,330,710	131,611	1,462,321	9%

Source: (Coman & Pop, 2012a)

A similar analysis conducted for national museums (Coman & Pop, 2012b) shows that the share of own revenues in total revenues in 2009 ranges from 2.82% (National Museum of Eastern Carpathians) and 83% (Peles Museum). In the same year, the Brukenthal Museum collected own revenues amounting to 14% of total revenues, this indicator being 26.34% for the National History Museum.

These comparative analyses conclude that the financial results of the County Museum of Art «Baia Mare Artistic Center» are not the best, and its assets are not being used with maximum efficiency. Consequently, a series of measures were proposed. They focused on:

(1) submission of projects to attract grants (unlike other museums, the Art Museum of Baia Mare has not submitted any project in the period under review to obtain grants);

(2) diversification of the range of products by introducing the sale of goods that are more attractive to the public (like souvenirs), because museum visitors do not show very high interest in the books and micro-albums on sale now in the museum;

(3) increased attention and mobilization of human resources in order to enhance the number of educational programs offered to visitors. From experiments conducted at the end of 2012 we observed the existence of demand for such programs over the museum's ability to cope. This problem could be solved if the museum would give more importance to these activities.

3.2. Expenditure analysis

Costs incurred by the museum are grouped into two main categories: current expenditure and capital expenditure. Current expenditures are subdivided into two titles: (1) personnel costs and (2) goods and services, which in turn comprise several budget items. Capital expenditure refers to investments made by the museum to acquire works of art, fixed assets and capital repair works.
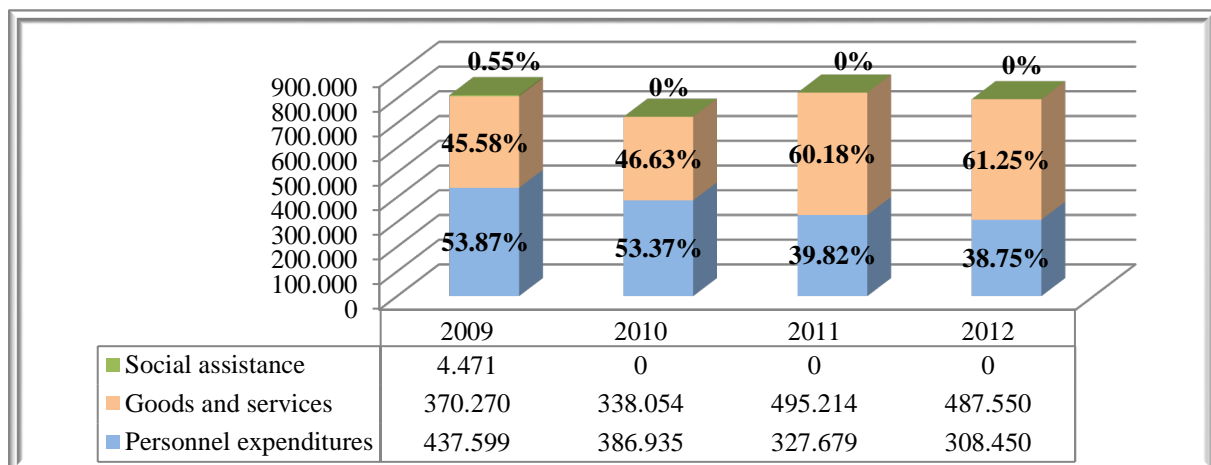
As shown in Table 4, in the period under review, current expenditures account for over 80% of total expenditure, except in 2009. Due to overhauling and refurbishing of the permanent exhibition and allocating a significant amount for the purchase of works of art (see Table 6), in 2009 capital expenditures were higher than in the following years, and so current expenditure accounted for only 57.36% of the total expenditure.

Table 4. Structure and evolution of expenditures during the period 2009-2012

| Year	Total expenditure Lei	Current expenditure		Capital expenditure	
		Lei	%	Lei	%
2009	1,416,161	812,340	57.36%	603,821	42.63%
2010	882,025	724,989	82.20%	157,036	17.80%
2011	1,013,387	822,893	81.20%	190,494	18.80%
2012	977,000	796,000	81.47%	181,000	18.53%

Source: author's contribution

Despite regulatory restrictions imposed by the economic crisis, in the four years analyzed, current expenditure did not suffer significant changes. This is explained by the decrease in personnel expenditures by 29.51% in 2012 compared to 2009 and was accompanied by an increase in spending on goods and services. In other words, in order to be able to operate under normal conditions after reducing staff (10 employees at the end of 2012), the museum was forced to use the services provided by companies and freelancers, which implicitly led to increasing costs for goods and services.

