



## Management accounting and rationalisation in the Army: The case of Spanish Military Hospitals in the 18th century

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### ARTICLE INFO

*Article history:*

Received 26 June 2012

Accepted 8 July 2013

Available online 9 September 2013

*JEL classification:*

I18

M48

*Keywords:*

Accounting at the Army

Rationalization

Controller

### ABSTRACT

The present paper deals with one of the most neglected areas of research in accounting, that of the Army. In spite of the literature on industries related to the Army, not too much has been extended on the Army per se. For this reason, this paper analyses the process of rationalization developed in the 18th century in Spanish Army Hospitals, as a result of the bankruptcy of the Royal Finances. Due to this process, the Military Hospitals were the most developed in the country, and it led to the emergence of the *Contralor* (Controller) within the hospital, and thus accounting was considered as an essential matter.

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### Contabilidad de gestión y racionalización en el ejército: el caso de los Hospitales Militares Españoles en el siglo XVIII

### RESUMEN

El presente trabajo analiza una de las áreas menos desarrolladas de investigación en contabilidad, como es la contabilidad en el Ejército. A pesar de la cantidad de literatura en relación con industrias asociadas al Ejército, es escasa la porción dedicada al Ejército per se. Por este motivo, este trabajo analiza el proceso de racionalización desarrollado en el siglo XVIII en los Hospitales Militares en España, como resultado de la suspensión de pagos de las Finanzas Reales. Como resultado de este proceso, los Hospitales Militares se convirtieron en los más desarrollados del país y supusieron la aparición del rol del *Contralor* (Controller) dentro del hospital, considerando así a la contabilidad como un elemento fundamental.

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*Códigos JEL:*

I18

M48

*Palabras clave:*

Contabilidad en el ejército

Racionalización

Controlador

### Introduction

Management accounting innovations on military institutions have been studied, from a historical point of view, mostly related to industries (i.e., Fleischman & Tyson, 2000; Hoskin & Macve, 1988; Lemarchand, 2002; Tyson, 1993). In fact, an interesting debate at the development of accounting at many industries was embedded on a military institution as the West Point Academy at the US (Fleischman & Tyson, 2000; Hoskin & Macve, 1988, 2000; Tyson, 1993). From this debate, and regardless of the perspective used for such analyses, the methods and systems developed at such

institution were the genesis of fresh, and not used previously in private business, management accounting methods (Funnell, 1997). In the same way the emergence of the interest at the United Kingdom for the cost accounting and the wide spread of such technique and its shift towards the standard cost at the society in general were deeply rooted in a military basis, and, specifically, on the industries at the First World War (Loft, 1993; Miller & O'Leary, 1987).

However, it has been scant the literature on the genesis of innovative management accounting techniques at the military institution by itself, that is, not centred on the industries (public or private) related to military (Funnell, 2005, 2009). Interestingly, such gap on the sources for innovation at management accounting methods at the Army can be engaged on the subsequent debate that lays out at the previous studies. In this sense, the West Point

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Academy led the flow of management accounting techniques from the Army to the private business (Hoskin & Macve, 1988). Yet, Lemarchand (2002) found that the techniques used at private business were translated to the war institutions by resorting to military engineers. In a similar vein, Zambon and Zan (2007) pointed out to the government as the promoter of a complex system of accounting records established at the Venetian Arsenal in 1586.

Some reasons can emerge for the implementation of accounting techniques at military institutions. Firstly, it could be an economic crisis (Funnell, 2009). A crisis could explain a change in a given *status quo* (Lemarchand, 2002; Zambon & Zan, 2007). In other cases, it was a consequence of the implementation of new politics on other arenas, as a social programme, which required from public resources. That could suppose fewer resources for the Army, and so, the leading of management towards the emergence of new accounting techniques for the control of the military expenses (Funnell, 2009). It should be remarked, too, those cases rooted on wars and the management of war, from an ideological point of view (Fernández-Revuelta, Gómez, & Robson, 2002), or for the rationalisation at the management of the war, which, in some cases, did not lead to good results (Chwastiasik, 1999, 2001, 2006). Finally, the disasters at a war could lead to a political crisis being accounting finally installed at the Army (Funnell, 2005).

Consequently, this paper analyses the design and emergence of the *Reglamento y Ordenanza que deben observar los Ministros y Empleados en los Hospitales para el Ejército* (Instruction for Military Hospitals). This regulation was sanctioned by the Spanish king Philip V on 8th of April, 1739 (Riera, 1992). The reasons to understand the emergence of this Instruction can be found on the Spanish Decree of Bankruptcy previously sanctioned on 21st March, 1739 (Fernández, 1977). This Decree supposed the stopping of all the payments from the Royal Treasury and the appointment of a new Minister for the Royal Treasury that faced up the needed reforms to improve the public finances. The crisis of the Royal Treasury was so high that the expenses were a third higher than the incomes (Fernández, 1977). Interestingly, the Army expenses represented three parts of four of the total amount of the state expenses (Fernández, 1977).

