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WAIKATO
Te Whare Wānanga o Waikato

Department of Accounting

Working Paper Series

Reviewing the changing face of financial reporting: The case of a public benefit entity

By

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Number 92

May 2007

MANAGEMENT SCHOOL

Te Raupapa

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ISSN 1177-7230 (Online)

ISSN 1173-7182 (Print)

Reviewing the changing face of financial reporting: The case of a public benefit entity

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Abstract

- Purpose** This paper takes an exploratory approach to investigating the relationship between accountability stakeholder and legitimacy theory in public benefit entity. It explains that while the accountability relationship is traditionally applied to managers as the accountors and shareholders the accountees, this relationship also extends to public benefit entities and their stakeholders. The primary vehicle for the discharge of accountability in public benefit entities is the annual report, which provides performance evaluation information which can be construed as a mimetic response to legitimise DOC from the perspective of its stakeholders.
- Methodology** This paper adopts both a narrative/descriptive and interpretive/analytical research approach. The narrative provides the context to a number of significant events that occurred between 1987 and 2006, while the interpretative aspect relates the changes in the non-financial disclosures to those external events. A longitudinal case study compared the annual report beginning with the financial year 1987/1988 with the content of the annual report for the following year. The print media news items in each financial period were reviewed to determine whether the annual reports addressed any of the issues raised.
- Findings** Using stakeholder and legitimacy theory it is argued that impression management techniques have been used by DOC to mould how its various stakeholders 'know' or 'feel' about the organisation or alternatively legitimise its activities in light of the extensive negative publicity experienced by the organisation. The analysis found that the annual report of a public benefit entity can play an important legitimisation role.
- Originality/value** This paper provides a valuable contribution to researchers and practitioners as it attempts to extend the understanding of how those public benefit entities that are required to use accrual accounting can make use of financial reporting for legitimacy purposes. This is one of the first studies to examine the relationship between financial reporting and legitimacy in the public sector.
- Key words** conservation; accountability; stakeholder theory; legitimacy theory; public sector; financial reporting

1. INTRODUCTION

Accountability is the cornerstone premise of accounting. The traditional accountability relationship is fairly narrow and focuses on the accountability of managers (the accountors) to shareholders (the accountees). By broadening the definition of the accountee, governments and the public fall within the accountability relationship.

The annual report has traditionally been seen as a dry piece of corporate literature presenting the financial results for the period. Since the early 1990's there has been a significant increase in the use of narratives, photographs and graphics with the actual financial results being relegated to a small part of the overall report. While the annual report is an important communication tool that facilitates a dialogue between the organisation and its stakeholders, in the case of public benefit entities, they additionally serve as an accountability vehicle through which the delivery of outputs and outcomes are detailed to parliament and other stakeholders.

This paper considers whether a public benefit entity used disclosure strategies as legitimising techniques in response to publicity in the printed media. It commences with a review of the financial management reforms that occurred in New Zealand between 1984 and 1990 to contextualise the paper. The Department of Conservation (DOC) a New Zealand public benefit entity is introduced, its role in New Zealand society is explained and criticisms of its curatorship of New Zealand's natural and historic heritage are highlighted. The research design and the method used in the study are then considered. The accountability relationship between DOC and its stakeholders is investigated. The paper then considers the theoretical constructs of stakeholder theory and legitimacy theory on which this paper is based. This includes a review of disclosure strategies adopted as legitimising techniques as a vehicle for the provision of information to stakeholders. It is noted that while legitimising disclosure strategies are not limited to annual reports, for the purposes of this study annual reports are considered to be the primary disclosure mechanism and the focal point for this study. The results of the investigation into the non-financial disclosures contained in the annual reports over a period of 19 years, from 1988 to 2006 are then presented and discussed.

2. BACKGROUND TO THE STUDY

Between 1984 and 1990 the New Zealand public sector underwent ambitious and substantial reforms. The reforms collectively referred to as the Financial Management Reforms (FMR), aimed at ensuring the public sector became more efficient and effective as well as improving the accountability relationship between public benefit entities and the public (see Pallot, 1994 and Lye, Perera & Rahman, 2005). Commercialisation and results-oriented management supported by new accountability requirements were introduced (Lawrence, Davey & Low, 1998). This included providing legislative backing to the FMRs, the adoption of sector neutral accounting standards and the preparation of financial statements on an accrual basis. Underpinning the reforms introduced by the *State Sector Act 1988* and the *Public Finance Act 1989*, was a philosophy of enhancing public sector performance. This was achieved by establishing

- a clear roles for, and relationships between, all involved; and
- b accountability processes based around:
 - clear, prior specification of desired performance;
 - appropriate delegation of decision-making authority;
 - subsequent reporting and monitoring of actual achievement; and
 - careful application of incentives and sanctions (Morris, Collins, Fleming & Dell, 1995, p. 11).

These accounting changes that occurred as a result of the reforms were particularly significant because as Lawrence *et al.* (1998, p. 15) explains, this ‘measurement and reporting was to be an essential element of the way public sector organisations met their public accountability obligations’. For the Department of Conservation (DOC) the FMRs were viewed as a way in which Treasury could identify the reporting of costs, provide a mechanism to eliminate government subsidies of forest and farm operations on Crown land, and divest themselves of activities better able to be carried out in the marketplace. The aim of this was to result in overall cost-efficiencies for government (Cahn & Cahn, 1989). Additionally the government introduced a ‘user pays’ policy which required DOC to raise a percentage of its budget from fees charged to concessionaires and users of its facilities.

The FMRs that occurred in New Zealand changed the way accountability is viewed in the public sector. Reforms such as these have been synthesised by Steccolini (2004, p. 331) as being a change in emphasis as ‘from a concern for ‘fiduciary’, or probity- and process-

accountability, focused on compliance, to an emphasis on ‘managerial’ or performance and programme accountability, focused on effectiveness and efficiency, outcomes and outputs’. Within the NZ environment, the FMRs saw public benefit entities adopt a managerial and commercial approach to their operations. For reporting entities such as DOC, the FMR emphasised managerial outcomes rather than merely complying with rules.

3. DEPARTMENT OF CONSERVATION

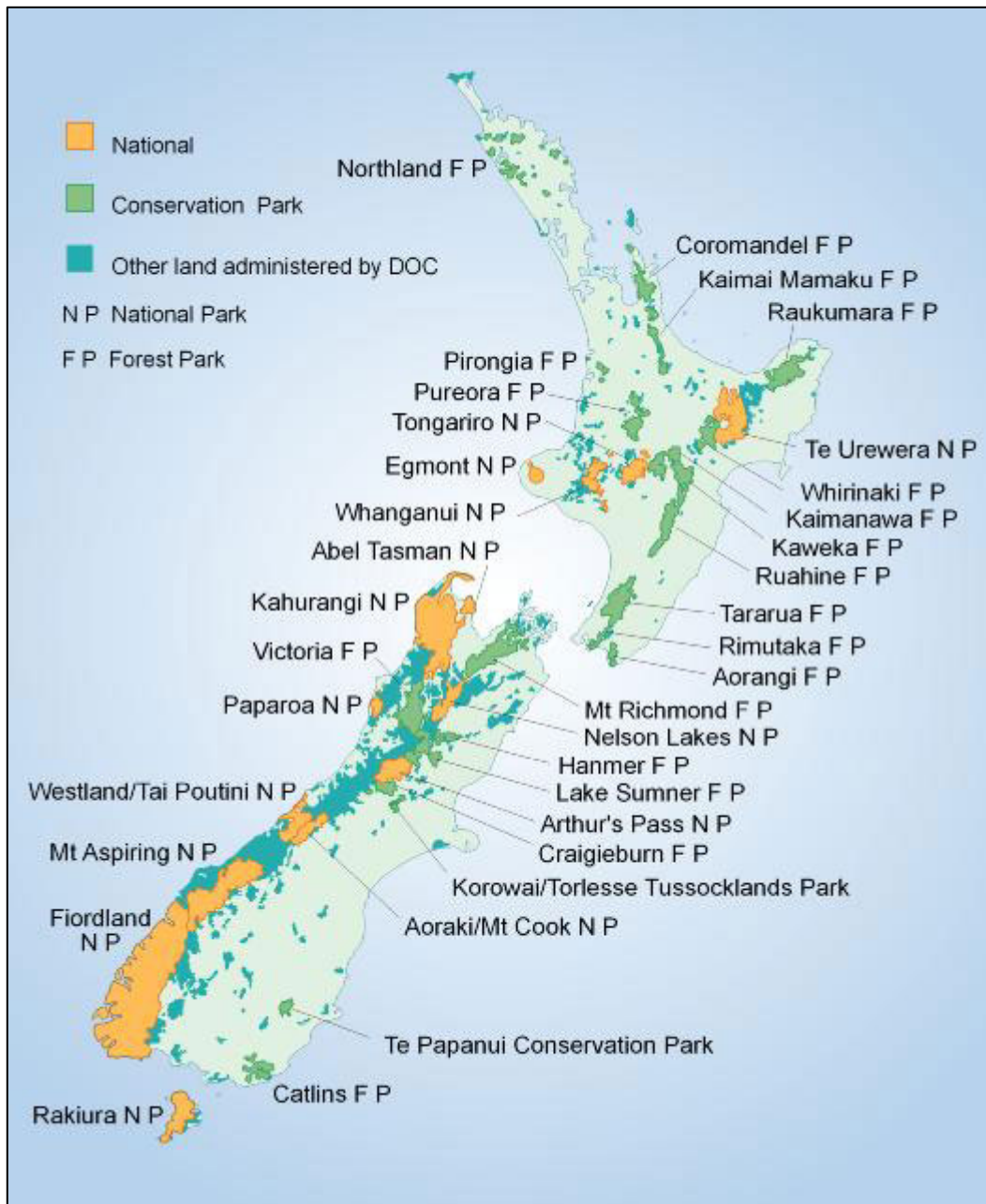
Cahn and Cahn (1989) explain that the establishment of DOC in 1987 to give effect to the *Conservation Act 1987*, came about after sustained public pressure dating back as far as 1976. Prior to 1987 conservation activities were fragmented and scattered over several departments including the former New Zealand Forest Service, the Department of Lands and Survey and the New Zealand Wildlife Service. The reorganisation of activities and the establishment of DOC effectively separated exploitative activities from conservation activities. By consolidating conservation activities into one department, it was hoped that there would be clear reporting of costs, and the ability to realise higher earnings from concessions, resource rentals and recreational licences (Cahn & Cahn, 1989).

