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THE ORIGIN OF MANAGEMENT ACCOUNTING STANDARDIZATION INCLUDED IN THE PORTUGUESE OFFICIAL ACCOUNTING PLAN FOR THE HEALTH SERVICES IN THE PERIOD 1954-1979 AND THE UNDERLYING CRITICAL JUNCTURE

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Abstract:

The new institutionalism was the theoretical framework for this research whose aim was to understand in depth the origin of management accounting standardization included in the Portuguese Official Accounting Plan for the Health Services (*Plano Oficial de Contabilidade para os Serviços de Saúde*, hereafter POCSS/80), in the historical period 1954-1979, by using a historical research methodology. Regarding the main results obtained for the period 1954-1974, the rules created by the political powers to control public spending on health services, and the public budgetary accounting cash basis, were the origin of the first management accounting concepts for Portuguese public health services. The transition from dictatorship to democracy (April 25, 1974), the creation of the Official Accounting Plan (*Plano Oficial de Contabilidade*, hereafter POC/77) and the implementation of the welfare state with the National Health Service, created the necessary critical juncture for the emergence of POCSS/80 which included management accounting rules for planning, evaluation and control of spending in Portuguese public health services. Regarding the extension of the theory, the use of historical institutionalism in management accounting research, as it was known for the first time, deserves mention because it is useful in understanding how management accounting institutions came about in historical contexts.

Keywords: Critical juncture, isomorphism, management accounting standardization, Portuguese National Health Service, history.

1. Introduction

It is often said that health is priceless and should therefore take first place. This perspective, coupled with the political will for social protection, has contributed to the historically high proportion of state budgets being allocated to spending on health services (Kickert, 2011). The continued growth in public spending on health services requires public systems development of planning and management control. In Portugal, one of the arguments for health services' reform was the existence of inefficiencies in the organizational model of public service, in particular in regard to the distribution and use of resources (Vaz et al., 1996). It is therefore interesting to understand the origin of management accounting in the Portuguese public health services over a historical period of time. The Portuguese public health services were subjected to a first official plan organized into areas of financial accounting and management accounting (Ministry of Social Affairs, 1980). This occurred in 1980, but, before, there were separate standards of planning, evaluation and control for all public expenditures, related to the compliance of the state budget, even before the implementation of democracy (e.g., Ministry of Interior, 1954; Ministry of Health and Welfare, 1961, 1968a).

The new institutionalism was the theoretical framework for this research whose aim was to understand in depth the origin of management accounting standardization included in the Portuguese Official Accounting Plan for the Health Services (*Plano Oficial de Contabilidade para os Serviços de Saúde*, hereafter POCSS/80), during the historical period 1954-1979, by means of a historical research methodology. In the period 1954-1974, the rules created by the political powers to control public spending on health services, and the public budgetary accounting cash basis, brought about the first management accounting concepts for Portuguese public health services. The transition from dictatorship to democracy (April 25, 1974), the creation of the Official Accounting Plan (*Plano Oficial de Contabilidade*, hereafter POC/77), and the implementation of the welfare state with the National Health Service, created the necessary critical juncture for the emergence of a first standardized official plan: the POCSS/80. This plan included management accounting rules for planning, evaluation and control of spending on Portuguese public health services, particularly hospital services. Regarding the extension of the theory, the use of historical institutionalism in management accounting research, as it was known for the first time, deserves mention because it is useful in interpreting how management accounting institutions came about in historical contexts. To this end, after the literature review (Section 2), the contextualization of the Portuguese public hospitals in the transition from dictatorship to democracy (Section 3) and the description of the research methodology (Section 4), this study proceeds to the empirical findings (Section 5), including the theoretical discussion, prior to the final conclusion.

2. Literature review

The management accounting literature includes subsystems of planning, evaluation and control to support decision making (e.g., Libby & Waterhouse, 1996; Atkinson et al., 2007). It is a branch of accounting (institution) that interact with other institutions of their social, economic, political and organizational context (e.g., Miller, 2007; Gomes & Rodrigues, 2009; Bracci et al., 2010). Systems and accounting concepts are integrated in institutionalized contexts and are influenced by legal environment (e.g., Scapens, 2006; Caria & Rodrigues, 2014), for example. As the origin of legislation comes from political power, politicians and institutions are shaped by each other and create mechanisms for institutional reproduction (e.g., Hay & Wincott, 1998). Such power of political decision is exercised through hierarchical structures with the capacity and legitimacy to influence the rules of administration and accounting creation and change (e.g., Meyer & Rowan, 1991), particularly in management accounting rules (e.g., Ribeiro & Scapens, 2006). The use of legal rules constitutes a coercive isomorphism referred to in the new institutional sociology literature (e.g., DiMaggio and Powell, 1991; Meyer & Rowan, 1991; Hyvönen et al., 2006). The legal pressures of exogenous origin have influence in the institutionalization of management accounting rules in the organizations (e.g., Covaleski et al., 1996).