	2009	2010	2011	2012
■ Social assistance	4.471	0	0	0
■ Goods and services	370.270	338.054	495.214	487.550
■ Personnel expenditures	437.599	386.935	327.679	308.450

Figure 1. Structure and evolution of current expenditures during the period 2009-2012
Source: author's contribution

By analyzing the main categories of expenditures presented in Figure 2 we can see the changes that have occurred in the structure of the budget over four years. If in 2009 capital expenditures had the highest percentage in the total expenditure, followed by staff costs, by 2012 they was reached complete reversal of the hierarchy. Financial austerity measures imposed by legislation limited investments and wage costs, and this resulted in an increase in trade on goods and services.
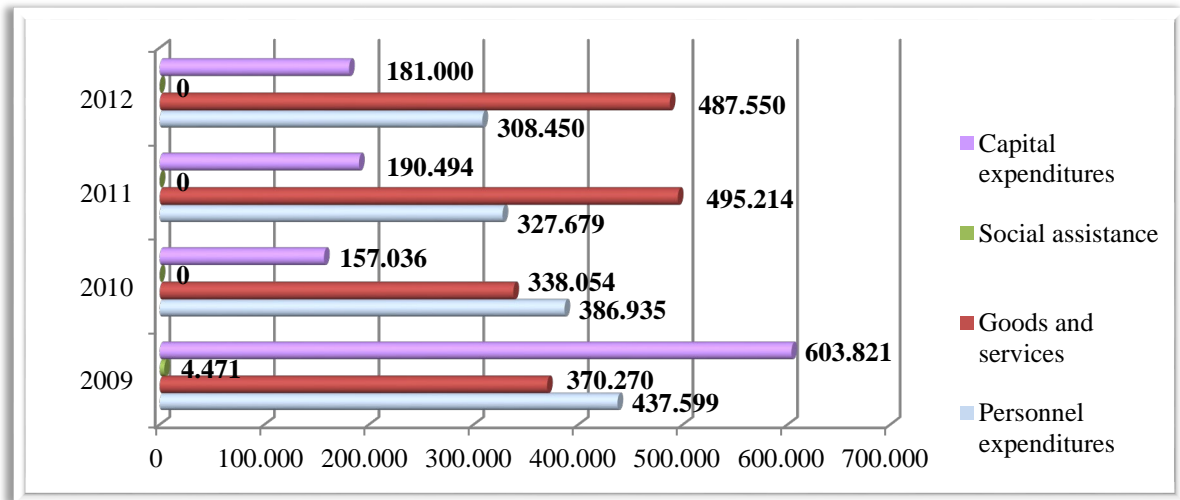
Figure 2. Evolution of expenditures by categories
Source: author's contribution

Regarding personnel costs, a recommendation was made following diagnosis aimed at improving outcomes while maintaining unchanged the cost, by changing human resource management policy. The main measure proposed was to redefine the tasks in each post so the time for directly-productive activities increases, which, if it would occur while taking into account market requirements, would increase own revenues obtained by the museum.

When analyzing Title II "Goods and services", particular attention was given to the four budget items which together hold over 90% of costs related to the title, namely: (1) the budget item with the same name - goods and services, (2) current repair work (3) other expenses and (4) books, publications and documentary material (see Table 5).