DOC is responsible for the conservation of New Zealand’s natural and historic heritage ‘on behalf of and for the benefit of present and future New Zealanders’ (Department of Conservation, undated). DOC administers 25 Acts of Parliament and has statutory functions under several others. In their first annual report DOC saw their responsibilities as being:

a stewardship responsibility for other lands and for wildlife and wild animal management over all lands. In addition, the department is responsible for advocating and promoting the conservation of land, water, flora, fauna, landscape, landform, geographical features, ecosystems, and historic places. This role not only provides for the present community but also ensures our heritage is handed to future generations so that they too can enjoy the distinctive character of New Zealand—nga taonga o Aotearoa (Annual Report, 1988, p. 3).

The extent of DOC’s stewardship of the New Zealand public’s natural assets is detailed in Figure 1.

Figure 1 Land administered by the Department of Conservation



Source: (www.doc.govt.nz)

DOC's stewardship of New Zealand's conservation estate includes the management of all national parks, nature, scenic and scientific reserves, walkway systems, native forests as well as much of the Crown-owned wetlands previously administered by the Department of Lands and Survey.

As an organisation, DOC functions in an environment of conflicting pressures and high tension. DOC has to balance stakeholder use of resources entrusted to it, with its conservation

mandate. These are illustrated in a 1998 DOC review which argued that these pressures reflected

the tension between conservation, use, and development perspectives, which are manifested in tensions between: wild animal control and recreational hunting; habitat protection and pressures from the public for access to wildlife sanctuaries; the relative allocation of resources between the 'front-country' (ie. the more accessible facilities) and the back-country; tourism and conservation; and the accommodation of Maori conservation perspectives and customary use (Morris *et al.*, 1995, p. 11).

It is this 'use, development, Iwi and tourism versus conservation' tension that, as will be shown later in this paper, exposes DOC to considerable external scrutiny. This scrutiny dictates that DOC should not take its legitimacy for granted.

From the outset DOC's curatorship of New Zealand's natural and historic heritage and its infrastructure has been subject to intense and ongoing criticism. From its inception this included concerns that citizen input into policy matters may be reduced (Cahn & Cahn, 1989). While there had been intermittent scrutiny of DOC in the print media (see for example, New Zealand Herald, 1988; 1990; 1993d; National Business Review, 1988a; 1988b; 1989; Otago Daily Times, 1993a; 1993b; 1994; The Dominion, 1994a; 1994b; 1994c), this changed on 28 April 1995 when the viewing platform at Cave Creek collapsed. This event saw 13 members of a party of students from the Outdoor Recreation course at Tai Poutini Polytechnic at Greymouth and the Department of Conservation's Punakaiki Field Centre Manager being killed when the viewing platform collapsed. This event resulted in a significant change in how the media viewed DOC.

The Commission of Inquiry into the tragedy presented its report in November 1995. The report was controversial in that it did not point the finger of blame at individuals, but rather at a systemic failure against a background of state sector restructuring and under-funding. DOC itself had been the subject to a reorganisation in 1989 (Annual Report, 1989, p. 24) and a major internal restructuring during the 1990 financial year (Annual Report, 1990, p. 5). Further restructurings were undertaken during the 1993 and 1997/98 financial year.

Post Cave Creek, other criticisms of DOC identified in the media have included the ongoing management of the Kaimanawa wild horse herd, issues surrounding DOC's maintenance of its estate, and criticisms over its takeover of high country pastoral stations. DOC has also

been subject to criticisms outside the print media. This included concerns that DOC has been captured by, and only looks after the interests of, the extreme ideological 'green' elements of the environmental lobby resulting in the interests of recreational users such as large game hunters and fishers being disregarded, while relatively balanced proposals affecting the national interest are not considered seriously (Outdoor Recreation New Zealand, undated). Certain stakeholder groups have also criticised the Department. A review of DOC by Jefferies and Tutua-Nathan (1998, p. 30) found that while DOC field staff were perceived to be good, staff involved in decision making and planning, negotiation and the resolution of disputes failed to recognise and accommodate the views of Maori stakeholders in these areas. Concerns about DOC were also made by the Business Round Table who suggested that "DOC's dual role for conservation of natural resources and some heritage resources leads to conflicting objectives and weakened accountability" (New Zealand Business Roundtable, 1998, p.14).

Having reviewed the financial management reforms and provided the background to DOC to contextualise the study, the next section details the research design and method.

4. RESEARCH DESIGN

It has been reported previously (see Deegan & Rankin, 1997; de Villiers & van Staden, 2006; Patten, 1992; Walden & Schwarts, 1997) that events which threaten an entire industry can lead to changes in the levels of disclosures made by reporting entities in that industry. As a result, legitimising behaviour by individual reporting entities is likely to occur when they are faced with a crisis. This paper aims to answer the question: "Will a public benefit entity whose mission is to discharge its accountability to government and other stakeholders through conserving the natural and historic heritage of New Zealand for the benefit of present and future generations, use disclosure strategies as legitimising techniques in response to publicity in the printed media?" This paper adopts a case study approach which involved the detailed examination of the annual reports of the Department of Conservation, to investigate the changes in non-financial disclosures made from its inception in 1987 to 2006.

This paper adopts both a narrative/descriptive and interpretive/analytical research approach. Drawing on the work of Previts, Parker and Coffman (1990a; 1990b), Hooks and Perera

(2006, p. 88) explain that narrative research describes items of fact, while interpretative research focuses on relationships. In this paper, the narrative provides the context to a number of significant events that impacted on DOC between 1987 and 2006. The annual reporting of DOC is described and how that reporting changed over time is discussed. The interpretative aspect seeks to relate the changes in the non-financial disclosures made by DOC to the external events occurring over time.

4.1 Method

A longitudinal case study was considered appropriate for this paper as this method had been used in other studies of single reporting entities (Campbell 2000; Tinker & Neimark 1987; Gray *et al.*, 1995). DOC engaged in a number of forms of communication with stakeholders during the period of the study. These include the use of press releases, interviews to radio and television, publication of regional newsletters and road shows. Although these forms of these communications existed throughout the period under review, the annual report is the most comprehensive document available. Not only does the annual report detail the statutory financial information, but as Abrahamson and Park (1994, p. 1307) explain provide a window into the use of communication strategies employed by senior executives.

Each annual report beginning with the financial year 1987/1988 was analysed and compared with the content of the annual report for the following year. A search of the Newstext database was undertaken with the search term “Department of Conservation” for the period 1 April 1987 to 30 June 2006. During the analysis of the annual reports, the print media news headlines were examined for the year to determine whether the annual reports addressed any of the issues raised by the media.

4.2 Theoretical perspectives

In this section the various theoretical frameworks upon which this study is based are drawn together. Combining issues of accountability, legitimacy theory and stakeholder theory ensures that a holistic analysis of the case study occurs.

4.2.1 Accountability, the public sector, and financial reporting

Accountability has been described as ‘the duty to provide an account (not necessarily a financial account) or reckoning of actions for which one is held responsible’ (Gray, Owen & Adams, 1996, p. 38). The accountability relationship requires one party (the accountant) to be accountable to another party (the accountee) for an action, process, output or outcome (Steccolini, 2004). The concept of accountability requires reporting entities to be accountable for what Gibson (2005, p. 206) describes as the ‘often untended and unacknowledged moral, social and environmental consequences of the pursuit of economic objectives’.