Within an organization, resource management pursues economic objectives, on the one hand, and legitimacy objectives and social acceptance, on the other hand (e.g., Meyer and Rowan, 1991). The management accounting (institution) creation and change is also influenced by cultural factors (e.g., DiMaggio & Powell, 1991; Meyer & Rowan, 1991). In this respect, normalized accounting interacts with the surrounding historical context (e.g., Gomes & Rodrigues, 2009). Such historical context (e.g., Fennings & Greenwood, 2003; Asiskovitch, 2009), as well as power relations (e.g., Thelen & Steinmo, 1998; Asiskovitch, 2009) and critical junctures (e.g., Torfing, 2001; Mabee, 2011) are concepts emphasized by historical institutionalism.

In Portugal, as in other southern European countries, the legalist paradigm and bureaucratic culture are prevalent and the transition from a dictatorial political regime to a liberal constitutional democracy regime has not changed that fact (Kickert, 2011). The Carnation Revolution of 1974 even contributed to the postponement of the first official accounting plan approval (Caria & Rodrigues, 2014). But, given the reforms and the development of the welfare state (Kickert, 2011; Cordery, 2012; Coppolaro & Lains, 2013), the accounting standardization was inevitable as an institutional logic of the state to control public accounts and expenditures (e.g., Modell, 2012; Caria & Rodrigues, 2014). Despite the POC/77 intended for companies (Ministries of Planning and Economic Coordination and Finance, 1977), the public accounts depend on the company accounts because the tax authorities are one of the main users of accounting information (e.g., Guerreiro et al. 2012; Caria & Rodrigues, 2014). Therefore, the Portuguese Accounting Standards Board (Comissão de Normalização Contabilística, hereafter CNC) was, and still is, the central agent, politically and economically, which designs and theorizes the processes of accounting change, obtaining the necessary political support and mobilizing the agents involved (Guerreiro et al. 2012; Caria & Rodrigues, 2014).

The expansion of the welfare state, under the Portuguese Constitution of the early parliamentary democratic regime, included the National Health Service inspired by the British Beveridgean model of universality (Simões, 2004; Kickert, 2011). In this Portuguese historical context, the control of the National Health Service accounts, particularly the hospital standardized accounts to control public hospital spending (e.g., Modell, 2001), was part of a formal bureaucratic control logic, typical of the traditional public administration (e.g., Simões, 2004). That is, the state assumed power and competences to control the public hospital funding (e.g., Modell, 2001; Simões, 2004). This relationship between hospital funding systems and the need for information about their costs has been shown in the literature (e.g., Costa et al, 2008; Major & Cruz, 2013). Consequently, standardization regulates the management accounting systems in the creation and identification of cost objects and cost centres which, in turn, can also shape the organization around these sections or cost centres (Napier, 2006).

3. Contextualization of the Portuguese public hospitals in the transition from dictatorship to democracy

Over the centuries, according to Simões (2004), the Portuguese hospital accompanied the historical, political, social and economic dynamic of each period, from the hospitals belonging to religious orders, to hospitals originating in some professions (carpenters hospitals, goldsmiths hospitals, fishermen hospitals, etc.). These health facilities were hospitals for treating poor people, while the rich people could afford the doctor visits to his own house (Simões, 2004). In accordance with McKee and Healy (2002), in the nineteenth century, both in Portugal and almost everywhere in Europe, the medical advances meant that hospital specialists used public hospitals as teaching and research locations. This development gave historical priority to an institutional logic of the medical profession, more focused on clinical criteria than efficient resources management (Ruef & Scott, 1998).

In Britain, in 1942, the Beveridge model of social protection began to include public health services as one of the aspects of a viable social security system (Simões, 2004). Historically, health system governance models have combined responsibility (public agents, private agents or societal agents – insurance) with the functions of regulation, funding and services provision (Wendt, 2009). In the Beveridgean model, the three functions (regulation, funding and services provision) are state responsibility (public agents) by the National Health Service (Steffen, 2010). Private health systems are based on free-market models and the social health insurance systems are inspired by the Bismarckian societal model (Steffen, 2010). Böhm et al. (2013), faced with the three types of agents involved (public, private and societal) and the three key functions (regulation, funding and services provision), concluded that there is a hierarchical relationship between those three functions: first, regulation; second, funding; and, finally, the services provision. The upper function (regulation) limits the nature of subordinate functions, determining the interactions between the agents involved (Böhm et al., 2013).