**Table 5. Structure and evolution of expenditure under Title II "Goods and services"
for the period 2009-2012**

The budget item	2009	2010	2011	2012
Goods and services	156,470 42.26%	168,777 49.93%	198,898 40.16%	234,100 48.02%
Current repair work	86,661 23.40%	47,371 14.01%	150,000 30.29%	106,620 21.87%
Medicines and medical supplies	50	0	229	300
Inventory objects	6,790	8,370	6,568	5,000
Journeys, assignment, transfers	4,755	2,495	6,994	7,740

Laboratory materials	4,000	1,976	3,959	4,000
Books, publications and documentary materials	22,499 6.08%	30,618 9.06%	19,997 4.04%	31,760 6.51%
Consultancy and expertise	0	0	3.000	0
Professional training	11,820	1,600	3,850	4,920
Labor protection	4,704	4,627	2,978	6,000
Studies and research	1,800	0	0	0
Other expenses	70,721 19.10%	72,220 21.36%	98,741 19.94%	87,110 17.87%
Total expenditure under Title II "Goods and services"	**370,270**	**338,054**	**495,214**	**487,550**

Source: author's contribution

The article "goods and services" holds between 40.16% and 48.02% of total allocations associated with this title, registering an upward trend over the four years. The causes are multiple: on the one hand downsizing has resulted in increased external services contracted, and on the other hand inflation and increases in taxes led to higher prices of goods and services on the market.

The article "books, publications and documentary materials" does not exceed - in any year - 10% of the amount allocated to Title II. Most of the costs are books and goods made by the institution. Some of these goods are sold and they generate own income, while others are free. By correlating the amounts assigned to this article with your final account balance 371 "Goods" we were able to observe a high degree of immobilization of funds. Specifically, the final balance in goods increased from year to year, at the end of 2012 amounting to 132,317.34 lei (total budgetary allocation for 2009-2012 is 104,874 lei). This means a difficulty in selling books published by the museum's specialists. Given that these products are difficult to sell, such a high allocation in this direction is not justified. Thus, in order to increase the efficiency of use of funds, market research was recommended in order to identify and achieve products that museum consumers would be more interested to purchase. Regarding the production of books and documentary materials, the recommendation aimed at achieving them through grants for cultural projects. These funds are managed by the National Cultural Fund Administration and require a minimum of only 10% co-financing (Order no. 2231 of April 7, 2011).
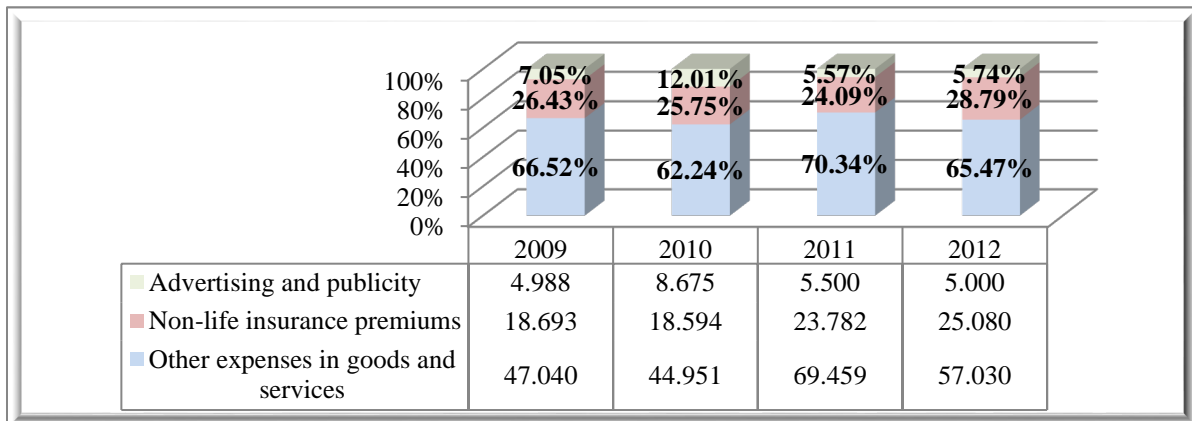

	2009	2010	2011	2012
Advertising and publicity	4.988	8.675	5.500	5.000
Non-life insurance premiums	18.693	18.594	23.782	25.080
Other expenses in goods and services	47.040	44.951	69.459	57.030

Figure 3. The evolution of budget allocations under the article "other expenses"
Source: author's contribution

The budget item "other expenses" has averaged 19.57% of the total allowance of Title II. This article is divided in turn into three paragraphs, namely: advertising and publicity, non-life insurance premiums and other expenses in goods and services (Figure 3).

The most significant share in this article is in paragraph "other expenses in goods and services", where special expenses are reimbursed for restoration and framing of works of art and planning exhibitions.