Financial reporting has an accountability role. While accountability of managers to stakeholders in the private sector may be contentious (see Jensen, 2001; Burritt & Welch, 1997; Frooman, 1999) the accountability of public benefit entities takes special significance where custodianship, stewardship or control of the public’s assets is exercised (see Taylor & Rosair, 2000; Hooks, Coy & Davey, 2001; and Steccolini, 2004 for how annual reports have been used to render accountability in the public sector). Accountability is integral in a democratic society where the public is entitled to demand accountability from public servants. As Hyndman and Anderson (1991, p. 51) explain, ‘Public-sector organisations must be held accountable not only for the money entrusted to them, but also for results’.

In the public sector, the accountant and accountee relationship is much broader than the private sector shareholder-manager relationship (McGregor, 1999; Wynne, 2004). It extends to a complex web of interrelationships with government and non-government groups (Burritt & Welch, 1997). There are multiple stakeholders with an interest in the accountability of public benefit entities. Stakeholders are interested in how public money is used to achieve public benefit rather than for making economic decisions. This ensures that public representatives are able to be held to account (Hyndman & Anderson, 1991).

A public benefit entity such as DOC receives the bulk of its funding from one party (central government) but deliver outputs to third parties (identified stakeholders). In this situation accountability is based on the proper and efficient use of resources. As a public benefit entity DOC reports to the House of Representatives under the *Public Finance Act 1989*. This Act provides a framework for Parliament to scrutinise public sector management of Crown’s assets and liabilities by establishing lines of responsibility for the use of public financial

resources. The Act also specifies the minimum financial reporting obligations of the department and safeguards public assets by providing statutory authority and control for the raising of loans, issuing of securities, giving of guarantees, operation of bank accounts, and investment of funds.

In addition to accrual accounting, accountability by DOC is further enhanced through the inclusion of an audited Statement of Service Performance (SSP) as an integral component of the financial statements (Pallot, 2001; Neale & Pallot, 2001; TPA-9, 2002 and FRS-2, 1994). This statement serves to strengthen accountability through reporting outputs against selected performance measures to ensure accountability is discharged to both central government and the public. These performance measures are not limited to traditional financial information but include narratives and other non-financial information. This enables stakeholders to assess the performance of the public benefit entity as well as the effects on the community of its existence and operations (FRS-2, 1994, par. 10.1).

Additionally, the *Public Finance Act 1989* requires government departments to produce a Statement of Intent (SoI) at the beginning of each financial year. This provides information on the future operating intentions for the forthcoming and at least the next two financial years. This is a forward looking accountability document which commits a government department to achieving certain results, as well as providing a comprehensive and coherent picture of its business including:

- ◆ the world in which the department operates (environment);
- ◆ the effects or impact the Government wishes the department to have on that environment (outcomes);
- ◆ the goods or services (outputs) it will have to deliver in pursuit of those effects; and
- ◆ what it will take (organisational capability) to deliver those outputs cost-effectively (State Services Commission, 2001, G3).

A SoI explains to stakeholders why a particular mix of outputs has been chosen and how they contribute to the objectives being pursued (intervention logic). Additionally it identifies the risks and uncertainties that require management action in order for results to be achieved. The SoI provides an accountability framework which provides transparency of spending plans and enhances the ability of parliament to scrutinise spending.

DOC's first SoI was produced in 2001. It was predicated on DOC's mission "to conserve New Zealand's natural and historic heritage for all to enjoy now and in the future" (Department of Conservation, undated). Following DOC mission, seven key steps were identified. Four steps relate to enhanced actual conservation and recreation outcomes, (biodiversity, biosecurity, historic assets and recreational opportunities) while three steps relate to the capability required to achieve these (SoI, 2001-2004, p. 6). DOC considers that working with the community and developing partnerships with tangata whenua for conservation are of such strategic importance that they were separated out from general capability for special attention (SoI, 2002 - 2005). Each key step is described in terms of what is wanted – the Outcome, how DOC will know whether it is making progress towards the outcome – the Outcome Indicator, the work DOC will do toward achieving the outcome – Outputs, and how DOC will know whether it has delivered on the outputs – Measures and Targets. Each of the seven key steps (and its five-year outcomes) is linked to the DOC's output classes for Vote Conservation and Vote Biosecurity (SoI, 2003 – 2006). From 2002 retrospective reporting against the SoI occurs on an annual basis. The inclusion of a SSP and reporting against a SoI in the annual reports of public benefit entities is consistent with the view of Herbohn & Herbohn (1999) that accountability should be viewed as a holistic concept transcending responsibility.

The broadening of the traditional accountant-accountee relationship has resulted in various theoretical perspectives being developed to explain the evolving concept of accountability. Why managers are motivated to disclose voluntary information in annual reports is the subject of ongoing research. An emerging construct is that the growth in voluntary disclosures including the increasing use of narratives, photographs, tables and graphs in an attempt by organisations to legitimise their operations in the eyes of their stakeholders. Even within the accountability framework, voluntarily disclosing information not required by statute ensures that management is in the position to dictate the nature and extent of disclosures. This additional information contributes to the justification of the entity's legitimacy and social standing within the community. Theories that seek to explain the growth in voluntary disclosures include those derived from political economy of accounting including legitimacy theory and stakeholder theory.

4.2.2 Stakeholder theory

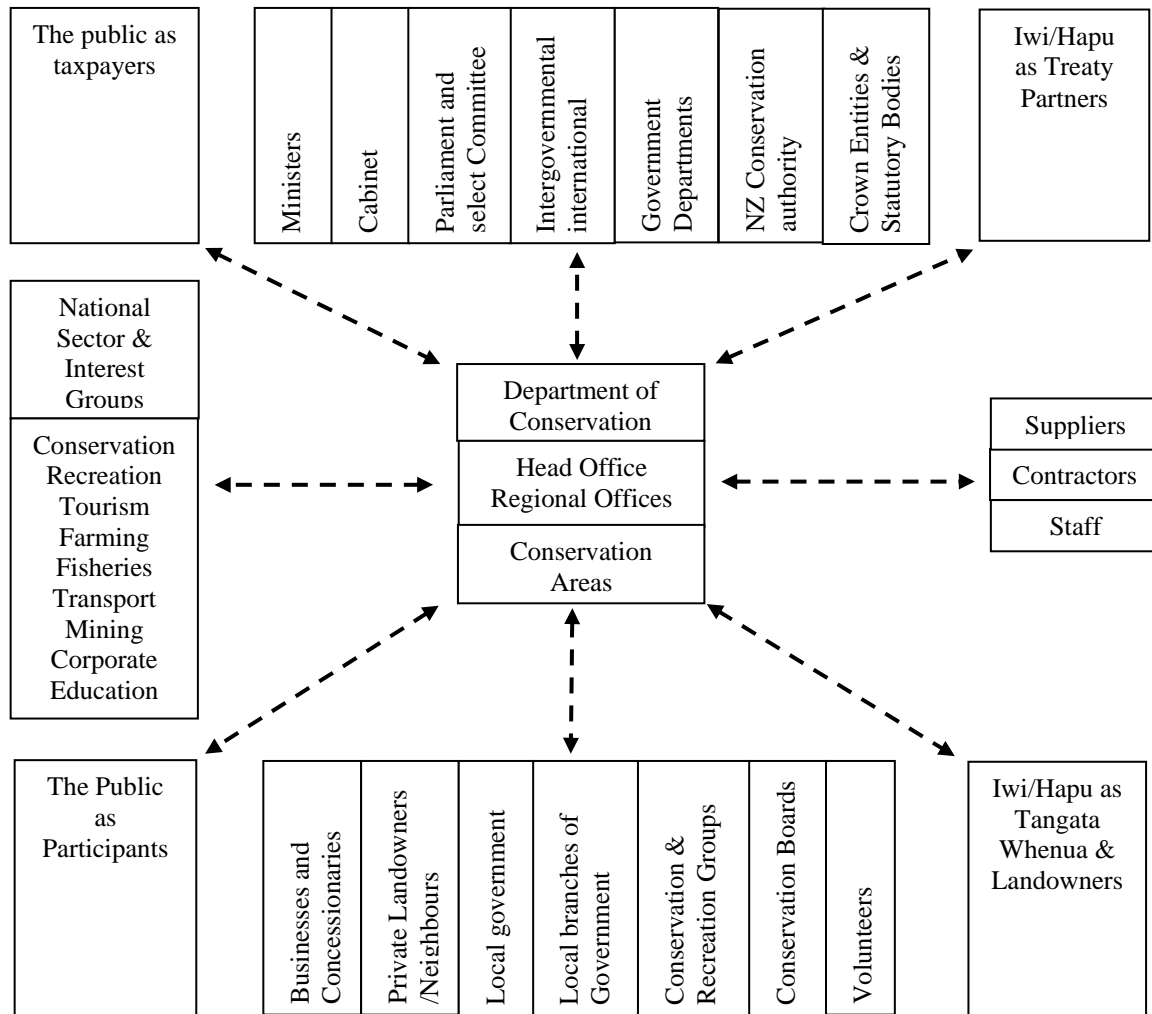
Stakeholder theory is derived from political economy of accounting (For a discussion of how political economy of accounting has been used to explain the broader concept of accountability see Cooper, 1980; Heard & Bolce, 1981; Cooper & Sherer, 1984; Tinker, Lehman & Neimark, 1982.) Where political economy of accounting considers society as a whole, stakeholder theory considers the influences particular stakeholder groups have on a reporting entity's behaviour. Stakeholder theory suggests that the survival of the reporting entity depends on its ability to satisfy the sometimes conflicting demands of its various stakeholders (Mitchell, Bradley & Wood, 1997; Deegan & Samkin, 2004; Gibson, 2005). It progresses naturally from the broad accountability relationship and recognises that all stakeholders have rights to be provided with information about how organisational activities impact them (Deegan & Samkin, 2004; Guthrie, Petty, Yongvanich & Ricceri, 2004; Gibson, 2005). Stakeholder theory attaches organisational accountability which extends beyond financial and economic performance and assumes that environmental and social information is material to the users of annual reports.