In Portugal, the Law of Hospital Organization (Law No. 2011, April 2, 1946, quoted in Ministry of Health and Welfare, 1968a) established, for the first time, a regionalized hospital system. In Portugal, under the *Estado Novo* (dictatorial) regime of the

mid-twentieth century, Mercy Hospitals, State and City Councils funded the majority of the hospital changes (Ministry of Interior, 1954). In 1968, the Hospital Statute approval (Decree-Law No. 48357, April 27, 1968a) sought to extend administration and accounting rules, on the one hand, and organize public hospital services in terms of “corporate management”, promoting efficiency and improvements in hospital management, on the other (Ministry of Health and Welfare, 1968a). However, this historical reference to “public hospitals corporatization”, in the dictatorship period, has not been seen in practice (Simões, 2004).

After the Revolution of April 25, 1974, Portugal ceased the dictatorial regime and turned towards a socialist economy with nationalization of industries and banks that have aggravated even further the economic crisis (Kickert, 2011). In the same 1970s, Spain and Greece also made the transition from an authoritarian regime of dictatorship to a parliamentary democracy, initiating reform processes of economic and administrative modernization (Coppolaro & Lains, 2013). The transition to a liberal constitutional democracy in Portugal, Spain and Greece occurred in a period of economic recession (Kickert, 2011). The establishment of liberal constitutional democracies in these countries also marked the beginning of modern professional bureaucracy (Kickert, 2011).

With a very serious crisis in the Portuguese balance of payments, 1978 was the year that the International Monetary Fund made the first financial intervention in Portugal, through a first Stabilization Program agreed with the Portuguese Government (led by socialist Mário Soares) (Lourenço, 2013). Still, the socialist ideas, made possible by the transition to liberal democracy with the expansion of the welfare state, enabled the creation of the National Health Service, in 1979, with Beveridgean inspiration, by the Law No. 56/79, September 15, 1979 (Assembly of the Republic, 1979). At the same time, there was created, centrally, the Department of Financial Management of Health Services (*Departamento de Gestão Financeira dos Serviços de Saúde*, hereafter DGFSS), to oversee the financial management of the National Health Service. Spain and Greece also created and expanded a western welfare state at the same time (Kickert, 2011; Cordery, 2012; Coppolaro & Lains, 2013). The Beveridge model created universal public health care systems (within the welfare states) that allowed free access of all citizens, regardless of income, age, gender or profession (Simões, 2004; Coppolaro & Lains, 2013). Under this model, the National Health Service is funded by general taxation for the benefit of the entire population (Toth, 2010).

The Portuguese, Spanish and Greek National Health Services followed similar historical trajectories, being raised in similar institutional and political conditions: in the early years of the democratization process – Portugal in 1979, Greece in 1983 and Spain in 1986 – and through the replacing of the Bismarckian model (Toth, 2010). Thus, the National Health Service approval in these countries took place at a historically critical juncture of institutional and political systems (Toth, 2010). History has been constantly used to justify political and administrative options, but history has also shown that the consequences of a political option on public administration can last a long time and affect several areas: political, economic, environmental, social, intellectual, artistic and technological (Dutil, 2014). The context reflects an interaction of different institutions (political, economic, legal, social, etc.) (Fernández-Alles & Llamas-Sánchez, 2008).

4. Research methodology

The interpretive researchers follow a holistic orientation in studying accounting practices, socially constructed in their historical, economic, social and organizational context (e.g., Ryan et al., 2002, Miller, 2007). Studying management accounting as a social practice (e.g., Miller, 2007) requires considering social aspects as symbols, myths, language, status, class, trust and intimacy (Covaleski et al., 1996; Busco et al., 2006). The interpretive perspective is part of the procedural approach suggested by several authors (e.g., Scapens, 2006) for the study of incremental or abrupt change (Streeck & Thelen, 2005). In this context, the new institutionalism, namely the historical institutionalism branch that emphasizes the historical context (e.g., Fennings & Greenwood, 2003), the power relations (e.g., Thelen & Steinmo, 1998; Asiskovitch, 2009) and the critical junctures (e.g., Torfing, 2001; Mabee, 2011) and its new institutional sociology branch that focuses isomorphism phenomena (e.g., DiMaggio & Powell, 1991; Meyer & Rowan, 1991; Hyvönen et al, 2006), was the theoretical framework of this research. The aim was to understand in depth how, and for what reasons, management accounting rules have emerged in the Portuguese public hospitals in the historical period 1954-1979 that preceded the POCSS/80. A historical research has the potential to contribute to the expansion of knowledge about management accounting change (e.g., Luft, 2007), regardless of the change resulting in continuity or discontinuity (Streeck & Thelen, 2005).

Starting from the evidence that, in 1980, an Official Accounting Plan for the Health Services (POCSS/80) was created, and included management accounting rules, this research sought to understand the trajectory of standardization in its development. As a consequence, an essentially documentary analysis (historical type) was adopted, whose legal documents are presented chronologically in Figure 1.

