

## Chapter 18

# The Role of Management Accounting Systems in Public Hospitals and the Construction of Budgets: A Literature Review

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### ABSTRACT

*The role of management accounting systems (MAS) in the construction of budgets in the public health sector has been one of the least studied topics in the international literature. Furthermore, several studies have confirmed the loss of relevance of traditional approaches to budgeting due to the need to implement techniques that are more performance-oriented. Since public hospitals are organisations that depend significantly on public funds, with substantial impacts on governments' budgets, the pressure for reducing expenditures is strong, causing increased difficulties in hospital management. In order to analyse the role of MAS in the preparation of hospital budgets, this chapter presents a literature review on this topic. This review allows to understand the loss of relevance of traditional budgeting techniques and to present alternative approaches. In this process, the implementation of different kinds of budgeting is heavily influenced by governments and professionals. Nevertheless, the research on this topic is still very scarce, evidencing the need to continue studying it.*

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## INTRODUCTION

The relevance of the information produced by management accounting systems (MAS) in public or private organisations is currently widely recognised. Like in the private sector, also in the public sector several organisations operate in an environment where cost information can be classified as a strategic resource for long-term financial sustainability. The imbalance in government accounts, due to excessive expenditures, and the complex nature of several public sector organisations – a reality of our days, make management accounting an urgent need also for these organisations.

As to the environment of the health care sector, a set of features must be pointed out, distinguishing this from other sectors, namely, the strong component of ethical judgments, uncertainty, economic inefficiencies and, ultimately, the conviction that health, together with the values of human life, is not measurable. Nevertheless, health care costs must be identified, planned, managed and controlled.

The increase in public health expenditure in recent decades has been a great concern in most of the Organisation for Economic Cooperation and Development countries. According to Organisation for Economic Co-operation and Development ([OECD], 2014), in 2012, the total health expenditure in Portugal corresponded to 9.5% of the Gross Domestic Product (GDP), slightly above the average for all member countries (9.3%).

This progressive growth of health expenditure is mainly due to: technological and scientific progress achieved in this area, which has led to significant improvements in services; the increasing use of prescription drugs; the growing prevalence of treatable chronic diseases; among other factors (Kaplan & Porter, 2011; Lapsley, 2001; Shortell & Kaluzny, 2006). As a result, people can now live longer and healthier lives.

The public sector is the main source of health financing in virtually all OECD countries (OECD, 2014). According to the same source, in Portugal in 2012, 65% of health expenditures were financed by public funds, i.e. taxes.

The changes made on the budget preparation methods have been one of the major responses of the Portuguese Government to this issue. Such changes include, for example, the implementation of the “program-contracts” in the health care sector. It is expected that, among other things, the budget promotes accountability in outcome management, as well as performance evaluations.

The budget has a central role in public sector management. This document relates to a specific period of governance and presents a set of expenditures and revenues that policy makers intend to carry out in the various budget items. Wildavsky (1975) argues that the budget is a vital element of any government because it reflects the action plan in the implementation of public policies.

Although some empirical studies show that the budget is one of the most important tools in planning and controlling organisations, there is an ongoing debate about the usefulness of traditional budgets (Abernethy & Brownell, 1999; Uyar & Bilgin, 2011; Tayles, Pike & Sofian, 2007). There is a growing recognition, by several authors, of the limitations of conventional budgets (Abernethy & Brownell, 1999; Andrews & Hill, 2003; Anessi-Pessina, Barbera, Rota, Sicily & Steccolini, 2012; Finkler & Ward, 1999; Hansen, Otley & Van der Stede, 2003; Hanninen, 2013; King, Clarkson & Wallace, 2010; Libby & Lindsay, 2003, 2010; Marginson & Ogden, 2005; Mikesell, 1995; Neely, Sutcliffe & Heyns, 2001; Sandino, 2007; Tayles, et al., 2007; Uyar & Bilgin, 2011). Some suggestions for improvement point to other budgeting approaches such as “performance-based budgeting” (PBB) (Andrews & Hill, 2003; Kong, 2005), “zero-based budgeting” (ZBB) or “priority-based budgeting” (PYBB) (Chartered Institute for Public Finance and Accounting [CIPFA], 2006; Tayles et al., 2007; Worrall, Collinge, & Bill, 1998), and “activity-based budgeting” (ABB) (Hansen et al., 2003; Pinto & Santos, 2005).

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