Management plays a key role in this theory which postulates that managers elect to voluntarily disclose information about their intellectual, social and environmental performance, over and above mandatory requirements. Stakeholder theory then assumes that management's disclosure decisions are directed towards 'salient stakeholders', that is, those stakeholder groups that have the power to control the resources necessary for the entity's survival. The disclosures are designed to mould how various publics 'know' or 'feel' about the reporting entity (Guthrie *et al.*, 2004; Christensen & Mohr, 2003; Neu, Warsame & Pedwell 1998; Preston, Wright & Young, 1996). Corporate disclosure strategy can be used as a technique to manage or manipulate the demands of particular stakeholder groups (Gray *et al.*, 1996). Deegan and Blomquist (2006, p. 349) provide the following explanation to support this position:

For example, if a potentially powerful group is concerned about the environmental performance of an organisation then that organisation might perceive a need to publicly disclose information about particular environmental initiatives that it is about to implement so as to alleviate some of the concerns held by the powerful stakeholders.

Stakeholder theory can be used to provide possible explanations for the types of disclosures made by DOC. As can be seen in Figure 2 and consistent with Burritt and Welch (1997), the interrelationship that DOC has with government and non-government groups is complex.

Figure 2 Department of Conservation Stakeholders



Source: (DoC. Statement of Intent 2001/2004, p. 17)

DOC as the guardian of New Zealand’s natural heritage has to balance the needs of multiple stakeholders that have an interest in its activities, with its conservation mandate. The *Conservation Act 1987*, the *Treaty of Waitangi*, and various policy statements require DOC to consult with the public generally and Maori specifically (Centre for Research, Evaluation and Social Assessment (CRESA), 1998). This is confirmed by DOC indicating that “this requires an understanding of the Treaty of Waitangi and an understanding with the tangata whenua of how to put its principles into practice” (Annual Report, 1988, p. 9). Accepting then that Maori is a powerful stakeholder, and additionally because of their significant claims under

the *Treaty of Waitangi*, then the disclosures by DOC aimed specifically at Maori can be seen as a reaction to stakeholder expectations.

4.2.3 Legitimacy Theory

Also derived from political economy, legitimacy theory posits that ‘organisations continually seek to ensure that they operate within the bounds and norms of their respective societies’ (Guthrie *et al.*, 2004, p. 284). Society then permits an entity to continue in existence so long as it continues to meet its societal obligations. Legitimacy theory is built on the premise that ‘organisations are not considered to have any right to resources, or in fact, to exist’ (Deegan, 2000 and 2002, p. 292). Society can impose sanctions against private sector entities that fail to meet societal expectations, or comply with the conditions imposed by the ‘social contract’. These can take the form of legal restrictions being imposed, access to resources (for example labour) being limited, or a reduced demand for its products.

Legitimacy theory is predicated on the notion of a hypothetical ‘social contract’ between the reporting entity and the society in which it operates. This social contract is used to ‘represent the multitude of expectations that the society has on how the organisation should continue its operations’ (Guthrie *et al.*, 2004, p. 284). Legitimacy theory presumes that management of a reporting entity is acutely aware of society’s perceptions about it. Society is however, dynamic and expectations evolve over time requiring the organisation to be responsive to the environment in which it operates. Changing societal values may cause society to become dissatisfied with the way the organisation is operating resulting in it effectively revoking the organisation’s social contract. This may occur through consumers reducing or eliminating demand for the organisation’s products, eliminating factor supplies to the organisation such as the supply of labour or the supply of raw materials, or even lobbying the government for increased taxes or fines to be imposed upon the organisation.

Legitimacy is considered to be a resource on which an organisation is dependent for survival (Dowling & Pfeffer, 1975). If managers perceive particular activities of the reporting entity to be outside the parameters of the ‘social contract’ provided by the society in which it operates then a number of legitimacy strategies can be utilised. According to Lindblom (1994) these include:

- ◆ attempts to educate and inform its relevant publics about recent organisational changes that remedy previously perceived deficiencies;
- ◆ seeking to change the perceptions of the relevant publics but not change its own behaviour;
- ◆ manipulate the perceptions of the relevant publics by deflecting attention from the issue of concern to other related issues through the use of emotive symbols; or
- ◆ change external expectations of its performance.

By implementing these strategies either individually or in a combination, Neu *et al.* (1998, p. 268) suggest that ‘these discourses offer the organisations a way to sustain organisational legitimacy without *necessarily* changing organisational modes of operation’ (see also O’Donovan, 1999 and 2002). Lindblom (1994), and Dowling and Pfeffer (1975) argue that organisations can implement each of the above strategies through the public disclosure of information. As Deegan and Blomquist (2006, p. 347) more fully explain:

For example, a firm may provide information to counter or offset negative news that may be publicly available through the news media. Alternatively, an organisation might disclose information to inform the interested parties about favourable attributes of the organisation that were previously unknown. Further, organisations may draw attention to strengths, for instance environmental awards won, or recycling initiatives that have been implemented, while down-playing or neglecting information concerning unfavourable implications of their activities, such as pollution or workplace accidents.

Legitimacy theory assumes that ‘disclosure in the annual report is an attempt to ally social pressure or legitimate corporate operations, and related to this, that members of society seek and use the information from the annual report’ (Deegan & Rankin, 1997, p. 566). One of these strategies, namely the nature and form of disclosures made in the annual report is a strategic mechanism reporting entities utilise in their quest for legitimacy which provides a medium through which stakeholder feelings about the entity can be shaped.

To this end a number of disclosure techniques used as powerful legitimising tools have been considered in the literature. These include the use of impression management to influence attitudes, opinions and behaviour, (see for example Dowling & Pfeffer, 1975; Preston *et al.*, 1996; Neu *et al.*, 1998; Deegan, 2002; Stanton, Stanton & Pires, 2004), design techniques (Hopwood, 1996 and Stanton & Stanton, 2002), narratives (Neu *et al.*, 1998; Jameson, 2000; Hooper & Low, 2001; Stanton *et al.*, 2004), photographs (see for example Baudrillard, 1983; Preston *et al.*, 1996; Carol, 2001; Hooper & Low, 2001) and financial graphs (Beattie &

Jones, 1999 and 2002; Wilson & Stanton, 1996; Frownfelter-Lohrke & Fulkerson, 2001; Stanton *et al.*, 2004).

Like private sector entities, public benefit entities have to justify their actions to their relevant publics. This is confirmed by Matthews (1993, pp. 30-31) who explains that ‘organisational legitimacy is not an absolute or a constant because organisations are characterised by different levels of visibility to society and dependence upon social and political support’. The question of whether a public benefit entity needs to justify its legitimacy is of course valid.

The establishment of DOC in 1987, the adoption of accrual accounting in 1989, and the periodic restructuring that occurred in 1990, 1993 and 1997/98, resulted in what Newman (2000) describes as ‘institutional upheaval’. Prior to 1987, there were no institutional structures to provide DOC with a source of legitimacy. This meant that a source of organisational legitimacy congruent with DOCs mandate of being responsible for the conservation of New Zealand’s natural and historic heritage on behalf of, and for the benefit of present and future New Zealanders, had to be established. In other words, DOC needed to establish their legitimacy with their stakeholders.

As a public benefit entity, DOC faces a number of specific problems of legitimacy. Legitimacy theory dictates that it is parties external to the reporting entity that influence the nature of services it provides and the content and form of financial information reported (see Hoque *et al.*, 2004). A review of DOCs activities suggests that external pressure is exerted by unions and workforce, government, community, conservation groups, regulators and legislature, media, creditors and suppliers (see Figure 2). Following the rationale of Hoque *et al.*, (2004), these groups apply institutional pressure on DOC in an attempt to influence performance in their favour. This is evident in that DOC has to balance stakeholder use of resources entrusted to it with its conservation mandate. This tension in the use versus conservation of resources and eradication or management of resources (e.g. the harvesting of tar by recreational hunters, the eradication of wild horses to preserve tussock land and use of 1080 poison to eradicate pests) meant that some of their activities lacked legitimisation among various stakeholder groups.