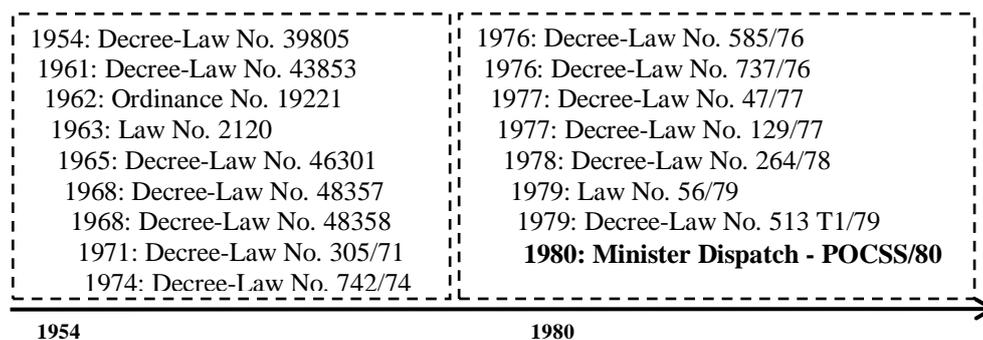


Figure 1. Trajectory of management accounting standardization in the Portuguese public health services in the origin of POCSS/80 (1954-1979)

Due to the evidence found in the formal rules, not only the explicit management accounting rules but also other legal norms were studied, including details on the functions of planning, evaluation and management control in the Portuguese public hospitals. Such legal evidence focuses on management accounting rules per se, on the one hand, and on the creation and development of legal structures with influence or power to create, implement and transform those rules, on the other hand.

5. Empirical findings

These empirical findings are considered in four chronologically sequenced sections of text: first, the creation of hospital organizational structures with planning, evaluation and public expenditure control responsibilities (1954-1967); second, the management accounting details after the creation of the Portuguese Hospital Statute (1968-1976); third, the management accounting details included in the POC/77; and finally, the hospital management accounting rules after the creation of the Portuguese Hospital Organic Law and the National Health Service (1977-1979) that preceded the first official sectoral (public health services) accounting plan in Portugal: the POCSS/80 which included management accounting rules.

The creation of hospital organizational structures with planning, evaluation and public expenditure control responsibilities (1954-1967)

A 50% increase in the number of inpatients over a period of ten years (1943-1953) led to concern about control of the public spending growth and this was reflected in Decree-Law No. 39805, September 4, 1954 (Ministry of Interior, 1954). To curb this increase in charges, the control rule found in the time of dictatorship, in article 1 of this Decree-Law No. 39805, September 4, 1954, was to make patients and their families responsible for their own treatment by direct payment of their hospital expenses (Ministry of Interior, 1954). According to articles 1 and 2 of Decree-Law No. 43853, August 10, 1961, a central public body was created (Hospitals Directorate General) with hierarchical ascendancy over public hospitals and planning, implementation and control aims (Ministry of Health and Welfare, 1961). These areas of planning, evaluation and control to support decision making are management accounting subsystems (e.g., Libby & Waterhouse, 1996; Atkinson et al., 2007). The jurisdiction conferred to hierarchical structures with decision-making powers to create and implement management accounting rules, have been referenced in the literature (e.g., Ribeiro & Scapens, 2006).

According to Ordinance No. 19221, June 5, 1962, the central secretariat services of the Hospitals Directorate General included an area of budget and accounting (Ministry of Health and Welfare, 1962). However, Law No. 2120, July 19, 1963, concerning the basis of health policy and assistance, determined to apply the general rules of accounting of public services to public health care entities (Presidency of the Republic, 1963). Moreover, according to the X basis of this Law, all hospital activity should integrate central, regional and sub-regional hospitals, medical consultation or emergency stations and auxiliary services. For the implementation of Law No. 2120, July 19, 1963, the Ministry of Health and Welfare should take legal administration and accounting normatives adapted to the nature (public services) of each hospital. This is because the accounting systems are integrated in institutionalized settings, namely the legal environment (e.g., Scapens, 2006; Caria & Rodrigues, 2014). Consequently, the previously mentioned Decree-Law No. 39805, September 4, 1954, was repealed by Decree-Law No. 46301, April 27, 1965, which established a specific financial regime for services and entities that was aimed at hospital activities in obedience to that Law No. 2120, July 19, 1963 (Ministries of Interior, Finance and Health and Welfare, 1965). Thus, the financial regime established by this legislation

constitutes a set of specific administration and accounting rules for public hospitals to take effect within a minimum of three years.