These expenses recorded an oscillating trend with an increasing trend in 2011-2012 compared to 2009-2010, mainly due to the price of products and services. Expenditure on advertising and publicity have reached the highest value in 2010 after having registered a downward trend, reaching in 2012 almost the same level as that recorded in 2009. Spending on insuring works of art shows a general upward trend due to the increase in year to year of the number of insured artwork.

Other recommended measures to increase efficiency of using the funds allocated to Title II were:

a. Cuts in laboratory materials, while the museum does not have a restoration lab but consumes resources, even if the restoration work is done outside the museum and is settled from another budget item;

b. Resource savings under paragraph "office supplies" and "services and materials with functional character", under the article "goods and services".

Regarding capital spending it is noteworthy that the museum has carried out capital repairs only in 2009 and 2012 (Table 6), despite the fact that funds are allocated annually for current repairs (Table 5).

One of the reasons for this managerial approach is the fact that by concluding several works contracts, of lesser value, there is the possibility of applying a simplified procurement procedure that is not related to the tender, being able to choose direct acquisition (Law no. 98/2016 on public procurement).

Table 6. Structure and evolution of capital expenditures

Year	Furniture, office equipment and other tangible assets		Other fixed assets		Capital repairs related to fixed assets		Total capital expenditure
	Lei	%	Lei	%	Lei	%	Lei
2009	470,990	78%	22,348	3.70%	110,483	18.30%	603,821
2010	153,257	97.59%	3,779	2.41%	0	0%	157,036
2011	188,494	98.95%	2,000	1.05%	0	0%	190,494
2012	0	0%	121,000	66.85%	60,000	33.15%	181,000

Source: author's contribution

As has been seen, capital and current repair spending in 2012 represented 17.05% of total expenditure, and the total amount allocated by the museum to carry out these repairs in the four years analyzed was 561,135 lei (over 120,000 euros). Based on these considerations, starting with the assumption that spending until 2012 largely allowed for the necessary repairs to be made, it was recommended to reduce funds allocated in this direction.

4. MUSEUM PERFORMANCE ANALYSIS AFTER 3 YEARS FROM THE FINANCIAL DIAGNOSIS

By comparing the museum's financial situation in 2015 to that in 2012 it was aimed to determine the extent to which the recommendations made in the financial diagnosis have been implemented and the effects that these recommendations have had.

By analyzing own revenues it can be seen that they increased in 2015 by 64.15% compared to 2012. However, the increase of subsidy received made own revenues in total revenues to grow by only 0.91%.

Revenue from the sale of products at the museum shop recorded an increase of 123.76% due to a diversification in the range of products sold. At the same time, the museum's adaptation to market requirements has led to an increase of 37.73% in revenues from ticket sales.

Table 7. Revenue structure in 2015 compared to 2012

Year	Grant (thousand lei)	Own revenue (thousand lei)	Total revenue (thousand lei)	Share of own revenue in total revenue
2012	950.00	27.00	977.00	2.76%
2015	1162.74	44.32	1207.06	3.67%

Source: author's contribution

The income structure shows that the museum failed to attract income from grants in 2015. It should be noted that some efforts have been made in this regard. More specifically, both in 2014 and in 2015, the museum had a contract with Baia Mare for 3,000 lei to finance the essay contest "Memories in a picture". However, in 2015, Baia Mare has not honoured its payment of the amounts required by the museum on time, for which the money could not be included in the annual budget, nor were they used.

Table 8. Structure of own revenue in 2015 compared to 2012

Year	Income from product sale		Income from ticket sale		Total own income
	thousand lei	%	thousand lei	%	thousand lei
2012	8.29	30.69%	18.71	69.31%	27.00
2015	18.55	41.85%	25.77	58.15%	44.32

Source: author's contribution

In terms of expenditure, it shows that most of them increased in 2015 compared to 2012. Increased personnel expenses is due to increases in salaries and hiring a total of 7 people. In spite of these jobs it can be seen that there has not been a decrease in spending of Title II "goods and services", on the contrary, they increased by 32.52%.

The economic recovery has allowed an increase of 33.47% of museum investments in fixed assets, mainly in the purchase of works of art.