DOC relies on volunteer days, public management of conservation areas, and conservation groups to help manage its estate. Securing the public’s co-operation for conservation

purposes is essential. Failure to gain legitimacy from these stakeholder groups has serious implications for DOC in that the potential exists for these groups to display apathy towards any attempts to manage and protect the environment.

A lack of legitimacy could have political repercussions should DOC fail to obtain stakeholder support. Although stakeholders in a public benefit entity have what Ogden and Clarke (2005, p. 317) term ‘no possibility of ‘exit’ they have a voice which can be heard politically. The legislature then provides the most significant institutional pressure as the source of DOCs regulatory authority. Under legitimacy theory explains Hoque *et al.* (2004, p. 64), this form of legislative regulation represents coercive institutionalism as DOC is externally influenced to operate in a manner deemed to be legitimate (see also DiMaggio and Powell, 1983).

While it is unlikely that public benefit entities integral to the functioning of government such as police, military, foreign affairs, the judiciary and economic affairs have to justify their existence, the further away a public benefit entity is away from central government the more likely it is that the department will be subject to disputation. Public benefit entities are political constructs. Like private sector entities, public benefit entities continually seek to reinforce their legitimacy, not only to parliament, but also society at large.

An entity will continue in existence so long as its societal obligations are met. This was acknowledged by DOC when it set out departmental policies and directions.

Public interest groups supporting conservation were, in 1986, strong advocates for the establishment of a single department with a mandate to manage for, and advocate, conservation. They, and indeed the public generally have expectations of the department in respect of its priorities and policies which must be taken into account. It will be essential to develop and maintain a dialogue with interest groups and to involve the public in the settings of directions and policies for the department. Issues related to the Treaty of Waitangi are of increasing prominence, and it is clear that a dialogue with the tangata whenua will assist in understanding and providing for the appropriate bicultural dimension in the department’s stewardship of natural resources (Annual Report, 1988, p. 24).

The significant overlap between stakeholder theory and legitimacy theory means that they cannot be treated as two discrete theories. Both theories conceptualise the organisation as part of a broader social system wherein the organisation impacts, and is impacted by, other groups in society (Deegan, 2002, p. 295). Legitimacy theory considers an organisation’s interaction with society as a whole, while stakeholder theory focuses on how an organisation interacts

with particular groups within society. Deegan and Blomquist (2006, p. 350) more fully articulate the difference as follows:

Essentially, stakeholder theory accepts that because different stakeholder groups will have different views about how an organisation should conduct its operation, there will be various social contracts “negotiated” with different stakeholder groups, rather than one contract with society in general. Whilst implied within legitimacy theory, stakeholder theory explicitly refers to issues of stakeholder power, and how a stakeholder’s relative power impacts their ability to “coerce” the organisation into complying with the stakeholder’s expectations.

While society can impose sanctions against private sector entities that fail to meet societal expectations, or comply with the ‘social contract’, it is more difficult but not impossible, in the case of public benefit entities. Where a public benefit entity loses the confidence of stakeholders, sanctions available to parliament include restructuring it or in extreme cases de-establishing the department completely.

5. RESULTS AND DISCUSSION

An analysis of the DOC annual reports indicates that they can be placed in a number of discrete timeframes. The first is the period from DOC’s establishment in 1987 to the adoption of accrual accounting in 1989. In its first year, DOC developed a statement of corporate objectives to facilitate the identification of delivery outputs. Twenty six objectives were defined and reported on in the first year. The following year the original 26 corporate objectives were consolidated into 10 objectives so as to “reflect the Department’s mission and goals more succinctly, to provide a prioritised basis for planning and resource allocation and to prepare the way for the introduction of accrual accounting procedures from 1 July 1989” (Annual Report, 1989, p. 4). At this early stage DOC recognised the impact that media could have on conservation issues.

Conservation issues have gained increased media attention together with considerable public and political support. This reflects a worldwide trend in the developed countries. Global issues such as climate warming and its potential effect on sea levels and depletion of the ozone layer have in part stimulated the new awareness, but national issues such as protection of native forests, coastal areas and wetlands, concern for marine mammals and other marine life, maintenance of water quality, preservation of notable historic buildings and expansion of recreational and tourist opportunities have all increased support for the Department’s activities and the conservation cause generally (Annual Report, 1989, p. 4).

5.1 1990 to 1994

This period is significant in that it saw a change in the reporting date from 31 March to 30 June and the adoption of accrual accounting. This is evidenced by the following observation made by the Chief Executive in his annual overview.

The year under review was a period of substantial change for the Department. It underwent the upheaval of a major internal restructuring. It was one of the lead group of departments which adopted accrual accounting systems at the beginning of the year. The statutory public advisory bodies with which the Department works closely were comprehensively restructured and given new roles and responsibilities. And there was change of Chief Executive with David McDowell's appointment to lead the new Department of the Prime Minister and Cabinet (Annual Report 1990, p. 5).

From 1990, DOC viewed accountability as an important key objective, and considered that the adoption of accrual accounting would improve accountability for the use of tax payers' funds. The difficulties in implementing accrual accounting as part of the FMR was acknowledged it advised that:

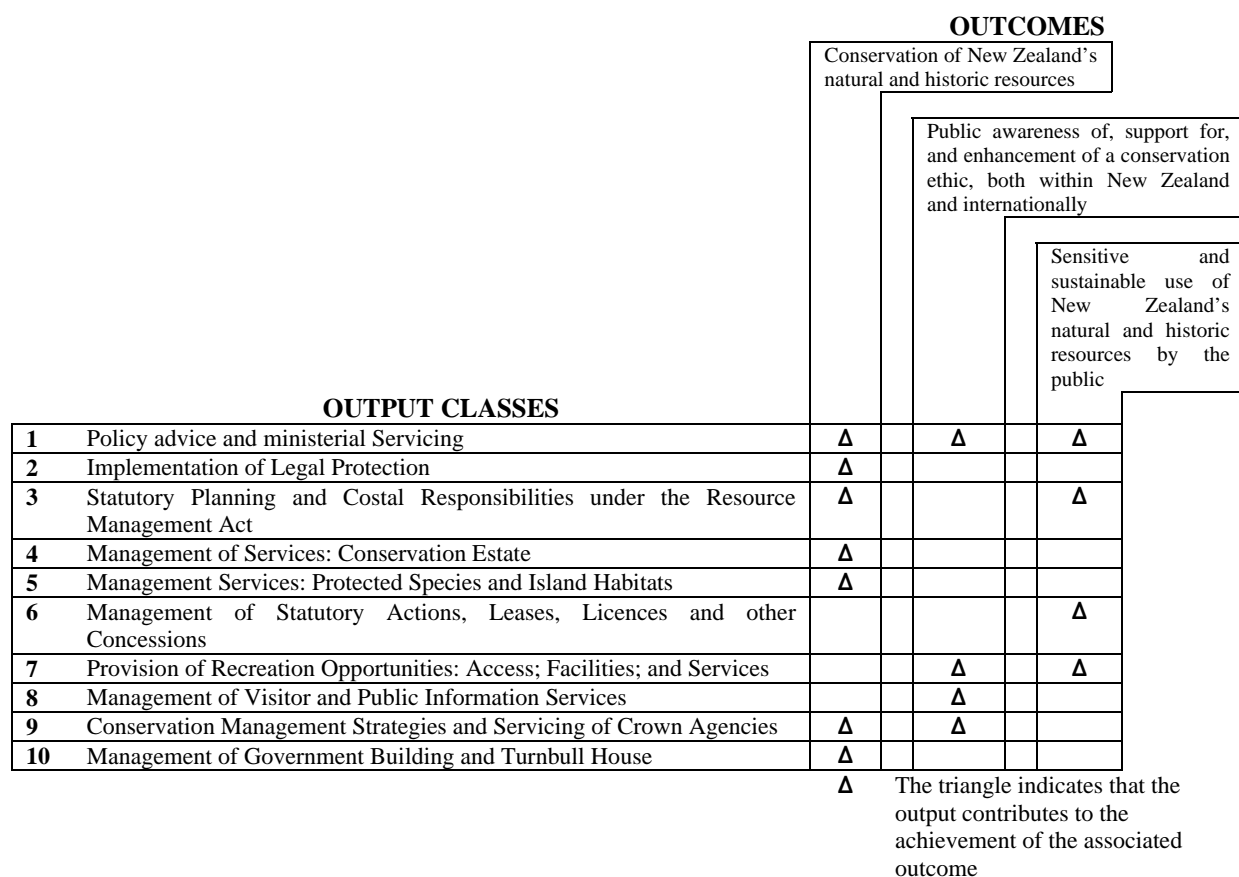
The implementation of this system, which was introduced as part of the financial management reforms in the public sector, was not without some difficulty and has involved a greater commitment of resources than either the Department or the control agencies expected (Annual Report, 1990, p. 5).