According to the Decree Law No. 46301, April 27, 1965, the accounting established in the financial regime would be “organized in order to ensure the financial supervision of the management and the calculation of their economic results” (Ministries of Interior, Finance and Health and Welfare, 1965, p.488). The rules focused on various forms of accounting records, including coverage of costs, price lists of services, responsibility and payment of charges (Ministries of Interior, Finance and Health and Welfare, 1965). This normative referred back to Law No. 2120, July 19, 1963, mentioned above, which, in turn, stipulated that public health entities should use the same general accounting rules applicable to other public services. During this period, the Portuguese tax reform of 1963 along with the public accountability of public accounts arising from the accession of Portugal to the OECD (in 1955) pressed for accounting standardization in the context of the need to control public accounts as a result of Portuguese Overseas War (Caria & Rodrigues, 2014).

Regarding the price list of healthcare services, the article 16, paragraph 2 of the Decree-Law No. 46301, April 27, 1965, established that “the calculation of price lists should be based on the average cost of services and can refer to either the assistance of isolated acts or the set of services provided to each assisted” (Ministries of Interior, Finance and Health and Welfare, 1965, p.490). According to this evidence, this was a normative reference that linked the need for an accounting of average costs of hospital services to be the basis for funding these services (e.g., Costa et al, 2008; & Major Cruz, 2013).

The article 45, paragraph 1, of this Decree-Law No. 46301, April 27, 1965, also stipulated the creation of a Hospital Funding Committee in the Portuguese Ministry of Health and Welfare with functions of annual planning for financial coverage and with responsibilities for preparation of studies on hospital funding (Ministries of Interior, Finance and Health and Welfare, 1965). In addition to the Minister of Health and Hospitals Director-General (Ministries of Interior, Finance and Health and Welfare, 1965), that Commission was constituted by other social and political agents, including representatives of the Portuguese Medical Order and other institutional directors and presidents. Such diversity of agents included in that Commission, with capacity and legitimacy of action, is indicative of their ability to influence change in the administration and accounting rules (e.g., Meyer & Rowan, 1991). It is noteworthy that the concerns of planning, evaluation and control of public spending (public funding of Portuguese health services) show an interaction between various political and social agents, i.e., the accounting (institution) interacts with other institutions of the social, economic, political and organizational environment (Gomes & Rodrigues, 2009; Bracci et al., 2010).

Management accounting details after the creation of the Portuguese Hospital Statute (1968-1976)

The Portuguese Hospital Statute, promulgated by Decree-Law No. 48357, April 27, 1968, included in its preamble that “hospital management, essential infrastructure to any medical action, will have to be developed according to the techniques of economic life, although

subordinate to social and human goals pursued” (Ministry of Health and Welfare, 1968a, p.600). Paragraph 1 of Article 5 of this Statute sectioned the following integrated organization of activities: “a) general and specialized hospitals; b) specialized medical centres; c) rehabilitation centres; d) convalescent and extended stay hospitals; e) medical consultation and emergency stations” (Ministry of Health and Welfare, 1968a, p.602). Thus, in line with the evidence of that Hospital Statute, economic management processes were indispensable for optimal use of resources, coexisting with legitimate and social acceptance goals with influence on the change (e.g., Meyer & Rowan, 1991).

In relation to the financial regime, paragraph 1 of article 33 of Decree-Law No. 48357, April 27, 1968, aimed to extend the administration and accounting rules arranged in the aforementioned Decree-Law No. 46301, April 27, 1965, except for that which was expressly provided in the Portuguese Hospital Statute (Ministry of Health and Welfare, 1968a). In addition to this reason, the article 35 of the same Decree-Law added another motivation: to organize hospital services in terms of “corporate management”, promoting efficiency and improvements in the management of Portuguese hospitals. According to the normative, such corporate organization of hospitals, legally established, would involve the implementation of management plans and budgets, economic management methods appropriate to the nature and purpose of the hospital, permanent monitoring and periodic evaluation of the management. Efficiency in resource management linked to planning, evaluation and management control functions are subareas of management accounting (e.g., Atkinson et al., 2007).

The article 10 of Decree-Law No. 48358, April 27, 1968, which approved the General Regulation of Portuguese Hospitals, identified and grouped the hospital sections (cost centres or activities) which in turn could be divided into subsections by regulation and depending on the size and classification of central, regional and sub-regional hospital, as shown in Table 1 (Ministry of Health and Welfare, 1968b).