Table 9. Structure of expenses in 2015 compared to 2012 (thousand lei)

Indicator name	2012 (thousand lei)	2015 (thousand lei)	Dynamics
A. Current expenses, of which:	796	1015.82	27.62%
Personnel	308.45	369.72	19.86%
Goods and services	487.55	646.1	32.52%
B. Capital expenses, of which:	181	191.25	5.66%
Other fixed assets	121	161.5	33.47%
Capital repairs for fixed assets	60	29.75	-50.42%

Source: author's contribution

Increase in spending on goods and services is due to rising prices and increasing number of restored and framed artwork.

Also, the museum has organized a large number of events and exhibitions, the most expensive being the exhibition at the International Art Fair "Art Safari".

From Table 9 it can be seen that the museum has implemented the recommendation of significantly reducing expenditure on books, publications and documentary material (-95.28%).

Unfortunately, the same cannot be said in respect of expenditure incurred for repair work. Even if they are 10.55% lower in 2015 compared to 2012, we cannot speak of efficiency given that in over seven years the museum annually allocates more than 20,000 euros for repair.

Table 10. Structure of budgetary articles of Title II "Goods and services" in 2015 compared to 2012

Budget article	2012 (thousand lei)	2015 (thousand lei)	Dynamics 2015/2012
Goods and services	234.10	356.45	52.26%
Current repair work	106.62	95.37	-10.55%
Medicines and medical supplies	0.3	0	-100.00%
Inventory objects	5	42	740.00%
Journeys, assignment, transfers	7.74	16.64	114.99%
Laboratory materials	4	3.9	-2.50%
Books, publications and documentary materials	31.76	1.5	-95.28%
Professional training	4.92	4.3	-12.60%
Labor protection	6	4.78	-20.33%
Other expenses	87.11	121.16	39.09%
Total expenditure under Title II "Goods and services"	**487.55**	**646.1**	52.26%

Source: author's contribution

So, it can be concluded that the museum has improved its own revenue raising capacity due to the partial implementation of the recommendations made in the financial diagnosis. However, the results achieved are not spectacular and could have been much better if they took into account all recommendations made.

5. CONCLUSIONS

Financial diagnosis is a management tool that can be successfully used both by public institutions to better understand their financial status in a given moment, and to improve performance in this area. An important conclusion drawn from the case study is that the benefits of financial diagnosis depend largely on the extent to which an organization's leadership takes into account and implements the solutions proposed after diagnosis. As it has been seen, partial implementation of recommendations has as a consequence obtaining financial performance below the expected level.

Also, it was found that, unlike the private sector, in the public sector there is less motivation to improve financial results at the expense of efficient spending. In these circumstances, there are situations where legislative restrictions on various categories of expenditure have no effect in terms of reducing total costs. Besides the fact that in public museums there is no incentive system focused on financial performance, certain legislative provisions have the opposite effect, discouraging efficiency based management. For example, the provision that "budgetary appropriations unused until the year end are cancelled of law" (Law 500/2002) is likely to generate some consequences in the effective management of public funds because, knowing they will lose the money if not spent, public institutions tend to consume more resources than they need for their proper functioning. This provision can be a barrier in the way of efforts to attract own revenue over the initially approved level, because once such income is received and budget revision made, public institutions have two options: either spend more money or quit some of the funds by transferring them to the state budget. The exception is public institutions financed entirely from own revenue, where annual surpluses in the budget results are reported in the following year (Law no. 500/2002). Therefore, in order to sustain the growth of income levels legislation should allow all public institutions to report next year budgetary surplus arising from the excess in own revenues approved in its budget.

So, even if existing legislation makes some managerial approaches encountered in the private sector to not have the same level of utility for public sector organizations, it is noteworthy that instruments such as financial diagnosis can be used to improve performance in this sector as well. The practical application of the recommendations made following the diagnosis of an organization allows increased effectiveness, which, in the public sector, at national level, can be translated into a reduction of the gap between own revenue and borrowed funds.

Given the fact that this paper has shown the effects of applying a financial diagnosis in a particular case, further studies are needed to verify the extent to which conclusions can be generalized to all public museums in Romania. Also, future research should consider the benefits of this tool for other public institutions in other sectors. By expanding research on ways to increase the efficiency of public institutions, the foundation is laid for a sustainable development of the country, which is directly correlated to the quality of life of citizens.

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