Up until the 2000 financial year, the most significant portion of the annual report in terms of the number of pages comprised the SSP. Providing a SSP is consistent with Hoque *et al's*. (2004) view that such initiatives represent coercive institutionalism imposed in an attempt to legitimise the activities of the budget sector (p. 66).

To assist users appreciate the relationship between outputs and outcomes, between 1993 and 1996 DOC provided the diagram shown in Figure 3 to illustrate the outcomes that Government wished DOC to contribute to.

The conservation outcomes are the Government's aim and it has allocated resources to the Departments outputs in order to achieve the desired outcomes (Annual Report, 1994, p. 4).

Figure 3 Linkage between Outputs and Outcomes



Source Annual Report (1994, p. 5)

Although accountability must be seen as the primary focus for annual reports during this period, the inclusion of legitimising strategies identified by Lindblom (1994) within the narrative components of the SSP are evident. An illustration of this is the use of the Chief Executive's report and the SSP to address criticisms that appeared in the printed press. For example in response to the Kaimanawa wild horse cull (New Zealand Herald, 1993a; 1993b; 1993c; 1993d The Dominion, 1993a) the Chief Executive stated:

Several pest control operations during the year demonstrated the way in which the Department can be caught between the different values and expectations of different groups within the community. The culling of the herd of wild horses in the Kaimanawa Ranges was a case in point. At one extreme of the argument were people who believed that the herd should be left alone; at the other were those who believed that the herd should be exterminated, as an introduced species causing damage to native plants. The Department was able to develop a control programme and pilot a control system which balances the values which some groups believe the herd to have with the need to control its expansion so as to prevent damage to ecosystems, risks to motorists on the Desert Road, and food shortages for the horses (Annual Report, 1993, p. 8).

Further in the annual report a more conciliatory tone to the management of the Kaimanawa wild horses was taken.

The trial live capture of 231 Kaimanawa wild horses showed that rounding-up the horses is a viable management technique that could be used in future to achieve a reduction in the impact of horses on the special habitats in the Awapatu catchment (Annual Report, 1993, p. 24).

The references to the management of the Kaimanawa wild horses address two of the legitimising strategies identified by Lindblom (1994). The first is an attempt by the Chief Executive to change stakeholder perceptions of the horses as a resource worthy of conservation to that of a pest requiring an extermination strategy. Referring to the need to prevent damage to ecosystems and reduce the risks to motorists, the Chief Executive is making use of a strategy to deflect attention away from emotive way in which the cull was dealt with in the printed media. In the second disclosure DOC sought to change the perceptions of the public about its management of the wild horses while at the same time not changing its behaviour.

In response to public opposition to the use of 1080 poison (The Dominion, 1994b; 1994c; 1994d), the Chief Executive justified its use by explaining that:

The Departmental efficiency level is very dependent, however, on continued use of 1080 as the control measure for large, remote and rugged blocks of forest. The public debate about the safety of 1080 has been a major issue for the Department during the year, and I am confident the debate has achieved a much better understanding of the low risk posed by 1080, and the importance of its continued use as a cost-effective, and in some circumstances the only cost-effective, method of controlling this major threat to our ecosystems (Annual Report, 1994, p. 7).

The decision surrounding the use of 1080 poison further illustrates the use of legitimising strategies identified by Lindblom (1994). By making reference to the public debate over the poison's use, the low risk posed by its use, as well as the difficulties in controlling pests in remote and rugged blocks of forest, DOC is attempting to change the perceptions of stakeholders over 1080 while not curtailing its use.

5.2 Period 1995 and 1996 – tragedy

As indicated earlier, the Cave Creek disaster which occurred on 28 April 1995 and formed a focal point of these annual reports. The tragedy resulted in what can be termed a ‘crisis of legitimacy’. Although the tragedy threatened the organisation and its goals, it was used in the 1995 annual report to reinforce the importance of giving effect to DOC’s strategic vision— Conservation 2000: Atawhai Ruamano. This included the provision of better quality visitor facilities and enhancing the skills and performance of staff. Issues surrounding the culling Kaimanawa wild horses and the use of 1080 poison were also addressed (Annual Report 1995; 1996).

Although the Cave Creek disaster occurred during the 1995 financial year, a significant portion of the 1996 Chief Executive’s Overview focused on this tragedy. Importantly, DOC recognised that public confidence in the Department was shaken (Annual Report, 1996, p. 5). The extent of DOC’s accountability after the tragedy was detailed as follows:

The accountability of the Government and government departments has been central to the public debate over the findings of the Cave Creek Commission of Inquiry. The Department itself, and its managers and staff have had to account to the Commission itself, the SSC review, Parliament’s Planning and Development Select Committee and Labour and Employment Select Committee, a review of the West Coast Conservancy, a disciplinary review by the Director-General assisted by two independent advisors, as well as Police and Occupational Safety and Health Service investigations after the accident. Media scrutiny was also intense. On the West Coast, the regional conservator, the northern operations manager and a number of staff at Punakaiki Field Centre resigned in the wake of the tragedy. In May 1996, the Minister of Conservation, after satisfying himself that the Department had put in place appropriate mechanisms to re-establish public confidence and had received a real increase in funding, resigned his portfolio ‘as a further step to express his sorrow’ at the tragedy (Annual Report, 1996, pp. 6-7).

The tragedy surrounding Cave Creek, suggested Hudson (1999), arose from a lack of accountability in DOC. He rationalised this as follows:

Actions of the Department of Conservation (DOC) led to the loss of life at Cave Creek. Although it may seem heartless to relate this tragic loss of life to management terms, the fact is the chief executive of DOC violated his output contract - the department did not produce the contracted-for outputs and outcomes and, furthermore, created outcomes that involved incalculable cost to New Zealand. The Cave Creek tragedy involved a clear and gross violation of accountability standards yet accountability was not sheeted home (p. 1).

Over the period 1990 to 1996 as part of its accountability framework the SSP's presented a number of physical output measures reported within different classes. For example under Output class 4: Management Services: Conservation Estate under the class 'Animal Pest Control Activity', the number of physical pest control activities are measured against an objective. This is illustrated in Table 1.

Table 1 Output Class 4: Management Services: Conservation estate. Animal Pest Control Activity

| Animal Pest Species | Number of Projects | | Area (hectares) | |
|----------------------|--------------------|----------------|-------------------|----------------|
| | Objective | Perf. Achieved | Objective | Perf. Achieved |
| Goats | (145) | 125 | 1,000,000 | 947,198 |
| Possums ¹ | | 155 | 430,000 | 414,400 |
| Wasps | (20) | 26 | N/A | N/A |
| Thar | | 7 | 150,000 | 226,000 |
| Other animal pests | | 45 | (200,000) 300,000 | 106,430 |

¹ Note that possum control generally involves periodic treatment on a 1-6 year basis depending upon impacts. This means that the total area for which sustained control is implemented is approximately three times the area treated on an annual basis shown above.

Source: Annual Report (1996, p. 12)

Additionally, the SSP provides information on revenue and expenses for the current year and the previous year's actual expenditure in the form of an Output Operating Statement. The output class and measures reported describe the key activities undertaken by DOC and as such provide an accountability framework within which they report to Parliament.

Prior to 1996 it must be questioned whether the measures reported by DOC in the SSP were in fact outputs. Taking the 1997 Animal Pest Control Activity as an example, Hartley, Warby, Chisholm, Morris and Waite (1997) suggest that the projects undertaken to reduce pests should be seen as inputs, with the reduction in target species being the required output. Hartley *et al.* (1997, p. 418) explain it succinctly as follows:

The Department is managing resources on behalf of the people of New Zealand, who are its ultimate "customers". There needs to be more of a focus on what the actions taken by DOC achieve for these customers rather than simply and enumeration of actions taken.

The Cave Creek tragedy saw further use of Lindblom's (1994) legitimising strategies. Although previous annual reports had made reference to reorganisations and restructurings (Annual Report 1989; 1990; 1993) reference to the resignations of the regional conservator, the northern operations manager and other staff, educate stakeholders about the organisational changes that resulted from the tragedy. Evidence of the remedy of previously

perceived deficiencies is evidenced by the resignation of the Minister of Conservation after appropriate mechanisms to 're-establish public confidence' had been put in place (Annual Report, 1996, p. 6-7).