Table 1. *Hospital sections in Decree-Law No. 48358*

Description of the sections (a)
<p>Assistance services:</p> <ul style="list-style-type: none"> - Medical action services - Clinical services - Medical action services - Diagnostic and therapeutic services - Medical action services - Specialized centres (just in central hospitals) - Pharmaceutical services - Nursing services - Social services <p>General support services:</p> <ul style="list-style-type: none"> - Administrative services (secretariat, personnel staff, accounting, patients, cash receipts and payments, archiving and statistical, and supervision) - Provisioning services (acquisition and storage) - Facilities and equipment services (maintenance facilities, transport services and civil construction) - General services (feeding, laundry, healthiness and domestics) <p>Religious assistance (b)</p>

(a) Services structure in the central hospitals; in the regional and sub-regional hospitals, a fewer subdivisions depending on the size was predicted; Services could be divided into sections or divisions according to the regulation of each hospital. (b) Under the Concordat with the Holy See and complementary legislation.

Fonte: Elaborated based on Ministry of Health and Welfare (1968b)

From Table 1 above, it is understood that the names of the hospital sections are identified with the services themselves, making it difficult to distinguish between sections of activity and own services (cost objects) in those sections (Ministry of Health and Welfare, 1968b). It should be noted also the particularity of the General Regulation of Portuguese Hospitals: cultural and religious influence in defining the cost centre “religious assistance”. The role of “religious” institution is consistent with the influence of cultural factors on the change in the management accounting institution (e.g., DiMaggio & Powell, 1991; Meyer & Rowan, 1991), despite the construction of costs centres (sections) also shaping the organization around these sections (Napier, 2006).

According to article 15 of Decree-Law No. 48358, April 27, 1968, both Portuguese hospitals, individually, and Portuguese Hospitals Directorate General, at the central level, had the responsibility to organize centralized systems of regular efficiency assessment by sections and hospital services (Ministry of Health and Welfare, 1968b). The aim of this regulation was to indicate who was responsible for the development of planning and performance evaluation (by sections and hospital services) systems. Such legal empowerment to the social agents responsible for management accounting change highlights how the emergence of key management accounting concepts (performance by sections and hospital services) has been influenced by legislation (Caria & Rodrigues, 2014).

Decree-Law No. 305/71, July 15, 1971, established a new classifier element for ordinary and extraordinary revenues and expenditures by making the distinction between “current” and “capital” (Ministry of Finance, 1971). The expenditure and revenue classification rules (by nature and by groups of sections) of this Decree-Law were presented as useful information for decision-making. At this normative, three main reasons for the change in the rules were included: to facilitate the elaboration of the General State Budget and the execution of national accounting; to provide important management information; to provide statistical data (output measurement units and output quantities) for the analysis of sectorial economic structures. These reasons show the use of management accounting concepts and subsystems (expenditures by sections, useful information construction, decision making, production measures) (e.g., Atkinson et al., 2007) from an institutional logic of state control of public spending (e.g., Modell, 2001).

Decree-Law No. 742/74, December 27, 1974, focused on public budgetary regime standardization rules (Ministry of Finance, 1974). Paragraph 1 of article 5 of this Decree-Law included rules for disclosure of approved management accounts and the mandatory submission to the Court of Auditors. The reason for this change was boosting budgetary policy as a circumstantial intervention instrument and to support economic and social development (Ministry of Finance, 1974). In its turn, Decree-Law No. 585/76, July 22, 1976, which revoked Decree-Law No. 742/74, December 27, 1974, established rules on “the registration and use of its own revenues, the organization of their private budgets and the provision and disclosure of management accounts” (Ministry of Finance, 1976, p.1637). These own revenues would be registered in specific accounts in accordance with the General State Budget. The normative also identified the reason behind the change: the need to update, review and continue the rules standardisation of the budgetary system and public accountability.

Decree-Law No. 737/76, October 16, 1976, which revoked Decree-Law No. 305/71 July 15, 1971, changed the organic, functional and economic classification of public revenues and expenses, including a codification for use according to the accrual budgetary accounting principle (Ministries of Planning and Economic Coordination and Finance, 1976). The reason for the change mentioned in the normative was the need to alter the classifier scheme of public revenues and expenditures to fit it to the new requirements and obtain the financial elements required for the elaboration of own budgets for each government ministry. This evidence suggests the need to review and redirect the rules that allow the institutional reproduction referred to by Hay and Wincott (1998). Thus, from 1954 to 1976, the creation or change of management accounting rules for public health services was being done through legal norms of public budgetary accounting cash basis, for monitoring the implementation of the General State Budget. However, there are no direct references to the branch of “cost, analytical or management accounting”.