The control over the Army expenses was stated as a main issue of the Instruction for Military Hospitals, but it was not the only one (Corpas, 2005; Puell, 2008). It comprised all the matters that should be considered at a hospital at such time (Arcarazo & Lorén, 2008). As a result, the Instruction for Military Hospitals represented the main regulation on military hospitals for more than a century (Riera, 1992; Vega, 1988). The rule is based on three main pillars: (i) the most important aim of a hospital was the quick recovery of the ill soldiers; (ii) for this aim, it was needed to bring up to doctors, druggists, or nurses, through teaching; and (iii) the administration of a hospital must be a main issue and all the resources should be controlled (Puell, 2008). For these reasons, military hospitals suffered a huge change that led them to keep "... a network of services and a hospital management up to the rest of hospitals during all the century..." (Riera, 1992, p. 13).

From the accounting point of view, the Instruction for Military Hospitals implied a complex net of flows of information where the *Contralor* (Controller) was the main receiver and sender of this information. The Instruction for Military Hospitals is interesting on the control over the resources and stocks, the control over the daily stays of the ill military men and the requirements for the management of a hospital that led to a hard control over the rooms, medicines, equipments, tools, kitchen, food, wardrobe and so on, which was detailed sharply at the Instruction. Interestingly, the most of the costs of a military hospital were referred to the daily stay of an ill person (distinguishing between officers and ordinary soldiers), being this last the main resort of the complex mechanism of control of a hospital (Corpas, 2005; Teijeiro, 2002; Vega, 1988).

From this analysis, it is expected to contribute to the literature by expanding the ability of a political crisis to engage in a huge reform at a military institution which reached far from the mere reduction of costs at hospitals and made accounting key element for the distribution of works and the design of the posts at the organisation. Accounting and control procedures at military hospitals defined the different posts and tasks. Accounting, thus, was able to constitute the roles at the organisation. Accounting, by the same way, was adapted to fulfil the aims of the military hospitals. In accordance with Funnell (2009), military hospitals became a problem of resource management amenable to the discipline of accounting. Thus, "...accounting was densely interrelated with a particular way of delineating tasks and roles..." (Miller & O'Leary, 1987, p. 41), showing so, how accounting has a constitutive role at the organizations.

This work has resorted, mainly, to primary sources. All of them are located in the General Archive of Simancas (AGS). The most of the sections analysed for this work are not catalogued and detailed yet. In the same way, it also has considered secondary sources to complete and verify the information supplied by the primary sources.

The rest of the paper is as follows. The next section will describe the previous ideas of hospitals management to the enactment of the Instruction for Military Hospitals in 1739, with a special reference to the reasons and consequences for the sanction of the Decree of Bankruptcy. The third section will be devoted to show the main issues raised by the Instruction for Military Hospitals. The fourth section will explain the accounting flows at hospitals. Finally, it will be drawn the analysis, conclusions and future research of this work.

### Background of the Instruction of 1739

The Instruction for Military Hospitals did not emerge as a surprising and unexpected regulation for the management of hospitals of the Army. According to Massons (1994), in 1708, the king Philip V sanctioned the *Instrucción que se ha de observar para el buen Gobierno de los hospitales* (Instruction for the good management of the hospitals). Given that many military hospitals were managed by private businessmen, a key issue was the cost of these establishments for the Royal Treasury. Therefore, this rule emphasized the control over the stays of the individuals, with penalties for those managers that made frauds at their accounting books. Each ten days the managers must send a list of the ill people at the hospital. In the same way, the doctors must fulfil a document with the number of ill people by their illness, which would be sent each ten days to the Ministry of the Royal Treasury. Without this information the doctors would not be paid. A Controller must verify the number of ill people, as well as their foods, medicines and so on according to the doctor's orders. Such verification allowed the hospital for sending to the Accounting Office of the Army reports on the number of ill people to be paid (Massons, 1994).

The lack of uniformity in the application of the instruction of 1708 led in 1721 to enact a new Instruction (Raquejo, 1992; Riera, 1992), called simply *Ordenanza sobre Hospitales* (Ordinance about Hospitals) (AGS, *Guerra Moderna, Sup.*, box 269). This new regulation added (and it was focused on) more details about aspects such as surgery times, the delivery of foods and medicines, the portion of foods and the composition of such food and the control over the resources at the kitchen. Finally, it also disposed the need that the Superintendent of the Army should sign several forms of the managers to be paid in those cases where the management of a hospital was lent.

The surrounding concern on the expenses for military hospitals can be found on many studies. One of the most interesting, dated in

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