5.3 1997 to 1999

While the Chief Executive's Overview for 1997 was particularly succinct, significant changes were made to the SSP. This change addressed some of the identified shortcomings and was explained as resulting from a major restructuring that occurred during the 1996/97 year aimed at strengthening the Department's systems as well as improving the efficiency of the way it delivers its outputs to Government (Annual Report, 1997, p. 12). The 1997 and subsequent SSPs focused more on the actions taken by DOC to achieve outputs. During this fourth timeframe, the Chief Executive's Overview was not used to address any negative media items. Rather as in previous years, a number of items raised in the media were incorporated within the Output Class 4: Management Services: Conservation Estate addressed in the SSP. For example when considering the emotive issues relating to the Kaimanawa wild horses, DOC explained that:

The Kaimanawa Wild Horse Plan was implemented with a further 107 horses removed from the herd in June 1998, leaving a total of 522. The number remaining and their distribution is in accordance with the plan. In June 1998, the Minister of Conservation approved the setting up of an advisory committee on Kaimanawa wild horse management (Annual Report, 1998, p. 30).

The 1999 annual report saw a number of subtle changes being made. While the Chief Executive's Overview identified a number of issues that required attention, DOC acknowledged the generally positive publicity in the media. This was reflected in the news headlines of the printed media over this period. The annual report provided an increased focus on accountability. Further measures for improving accountability reported included the use of the worldwide web, raising the standard of accountability documents, improved performance measures, and raising staff awareness of the importance of accountability.

Impression management techniques (Dowling & Pfeffer, 1975; Preston *et al.*, 1996; Neu *et al.*, 1998; Deegan, 2002; Stanton *et al.*, 2004) can be used in annual reports to influence attitudes, opinions and behaviour of stakeholders. From the 1999 annual report the use of impression management techniques included the use of narratives (Neu *et al.*, 1998; Jameson,

2000; Hooper & Low, 2001; Stanton *et al.*, 2004) incorporating a section ‘Corporate and Management Information’, a section detailing of the internal functioning, and a number of graphs (Beattie & Jones, 1999 and 2002; Wilson & Stanton, 1996; Frownfelter-Lohrke & Fulkerson, 2001; Stanton *et al.*, 2004) detailing various human resource statistics.

Between 1990 and 1999, the reporting of outputs in the SSP suggests that DOC performs well against the accountability measures it set itself. However, whether these measures proved that DOC is being truly accountable to its stakeholders can be questioned. The SSP provided no indication of whether DOC was effective in undertaking its tasks, whether the tasks were onerous, or some combination of the two. Although annual reports for the period 1988 to 1999 must be seen as having primarily an accountability focus. As a public benefit entity DOC is accountable to the public of New Zealand. The adoption of accrual accounting in 1990 was seen by DOC as a mechanism whereby accountability for the use of taxpayer’s funds would be enhanced. As a means of measuring accountability the requirement that an audited SSP form an integral part of the annual report for public benefit entities was included in legislation. During this period there is evidence of DOC utilising the legitimising strategies identified by Lindblom (1994).

5.4 2002 and 2001 – Threats of de-establishment and introducing the Statement of Intent

In July 2000 the political party, United New Zealand vowed to de-establish DOC should it come to power in the forthcoming election (United New Zealand, 2000; The Evening Post, 2000; The Nelson Mail, 2000). Legitimacy theory suggests that events which threaten an entire industry can lead to changes in the levels of disclosures made by reporting entities in that industry (Deegan & Rankin, 1997; de Villiers & van Staden, 2006; Patten, 1992; Walden & Schwarts, 1997). United New Zealand’s proposal to de-establish DOC is grounded on the premise that as an organisation, DOC failed to meet the expectation of New Zealand public. This position must be considered when examining the changes made and the size in page number of the 2000 annual report issued on 29 September 2000.

These changes made to the 2000 annual report were explained by the Director-General as resulting from the extensive work being undertaken with central agencies to review DOC’s capability, accountability and performance reporting, colloquially known as the CAP pilot

(Annual Report, 2000, p. 5). The Director General explained that the CAP pilot sets out a new approach to planning and reporting within the overall accountability system. DOC saw the SSP as providing a clear statement on how it performed for the year in terms of outputs it produced against set targets. Unlike previous years, the first part of the annual report provided a detailed picture of where DOC was in relation to government goals and its own strategic framework. Challenges facing DOC and organisational capabilities were detailed. This resulted in a significant increase in the number of pages in the SSP.

The 2001 annual report highlighted the completion of the SoI to establish the 10-year national priority outcomes and three year strategic directions consistent with DOC's role and responsibilities in relation government goals and the additional goals identified in the New Zealand Biodiversity Strategy. While details of the SoI 2001-2004 were included in the 2001 annual report, significant additional information including details of policy initiatives was used to supplement the report and provide a point of reference for future reports. The review of the 2000/2001 year was structured in line with DOC's 'seven key steps'. DOC recognised that it needed to better measure and report on what it was doing and how well it was doing it. "Measurement of public sector performance is now moving beyond outputs and into areas of outcomes, capabilities and value delivered (Annual Report, 2001, p. 52).

From 2001, legislative changes requiring public benefit entities to report against a SoI further enhanced the accountability mandate. Formal reporting against the SoI 2001 – 2004 in the 2002 annual report saw DOC shift the reporting of outputs to focusing on the overall outcomes they wished to achieve in conservation. The changes in the format of reporting were confirmed as being:

a significant shift away from what we call 'outputs' (such as the number of hectares of possum control) towards focusing on the overall outcomes we are endeavouring to achieve in conservation (such as overall ecosystem health). Reporting against outputs is still important in order to understand our business. In the longer term, however, we need to be able to show the New Zealand public the conservation results we've achieved (Annual Report, 2002, p. 5).

This has resulted in a steady decline in the number of pages of SSP reported as a total of the number of pages of the annual report. Additionally the 2002 annual report saw the inclusion of a section detailing the conservation highlights for the year. In this section particular emphasis was placed on the work done with different stakeholder groups.

5.5 2003 to 2006 – The final period

The final discrete timeframe covered the 2003 to 2006 period. The annual reports in this timeframe continue with their accountability mandate in that they continue to report against a SoI and include an audited SSP. Although DOC has been required to report against a SoI since 2002, this has not limited their use of disclosure strategies. Consistent with Goffman's (1959) dramaturgy metaphor, from 2003 financial year the DOC annual report developed from being primarily financial in nature to becoming a glossy advertising and public relations communication tool used to enhance its organisational image. Neu *et al.* (1998, p. 269) explain it as follows:

narrative disclosures in annual reports allow managers to stage and direct the play they wish their publics to see, to pick the characters, to select the script and to decide which events will be highlighted and which will be omitted.

While the financial statements and SSP are audited, the additional narratives, photographs, tables and graphs are not. The proximity of this unaudited information to audited statements has enabled Neu *et al.* (1998) to conclude that this information is provided with a degree of credibility not associated with other forms of advertising. Management is provided with the perfect vehicle through which to manage their corporate image.

The 2003 annual report differed from the others in that although it was the second to formally report against six of the seven key steps in the SoI, it was the first to incorporate photographs in the body of the report. As an impression management technique (Baudrillard, 1983; Preston *et al.*, 1996; Carol, 2001; Hooper & Low, 2001) the use of photographs in the SoI is used to contextualise the report. For example, under National Priority Outcome 1.2, Threatened Species, in the Key Step 'Expanding Biodiversity Effort', a photograph of a Kea was included alongside DOC's reporting that populations of kea were discovered in the Cardrona Valley and in the Richardson Mountains (Annual Report, 2003, p. 17). The photographs of wildlife feature New Zealand's most recognisable fauna. Kiwi, tuatara, kokako, hectors dolphin and to a lesser extent, various fish species all feature in the photographs. This may have been done to connect the reader of the report to the conservation message and the importance of DOC's work through well known New Zealand icons of conservation. The photographs are used to give a 'face to the name' so by giving the readers of the annual reports a pictorial representation of the species under DOC's management. This enables readers to visualise the importance of such work. This message is repeated by the

number of photographs scattered throughout the report that are repeated. The same photographs containing possums or native wildlife appear a number of times, emphasising the threat to native species posed by foreign invaders. These particular photographs are used not only to reflect basic reality but also to create reality by emphasising the large numbers of pests threatening native species.

Relatively few photographs contain people as their subjects. This could perhaps indicate the reluctance of DOC to 'front up' and show the public what they do. They are an invisible force, fighting to save New Zealand's natural flora and fauna. Of the photographs that contain people, there is not much action – people being, not doing. While probably not intentional, the use of these photographs can be seen as a metaphor for DOC's performance in the eyes of a disenchanted public, further highlighted by the negative media attention attracted by the department in recent times.

The 2004 annual report saw further revamp of the annual report content. The Director-General indicated that the SoI was being reworked to improve how the links between what DOC does and the results they are seeking, are described. Further changes were cryptically described as follows:

In this year's annual report, the detailed "Statement of Service Performance" numbers are based on the old system, and the narrative text moves in the new direction. Next year will be one more step in that direction (Annual Report, 2004, p. 7).