Management accounting details included in the POC/77

It was in November 1974 that the First Portuguese Provisional Government Program included the need to adopt standardized accounts and the Budget Secretary of State appointed a committee for this study (Ministries of Planning and Economic Coordination and Finance, 1977). This committee was given official existence by Ministerial Dispatch, February 27, 1975, published in the Republic of Portugal Official Journal, *Diário da República*, on March 18, 1975. From work by this committee resulted the first POC/77 for companies that was approved and published by Decree-Law No. 47/77, February 7, 1977 (Ministries of Planning and Economic Coordination and Finance, 1977). This Decree-Law not only approved the Portuguese POC/77 but also created, by legal support, the so-called Accounting Standards Board (*Comissão de Normalização Contabilística*) to update and monitor the implementation of this plan which was preceded by two Accounting Plans Drafts that were not officially approved (Caria & Rodrigues, 2014). Thus, the POC/77 came up at a historical critical juncture (e.g., Torfing 2001; Mabee, 2011), resulting from a process of reform and economic and administrative modernization coincident with the transition from a dictatorial regime to a liberal constitutional democracy in Portugal (Kickert, 2011).

The POC/77 covered essentially the financial accounting for companies and recognized that the areas of cost, analytical and management accounting had not been developed (Ministries of Planning and Economic Coordination and Finance, 1977). Nevertheless, this plan included an income statement by function design and tables for the development of sales, cost of sales, unincorporated industrial costs, distribution costs and administrative costs. Regarding the motivations of the POC/77, the Decree-Law No. 47/77, February 7, 1977, highlighted the main purpose of creating a general, uniform, and mandatory form for a companies’ accounting model for economic and tax reasons (Ministries of Planning and Economic Coordination and Finance, 1977). In fact, in Portugal, the tax authorities have been one of the main users of accounting information (e.g., Guerreiro et al, 2012; Caria & Rodrigues, 2014). According to the normative that created the POC/77, the plan was considered a first piece with rules under construction, whose implementation was monitored by the Accounting Standards Board. This board was

the central agent, politically and economically, in theorizing accounting change processes, obtaining political support and mobilizing the agents involved (Guerreiro et al., 2012).

Paragraph 21 of the technical considerations of the POC/77 established, first, that there were “reserved the 9 and 0 account groups for internal, analytical, cost or management accounting and for treatment of other information” (Ministries of Planning and Economic Coordination and Finance, 1977, p.11). Paragraph 8 of the introduction of this plan summarized that its purpose was essentially external, but did not fail to allude to internal goals. Despite the POC/77 having been intended for companies, the plan indicated that sectoral plans for various activities, in accordance with the respective specificities, would be created by legal support (Ministries of Planning and Economic Coordination and Finance, 1977). Paragraph 10 of the introduction of the POC/77 stated that the internal, cost or management accounting should be developed in the short term, but through sectoral plans. Health services fall into such sectoral specificities.

Hospital management accounting rules after the creation of the Portuguese Hospital Organic Law and the National Health Service (1977-1979)

In the same year in which the POC/77 was released, the Portuguese Hospital Organic Law was also approved by Decree-Law No. 129/77, April 2, 1977, whose paragraph 1 of article 7 stipulated accordance with the accrual principle for revenue and expenses by nature and by function (cost centres) accounting standards, recognizing the need for management control measures (Ministry of Social Affairs, 1977), in line with an institutional logic of public expenditure control (e.g., Modell, 2012). According to that Decree-Law, the Portuguese hospitals funding model would have guidelines “by Decree-Law” of the Ministries of Finance and Social Affairs on the basis of historical cost (by sections) and production (allocation units).

In 1977, the hospital revenues and expenses accounting standards included a “hospital accounts plan” based on previous separate legislation on the public entities financial regime, previously mentioned. According to the Decree-Law No. 129/77, April 2, 1977, the reasons for the change via Hospital Organic Law were (Ministry of Social Affairs, 1977): to provide greater management autonomy to hospitals, with corresponding accountability of management bodies and management control improvements; and to authorize the Hospitals Directorate-General to promote the revision of the “hospital accounts plan”. Later, the Decree-Law No. 264/78, August 30, 1978, amended the Decree-Law No. 585/76, July 22, 1976, in order to introduce some changes to clarify formalities and rationalize circuits prescribed for the elaboration of ministerial budgets (Ministry of Finance and Planning, 1978).

With the creation of the Portuguese National Health Service by Law No. 56/79, September 15, 1979, the health services referred to in the Decree-Law No. 48358, April 27, 1968, added that services (primary and differentiated care) were provided in those health activity sections (Assembly of the Republic, 1979). In relation to the reasons for the creation of the Portuguese National Health Service, Law No. 56/79, September 15, 1979, identified two main motivations (Assembly of the Republic 1979). First, to ensure the right to health protection under the Portuguese Republic Constitution as a system legitimized by the political and social ideas in Portugal (Simões, 2004; Kickert, 2011). Second, to assign

powers to the Portuguese National Health Service (central, regional and local bodies) to manage and supervise the implementation of activities for the provision of health services in primary and specialized care facilities. Such activities, according to the Law, were identified as standardization, planning, evaluation, control and decision-making (e.g., Libby & Waterhouse, 1996).

Yet in 1979, the previously mentioned DGFSS was created by Decree-Law No. 513 T1/79, December 27, 1979, considering two fundamental reasons (Ministry of Finance and Social Affairs, 1979): to comply with the Law No. 56/79, September 15, 1979, which had created the Portuguese National Health Service; to reorganize the Portuguese health sector structures. This reorganization attributed powers and created the DGFSS in the Health State Secretariat to integrate central financial management services, belonging to the Portuguese Hospitals Directorate-General, and the Portuguese Health and Medical-Social Services Directorate General. The DGFSS hierarchical power in Portuguese public hospitals, through this organizational structure, according to the articles 2 to 4 of this Decree-Law No. 513 T1/79, December 27, 1979, covered planning, evaluation and control functions. It should be noted, among the powers of the DGFSS, were the function of creating and implementing accounts plans (standardization) for health services. Upon such legal support, the political power promotes changes in the accounting standardisation in order to control more effectively the public spending of health services (e.g., Modell, 2001). Faced with such powers, and in order to adapt the POC/77 to the Portuguese public health services sector, through a first sectoral plan, DGFSS created a working group to standardize the accounting systems of Portuguese health care in terms of financial accounting, budgetary accounting and cost accounting (Ministry of Social Affairs, 1980). Thus, during the period 1954-1979, the origin of the first management accounting concepts for the health services was found in the Portuguese public budgetary accounting cash basis, and in the legislation that created, structured and organized the Portuguese health services.

The transition from a dictatorial political regime to a liberal constitutional democracy regime in Portugal, along with the approval and implementation of POC/77, the development of the welfare state (Kickert, 2011; Coppolaro & Lains, 2013) and the creation of the National Health Service, constituted a critical juncture (e.g., Torfing, 2001; Mabee, 2011) required for the development of an institution (POCSS/80) which included rules of planning, evaluation and control of public expenditure in the Portuguese health service. Institutions and several agents interact and create mechanisms for institutional change in a historical context (e.g., Miller, 2007; Asiskovitch, 2009; Gomes & Rodrigues, 2009). The continued use of rules based on official legislation reflects the coercive isomorphism phenomenon mentioned in the new institutional sociology literature (e.g., DiMaggio & Powell, 1991; Meyer & Rowan, 1991; Hyvönen et al, 2006) which tends to make organizations very similar. The legal pressures (e.g., Covaleski et al., 1996) reflect a legalistic paradigm and a bureaucratic culture that are typical contextual factors in Portugal (Kickert, 2011).

6. Conclusion

In the period 1954-1974, standards and organizational structures politically designed to control public spending and budgetary accounting cash basis were the origin of the first

management accounting concepts for Portuguese public health services. The transition from dictatorship to democracy (April 25, 1974), the creation of the POC/77 and the implementation of a welfare state including the National Health Service created a critical juncture (e.g., Hall & Taylor, 1996; Mahoney, 2000; Sydow et al., 2009) required for the emergence of the first POCSS/80. This plan included management accounting rules for Portuguese public health services, apart from rules of double entry bookkeeping for the financial accounting.

The study of the management accounting standardization trajectory in the Portuguese public health service that was found in POCSS/80 during the period 1954-1979 also identified the agents involved. Several external agents, with hierarchical powers of coercion (e.g., Brignall & Modell, 2000; Ribeiro & Scapens, 2006) on the Portuguese public health services, under the legal organizational structures, pressed for the institutionalization of accounting standardization through Laws, Decree-Laws, Ordinances and Ministerial Dispatch, resulting in a coercive isomorphism (e.g., DiMaggio & Powell, 1991; Hyvönen et al., 2006). The concerns of policy makers, given their needs to answer politically for planning and budgetary control, underpinned the construction of management accounting rules for these public services. Such rules are part of an institutional logic of state control by legal supports of public spending growth (e.g., Kickert, 2011; Modell, 2012).

The historical institutionalism and the new institutional sociology proved to be useful in the interpretation of the creation process of institutions in a historical context and its relationship with the socially constructed organizational practices (e.g., Hall & Taylor, 1996). The historical political context (end of the dictatorial regime, liberal democracy implementation, welfare state creation with the National Health Service and POC/77 approval) was able to create a critical juncture to allow the emergence of management accounting rules with origins in the history of public budgetary accounting cash basis. Regarding the extension of the theory, the use of historical institutionalism in management accounting research, as it is known for the first time, is therefore useful to expose and interpret the creation processes of management accounting institutions in a historical context.

This historical research was restricted to formal legal evidence in the period 1954-1979, which can be considered a limitation of this study. The study of the management accounting rules included in POCSS/80 and their evolution since 1980 to the present day, including the interpretation of the rules in practice, and the use of evidence from interviews from case studies (public hospitals, for example) can be pointed to as suggestions for future research.

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