Two departmental outcomes consistent with its conservation responsibilities under legislation and the Government's key goals, namely Protection and Appreciation are identified in the SoI 2004 – 2007, SoI 2005 – 2008 and SoI 2006 - 2009. These were developed using the Conservation Act as a guide, in particular the Act's definition of conservation:

The preservation and protection of natural and historic resources for the purpose of maintaining their intrinsic values, providing for their appreciation and recreational enjoyment by the public, and safeguarding the options of future generations.

The Protection outcome seeks to protect and restore the natural and historic heritage entrusted to the Department of Conservation, while the Appreciation outcome attempts to ensure that people have opportunities to appreciate and benefit from their natural and historic heritage and are involved and connected with conservation. In the 2004 to 2006 annual reports DOC

makes use of a number of case studies to illustrate how protection and appreciation outcomes are being achieved.

These case studies comprise a combination of both narratives (Neu *et al.*, 1998; Jameson, 2000; Hooper & Low, 2001; Stanton *et al.*, 2004) and photographs (Baudrillard, 1983; Preston *et al.*, 1996; Carol, 2001; Hooper & Low, 2001). Although they are used to both address issues raised in the media, as well as reinforce the positive Protection and Appreciation outcomes, case studies are impression management techniques designed to influence the attitudes and behaviour of stakeholders. A case in point can be found in the 2004 Annual Report. When it was announced that Molesworth Station¹ was to be transferred to DOC management on 1 July 2005, Carter (2004) criticised the 'seizure' on the grounds that the department was a poor manager of its estate (see also Beston, 2003; Federated Farmers, 2003; Ford, 2003; Keeling, 2003a and 2003b; Gordon, 2004). Carter (2004) justifies his position as follows:

The expansive yellow flowering of gorse and broom on department-managed land every spring further reinforces its abysmal reputation as a lousy, irresponsible manager of land.

DOC attempted to deflect some of these criticisms in the 2004 Annual Report. In the case study 'Molesworth Station: A Multi-faceted Jewel' DOC uses the protection outcome to explain that its objective is

to retain a strong, profitable farming operation while at the same time providing major recreation and tourism opportunities, and protecting threatened native plant, lizard, and insect species. It also has important vestiges of New Zealand's history, recalling our high-country pastoral farming identity. It has a number of heritage buildings, including the cob-built 1862 Acheron Homestead (Annual Report 2004, p. 37).

Stakeholder theory can also be used to explain the types of disclosures made by DOC in its annual reports. The nature of conservation management and the work it undertakes requires a significant level of public input which cannot be achieved without societal support. From the outset DOC has acknowledged the importance and support it required from its various stakeholders and formally confirmed in its 2001/2004 and 2002/2005 SoI. The contribution

¹ Molesworth Station is a high country pastoral station of 180,476ha, roughly the size of Stewart Island. It lies between the Southern Alps and the Inland Kaikoura Range. Its landscape comprises of tussock grasslands, scree-scarred mountains, lakes and tarns, rivers, streams and wetlands, and high-country panoramas (Annual Report, 2004, p. 37).

stakeholders could make to DOC was recognised by the Chief Executive in the 2002 Annual Report as follows:

Along with a shift from outputs to outcomes there has also been a greater emphasis placed on working with communities. The Statement of Intent recognises that an integral part of our overall strategic direction is to work with the community. The department cannot halt the decline of New Zealand's indigenous biodiversity on its own. We need the help and support of the community (Annual Report, 2002, p. 5).

This is further confirmed by the 2004 annual report which stated that 26,151 workday equivalents were carried out by volunteers. Prior to the 2004 annual report, regular reference was made to the contributions made by corporate sponsors, the Royal Forest and Bird Protection Society, Project Crimson Charitable Trust and New Zealand National Parks and Conservation Foundation. In the 2004 to 2006 annual reports no reference is made to the contributions made by the Royal Forest and Bird Protection Society, Project Crimson Charitable Trust and New Zealand National Parks and Conservation Foundation. Rather the annual reports emphasised the contributions made by volunteer stakeholders. In view of the significant land holdings and potential *Treaty of Waitangi* claims, DOC views Maori as a significant stakeholder. This is confirmed by the regular reference to the role played by Maori in conservation and the importance of the *Treaty of Waitangi* made in the annual reports from 1987.

While the subjects of the photographs in the 2004 to 2006 annual reports range considerably, they contain a number of people-oriented photographs. Taken as a whole the photographs provide a broad representation of the work done by DOC in protecting New Zealand's natural and historic heritage. This may be interpreted as DOC becoming more visible in the public eye, and ties in well with the new, narrative style annual report – bringing the previously invisible into the spotlight. The subjects are captured in action shots, volunteers helping with animals, children planting new trees, staff maintaining historic sites activities which are consistent with DOC's required protection and appreciation outcomes. In these photographs, DOC may be using images to create the reality that DOC is active in its role as guardian of New Zealand's natural and historic heritage.

6. CONCLUSION

DOC is an organisation that operates in an environment of conflicting pressures and high tension. It has to simultaneously manage a number of conflicting pressures. These include a legislative requirement to give to the principles of the *Treaty of Waitangi* as well as balancing stakeholder use of resources entrusted to it with its conservation mandate.

Public benefit entities including DOC are accountable to not only ministers and parliament, but also to the public. This accountability is discharged through the annual report, which includes an audited SSP that enables outcomes to be reported on. From 2002 accountability was further enhanced with legislation requiring DOC to report against a SOI. The public provision of this performance evaluation information contained in the SSP and SOI can be construed suggests Deegan (2000) and Hoque *et al.* (2004) as a mimetic response to legitimise DOC from the perspective of the media and other stakeholders. There has been a shift in perception from viewing the annual report as a formal statutory presentation of financial results, to a holistic publication including quantitative information, narratives, photographs, tables and graphs which provide stakeholders with a picture of organisational performance.

This objective of this longitudinal case study was to establish whether a public benefit entity whose mission is to discharge its accountability to government and other stakeholders through conserving the natural and historic heritage of New Zealand for the benefit of present and future generations, makes use of disclosure strategies as legitimising techniques in response to publicity in the printed media. During the period of the study the format and content of DOC's annual reports underwent significant changes. Traditionally the annual reports of the Department of Conservation were formal and unadorned. Changes made to the form and content of the annual report can be tied to discrete timeframes and reflect changes in the accountability framework imposed by the external environment. This resulted in the annual reports being transformed from being primarily aimed at discharging accountability to the government to including stakeholders such as the general public. The reorganisation of the report and the move to a more corporate style is significant in that it originates with a public benefit entity. While public benefit entities are always accountable to the public, the

selective presentation of information within the SSP and SOI permits individual departments to selectively present information to the public on their achievements.

From 1993 evidence exists of making use of various legitimising strategies identified by Lindblom (1994) included in the SSP and later the SOI designed to address media perceptions that DOC may have been operating outside the parameters of the 'social contract' provided to it by the public of New Zealand. Prior to 1998, the annual report was formal, had minimal colour and was printed on A5 paper and made limited use of impression management techniques designed to influence attitudes, opinions and behaviour of stakeholders. Various impression management techniques in the form narratives and graphs began to appear in the 1999 annual report. From 2003, extensive use has been made of narratives, colour, and photographs to create an interesting and effective publication. By 2004, the report had been transformed into a corporate style publication which contextualises and brings the annual report to life through the use of photographs and stories of actual people and events through the use of colour, photographs and narratives, and is printed on recycled A4 paper. It could be seen as a move by DOC to legitimise its involvement in the community and public in their work, as they exist to manage New Zealand's natural and historic heritage *on behalf of* the public within a statutory accountability framework. By integrating case studies and photographs DOC is making use of impression management to enhance the image it wishes to portray. On a more cynical note, the change in annual report format could be viewed as a mechanism that DOC is using to manage the impressions formed by the public about its organisations. While in the case of private sector entities, the use of narratives and photographs may distract reader from the actual financial results, in the case of DOC as a public benefit entity this cannot be the case. Rather, their use can be seen as a technique designed to counter negative publicity and present DOC in a more positive light.

Stakeholder and legitimacy theory provides a useful framework to explain how impression management techniques were used to mould how DOCs various stakeholders 'know' or 'feel' about it, as well as legitimising its activities in light of the extensive publicity experienced by the organisation. The dual application of these theories is consistent with Gray *et al's.* (1995) contention that stakeholder theory and legitimacy theory are better seen as two (overlapping) perspectives on the issues of disclosures set out within a framework of assumptions about political economy.

There are a number of limitations in a study such as this which should be taken into account when interpreting these results. First the study focuses primarily on the disclosures contained in the annual reports of one public benefit entity. While a number of additional disclosures available to stakeholders were examined no statistical tests were performed on any of the data and the study merely reported trends. Second, the subjectivity of this analysis is a major limitation. However, from an interpretive perspective, this analysis of DOC's annual reports has provided an understanding and insight into how the annual reports of a public benefit entity have changed through the incorporation of legitimatising techniques into their design. Further research may be warranted in comparing DOC to other public benefit entities that are also characterised by a high level of public consultation and involvement.

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